

**From Frozen landscape to structural reforms, how did the Bismarckian welfare systems change?**

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## Introduction

The welfare systems of Continental European countries have usually been treated quite negatively by the comparative welfare state literature, been given pejorative names such as "conservative corporatist" (Esping-Andersen, 1990), been accused of performing relatively poorly from a social perspective, of currently confronting the deepest economic and social difficulties since the 1970s, and of being unable to change and adapt (Esping-Andersen, 1996; Scharpf, Schmidt, 2000; Huber, Stephens, 2000; Pierson, 2001). If this chapter does not deny the problems encountered by the welfare systems of Western Continental Europe, it seeks, at least, to provide an account of the internal logic of these systems "from within", as well as showing that these systems have changed tremendously during the last 15 years.

The chapter will analyse the commonalities and transformations of a specific type of welfare system, those in which social insurance is the primary delivery mechanism, where access to benefits is mainly based on work and contribution record, where benefits are mainly in cash and calculated as a proportion of past earnings, where the biggest share of the financing comes from social contributions paid by employers and employees, and where the governance and management of these systems is neither directly run by the state nor by private companies, but by collective compulsory social insurance funds. These features dominate the welfare systems of Germany, France, Belgium, Austria and to a lesser degree the Netherlands.<sup>1</sup>

The first part of this chapter will focus on the origins of these systems, the main goals they tried to achieve through their historical development and the specific principles on which they rely. The second part will show how these systems developed and functioned during their Golden Age, emphasising their institutional traits and complementarities with certain forms of industrial capitalism. The third part will analyse the specificities of the crises these systems are facing. The last part will discuss the various sequences of welfare reforms that have led these systems to adopt structural reforms. The conclusion will focus on the dualisation processes that characterise the main changes of Bismarckian welfare systems.

### The industrial origins of "Bismarckian" welfare systems

Using the notion of "welfare state" to designate the welfare systems of Continental Europe is probably misleading, since the state did not create the social insurance instrumentalities, nor did it (and still does not) totally finance or really implement them. The state's initial primary role was to make social insurance compulsory (see the table in chapter 5 for the dates of the various legislation making social insurance in different fields compulsory). But social insurance bodies were created before the state interfered, at the firm or industry level, either by workers themselves or by their employers.

With the advent of industrialization, the conditions of life changed. Most industrial workers lived in urban areas, far from their extended families and other local providers of help in case of need. They were not self-sufficient. They had to sell their labour power to survive—in effect, as Marx and Polanyi amongst others have suggested, they were transformed into commodities. This meant, of course, that they confronted huge

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<sup>1</sup> Of course, the social insurance mechanism is also encountered elsewhere: in Switzerland, it is important, but not as prominent as in the countries mentioned; it is the usual although not invariable method for coping with the risk of unemployment in advanced societies and the preferred instrument of old age provision in Southern Europe, in Eastern Central Europe and in Sweden before 1998.

problems if they could not work for reasons such as old age and incapacity, sickness, accidents at work—which were frequent in the early stage of industrialism—or simply because there were no jobs to be found.

To cope with these circumstances, during the 19th century, certain workers—usually the relatively politicised/educated/skilled ones—got organised (Zola, 1885). They copied mechanisms implemented in guilds and corporations from the time of the Middle Ages in certain urban occupations, and created what were called ‘friendly societies’ (in England), "*Hilfskassen*" (in Germany), "*Société de secours mutuelles*" (in France), kinds of solidaristic clubs whose members were supposed to belong to the same profession/occupation and to pay a contribution (a part of their wage). These societies also became places of political discussion, they could organise social movements and strikes, and were also part of the origin of the development of trade unions. The more workers were organised, the more they could exert pressure on their employers and use that pressure to seek the improvement of members’ working conditions and well-being.

On their side, employers did not always seek to repress these organisations. On the contrary, some of them saw themselves as having an interest in developing or at least subsidising these solidaristic societies. Isabella Mares (2003) has shown that employers had two main interests in social insurance for their workers. First, they could pool the risk that they themselves were running, i.e. to have to pay for the consequences of industrial injuries. Once workers were organised and could sue for negligence, it could make sense to admit a degree of responsibility and collectivise risk by creating work accident insurance systems (Ewald, 1986). Second, confronted with the volatility of labour markets—note that work contracts were not common before the 20<sup>th</sup> century—, employers could not be certain of keeping their "good" workers, those who were peaceful, worked well and especially those in whom employers had invested heavily in terms of skills training. Offering higher wage was often not sufficient to retain the best workers and proposing social protection to skilled workers to ensure their attachment to the company became a tool of workforce management (Mares, 2003).

Of course, it was not just German, French or Belgian employers who pursued their economic interest in promoting and financing social insurance schemes for their employees. Peter Swenson (2002) has shown that American or Swedish employers also supported social protection for their workers. What was specific to Continental Europe though—especially in Germany, France and Belgium, and, to a lesser degree, Austria and the Netherlands—was the type of social protection mechanisms chosen and the political context in which they were expanded thereafter.

While market solutions were chosen in the United States—with employers contracting with private pension funds or private health insurances for their employees—or state solutions to establish *national* insurance in the United Kingdom (starting with the 1911 National Insurance Act) or in Scandinavia (see Chapter 5), Continental European countries preferred to rely on collective occupational social insurance funds (the German *Kassen* and the French *Caisses*), not run as private companies, but as not-for-profit bodies headed by representatives of the employees and employers (afterwards called the "social partners"). However, these social insurance funds were (and still are) not public bodies, their representatives seeking as far as possible to remain independent from the state. Hence when there was debate in mid-19<sup>th</sup> century France about whether the state should legislate to make social insurance compulsory, some workers' MP opposed the idea of "l'Etat-providence" because of their resistance to state interference in the social protection domain. In the same vein, when Bismarck, after passing the three social insurance laws in 1883 (sickness), 1884 (accident) and 1889 (old age and invalidity),

wanted to re-enforce the role played by the state in the administration and the financing of the insurance bodies, he was opposed by the social partners who distrusted the authoritarian state and wanted to defend their autonomy of management (*Selbstverwaltung*) and the self-financing of the social insurance schemes they ran (social insurance contributions levied on wages rather than taxes on all income).

This distrust of state or market solutions was echoed in Catholic social doctrine as elaborated in the late 19<sup>th</sup> Century as a reaction to the increased involvement of many European states in the traditional domains of church intervention, i.e. education and poor relief (on conflicts between church and state, see Chapter 18 on religion). This doctrine promoted subsidiarity as the main principle for distributing competences in respect of social issues, with the family coming first, religious charities and other communities (including working ones) second, and with the state playing a role only as a last resort if the other institutions failed. As demonstrated by Kees Van Kersbergen (1995), this social catholic doctrine was crucial in shaping the approach to social issues of the emergent European Christian Democratic parties, which were to become one of the driving force for the expansion of welfare systems in Continental Europe over the course of the 20<sup>th</sup> Century (see also Huber and Stephens, 2001; Van Kersbergen and Manow, 2009).

This short historical account helps us better understand the main characteristics of these systems of social protection that survived after World War Two. Born with industrial capitalism, these systems of collective social insurance are primarily focused on providing job and income security for male industrial workers. Based on the principle of subsidiarity, they distrust market or state solutions, favour occupational social insurance and focus on the needs of families. Their primary goal is to provide income replacement to insured persons in the event of social risk. With separate insurance schemes in different industries or firms, they are highly fragmented and heterogeneous. In this framework, professional belonging is crucial in defining an individual's social identity; social rights are largely obtained through work and emphasis is given to collective protection and collectively negotiated rights. Social insurance schemes are less an arena of industrial conflict than an instrumentality of social partnership designed to address the issue of the social and political integration of industrial workers—*die Arbeiterfrage* in German, *la question sociale* in French—and a guarantee of social peace. As far as social justice is concerned, these schemes are less concerned with poverty or inequality than with ensuring the proportionality of benefits in respect of former wage levels and contribution records, i.e. reinforcing the so-called equivalence principle (*Äquivalenzprinzip*). As Richard Titmuss puts it: "the industrial achievement-performance model of social policy ... incorporates a significant role for social welfare institutions as adjuncts of the economy. It holds that social needs should be met on the basis of merit, work performance and productivity." (1974, 31).

### **The social insurance welfare systems in their heyday**

The expansion of Bismarckian welfare systems was based on a specific post-war compromise. While all the governments of Western Europe shared the view that everybody should be protected against the main social risks, some decided to go for a state solution (the United Kingdom and later the Nordic countries), while the continental European governments, where Christian democrats either dominated or played a significant role, chose to remain true to their own history and utilise "Bismarckian means" to reach Beveridgean objectives. Instead of radically changing their inherited system of social insurance, they progressively extended these schemes to cover all dependent workers and the self-employed (and their relatives), while supposing that it was mainly men

who would be in the workforce and that women would stay at home and care for the children and/or dependent elderly.

Instead of a major rupture, the story of these systems' expansion during the "trente Glorieuse" (the Golden Era of the welfare state from 1945-75) in Continental Western Europe is, thus, one of progressive extension of both the coverage and the generosity of the various social insurance schemes already in existence. Very often, instead of integrating the whole population within one universal scheme, different occupational groups wanted to preserve or create their own schemes. As a result, these systems had become "quasi-universal" by the 1970s, that is providing social insurance to all workers and providing derived social rights to their relatives, although they remained fragmented and unequal, providing better benefits to some professions (core industrial workers, public servants) than to others (agricultural workers, for instance, or the self-employed). The strong fragmentation of these systems is one of their main characteristics. In the late 1980s, one could count 1200 separate regional occupational or company-base health insurance funds in Germany, while pension provision is much more integrated, with two main schemes - one for blue-collar and one for white-collar workers - and special schemes for Miners, civil servants and the self-employed; in France, there was 19 different health insurance schemes, over 600 basic pension schemes and more than 6000 complementary pension schemes. Belgium and Austria also manifest strong fragmentation. The Netherlands has a (Beveridgean) basic universal pension system, but many pillarised complementary pension schemes and a number of health insurance providers. In general, unemployment insurance is much less fragmented, but still manifests a high degree of "corporatism", being either run by both social partners or uniquely by the trade union in Belgium. Social assistance schemes are nowhere insurance-based, generally being locally run, tax financed and managed by the public authorities. Family benefits are also generally not linked to previous contributions, but either given to all families or targeted to the poorest families.

In the early 1980s, the Bismarckian welfare systems of Germany, France, Austria, Belgium and the Netherlands shared the same basic *institutional features*:

- old age, health and work accident insurance were made compulsory for all dependent workers and the self-employed (with exception of the richest in respect of health care in Germany and the Netherlands) and unemployment insurance was generalised;
- access to social insurance was based mainly on prior contributions paid out of earnings;
- benefits were provided in cash, proportional to past earnings, expressed in terms of replacement rate and conditioned by the payment of social contribution—hence their name "contributory benefits". In the early 1980s, the share of contributory benefits ranged from two-thirds of all benefits paid in Germany, to 80 per cent in France. Even health is partly conceived of as delivering cash benefits, health insurance covering or reimbursing the cost of health services as well as replacing wages during sickness. The Bismarckian welfare systems were thus strongly cash oriented, leaving services (such as care) to women or to the third sector (in the name of the subsidiarity principle);
- financing came mainly from social contributions—from two-thirds of all welfare system resources in Austria or Germany to 80 per cent in France;
- administrative structures were para-public, involving the social partners in the management of the social insurance funds. Even if the state was involved, it had to share responsibility; in many instances, a state presence in the administration of schemes was wholly absent—as in old age and health insurance in Germany,

or in unemployment and complementary occupational pension schemes in France.

In terms of *social outcomes*, these systems have long been characterised by medium levels of decommodification and a strong reproduction of social stratification (Esping-Andersen, 1990) i.e. by quite significant levels of (income and gender) inequality. Because social insurance is work dependent, systems of social protection in continental Europe have relied on full employment to ensure universal social coverage.

In these systems, the level of social protection offered depends on the employment situation, professional status, gender and age of the individual. As a result of the relatively generous replacement rate of social benefits (around 70 per cent of net wages for old age pensions in France, Austria or Germany and between 50 and 70 per cent for sick pay or unemployment insurance), these systems guarantee insured individuals a certain level of independence from the market in the event of a contingency (hence the medium level of de-commodification associated with this welfare regime by Gøsta Esping-Andersen, 1990). In this case, dependence on the market is indirect, in so far as the level of social benefits provided by these systems is itself related to prior employment (and family situation). But since benefits are proportional to earnings and contribution (in the name of the equivalence principle), high levels of inequality in the labour market (between blue and white collars, between skilled and unskilled workers) are simply reproduced by the social insurance schemes. Universality of coverage is dependent on the capacity of society to ensure full (male) employment.

Due to the weight of the male breadwinner model in most of these systems, with France and Belgium being to some degree exceptions (Lewis, 1992), women obtained social protection mainly through derived mechanisms, as in their roles as spouses and/or as mothers (see chapter 17). Children also obtained protection through derived benefits, and not as individuals (thus creating problems for young adults with no work record). Given that entitlements are heavily employment and contribution related, and given that women often do not have paid work but caring responsibilities instead, they receive far lower benefits throughout the pension-, unemployment-, accident- and disability insurance systems (Häusermann, forthcoming). Although this strong gender bias and the inequalities in rights and benefits it creates have been strongly criticized by feminist scholars, it must be noted that many continental European feminist movements themselves have been long time advocates of freedom of choice (financial support either to care or to enter the labour market) rather than only of support for labour market entry (Nauman, 2003).

From an *economic perspective*, the focus of social insurance on the "standard employment relation" typical of industry and public service in these countries should be understood as consistent with the type of capitalist development characterizing continental Europe. The expansion of the Bismarckian welfare systems was linked to mass industrialisation, and occurred largely in the context of the (post-war) heyday of Fordist, industrial capitalism. In this it differed both from the British welfare state that was partly established earlier and the social democratic welfare states that only took off later, in a post-industrial context. Continental European welfare systems must also be understood in the context of the development of the specific forms of "coordinated market economies" typical of continental Europe requiring patient capital, labour market stability, cooperation between employers and employees and high skill levels. As Bernhard Ebbinghaus notes (Ebbinghaus, 2009):

“Neo-corporatist theory saw the post-war expansion of continental welfare systems as part of an implicit *social pact*: social protection was expanded in exchange for the acceptance of the uncertainties of social market economies... In export-oriented economies, social protection became an important buffer against the cyclical proclivity of the international market, thereby helping to maintain the social consensus typical in corporatist, small European states such as Austria, the Netherlands and Switzerland... More recently, the Varieties of Capitalism approach linked the development of *co-ordinated* market economies in Germany and its neighbours ... to the emergence of social welfare institutions that were beneficial to maintain a skilled labour force (Estevez-Abe *et al.* 2001).”

In sum, the Bismarckian welfare state in the post-war period assumed that men were working full time and that they had long and uninterrupted careers leading up to a relatively brief retirement. In most countries on the continent, the concept of full employment involved primarily the male breadwinner. It was he who was supposed to provide support for the entire family; it was by virtue of his salary that social benefits were acquired. Steps were often taken to discourage women from working. This dependence by families on the income and social privileges of male family heads resulted in greater importance being given to job security and to guarantees of employment status (the seniority principle, regulation of hiring practices and employment termination) than to the development of employment for all (Esping-Andersen, 1996). As will be shown in the following section, all of these characteristics seem to have worsened the consequences of the economic problems besetting these countries from the late 1970s onwards.

### **Eurosclerosis**

Since the mid-1970s, social protection systems in affluent democracies have been exposed to new, but similar socio-economic challenges: increasing capital mobility, intensified competition between economies, de-industrialisation, mass and structural unemployment, population ageing, rising female labour market participation. However, certain systems seem to be more vulnerable to these changes than others. Indeed, these difficulties do not impact in the same way on all countries, because of the filtering effect of welfare institutions themselves.

The steps taken by the countries of continental Europe in response to the economic crisis of the 1970s and to the increase in unemployment that the crisis engendered differ radically from those of Nordic countries (a compensatory increase in the public service sector) or from the neo-liberal strategies pursued of the English-speaking countries (retrenchment, deregulation and the enhancement of labour market flexibility). Working within the context of the logic prevailing from 1950 to 1970, the countries of continental Europe wanted first of all to preserve the jobs of skilled male workers by excluding other workers (the unskilled, females, youths) from the labour market. Thus, these countries sought to resolve their employment problem by decreasing the supply of work, implementing a "labour shedding" strategy, which led to what Esping-Andersen (1996) called a "welfare without work" syndrome.

Continental European countries favoured income guarantees, early retirement and reductions in working hours in order to maintain the salaries and job security of highly skilled, highly productive permanent (male) workers. Businesses themselves at first favoured a strategy based on high salaries and high quality production, both of which favoured permanent and highly qualified workers at the expense of less qualified or

unqualified workers. Workforce reductions were often negotiated on the basis of income guarantees and early retirement, in the hope that the cost of massive retirement could be offset by proportionate gains in productivity (Kohli et al., 1991). These strategies were supported by the state, which, on the one hand, provided significant subsidies for pre-retirement arrangements and maintained a high level of unemployment compensation and, on the other, created a variety of social security benefits designed to guarantee minimal incomes for individuals withdrawing from the labour force.

The strategies pursued during the 1980s and the beginning of the 1990s were closely linked to the social protection model based on the “family wage”: the man is the source of income from wages and transfers for the entire household—hence the income and social protection of this man should be protected first and foremost. They resulted both in very low levels of employment and a high degree of labour market polarization (Esping-Andersen, 1996) between a well integrated segment (skilled males between 25 and 55 years of age) and a marginalized or excluded one (poorly skilled or unskilled workers, youth, women and workers over 55 years of age, migrants). While in the 1990s the rate of male labour force participation was comparable to that of Nordic countries (between 75 per cent and 80 per cent), the participation rate for persons between 55 and 64 years of age was clearly much lower: in 1992, 22.2 per cent in Belgium, 36.2 per cent in Germany, 29.8 per cent in France and 28.7 per cent in the Netherlands (Eurostat employment data series).

Despite the fact that the problems confronting these countries have been huge (very slow growth and extremely high rates of unemployment during the 1980s and 1990s in Belgium, France and then Germany, with Austria and the Netherlands doing considerably better), it has been difficult until recently to implement change in the Bismarckian model. When he analysed ‘national adaptation in global economies’ and compared the capacity of different welfare regimes to face the new economic challenges, Esping-Andersen emphasised the rigidity of the continental welfare state arrangements, speaking of a ‘frozen continental landscape’ resulting from the ‘frozen Fordism’ of Germany, France and Italy (Esping-Andersen, 1996). He concluded that ‘the cards are very much stacked in favour of the welfare state “status quo” in these countries’ (ibid: 267). Scharpf and Schmidt (2000) have similarly argued that, even though all welfare states are in various ways vulnerable to increasingly open economies, welfare systems based on social insurance face the greatest difficulties of all, while Pierson (2001) has noted that significant welfare state reform has been rarest and most problematic in conservative corporatist regimes. These critiques, however, predate the major changes that have become highly visible in the continental European countries since the advent of the new millennium. During the 2000s, all continental European countries have implemented important structural reforms of their welfare systems. Even though these changes have only become fully apparent to most commentators over the past decade, they must, however, be understood as the culmination of a longer reform trajectory.

### **A long goodbye to Bismarck?**

Recent developments and researches have shown that instead of remaining blocked, continental welfare systems have been undergoing a substantial process of transformation: first, a relatively silent institutional transformation and then a relatively abrupt series of structural changes occurring during the 2000s. In order to present and understand these developments, one has to analyse the three successive phases following the first reactions to the crisis analysed above. One can find a detailed account of this sequential transformation of Bismarckian welfare systems in their various social policy fields in Palier and Martin (2008) and country by country in Palier (2009).

### *Timid and negotiated retrenchments*

The labour shedding strategy adopted in the 1970s and 1980s had the consequence of decreasing the overall employment rate and increasing labour costs through the continuous increase in social contributions aimed at financing those who had lost their jobs: the small number of people still working had to pay more and more to preserve their social protection and to provide the inactive with income. This trend was in direct conflict with the new economic context of the early 1990s in the period when the single market was implemented (1992) and the single currency was under preparation (Maastricht criteria adopted in 1993). The mid-1990s are characterised in the countries of continental Europe by a series of decisions aimed at stabilising if not retrenching social expenditure.

These reforms were aimed at reducing levels of social benefits while preserving the logic of the system. One can refer here to the so-called ‘consolidation’ reforms implemented in old age pension and health insurance schemes in Germany at the end of the 1980s and in the early 1990s, to the multiple pension reforms in Austria, or to the French sectoral reforms, aimed at “rescuing the social security system” (new medical agreements in health care in the early 1990s, a new benefit in unemployment insurance adopted in 1992, and new modes of calculating retirement pensions after 1993). These reforms share certain features, related to the specific institutional settings of social insurance welfare systems.

The main technique used for reducing welfare benefits was to strengthen the link between the amount of contribution and the volume of the benefits (through a change in the calculation formula and or stricter entitlement rules). This of course relied on the already existing logic of the schemes (the right to social benefits derives from paying social contributions), even though these reforms usually meant a shift away from redistributive (horizontal and vertical) to actuarial principles. For instance, the pension reform adopted in 1989 in Germany planned the introduction of a permanent deduction for pensions claimed before the standard age of retirement, the phasing-out of subsidies for early retirement (until 2012) and a shift in the indexation method from gross to net wages and an increase in the federal subsidies paid into the scheme (Hinrichs, 2009). In France, the 1993 pension reform, which was restricted to employees in the private sector, increased the number of contribution-years needed to qualify for a full pension of 50 per cent of the reference salary from 37.5 to 40. At the same time, the ‘reference salary’ was to be the average salary of the best 25 years (instead of 10 years). The indexation of benefits currently paid was to be shifted from gross wages to prices. In the same vein, there was an increase in the required period of contribution to access unemployment benefits in France in 1992 (Palier, 2009). In Austria, the assessment basis was extended stepwise from 5 to 15 contribution years; eligibility to early old age pensions was tightened (1996), while the contribution rate for the self-employed and farmers was raised in 1995. Moreover, the Grand Coalition government enacted measures to harmonize the calculation of civil servants’ pensions with that of general pensions, and it also changed the indexation method for benefits (adjustment based on net rather than gross wages) and introduced deductions in case of early retirement (Obinger, Talos, 2009).

Such reforms often triggered considerable opposition and had to be negotiated with the social partners to gain acceptance. Since the systems are financed through social contributions levied on wages (and not through taxation), the representatives of those who contribute to and benefit from the systems are the key players in the political game concerning social policy reforms. They have a say in the process and have the power to eventually block proposals with which they do not agree. The acceptance by the social partners of benefit cuts was usually arrived at on a *quid pro quo* basis (Bonoli, 2000),

linked to adjustments in financing formulas. Retrenchment in social insurance programmes has often been accompanied by a clarification of responsibility: the government proposes to the social partners that the state assume the financing of non-contributory benefits (flat rate social minima for the elderly, the handicapped, the long-term unemployed; the crediting of contributions for periods out of work because of unemployment, child rearing, etc.) in exchange for their acceptance of cuts in social insurance benefits. Through these negotiations, the trade unions have managed to guarantee the position of current “insiders” through a long phasing-in period for reforms in pension rights and a dual recalibration of unemployment insurance benefits, with greater benefits for those who worked full-time previously and less for those with more precarious careers (Clegg, 2009). These negotiations started to introduce a new world of welfare for “atypical” workers, through the development of tax-financed non-contributory benefits.

### *Institutional changes, meta-reforms*

These first retrenchment initiatives were extremely difficult to implement, triggering much discontent and having frequently to be compromised to gain acceptance. The political difficulties they caused and their relative failure in outcome terms (social expenditure continued to increase and unemployment remain obstinately high) taught governments the lesson that the institutional setting of the systems had themselves become a problem. Hence, governments now concentrated more and more on “institutional meta-reforms”, aimed at transforming the very bases of these welfare systems: changes in financing mechanisms (toward less social contribution and more taxes) as well as in governance arrangements (weakening of the social partners, privatisation or “étatisation”).

Since the early 1990s, welfare systems based on social insurance have increasingly been perceived as exacerbating economic, social and political difficulties. Before retrenchment, social insurance benefits were used as a support for the victims of the crisis (compensation) and as a tool to counter it (reflation policies, welfare without work strategies). In the next period, when continuous increases in social spending appeared unaffordable, cutbacks were attempted, but essentially to rescue social insurance, which was perceived as a victim of the crisis (less resources, more expenses). In the new analyses supporting further and deeper reforms, these systems are seen as being part of the crisis. Social insurance is now accused of being in some degree a cause of a variety of economic, social and political problems: of the sheer weight of social contributions, of hindering competitiveness and preventing job creation through high labour costs and of weakening the state’s capacity to control expenditure and implement reforms by giving undue influence to the social partners.

The basic pillars of Bismarckian social insurance have come under close scrutiny: contribution financing and the involvement of the social partners in the management of social security. Some recent reforms have been aimed at modifying these institutional arrangements. This is certainly the case in France with the increase of exemptions for social contributions as well as the development of a new tax to finance non-contributory social benefits (CSG) and with the empowerment of parliament in the social policy-making process. In Germany, capping the level of social contributions was crucial in the reforms of the late 1990s and a new tax (‘green tax’) has been introduced to finance some social benefits, while the raise in VAT in the early 2000s replaced some part of the employers’ contribution. Changes have also marked the governance of the system, usually at the expenses of the social partners. Two trends can be seen: a reinforcement of state intervention in social policy-making (highly visible in all Bis-

marckian welfare systems) and the privatisation of some social protection functions (manifested in the increasing role of private complementary health insurance in France, of pension funds everywhere and in the privatisation of employment services in the Netherlands). Meanwhile, new types of benefits have been introduced to support the poorest, who do not have enough of a contribution record to be entitled to social insurance benefits: *Revenu minimum d'insertion* in France, minimum pension in Germany, residualisation of the unemployment benefit in Belgium. These institutional reforms introduce new instruments usually linked to a different logic of welfare (targeting, taxation, public or private management of the benefits). They have paved the way for the deeper structural changes that became visible during the 2000s.

### *The structural reforms of the 2000s*

Since the early 2000s, a new wave of reforms has been developing in the countries of continental Europe.

- In Germany, in 2001, the Riester pension reform planned further restriction of the level of public pension, but also created the possibility of complementary future pension rights through personal or occupational pension plans; during the early 2000s, the four so-called Hartz reforms have deeply transformed German labour market and unemployment insurance, introducing activation and expanding low-cost jobs; between 2003 and 2007, increased healthcare co-payment for patients, increased competition amongst health insurance providers and new tax financing arrangements were implemented (Hinrichs, 2009).
- In France, the 2001 unemployment reform meant activation for most of the unemployed while more and more in-work benefits have been developed (*Prime pour l'emploi, revenu de solidarité active*). The 2003 pension reforms expanded the scope of retrenchment to public sector workers, but also created pension saving plans, both individual and occupational. Throughout the 2000s, co-payment has been increased in the ambulatory healthcare sector giving private insurance an increasing role in the system, while the 2004 and 2008 health reforms increased the control of national and regional public authorities over the rest the system (control of patients in general, and over the hospital sector) (Palier, 2009b).
- In Austria, the various pension acts of the first half of the 2000s closed early exit options, harmonized the system by integrating federal civil servants into the general scheme, diminished the level of Pay as You Go benefits and progressively introduced a supplementary private pillar (financed through the conversion of the previous severance payments as earlier in Italy). Employment policies have also been characterised by tighter eligibility conditions for unemployment benefits and a stronger reliance on activation policies and increased efforts to create employment opportunities for the unskilled. In healthcare, due to ever-increasing co-payments, the share of private health expenditure as a percentage of total health expenditure has increased continuously and new funding principles apply (diminishing employers' contribution), while new state agencies have been created to better control the system (Obinger, Talos, 2009).
- In Belgium, after the reform of unemployment insurance to focus on minimum income protection, activation measures were adopted between 1999 and 2005, as well as a generation pact, aimed at diminishing early retirement; public pensions, as provided through social security, have become so low that average to high earners have come to rely on occupational and private schemes to obtain a pension commensurate with their past earnings. The 2003 Law Vandenbroucke

on supplementary pensions aimed to generalize access to such private provision (Hemerijck, Marx, 2009).

- In the Netherlands, activation policies date back to the mid-1990s, with the so-called ‘Melkert jobs’ for low-skilled workers, women, younger workers, foreign nationals, and the long-term unemployed; the introduction in 1997 of cuts in employers’ social security contributions for the long term unemployed and low pay workers; and the Jobseekers Employment Act (WIW) in 1998, imposing an assessment interview on each new unemployment benefit. Competition between health insurance schemes became effective in 2005 (Hemerijck, Marx, 2009).

In addition to these changes in traditional social insurance schemes, new "care policies" are emerging. More childcare facilities will be provided to German families, while new policies have been implemented in the late 1990s to cope with the new social risks of long-term care or the ‘dependency of the elderly’, including a new social insurance scheme in Germany (*Pflegeversicherung*), a tax financed scheme (*Pflegegeld*) in Austria and a new benefit for the dependent people in France (*Allocation personnalisée à l'autonomie*). If most of these latter measures assume the familiar routines of a social insurance framework, they, nevertheless, assume greater levels of paid work for women—thus adapting to the demise of the male breadwinner model—and have served as tools for creating lower paid jobs (for women) in the service sectors (Morel, 2008).

The accumulation of all these recent institutional and structural changes may signify a general paradigm change for the continental welfare systems, evincing a shift away from systems aimed at income and status maintenance towards employment and market friendly welfare systems. Both the objectives and instruments of reform are quite different from those typical of the traditional reaction of Bismarckian systems to social problems: the introduction of funded schemes for pensions, the reduction of early retirement pensions and the activation of the inactive population (including mothers - even lone mothers) and, hence, the defamilialisation of care and an increase of state control over public health expenditure parallel to the introduction of competition and the rampant privatisation of health insurance systems. In many fields, these reforms have also meant a weakening of the autonomy of the social partners. These structural changes are a mile away from the former “labour shedding strategy”, with governments seeking ways of escaping the “welfare without work” trap. In the long run, these developments may also force a structural transformation of the Bismarckian welfare systems themselves.

Such structural adaptations may appear marginal in the first instance. However, a study of the national cases shows that, however trivial they may appear when introduced, being usually presented as a mere complement to the still central social insurance systems, these policies can develop gradually to form the basis of a veritable ‘second world’ of welfare within one country (on these cumulative but transformative change, in welfare systems, see Palier 2005). A dualisation of welfare provision may, hence, be one of the main consequences of the recent reforms.

### **Conclusion: Towards a neo-Bismarckian dualism**

The recent reforms have resulted in multiple dualisations: the development of two worlds of welfare within the public system; the addition of a private component to the public one; and the division of the population between insured insiders and assisted or activated outsiders. Beside the remaining—but more individualised and partly privatised—social insurance schemes, a secondary world of work and welfare is developing,

for outsiders, made up of secondary "atypical" jobs, activation policies and income-tested targeted benefits. This means that the whole population is no longer covered by the same principles and institutions—Bismarckian social insurance is no longer able to attain Beveridgean objectives!

Because of the progressive retrenchment of social insurance schemes through stricter eligibility criteria, fewer people are covered by social insurance and those covered are less well covered. This shrinking of social insurance leaves space both underneath (for covering the poorest with minimum incomes) and above the public system (for private voluntary components, i.e. private pension funds and private health insurances). This is a new architecture for the Bismarckian welfare systems, with social insurance still central but no longer hegemonic.

This new architecture has created new forms of vertical dualism in society. The population itself seems to be increasingly divided into, on the one hand, those who can rely on rather generous social insurance programmes and continue to have access—thanks to their employers or their own wealth—to private complements, and on the other hand, those who have fallen out of that system and are dependent on minimum benefits. To the latter group, one should probably add those being 'activated' into atypical contracts under which they benefit from second rank labour and social protection (Clegg, 2008). Social protection reforms have thus contributed to increase inequalities and divide society between insiders and outsiders

One may argue that this dualistic mode of reform is the typical (conservative and corporatist) way of adapting to the new economic and social world (Bleses, Seeleib-Kaiser, 2004) and hypothesise that this segmented pathway is quite robust and likely to shape the future of welfare provision in the countries of continental Europe. Even though these systems were already fragmented and inegalitarian, it is clear that recent trends are likely to deepen the divisions and create new social cleavages: a dual labour market, a dual welfare system and a society even more divided between insiders and outsiders than it was before.

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