The sustainability of welfare states into the 21ist century

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Presentació

Gosta Esping-Andersen és catedràtic d'Economia de la Universitat de Trento (Itàlia). Va ser guardonat amb el Premi al Pensament en la onzena edició dels Premis Primer de Maig (1998), organitzats per la Fundació Rafael Campalans i la Fundació Josep Comaposada. Esping-Andersen va formar-se primer a la Universitat de Copenhaguen (Dinamarca), i més tard va doctorar-se a la Universitat de Wisconsin a Madison (EEUU).

El seu treball de recerca i de publicació acadèmica ha estat i és molt extens i influent. Des de meitat dels anys setanta publicà treballs a les revistes acadèmiques més destacades en l'àmbit de la ciència política. Al 1985 es publica *Politics against markets. The Social Democratic road to power,* llibre que recull el resultat de la seva recerca sobre la socialdemocràcia dels setanta i principis del vuitanta. Més recentment, Gosta Esping-Andersen ha dedicat més temps a analitzar l'Estat de Benestar. Al 1993 l'editorial valenciana Alfons el Magnànim publica *Los tres mundos del Estado de Bienestar* (la versió en anglès havia aparegut a inicis dels noranta), obra que s'ha convertit en una referència obligada pels estudiosos de l'Estat de Benestar.

En l'actualitat Gosta Esping-Andersen continua realitzant una vigorosa tasca de recerca, i a la vegada col·labora activament en les reflexions del centre-esquerra i l'esquerra política i social a Itàlia i als països escandinaus. En aquest *Paper* s'edita una mostra dels treballs més recents d'Esping-Andersen: la conferència que va pronunciar a la Fundació Rafael Campalans en el curs "Reflexions entorn de l'Estat de Benestar", el 24 de febrer de 1998.

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THE SUSTAINABILITY OF WELFARE STATES INTO THE 21st CENTURY

by

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Abstract

This paper examines the principal challenges to the welfare state today: population ageing, family instability, the new labor market structure and globalization, and how they affect the three dominant types of welfare systems. A general feature is that adaptation policies have, so far, perpetuated or even strengthened underlying disequilibria. The result is mounting diswelfare, especially among younger households. In the third section, I examine various reform strategies (privatization, decentralization and familialization) and conclude that these imply sub-optimality. A 'win-win' policy can be identied to the extent that it is possible to maximize fertility, women's employment and low poverty risks simultaneously. We will have to accept greater earnings and income inequalities, but their impact can be neutralized through a shift towards guaranteed life chances via education and skills.

Introduction

The welfare state appears to be incompatible with the postindustrial economy. Besides doubts about its future sustainability, it is criticized as being a fetter on the economy and increasingly incapable of satisfying expressed social needs. Some see the solution in scaling back, possibly privatizing, the welfare state; others advocate some form of a citizens income in place of the existing structure; still others see the solution in decentralization, community or the 'third' sector. In other words, a shift of responsibilities from state to either market or to family. I will attempt to show that none of these scenarios promise, on their own, a 'win-win' solution if by this we mean optimizing welfare and efficiency at once. A more effective --if politically difficult --adaptation to 'postindustrial society' calls for a substantial reordering of the priorities of the welfare state itself. This paper addresses, in highly synoptic form, four issues: 1) a diagnosis of what causes unsustainability; 2) the identification of changing social needs; 3) an overview of welfare state adaptation in the past decade(s); and 4) an examination of competing 'win-win' reform strategies.

A Diagnosis of the Ills of the Welfare State

The welfare state has been declared in crisis since its very inception. What is novel today is that the roots of the crisis are three exogenous shocks that emanate from economic and societal transformation. The first, and possibly most widely cited, is the impact of accelerated economic internationalization. This includes three components, each of which has different effects: financial globalization does not, per se, affect welfare state viability or its redistributive aims if, that is, its finances are in order and, a reasonable level of savings can be assured. Capital mobility may undercut employment in uncomeptitive industries and may put pressures on governments to reduce taxation so as to avoid social dumping. The evidence on this is, however, rather mixed. Global trade (but especially technological change) weakens the position of low-skilled workers who, with youth, are the main constituents of contemporary mass-unemployment. For the welfare state, then, the main challenge that emanates from globalization is the need to keep public finances sound, and to lower structural unemployment. The view that ambitious welfare aims are incompatible with the new global order is hardly persuasive. Indeed, the most advanced welfare states (like the Nordic) evolved in the most open economies of Europe. In fact, the chain of causality probably runs the opposite way: small, open economies adopted strong welfare states with a 'productivist' edge as a means to enhance their capacity to compete and adjust rapidly to global forces beyond their control (Cameron, 1984; Katzenstein, 1985).

The second shock comes from population ageing. Most prognoses suggest that the cost of retirement as a percent of GDP will double by 2040 (OECD, 1988). The ratio of contributors to pension beneficiaries is rapidly deteriorating. The number of contribution years has shrunk, the number of beneficiary years expanded. [1] Italy is the first country to arrive at parity 1:1. Equally alarming is the growth of the highly care-intensive, ultra-aged (80+) population which is doubling every twenty years. The ageing problem is, however, frequently mis-diagnosed. The real problem lies not in the number of old people, but in low fertility, early retirement, delayed first-job entry, and low overall employment rates. It makes a huge difference for welfare states' financial prospects whether fertility rates are low (1.2 or 1.4, as in Italy, Spain, Germany, or Japan), or about 1.8-2.0 (as in Scandinavia, Ireland, and North America). It also makes a difference whether typical retirement age is at 55-58, as in Continental Europe, or 60-65, as in Scandinavia. What really counts is the activity rate. In the Nordic countries the ratio of contributors to pension recipients is around 2.5:1 even if the proportion aged is roughly similar to Italy, chiefly because employment-population rates are high (70-75 percent): 10-20 percentage points above countries like France, Germany, or Italy. The real problem, then, is how to stimulate fertility and maximize employment.[2] The ageing problem in Continental Europe is especially acute because of the preference for labor reduction as a strategy to manage industrial decline.

The third shock comes from family change and women's new economic role. Families are much less stable and women often face severe trade-offs between employment and family obligations. Given that women's educational attainment today matches (and surpasses) males', the opportunity cost of having children becomes very high (if care services are unavailable). The new, 'a-typical' family forms (especially single parent) are often highly vulnerable to poverty; a high cost of children means low fertility. Almost all Scandinavian women work (the rate is 80 percent among mothers with small children) because of ample day care provision. Where two-earner households have become the norm, not only are activity <u>and</u> fertility rates higher but the risk of child poverty is drastically reduced. [3]

The Emerging 'Post-industrial' Needs Structure

<u>All</u> postwar welfare states were premised on a set of basic assumptions about social risks

and needs. Families were stable and able to live well on the earnings of the one male breadwinner. The family remained the chief welfare provider as far as care for children, the aged, and the infirm were concerned. This, in turn, was a realistic assumption because most males, including the less-skilled, could find well-paid and stable employment. Because of productivity gains, real earnings (and hence social contributions) rose steadily. To the postwar welfare state architects, therefore, the dominant social risks bundled on two fronts: health care and old age. By and large, the postwar model concentrated on one tail-end of the life course because it was realistically assumed that labor markets and the family were problem-free.

The paradox today is that this aged-bias has strengthened considerably in many welfare states all the while that family instability and mass unemployment shift the incidence of risk towards the young. The aged-bias is especially extreme in countries such as Japan, the U.S. and in most Continental Europe.[4] A shift in priorities towards young families is, in contrast, limited to a few welfare states, mainly the Nordic and the Antepodean.

In parallel fashion, the tension between careers and family responsibilities, the rise of mono-parental households, and longer life expectancy all contribute to an intensive demand for social and caring services. Nonetheless, most welfare states (with the exception of Scandinavia and, partially, France and Belgium) are service-adverse and very transfer-biased. The private market can be a substitute but only if costs are moderate. For a median income family, markets for child care and other social services are a realistic option in the U.S., but not in Europe.[5]

In brief, with few exceptions we witness a growing disjuncture between the emerging need structure and welfare state organization; to use contemporary jargon, we have a 'fordist' welfare state in a 'postindustrial' society.

Divergent Models of Welfare State Adaptation

The shifting needs structure and the exogenous shock-effects on the welfare state have been cummulating in intensity over the past two decades. The ways that welfare states have responded, so far, reflect mainly a logic of institutional path-dependency and median voter allegiance to accustomed benefits: traditional programs have been utilized to manage acute emerging problems (like early retirement); the existing edifice is being sustained by going on the least unpleasant diet possible.

We can distinguish welfare state models or, better, 'welfare regimes' by how they allocate social responsibilities between state, market, and family (and, as a residual, non-profit 'third sector' institutions). In one group, basically the liberal, anglosaxon nations, the accent is on a residual, minimal state and 'as much market as is possible'. Although there has been some (in practice modest) privatization of the welfare state, the most notable trend is to increase targeting. A common feature among the liberal welfare states is to introduce some form of negative-income-tax plan as a way to provide a minimum floor for the poor and low-wage workers, while strengthening incentives among the better-off to purchase private welfare. Yet, it is not clear whether the market has responded adequately. Apart from the huge gap in American health coverage (43 million Americans have no health insurance whatsoever), there is a more ominous long-term erosion of what has, traditionally, been the mainstay of private social protection: employer occupational plans.[6] These are declining in part because of employer cost containment strategies, in part because of union decline, and finally also for structural reasons (most new employment is in services and smaller firms). Hence, there is a clear drift from collective risk-pooling towards individual market solutions in pensions, health and in services.[7]

The second group includes the prototypical Scandinavian, universalistic welfare states whose stated aim has always been to marginalize the market in the provision of welfare. Since the 1960s there has also been a deliberate attempt to 'nationalize' the family, as Assar Lindbeck puts it; that is to collectivize families' traditional caring burdens. The Nordic welfare states have become very service heavy: 30-35 percent of total social outlays go to servicing as opposed to 5-15 percent on the European Continent. The servicing emphasis is doubly important for labor market functioning: it allows for record high female employment (with fertility) and it creates --until recently --an expanding labor market, mainly for these very same women. Since around 1970, public services account for 80 percent of total net job growth. The Nordic welfare states have also been more ready to adapt to the changing needs profile by redirecting resources and expanding public programs for young families: parental leaves and active labor market policies in particular. If the liberal welfare regimes have undergone an individualization of welfare, the Nordic have clearly expanded the realm of collective provision. The little comparative evidence we have does show that the informal, non-profit sector plays a very small role in Scandinavia (Salamon and Anheimer, 1996).[8] So does family-provided welfare services. One way to estimate this is to look at time-budget data. The average weekly 'unpaid domestic worktime' of a Danish woman is 25 hours in contrast to about 35 hours in Germany and the UK, 45 hours in Italy, and a whopping 50 hours in Spain (Esping-Andersen, 1999). Yet, Danish women have more children than in any of the other nations! Scandinavia has clearly been most capable of adapting and re-designing their welfare states to address the emerging new needs structure. It is, however, increasingly difficult to sustain them financially. Paying equal wages for low-productivity services means a creeping cost-disease; subsidizing women's permanence in the labor market and their high fertility is extremely expensive. In a highly controversial study, Sumner Rosen estimates that the total cost of maintaining working mothers with small children in Sweden is 50 percent higher than the value they produce (Rosen, 1997). Even if we doubt this estimate, there is little doubt that the costs of securing adequate fertility rates in today's society can be steep indeed: we can almost certainly no longer assume that families, themselves, are willing to internalize most of the costs of having children. Hence, if modern societies want to avert a ‘low-fertility equilrium’ this will entail heavy public expenditure.

The third group is composed of most Continental European countries, a welfare regime that is characteristic for its employment-linked (and therefore heavily male) social insurance and for its reliance on familial care (the Catholic subsidiarity principle). Private welfare plans are usually very marginal and so is, strangely enough, also 'third sector' welfare (with the notable exception of Germany where a significant share of health care is run by non-profit associations). Despite the active attempts of the Church to assert its dominance in the field of care and social assistance, Italy scores the lowest in available international rankings of third-sector size.[9] There is a unique Continental European model of welfare state adaptation that combines two basic elements: one, utilizing pension plans (and other labor reduction policies) as the main instrument of managing industrial reconversion. The underlying strategy has been to safeguard the wages and job security of the core (male) workforce and to finance the cost of pensioning off the excess via the anticipated productivity dividend of a high-quality production strategy, to use Soskice's term. The second element is not so much adaptation as continuing to delegate emerging new social problems to families. One manifestation of this familialism is the sustenance of the unemployed: in Italy, 95 percent of unemployed under age 35 continue to live with their parents (own estimates based on the 1993 Italian Household Expenditure Survey). The net consequences of this combined adaptation model can be summarized as follows: an overloaded and unsustainable social insurance system; a 'low-fertility equilibrium'; and a reinforcement of the insider-outsider cleavage in the labor market. High labor costs and pervasive job protection for the insiders (adult males) causes unemployment among their children and wives. Relying on the sole male breadwinner income, families (and thus unions and the median voter) are logically reluctant to accept either labor market de-regulation, more wage flexibility, or an erosion of social insurance benefits. Familializing welfare responsibilities can be as costly as collectivizing them.

The Search for a Sustainable Win-Win Strategy

From this very cursory overview it is evident that all welfare states have responded to the new economic and social challenges mainly by 'muddling through', by building on traditional premises rather than radically re-design their welfare architecture. [10] Most welfare states, therefore, have moved from a positive-sum to a negative-sum trade-off; they are not only increasingly unsustainable but are arguably hindering an optimal welfare-efficiency combination. Although clearly the most adaptable to the new political economy, the Nordic model has become fiscally unsustainable because it was premised on universal full employment and cannot cope with mass unemployment; and also because of the inbuilt 'Baumol cost-disease' effect that, in the long haul, afflicts the cost of providing an immense network of social services. The liberal model, despite its low social expenditures but because of de-regulation, is increasingly hard put to address growing inequalities and poverty (a monumental increase of non-aged <u>post-transfer</u> poverty has occurred in <u>all</u> the liberal welfare states since the early 1980s, especially in child families in the US and Britain). Rising poverty is concentrated in two (growing) strata: single parent households and among the less-skilled. Public benefits may be modest, but so are also expected earnings. The liberal model is therefore vulnerable to poverty entrapment, and tends to reproduce both poverty and a low-skilled 'postindustrial proletariat'. In the absence of pro-active family and labor market policies, de-regulation policies risk producing what Soskice calls a low-skill equilibrium. And, as we have noted, Continental Europe faces probably a worst-scenario negative-sum relation between welfare, employment, and fertility.

It is therefore hardly surprising that most today believe that an entirely new welfare principle is urgently needed. If we follow the diagnosis of ills presented in the beginning of this paper, any realistic win-win strategy must satisfy three aims: create employment (especially for youth, women and the less skilled), raise fertility, and protect young child families. In this last section, I argue that the purportedly win-win, strategies that are currently entertained (and often even followed) are not capable of simultaneously optimizing the three aims.

Let us firstly examine the single most popular strategy: privatizing welfare and de-regulating labor markets. Although the U.S. remains the only truly convincing case where de-regulation generates jobs and minimizes unemployment, it is still arguable that less job protection and more flexible wages is positive for employment; at least for youth and the low skilled. It is, however, not a win-win model due to the heavy social costs of poverty and wage inequality. Moreover, Europeans may be trapped in long-term unemployment, but

Americans tend to become trapped in poor jobs and poverty, and this has powerful inter-generational effects in terms of life chances (OECD, 1996; Esping-Andersen, 1999). Hence, the system is not superior as far as equity and equal opportunity is concerned. Privatizing welfare, moreover, does not necessarily result in more allocative efficiency. This comes out when we contrast two welfare state extremes: Sweden and the US. As shown in Appendix Table 1, there is convergence in terms of total resource use at both the macro and micro-accounting level. The American model is, however, less Pareto-efficient when we consider the huge gaps in coverage and that health care absorbs almost twice as much of GDP as in Sweden. [11] A final and fundamental reason why privatization is problematic is that all but individual insurance is decreasingly realistic in the emerging economic structure. Collective welfare plans could thrive in an environment of large firms and powerful unions; in a service-dominated, down-scaled economic structure they are much more difficult to establish.

A second, increasingly popular, strategy involves some form of a guaranteed citizens income. For fiscal reasons, and to avoid negative work incentives, this almost invariably takes the form of a negative income tax (like the family credit). In reality, a basic citizens' minimum is the favored solution among two very dissimilar groups. One, mainly on the European left, sees it as the answer to the emerging 'workless society'. Its underlying 'lump-sum of labor' assumption is blatantly erroneous. The liberal version, now becoming institutionalized in many nations, follows a very different philosophy, namely one of giving income support and work incentives simultaneously to low income families. It is a means of subsidizing low wage workers, but also low wage employers. It should therefore slow down productivity growth, and may even reinforce the low-skill equilibrium problem.

There has, in the past decade, evolved growing interest in the 'third sector' as an alternative to public sector welfare provision. There are several potential advantages: unloading burdensome government finances, de-centralizing welfare delivery, and introducing an element of competition. The third sector is an amalgam of many different forms of welfare production, such as voluntary associations, cooperatives and various non-profit organizations. Only one part of the third sector is, in reality, devoted to social welfare production. Where it is large (as in Germany and the U.S.) this is mainly because of the presence of a large network of established non-profit corporations (such as Blue Shield) or cooperative movements. Otherwise, third sector welfare is typically concentrated on the 'margins' where the welfare state often fails: aid to drug users or clandestine immigrants, for example. The role of voluntary workers can be significant but really viable third sector providers count on paid personel and this implies reliance on user fees and public financial support. Hence, as a viable strategy of shifting responsibilities, it is unlikely to bring about substantial savings. The gains will mainly come from more decentralization and perhaps a stronger element of competition, but a 'third sector' strategy does not help resolve the basic dilemmas as outlined in this paper.

How, then, can we envisage a win-win strategy? How can we combine 'equality' with employment growth and high fertility? At first glance, a Scandinavian welfare model would appear positive-sum in this respect: it has universalized the dual earner household (which sharply reduces poverty while raises families' consumption of services and thus generates jobs) and provides the services and financial incentives for working women to have children. This is of course very costly, but whether this is covered through the public budget or household expenses is essentially a problem of cost-shifting and how most effectively to pool social risks in society. The more we individualize the cost of children, the more likely we will find ourselves in a low-fertility equilibrium.

At second glance, however, the Nordic formula has an inbuilt achilles heel, namely a long-term barrier to job growth that stems from labor market regulation in general, and egalitarian wages in particular. If more earnings inequality is a precondition for labor intensive private services to grow, we are back to the fundamental trade-off between equality and jobs. But are we?

One way to think of a win-win strategy is to recall Schumpeter's famous analogy of the autobus: always full of people, but always of different people. Low wages, unpleasant work, and even poverty are not necessarily dis-welfare if there is a guarantee against entrapment: if people are mobile and exit at the next bus-stop, low-end jobs will have no consequences for overall life chances. The welfare state as we know it assumed that the labor market would provide well-paid (but not necessarily enjoyable) jobs for all. It put its faith in simple human capital theory and delegated the responsibility of life chances to basic education and to the labor market. This assumption is anachronistic in a postindustrial labor market which is subject to very rapid technological change, and which can promise full employment only if we accept a mass of low-end (and low productivity) servicing jobs. Income maintenance policies may help dampen income inequalities by subsidizing low- wage workers, but they do not help them to get off at the next bus-stop. As we all know, mobility today requires the possession of skills and the capacity to be trained. And, as we also know, there is a basic problem of market failure as far as skill formation is concerned. [12] If, as OECD (1996) shows, about 15-20 percent of the US adult labor force is functionally illiterate, even among high school graduates, we clearly also have a problem of public sector failure.

A 'Pareto-optimal' strategy for recasting the welfare state does suggest itself. Firstly, neither privatization nor familialization are Pareto-optimal. This implies that a comprehensive welfare state (with or without an extensive third sector) is unavoidable. Secondly, such a strategy must optimize, at once, fertility, and employment and minimize poverty risks. And it must do so in an economic environment that cannot guarantee well-paid jobs for all. Full employment implies more wage inequality. As we have seen, the maximization of employment and fertility is possible, albeit very costly. To a degree this can be offset by the enlarged tax-based, to a degree by cost-shifting strategies. On one hand, as we have seen, two-earner households enjoy dramatically lower poverty risks (which implies savings in both a static and dynamic sense). On the other hand, it is evident that contemporary pension systems often represent a massive mis-allocation of resources. The average Italian pensioner receives a retirement income that is 30 percentage points above average consumption outlays. This is, of course, a source of savings but it is also a perverse mechanism of income redistribution (and savings can be induced elsewhere). A reallocation of resources from old to young families is potentially 'Pareto optimal' because it satisfies the goal of fertility, maximum employment and lessened poverty risks if, that is, these resources are utilized to help child families reconcile work and fertility. The key missing link in this strategy is the jobs-equality trade-off, a trade-off that will remain as long as we are wedded to a 'equality for all, here and now' notion of egalitarianism. As hinted above, this trade-off can be surmounted by a redefinition of what equality means, namely some kind of a guarantee against entrapment in low paid employment. We know that this necessitates a massive investment in education and skills, in making people 'trainable' in the first place.

We can certainly all outline blueprints for reform. The bottom-line issue is essentially political: how can political majorities be mobilized for a reform that may be societally Pareto optimal, but not necessarily so at the individual or group level? Trade unions and political parties aggregate the interests of a median voter who is rapidly getting older and older, a median voter whose definition of welfare and social justice reflects the kind of welfare state that was built in the postwar decades. As we have witnessed in recent years in Italy, France, Germany and Spain, the make-up of the median voter and the interest representation system favors a politics of going on the least unpleasant diet possible.

TABLE 1. PUBLIC AND PRIVATE SOCIAL PROTECTION SPENDING

	Sweden	United States
As Percent of GDP:		
Public Social Expenditure, 1990	33.1	14.6
Private education	0.1	2.5
Private health 1)	1.1	8.2
Private pensions 1)	1.8	3.0
Total	35.5	28.3
As a Percent of Private Household Expenditure, 1990:		
private health, education and pensions	2.7	18.8
day care (child families)	1.7	10.4
Total	4.4	29.2
Taxes	36.8	10.4
Total+Taxes	41.2	39.6

Sources: OECD, National Accounts. Detailed Tables (1994); U.S. Bureau of Labor Statistics, Consumer Expenditures in 1990. Mishel and Bernstein (1993: Table 8.37).

1) Private health data for Sweden are for 1992; American data include 'other social welfare'. Private pensions for Sweden are estimated from employer pension benefits in the

OECD national accounts. Swedish tax data are from Staristisk Aarsbok, 1994. Table T 226. U.S. private pensions and health expenditure data are from Social Security Bulletin, Annual Statistical Supplement, 1992. Table 3A4.

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[1]. A simple comparison of the standard male life course in the 1950s and today is illuminating. When, in the postwar years, modern pension systems were designed, the average male was typically employed from age 16-65, followed by about 7-8 years' retirement. Education and youth unemployment means that today's workers start their 'real' careers around 20-25; early retirement means that they retire at age 55-58. And male longevity has risen by 8 years. All in all, we have cut contribution years by 15 or 20 years and we have extended pension years by about the same.

[2]. Or, alternatively, finance future pension burdens through productivity growth.

[3]. In most countries for which we have comparable and reliable data, child poverty tends to be three or four times higher in one-earner families (own calculations from LIS data bases). There is also substantial evidence from the United States that the heightened earnings polarization and the rise of low-paid employment has been offset by a growth in spouses' labor supply.

[4]. There is, in fact, a case to be made for acute mis-allocation of national resources. According to my own analyses of Italian Household Expenditure data, the average pensioner receives an income that is 30+ percent higher than what he/she consumes. A similar case of overshooting the target has been identified for Finland and Spain. The consequence may be a perverse system of secondary income distribution, whereby the young come to depend on transfers from their parents and grandparents. The relative welfare of the young will, of course, come to mirror the economic success of their forebears; in other words, the welfare state may be reinforcing class inheritance.

[5]. The problem here is akin to the Baumol (1967) cost-disease effect in services. If long-run productivity gains in services lag behind manufacturing while real wage growth is parallel, labor intensive services will gradually price themselves out of the market. This is precisely the situation in contemporary Europe (except for the Nordic countries where welfare services are furnished by the public sector).

[6]. Occupational welfare coverage in the U.S. was, in the 1970s about 70 percent for health and 50 percent for pensions. Today, the former has dropped to about 50 percent; the latter to 30 (excluding individual plans). (Social Security Bulletin, Annual Supplement, 1996).

[7]. For lack of adequate state, market and family social provision, one might assume that the non-profit sector acts as a substitute. True, comparative data show that voluntary, non-profit social protection is considerably larger in the US than in most European countries. Much of it is of the not-for-profit Blue Shield-Blue Cross type. Yet, even if relatively large, and abundantly tax-favored, non-profit associations are not even remotely capable of filling the welfare void (Salamon and Anheier, 1996).

[8]. Note, however, that governments (especially in Sweden, but now also in Denmark) have begun to actively encourage 'competition' from (regulated) non-governmental service providers in general, and co-operatives in particular.

[9]. Moreover, voluntary associations in Italy are invariably concentrated in the North (where need is less) and are very marginal in the South. This, as I shall argue below, reflects an inherent weakness of a 'third-sector' welfare strategy: voluntary and cooperative welfare organizations rely on ample public funding and support, and also on a strong social capital infrastructure --something that tends to be lacking exactly where most needed (see also Putnam, 1993).

[10]. There are some partial exceptions to this: New Zealand, Australia and the UK have all attempted to redesign their social contract, mainly by privatizing and by heavier targeting of social benefits. As Pierson (1994) has shown, the practical results pale in comparison to the intended aims.

[11]. Household budget data for the US show that an average income household spends about 5-6 percent on health insurance. This jumps to more than 15 percent for households in the bottom deciles.

[12]. Recent data suggest that employer provided training is much lower in the United States than in either Europe or Japan (OECD, 1994).