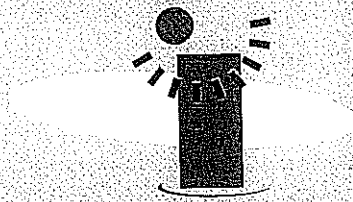


Wolfgang Merkel

Social Justice and Social Democracy at the Beginning of the 21st Century



Forum Israel

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Editorial

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Social Justice and Social Democracy at the Beginning of the 21st Century

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Wolfgang Merkel has published many books and articles on the above mentioned issues, most recently "*The Third Ways of Social Democracy*" and "*Social Justice and the Three Worlds of Welfare Capitalism*".

his essay relates the normative discussion about social justice in political philosophy to empirical results from social policy analysis, thus linking two lines of discussions that have hitherto run mostly separate. The argument will be developed by answering four questions. The normative question: what regulative ideas of social justice does the debate about justice in political philosophy supply? The action-theoretical question: what criteria for judgement and political preferences can be found for a justice-oriented politics? The empirical question: how can the 'three worlds of welfare capitalism' be judged in light of these hierarchically ordered criteria of justice? And finally the institutional question: which logic should underpin a reform of the welfare state, if this reform is to be both socially just and at the same time realistically achievable.

Introduction

Since the mid-nineties, following almost two decades during which a neoliberal intellectual climate successfully stifled such discussions, the term 'social justice' has again become an important topic of political discourse, featuring prominently on the agenda of social democratic governments. And for reasons. First, over the last two decades the gap between rich and poor has widened even in the developed industrialised countries. Secondly, the welfare states of continental Europe are facing enormous pressures towards a significant restructuring under the combined weight of globalisation, individualisation and demographic shifts. Such an overhaul all but demands new regulative ideas of social justice, let it be dictated not solely by arguments of economic efficiency or, by the traditional welfare state-concepts of the past. Ever since John Rawls' seminal Theory of Justice (1971), the field of political philosophy has been supplying an ever-growing number of thoughts, principles and norms of social justice. Yet so far this philosophical discourse has hardly penetrated the realms of political debate. The two approaches run too separate as to be able to mutually inform one another. A level of mediation must

therefore be found between the philosophical discussion of social justice with its frequently rather fundamentalist foundations and the pragmatic considerations and actions of desired and realistic social conditions.

I will attempt such mediation by asking four questions that, building upon each other, will be answered below:

1. The normative question: which regulative conceptions of social justice does political philosophy supply?
2. The action-theoretical question: which preferences of justice can be deduced from this discussion?
3. The empirical question: How just are the "three worlds of welfare capitalism" in light of these preferences?
4. The institutional question: which logic(s) should a reform of the welfare state follow if it is to satisfy both these preferences and the political imperative of feasibility?

1. The normative question: which regulative ideas of social justice does political philosophy supply?

1.1 Conceptions of social justice

It appears trivial to point out - although such questions are often confused in everyday semantics - that equality of distribution is by no means *per se* just, and inequality of distribution not *per se* unjust. The opposite may be true: equal distribution may be unjust, and unequal distribution may be just. *Justitia Distributiva*, then, has a problem with finding criteria on which to base its decisions. This is the subject matter of theories of justice. They attempt to solve this problem by starting from different axioms, methods and justifications, and thus arrive at different principles and validity claims. It is impossible to even outline these various theoretical enterprises here (see e.g. Mueller/Wegener 1995; Kersting 2000, 2000a). I will therefore choose three theories to be examined in greater detail, using the following two criteria to justify my selection.

The first criterion refers to the axiomatic bases of theories of justice, which are located on a continuum ranging from the absolutely posited individual to the absolute community, that is,

from individualism to collectivism. The second refers to the distributive implications of theories of justice and ranges from a position that is averse to redistributive measures to one that embraces them. Those are the fundamental poles of the axiomatic positions of theories of justice. The normative question is then mainly decided by where exactly the axiomatic justification of a particular theory of justice is located on the continuum between the absolute individual and the absolute community. Contrary to popular assumptions, the second axis, concerning the desirability of (re-)distributive measures, is logically largely separate from the first one - individual/community. This implies, for example, that considerations of distributive justice can take an individual as their point of departure and still lead to further-reaching (re-)distributive consequences than those theories that justify their positions with recourse to the community. A crossing of these two axes produces four quadrants within which to locate different political philosophies of justice. The first quadrant comprises all theories that start from a strictly individualist axiom and conclude with a clear aversion to political (re)distribution. This group includes theorists such as John Locke, liberalism's modern forebear, and Nozick, Buchanan and Hayek amongst our contemporaries. I will choose Friedrich August von Hayek as the best exponent of this position, since he, unlike for example (the early) Nozick¹, avoids polemic exaggerations² and has had the largest political impact of all the theorists mentioned for this field. The second quadrant is occupied by theories that also take the individual as their point of departure, but arrive at principles rather more inclined towards redistribution. Such a position was held by John Stuart Mill in the 19th century, and today most prominently - and expanding greatly upon Mill - by John Rawls and Ronald Dworkin³. I have chosen John Rawls as a representative for this position both because of his undisputed dominance in the philosophical debate about justice and because he represents a moderate position in this quadrant. In the third quadrant, enclosed by the axes "community" and "non-redistributive", there are no positions of consequence. A theory that is at the same time community-oriented

yet opposed to redistribution would be far too inherently contradictory as to satisfy any criteria of theoretical consistency. In the fourth and last quadrant, describing positions that are both community-oriented and open to redistributive measures, we find a large number of political philosophies of justice. Extreme positions can be found in Kropotkin, more moderate ones in Rousseau and Walzer. As a moderate and contemporary of ours, Michael Walzer will represent this quadrant in my philosophical inquiry into theories of justice.

1.2 The libertarian position: Friedrich August von Hayek
 For Hayek - as for all liberal and libertarian philosophers who concern themselves with questions of justice - individual autonomy normatively takes precedence over the public sphere of political decisions (Zintl 2000: 95). Therefore, any limitation of this autonomy such as interference by a welfare state would have to be subjected to a particularly stringent examination of its justifications. According to Hayek, then, the welfare state's institutionalised redistribution to correct market outcomes does not pass this test for at least three reasons:

- *Logical argument:* The societal outcomes of market exchanges are the unintended consequences of individual actions. If, however, intentionality and thus responsibility for their results are not given, these actions cannot be evaluated according to any theory of justice. The statement that "markets are unjust" is therefore absurd. The popular demand for "more social justice" is nothing but a "semantic mirage" (cited in Kersting 2000a: 35) of socialist quacks or populist politicians.
- *Cognitive argument:* The market, that is, the voluntary and legally bound cooperation of individuals creates a "spontaneous order in society". Out of this voluntary cooperation grow cumulative traditions and institutions that form their own "evolutionary morals". "These moral rules exceed the abilities of reason" (Hayek 1996: 6), and should therefore be altered neither by political majorities, nor according to abstract principles of rationality:

- *Efficiency argument:* In addition, the market is the sphere of unequalled efficiency. It is cumulative and evolutionary and not created by rationalist design. Furthermore, "man owes some of his greatest successes in the past to the fact that he was not capable of consciously planning social life. Whether progress continues might well depend on man consciously choosing not to exercise the domination that is today within his power" (Hayek 1971: 48).

Taken together, these three arguments lead F.A. von Hayek to clearly reject the welfare state's corrections of market-induced property, income and welfare relations. However, Hayek does not reject all governmental social transfers. Rather, the state should guarantee a basic economic minimum to all those "who cannot support themselves" (ibid. 382). This is because, on the one hand, emergency assistance is a self-evident moral "duty of the community" (ibid. 360) and, on the other hand, furthers political stability and could even serve as functionally necessary assistance for social mobility in modern industrialised societies. As a result, Hayek recommends a society based on equality before the law plus maximum security of contract (in the market) seconded by a transfer-supported minimum social protection (see Zintl 2000: 105). Any further restrictions of the (economic) freedom of contract would have illiberal results and thus cannot be justified. The dominance of the market-induced meritocratic principle would at most permit the marginal welfare state of north-American design.

1.3 The social-liberal position: John Rawls

John Rawls and Hayek share their uncompromising point of departure, to think any philosophy of a just society strictly from the individual. Rawls (1975), however, develops a different method in order to justify his principles of justice and, not least for that reason, arrives at diametrically opposite rules of distribution. The focus of this discussion will not be on yet another elucidation and critique of the original position, in which benefit-maximising yet risk-averse individuals behind the veil of ignorance, falling,

as it were, for a moral-philosophical ruse, fairly agree on distributive social structures. For now, it is more important that Rawls, unlike Hayek, treats justice not as an individual virtue but rather views a society's institutional structure as the prime addressee of any demands for justice, since it co-determines people's life chances. While the market does possess the attribute of unsurpassed efficiency of allocation, the creation of just social conditions is not one of its features (Kersting 2000: 42).

The principal reason for this ethical blindness lies in the unequal and unjust conditions of access to the market. Rawls' idea then is to provide all individuals with an equal set of basic goods that correct the "scandalous lottery of nature" and inequality of life chances. Intelligent or stupid, beautiful or ugly, sheltered or neglected family backgrounds, rich or poor parents cannot, in a just society, decide over an individual's life plans and their chances of realisation. Therefore, institutions have to be inscribed into the political, economic and social constitution of a society that fairly distribute such basic goods as are relevant for the creation of equal life chances. Most important amongst these basic social goods are rights, freedoms and opportunities, income and wealth, as well as the social conditions for self-respect (Rawls 1975: 112f.).

To that end, Rawls develops two principles of justice. The first, lexically superior principle demands an absolutely equal distribution of basic liberties and political rights. This is not controversial and has long been guaranteed in democracies based on the rule of law. The second rule outlines a principle of socio-economic justice, according to which socio-economic inequalities are permissible only if they "are to everybody's advantage and are tied to positions and offices that are open to everyone" (ibid.: 81). This stance has aroused considerable opposition. If one interprets Rawls' second principle of justice as a prohibitive rule, the distributive consequences could take it beyond the terrain of classical liberalism. For then it would state that a social order may only permit inequalities for the privileged when these work to the advantage of the less privileged (Kersting 1996: 276). (Text-

Stelle Rawls suchen im engl. Orig.-Text)

This discussion cannot deal with each and every problem of these far-reaching distributive consequences. But Rawls' goal of radical emancipation of individual life chances from the vagaries of social background and natural talents requires a far more extensive redistribution even than that achieved in the universalistic Swedish welfare state of the seventies. However, the rules of lexical superiority introduced by Rawls into his normative prescriptions clearly prevent the latter from sliding into a paternalistic despotism of distribution.

1.4 Michael Walzer's communitarian position

Rawls had attempted to force the complex, pluralistic and fragmented societies of the late 20th century under the stewardship of two universalistic principles of justice. Michael Walzer tries to avoid this. In his book *Spheres of Justice*⁴ (1983) he postulates both descriptively and normatively the existence of separate spheres of justice. Walzer's credo is: "There are a whole host of distributions, a large number of agencies of distribution, a diversity of criteria of distribution and a multitude of goods and resources that need to be distributed" (Müller 1995: 148). There can and must not be a single overarching logic of distribution for such diverse spheres as "citizenship", "social security and welfare", "money and commodities", "office", "free time", "upbringing", "kinship and love", "mercy", "recognition", and "political power". The conclusion is: every sphere of goods and life has its own rules of distribution; the imperative is: no sphere-specific rule of distribution shall "infringe" on another sphere. That is especially the case with the sphere of money. For reasons of social justice there have to be goods whose distribution does not depend on money. In the field of social policy these are, among others, health care or education, whose distribution should not be determined by the market, but rather by the equality-principle and by need (Walzer 1998: 161).

On first sight, this seems rather like a familiar demand of traditional Social Democracy. Walzer, however, does not want it to be codified

according to the standards of social rights as in T.H. Marshall or those of continental-European welfare states. This would only create bureaucracy and dry out society's participatory resources. Walzer's (1988) communitarian suggestion, then, is to link a state-guaranteed social minimum to additional local contributions. Participation by the recipients should be encouraged and decisions about distributive transfers should be left up to local communities. Equality through standardised distribution of social transfers and services is thus sacrificed to participation-oriented methods of distribution. Forms of distribution and transfers are made contingent - at least partially - on the particular consent of shifting democratic majorities.

Yet at least some part of social transfers would thereby acquire a charitable character that is difficult to calculate with any degree of accuracy. It furthermore seems problematic that Walzer assumes a possible consensus on questions of distribution. That might be conceivable in his own idyllic upper-class community of Princeton, but it would hardly work in The Bronx or in Harlem, which are barely an hour away. There, personalisation, clientelism and violence would block channels of distribution and lead to bizarre inequalities.

Like all communitarians, Walzer underestimates the justice-enhancing functions of efficient and legally controlled bureaucracies. In his typical middle-class anti-bureaucratic reflex and overestimation of civil society's capacities for self-organisation, the "communitarian" Walzer emerges in the distributive consequences of his theories as a more cautious "liberal" than the liberal Rawls, who depends on an efficient distributive bureaucracy.

While the usefulness of Walzer's theory for justifying a state-organised system of redistribution and legally guaranteed social security is limited, Hayek is all but excluded from considerations of justice that are open to redistributive measures. His assumption that the meritocratic principle can develop best in unregulated markets is either naive or ideological, but certainly characterised by a substantial lack of realism. It underestimates tendencies towards concentration, cartelisation, and monopolisation, which

necessarily impede the unfolding of the meritocratic principle. It neglects differences in starting positions resulting from one's social background, and their impact on future life chances and possibilities of development. It largely ignores the production of collective goods in health, education, research, the environment and infrastructure, subordinating them to the efficiency of the market and the free choice of all citizens. It thus compromises the meritocratic principle⁵ that Hayek himself propagates. Paradoxically, the liberal John Rawls is best suited to be used for considerations of justice by a modern redistribution-friendly welfare state. The main arguments for this conclusion are:

- The uncompromising reference to the individual, is not only best at realising the enlightenment's dictate of the emancipation of the individual, but also relates best to the individualisation of values, lifestyles and preferences in the post-industrial societies of the 21st century;

- The priority given to the first principle of justice - the equal distribution of a maximum degree of freedom and political rights - protects the individual against authoritarian or paternalistic infringements on the part of the state; thus the increased individuality of modern societies is again taken into consideration.
- Notwithstanding the priority given to individual freedom, the second principle of justice demands substantial redistribution, provided these serve the establishment of actually equal life chances.

These three arguments show that the triad of freedom, justice and solidarity can be justified on the basis of Rawls' theory without any inconsistencies. Furthermore, they can also be used to justify policies that, like education, inclusion into the labour market, and activation of a well-developed welfare state, ensure the future dynamism of modern societies. Rawls will therefore be the main reference for the following action-theoretical question about political preferences. However, Hayek and Walzer are thus not entirely dismissed from the discussion. Rather, they will serve as corrective references with regard to the sufficient consideration of individual choice (Hayek) and the communal sustainability

(Walzer) of political and social goals of justice.

2. The action-theoretical question: what political preferences result from the philosophy of justice?

There is very little agreement between the three theories of justice about the scope of the meritocratic principle, the role of the market as arbiter of the achievement principle, or the state's moral duty to intervene. However, particularly by taking recourse to Rawls - at least indirectly - one can distil from them five central areas of distributive justice in developed societies:

- Prevention of poverty: because poverty generally prevents the development of individual dignity, integrity and autonomy. Education and training: because they strongly influence individual life chances.

- Inclusion in the labour market: because it is here that most citizens acquire income, status and prestige.

- Social security standards: because this is where social security and social assistance is organised and redistribution attempted.

- Distribution of wealth and income: this is where the unjust results of the market economy should be corrected.

Can one now, using a theory of justice, formulate a hierarchy with regard to the five dimensions of distributive justice? This would be interesting for an action-oriented social science, or even for political reforms where the five goals of prevention of poverty, provision of the best possible education, inclusion in the labour market, high standards of social security and low levels of income inequality cannot always be pursued simultaneously or to the same extent. For at least some of these five goals seem to interact rather more like in a 'magical polygon' insofar as, at times, preferential treatments or trade-offs become necessary. Such decisions, however, require guidance if they are not to be taken solely on the basis of pragmatism or the current state of public finances, for the overhaul of tax- and social security-systems, educational reform, or attempts to increase the dynamism of labour markets will always create situations where one goal has to be pursued at the expense of another. This does not apply to

education, but it does apply to the conflictual relationship between fighting poverty, full employment, social transfers or the goal of reducing inequalities of income and wealth. Therefore I want to present and justify a list of priorities.

1. Prevention of poverty, to which the four following goals have to contribute;
2. Highest possible educational standards, even if this requires increasing public debt or restructuring social services at the expense of the pension system;
3. High degree of inclusion in the labour market, even if this implies some deregulation if it supports such a development;
4. Guarantee of social security linked to "welfare to work" and an activation of the welfare state;
5. Reduction of wealth and income differentials.

These five goals need by no means be mutually exclusive, but they can; actual policy should not follow them in this consecutive sequence, but situations might arise where this would be necessary. It will then be important to formulate political goals and strategies that to the greatest possible extent create synergies and do not interact negatively with each other. Where this is not possible, the hierarchy of goals of justice presented above has to guide actual policy.

2.1 First priority: Prevention of poverty

All other goals of distributive justice must be subordinated to the prevention of poverty. A life above the poverty line is thus considered as the fundamental basic right of a justice-oriented politics. It cannot therefore be substituted or compensated by another goal. Individual autonomy and taking advantage of one's life chances are only possible above the poverty line. Only then can real inclusion in the developed affluent societies of western democracies be achieved. Only then can the equally irreplaceable basic right to negative freedom develop the complementary content of positive freedom. This, by the way, can also be supported by taking recourse to Rawls' first principle of justice, where he demands an equal right to the most extensive set of

equal basic liberties that is possible for all. For one particular trait of poverty is that it not only entails inequality of income, wealth and resources, but also that it creates a real danger that the poor no longer have access to the full set of civic and political rights. The Latin American political scientist Guillermo O'Donnell once referred to this as "low intensity citizenship". Only through the prevention of poverty can Rawls' first principle of justice be satisfied. The right not to live in poverty in affluent societies thus acquires the status of an inalienable basic right. For even to take advantage of formally equal access to education is hardly possible for those living in poverty.

However, a life above the poverty line is not by any means a sufficient, but merely a necessary condition for actual integration into society. A passive strategy of fighting poverty via unconditional social assistance or a work free basic income, even if this is a guaranteed right in a welfare state, might relieve material need, but in the work-centered-societies of the developed societies it does not bring about the social integration needed for real social inclusion.

2.2 Second Priority: Education and training

Intensive investment in education and training is the least controversial of all goals in the philosophical as well as in the political discussion. It is certainly less controversial than the question of how to finance the public good "education". Von Hayek would rely also on private funding both for secondary schools and for higher education. Walzer and Rawls argue that there is a public responsibility to finance qualitatively good secondary schools⁶. While this applies to elementary and secondary schools, it does not necessarily include universities. Rather, an inversion of the structure of privileges looms here. Thus, privately paid tuition fees are not only justified but also socially just as long as universities are financed from "general" tax revenues while the graduates are rewarded with improved "individual" income and life chances⁷. This does not mean that there should be no elite schools or elite universities. However, access to them

would have to be governed exclusively by achievement and merit-based scholarships. A general argument for the primacy of education - supported by all from Hayek to Walzer - is the overriding importance of knowledge for the present and future wealth of developed societies. All three theoreticians support high investment in education, since a rapidly growing economy should also increase the wealth of lower social strata via the trickle down-effect. This also applies if it occurs at the expense of subordinate goals of distributive justice (see 2.4 and 2.5). However, the overriding argument for the high priority given to education can be derived from the important role education plays for empowering individuals to pursue a self-determined life (Rawls 1975; Giddens 1999; Sen 1999).

2.3 Third Priority: Inclusion in the labour market

One weakness of both Walzer's and Rawls' conceptions of justice is a certain blindness towards questions of the labour market. Unemployment, however, is not primarily an economic problem that can be solved simply through extensive transfer payments. It is first and foremost an ethical challenge (Kersting 2000: 81), because unemployment, and long-term unemployment in particular, damages individual autonomy, hurts self-respect, and usually also leads to irreversible disadvantages in the realisation of future life chances. As long as not only income, but also status, self-respect and social standing in developed societies are primarily distributed via paid employment, inclusion in the labour market has to be a high political priority. Amartya Sen argues convincingly that even very generous social transfers cannot nearly compensate for, let alone prevent, the negative consequences of unemployment. His empirically supported arguments will be presented here in short (Sen 1998: 19f.). Unemployment leads to

- social exclusion and a dramatic loss of freedom of choice;
- long-term damages through the loss of abilities, cognitive skills and motivation;
- psychological suffering through social discrimination;
- higher illness and mortality rates;

- the loss of human relationships and of familial cohesion;
- an exacerbation of ethnic and gender inequality, since women and ethnic minorities are often over-represented among the unemployed;
- a loss of social values and responsibility.

A welfare state that provides incentives to people to avoid taking up paid employment or even discourages them from doing so by way of unconditional basic incomes, generous social assistance and loosely defined "welfare to work"-criteria, while simultaneously fencing off the labour market to outsiders through high (supposedly social) regulations is, from this perspective, socially unjust.⁸ Standards of social security therefore must be lowered and adapted to the dynamics of the labour market when they weaken the dynamism of labour markets and block access to paid employment, thereby creating long-term unemployment. This is true not only for reasons of economic efficiency, but above all for reasons of social justice. For on the one hand this would reduce rational free-riding in the welfare state, and on the other prevent the exclusion of a substantial part of the population from civil society. However, this must and should not lead to the logic of the "marginal" welfare state, but rather to one that "activates" and, where possible, to a universalistic welfare state with activating elements.

An unconditional basic income that would encourage a temporary exit from paid employment and the partial realisation of Marx's utopia of "to each according to their needs" carries substantial risks. These would probably chiefly affect young people for whom the basic income might be sufficient to satisfy consumption desires in a particular phase of their lives. If, however, they would want to re-enter the labour market after a while, they would have to pay for the socially financed exit with a substantial loss of career-opportunities. The basic income would then remain a "hedonism trap" as long as the basic institutional structure of the economy and society cannot guarantee non-prejudicial possibilities of resuming paid employment after long absence from the labour market. To create these may in fact be a utopia and would mean

overestimating the reach of politics in capitalist democracies.

2.4 Fourth Priority: Social security and activation of the welfare state

If one sees social inclusion and the prevention of poverty through education and integration into the labour market as primary preferences of justice, one has to demand a thorough overhaul of the welfare state. The passive elements of ex-post-compensation have to be pushed back as far as possible and the activating components must be strengthened. The welfare state has to be structured so as to prevent, a priori, socio-political damage, particularly in the labour markets. This requires shifting resources towards education, the reduction of the tax-burden on the factor labour, and tougher conditions that force a swift resumption of paid employment. The social security state has to become a "social investment state" (Giddens 1999: 119f.). The model for this restructuring cannot, however, be the "marginal welfare state" (Esping-Andersen 1990; 1999) of the United States, as suggested by neoliberals. First of all, it has no strong activating elements; secondly, it is insensitive vis-à-vis those who cannot be blamed for their inability or weakness in the labour market. Neither does the British welfare state, nowadays somewhat more activating than before, offer a model to be emulated (yet?), as it does not adequately meet the goal of prevention of poverty. Denmark, with its combination of high investment in education, an active labour market policy, generous social transfers coupled with a simultaneous institutionalisation of duties and tighter measures against social and fiscal free riding provides an example of the goal of social inclusion that is worth emulating.

The question of taxation can only be briefly addressed here. On that matter, the goal of inclusion in the labour market requires that the tax system be as employment-friendly as possible (Scharpf 2000). However, it is also necessary to (re-)establish the symmetry of tax collection, which has been coming apart at the seams. The voluntary "self-exclusion" of the rich (Giddens 1999: 120) from the civic tax-paying duty at the upper end of society is, from the

perspective of social justice, just as scandalous as the "involuntary exclusion" of the poor and unemployed from economic and cultural participation at the lower end of society.

2.5 Fifth Priority: Reduction of income and wealth gaps

Relative to the goals of justice presented above, the reduction of income- and wealth-dispersion is the least important. This statement, however, is valid only if the first four preferences have been realised. For if the prevention of poverty, the creation of equal opportunities and life chances through education and training, inclusion in the labour market and an activation of the welfare state have been achieved, then the call for equalisation of wealth and incomes loses much of its justice-oriented justification. This applies especially where an income-gap leads to increased productivity and economic output and society's most disadvantaged also reap substantial profits from it. In that case Rawls' rule of admission for socio-economic inequality would partially concur with the findings of neo-classical economic theory. Inequality becomes problematic, however, where a necessary degree of social cohesion cannot be sustained. It reaches its limits where it produces poverty. This refers both to the premises of a theory of justice, and to the conditions necessary for a functioning democracy of political peers.

These theoretically deduced preferences of justice will now, in a third step, be used as criteria for an empirical examination of social justice in the actual welfare states of the OECD world.

3. The empirical question: how just are the "three worlds of welfare capitalism"?⁹

Ever since Esping-Andersen's analyses (1990; 1996; 1999) it has become common in the international scientific discussion to refer to the "three worlds of welfare capitalism": the liberal, the conservative and the social-democratic model of the welfare state. I will adopt the internal structure of this typology, but for precision's sake refer to them as the "marginal Anglo-Saxon welfare state-

model", the "social insurance state of continental Europe", and the "Scandinavian universalistic model". These are real-typical approximations of the three ideal-typical principles of social policy: the selective and highly means tested system of marginal social security - status oriented social insurance, and the universal citizens' entitlement (Schmidt 1998: 215). These pure types of social policy of course do not occur in reality but are institutionalised in specific mix. Nonetheless, in the US the characteristic structural feature of social policy is the principle of selective welfare, on the European continent the insurance principle, and in the Scandinavian states it is the tax-financed social services. Further below I will examine how far these respective worlds of welfare live up to the five principles of justice distilled above. However, in order not to encumber the continental social insurance-systems in this comparison with the weight of those latecomers less advanced economically and socio-politically, I will separate the welfare states of southern Europe¹⁰, which are structurally similar but less developed in terms of levels of social transfers. I thus arrive at these country groups:

1. Marginal Anglo-Saxon welfare states: Australia, Canada, Great Britain, Ireland, and the United States¹¹.
2. Social insurance states of continental Europe: Austria, Belgium, France, Germany, Italy¹², the Netherlands.
3. Universalistic Scandinavian welfare states: Denmark, Finland, Norway, Sweden.

In addition, the Federal Republic of Germany, already included in the second group, will be cited each time for the purpose of illustration.

3.1 Poverty rates

Leaving out the latecomer states of Southern Europe, one obtains a clear picture: while the Scandinavian and continental welfare states have been quite successful in fighting poverty, the Anglo-Saxon states have largely failed in that respect. Over one tenth of the population, or 13.6%, of these wealthy countries lives below the poverty line. Paradoxically, this is also the result of the

extremely high poverty rate in the richest society (USA 1994/5: 18.8%); but Great Britain, too, recorded a very high poverty rate in the same period. It remains to be seen whether the inclusive labour market policy and the activation of the welfare state by Tony Blair's New Labour administration alone can solve this serious problem of justice¹¹. While Germany has not solved the problem of poverty, it has reduced it, particularly through generous ex post welfare benefits (1994/5: 7.5%).

Table 1: poverty rates in comparison 1987-1992*

	Poverty rate
Anglo-Saxon welfare states	13.6
Scandinavian welfare states	7.2
Continental welfare states	7.1
Germany	5.5

* percentage of the population with an income below 50% of the average income (Mean). Unlike in the remaining tables, the years do not indicate the time span from which the average was calculated, but rather the range of years from which the data originate. The majority of the data were gathered in 1991 and 1992 (11 out of 17 individual data points).

Source: Luxembourg Income Study 2000: <http://www.iis.ceps.lu/povertytable.html>.

3.2 Educational spending

A comparison of governments' priorities in the area of education on the basis of the quantitative indicator "direct public educational expenditure" yields the following picture: Educational spending was by far the highest in the four Scandinavian states in 1995, while the continental, Anglo-Saxon and Southern European states spend substantially less. It is interesting to note that Germany, spending 4.3% of GDP, lags behind even the Southern European states. For the future prospects of a country like Germany with its scarcity of raw materials, and for the equalization of choices and life chances of its citizens, this is clearly a negative finding. These results are confirmed by an assessment of educational

policy in Germany by the UNESCO: while the Scandinavian countries consistently receive high marks, Germany has found itself at the lower end of the scale amongst the OECD-countries for the last couple of years. From the perspective of social this is highly problematic in two regards. First, it currently diminishes individuals' abilities to effectively take advantage of education, to expand their life chances, particularly among the lower social strata. Second, it is also a violation of the principle of intergenerational justice. The failure to invest in education and research leads, with the characteristic time lag, to a reduction in the welfare of the young and following generation(s). Again, the worst affected will be the lower social strata, as their socio-economic position becomes structurally entrenched and perpetuated.

Table 2: Spending on education 1991-1997 (as a percentage of GDP)*

	Direct public educational expenditure
Anglo-Saxon welfare states	5.1
Scandinavian welfare states	6.6
Continental welfare states	5.0
Germany	4.3

* The figures for 1996 were interpolated

Source: OECD (different years): Education at a glance. OECD indicators, Paris.

3.3 Inclusion in the labour market

Unlike educational spending, inclusion in the labour market eludes direct management by the state and is of course primarily dependent on economic developments, the behaviour of the 'social partners' - unions and business - and on particular social cultures. The state can, however, exert considerable influence over the development of employment in a country through legal regulation and de-regulation of markets, as well as through the structure of the social security and tax systems.

I will use four indicators to compare inclusion in the labour

market: general employment rates, female employment rates, unemployment rates and long-term unemployment rates. With respect to employment rates, the Scandinavian states are again leading the three country groups, followed by the Anglo-Saxon and continental countries. At 71.3%, the German rate is visibly above the average for continental welfare states, but still far below the average rates for the Anglo-Saxon, let alone the Scandinavian countries.

Table 3: Inclusion in the labour market 1990-1999

	Employment rate ¹	Female employment rate ²	Standardised unemployment rate	Long-term unemployed ³
Anglo-Saxon welfare states	73.4	63.2	8.9	29.4
Scandinavian welfare states	77.9	74.1	7.8	22.8
Continental welfare states	66.2	56.5	7.9	46.5 ⁴
Germany	71.3	61.4	7.5	45.6

¹ active labour force as a percentage of the working-age population

² gainfully employed women as a percentage of the female working-age population (15-64)

³ percentage of the total number of people unemployed for 12 months or longer

⁴ for Austria, the average of the period 1995-1999 was included

Sources: OECD (1999b: 41); OECD (2000b: 289, 292); OECD (2000a: 205); OECD (different years); OECD Employment Outlook, Paris; Central Statistics Office Ireland 2000; Quarterly National Household Survey, First Quarter 2000, <http://www.cso.ie/>; there are certain deviations between the sources, but they were small enough to be deemed acceptable.

The level of female employment in democratic countries is indicative of how a society organises women's options in terms of paid employment. *Ceteris paribus*, one can assume that the higher the employment rate (in a free society), the more serious society and state take their commitment to gender equality. Thus the female employment rate is an indicator - albeit not a sufficient

one - of justice between the sexes in the labour market. To be sure, the female employment rate is also dependent on cultural and religious factors that elude short-term political management. However, even politically manageable factors such as the tax system (household vs. individual taxation), the quality and range of social services provided by the welfare state to relieve the strains of childcare and housework, the provision of jobs in the public welfare sector, and the extension and flexibilisation of part-time labour have an important, often even more direct impact on the level of female employment (see Schmidt 1993). Not surprisingly, female employment rates are highest in the (protestant and/or strongly secularised) Scandinavian welfare states. These are trailed by the (protestant) Anglo-Saxon and the mixed-denomination continental welfare states, and finally by the catholic or Christian-orthodox latecomers of Southern Europe, each separated by considerable gaps. The justice gap between the sexes in the labour markets of the welfare states of continental and Southern Europe, which are conservative in this respect as well, is still considerable.

With regard to unemployment, the initial picture is not surprising. Unemployment is lowest in the Nordic countries, but in the nineties the continental welfare states come off almost as well as the Scandinavian countries. This, however, is first of all due to the traditional, social-democratic full-employment country Austria (3.8%), and secondly to the good performance of Holland (5.7%), which increasingly de-regulated its labour markets and fairly distributed existing work via part-time employment. Germany scored rather well with a rate of 7.5%, but in 1999, the end of the period under investigation, its rate of 8.7% was significantly above the average of the continental European group.

The rate of long-term unemployment can be seen as an important indicator of social justice insofar as it indicates how long the unemployed are excluded from the labour market. A high rate of long-term unemployment has to be seen as an empirical indicator of the unlawful marginalisation of parts of the citizenry, since increased duration of unemployment is connected with growing

exclusion from important social areas of consumption, culture, communication, and reputation (Giddens 1999, Sen 2000). This is very much the case in developed capitalist societies even when social transfers guarantee a minimum level of subsistence above the poverty line. While the Anglo-Saxon and Scandinavian welfare states have managed to keep the average duration of unemployment comparatively low, the length of time spent in unemployment is substantially higher in the continental and Southern European countries. While in the former only about a quarter of the unemployed remain out of work for longer than 12 months, in the continental and Southern European countries about half of all unemployed are also long-term unemployed. From the perspective of a theory of justice, this is a considerable problem for these two groups of countries.

While the Scandinavian and Anglo-Saxon welfare states have on average achieved high inclusion in the labour market, this no longer applies to the continental welfare states, irrespective of whether one includes the Southern European countries or not. In an examination of their labour market policies, the six countries of continental Europe come off worst.¹⁴

3.4 Social expenditure

The level of social expenditure is a very rough indicator for a comparison of countries in terms of a theory of justice. True, one can assume that social spending in general helps the less privileged or those in distress rather than the economically successful and thus conforms to the solidarity-aspect of social justice. Yet more often than not, the lion's share of social expenditure goes to the middle strata of society (pensions, education), rather than to the least advantaged groups. This tendency is stronger in the universalistic welfare states and the social insurance states of the European continent than in the selective and means-testing welfare benefits of the Anglo-Saxon states.

As measured by the aggregate indicator of gross social spending, the Scandinavian welfare states spent the highest proportion, that is, 31.2%, of their gross domestic product, followed by the continental

(26.9%), and, far behind, the Anglo-Saxon welfare states (18.7%).

Table 4: Social expenditure 1990 to 1995 (as a percentage of GDP)

	Public social expenditure	Public expenditure on pensions
Anglo-Saxon welfare states	18.3	4.6
Scandinavian welfare states	31.2	7.3
Continental welfare states	26.9	9.1
Germany	16.4	9.8

Source: OECD 1999: Social Expenditure Database 1980-96 (online version). Paris (partially our own calculations, based on this source).

A look at the structure of social expenditure is revealing. Only an analysis of the structure of expenditure allows for more concrete statements on the question of activating and passively compensating social transfers, or of a forward-looking social policy investing in the economy and social justice of a society. Here, however, we will only look at the ratio of spending on pensions to educational expenditures. It is striking that the continental welfare states, especially Germany, spend by far the most on pensions. A comparison with spending on education and training yields an inverted picture: the countries that - like Germany and France - spend the most on old age-benefits, spend the least on education and training. From the perspective of intergenerational justice and particularly of securing the future of the continental welfare states and of the Federal Republic of Germany, this is an unsettling finding. Both these reasons justify, from the perspective of social justice, a successive restructuring of public and social expenditure. After all, not only are the senior citizens of the industrial countries wealthier than ever before, as OECD data show, but a lack of investment in the future (education, research) leads to a loss of social welfare that again affects mostly the lower social strata.

3.5 Income distribution

Comparable data on income distribution are only available up to 1994. According to the Gini-index, the Scandinavian countries

show the lowest level of income inequality. They are followed in more or less equal intervals by the continental, and then the Anglo-Saxon states. In terms of unequal distribution of income, Germany is below the average of its group, despite having registered a sharp increase in income inequality in the first half of the nineties, largely as a result of reunification.

Table 5: Income equality

	Income distribution (Gini-coefficient) 1987-1992*
Anglo-Saxon welfare states	31.9
Scandinavian welfare states	22.7
Continental welfare states	25.0
Germany	24.7

* Unlike in the other tables, the years do not indicate the time-span from which the average was calculated, but rather the range of years from which the data originate. Data for a particular year are not available for all countries. The majority of the data were gathered in 1991 and 1992 (11 out of 17 individual data points).
Source: Luxembourg Income Study 2000: <http://lis.ceps.lu/ineqtable.html>.

I have argued that income inequality is not per se unjust, but that exclusion from economic and social participation is. Thus the indicator 'poverty rate' - that part of the population living below the official poverty line¹⁵ - is more important from the perspective of social justice than the general spread of incomes and wealth (see Ch. 3.1). A high poverty rate is of course also reflected in a rise in the Gini-coefficient. I argue, however, that it is less the general index of income distribution, but rather the specific indicator of poverty that is particularly important for the question of social justice. If the poverty rate is low, and if a high degree of equality of opportunity has been established in both the educational area and in terms of inclusion in the labour market, then the spread of income above the poverty line becomes considerably less important for the question of social justice.

3.6 The three worlds of welfare capitalism in a ranking of social justice

In a final summary of the empirical analysis, I will draw up a "ranking" of the three worlds of welfare capitalism. A simple ordinal scale, however, where each of the three worlds of welfare capitalism would be assigned a score on each of the five dimensions of justice and the individual scores added up to a grand total, would be too undifferentiated an analysis. On such a scale, the quantitative differences within one single dimension of justice would not be counted in the final calculation of the overall ranking. I will therefore employ the more sophisticated method of the Z-transformation.¹⁶ This will also take into account the "differences" between the scores in the individual dimensions of justice for the final ranking.

Table 6: The worlds of welfare capitalism in a ranking of social justice (Z-scores, unweighted)

	Poverty	Education	Labour market	Welfare state	Income distribution	Average
Anglo-Saxon welfare states	-0.306	-0.107	0.017	-0.300	-0.301	-0.199
Scandinavian welfare states	0.191	0.360	0.186	0.147	0.259	0.228
Continental welfare states	0.128	-0.151	-0.138	0.152	0.078	0.014

Note: These scores are average Z-scores within each respective cluster, relating to each of the respective indicators, based on their distribution in 16 Western industrialised countries. The Anglo-Saxon welfare states are: the US, Great Britain, Canada, Australia and Ireland. The Scandinavian welfare states are: Denmark, Finland, Norway and Sweden. The continental welfare states are: Germany, France, Austria, Belgium, the Netherlands and Italy.

The Z-scores of the ranking confirm the trend that was already apparent in the individual dimensions, even though in table 6 the

five dimensions of justice were factored into the calculation with equal weight, that is, not according to their rank in the hierarchy of justice. The group of Scandinavian countries performs far better than the continental welfare states. The countries of the European continent find themselves roughly at the average (0.00) for all 16 countries. They are followed, roughly at equal distance, by the Anglo-Saxon welfare states. Only in terms of social spending does continental Europe slightly outrank the Nordic countries. Still, the continental European states score worst when it comes to the "activating" components of the welfare state, namely in the areas of education and the labour market. This is yet another indication of the fact that the social insurance states of continental Europe may be quite generous in terms of the passive compensation of standard social risks (in particular pension schemes), but are extremely restrained in the classic activating areas, as education, and active labour market policies.

The unweighted ranking is confirmed by weighting the scores in the individual dimensions of justice and multiplying them according to their importance in the hierarchy of justice by factors ranging from 5 (poverty) to 1 (income distribution). As table 7 shows, the intervals also remain unchanged.

Table 7: The worlds of welfare capitalism in a ranking of social justice (Z-scores, weighted)

	(5) Poverty	(4) Education	(3) Labour market	(2) Welfare state	(1) Income distribution	Average
Anglo-Saxon welfare states	-0.306	-0.107	0.017	-0.300	-0.301	-0.187
Scandinavian welfare states	0.191	0.360	0.186	0.147	0.259	0.234
Continental welfare states	0.128	-0.151	-0.138	0.152	0.078	0.000

Note: The numbers in brackets indicate the factors with which the respective indicators were weighted

A disaggregation of the three worlds of welfare capitalism into individual countries yields the country ranking depicted in table 8. The four Scandinavian welfare states are in the lead, followed by Austria, already lagging far behind Denmark, which ranks fourth. Germany comes in with an average score on eighth place; its slightly positive score of 0.041 in the more accurate Z-valuation, however, places it slightly above the average. Surprisingly, catholic Anglo-Saxon Ireland ranks last, while, unsurprisingly, the classic protestant Anglo-Saxon countries are found at the lower end of the ranking.

Table 8: The Western industrialised countries in a ranking of social justice (Z-scores, unweighted)

	Poverty	Education	Labour market	Welfare state	Income distribution	Average
Finland	0.224	0.387	0.047	0.203	0.371	0.246
Sweden	0.118	0.295	0.217	0.284	0.260	0.235
Norway	0.158	0.478	0.239	0.000	0.243	0.224
Denmark	0.124	0.295	0.210	0.126	0.220	0.195
Austria	-0.016	0.020	0.130	0.181	0.272	0.117
Belgium	0.257	-0.072	-0.200	0.048	0.290	0.065
Switzerland	0.371	0.020	0.237	-0.165	-0.193	0.054
Germany	0.237	-0.347	-0.033	0.190	0.156	0.041
France	0.011	0.050	-0.114	0.249	-0.077	0.024
Netherlands	0.171	-0.225	-0.110	0.117	0.045	0.000
Canada	-0.169	0.203	0.147	-0.288	-0.065	-0.034
Italy	-0.076	-0.225	-0.357	0.192	-0.089	-0.111
Spain	-0.069	-0.225	-0.438	-0.031	-0.170	-0.187
Great Britain	-0.369	-0.194	0.054	-0.083	-0.362	-0.191
Australia	-0.242	-0.255	0.041	-0.420	-0.199	-0.215
US	-0.595	-0.072	0.233	-0.311	-0.385	-0.226
Ireland	-0.136	-0.133	-0.303	-0.290	-0.316	-0.236

Note: These data are all Z-transformed. The mean for the distribution of scores for each indicator is 0, the standard deviation 1. The data on which the transformations in the areas of poverty rates and income distribution are based are from the years 1987-92. The labour market ranking is obtained using the average of the Z-scores of all four labour market indicators, the welfare state ranking using the mean of the Z-scores for welfare expenditures as well as spending on pensions. There were no comparable data on income distribution for Greece, New Zealand and Portugal. Therefore they had to be excluded from this ranking.

Some shifts do occur in the weighted country ranking, but they are confined to occurring within the three worlds of welfare capitalism. Thus, Norway overtakes Finland to claim the first place, Germany trades its eighth place for France's ninth, whilst the US slides down to occupy the last place, followed by Australia and Ireland.

Table 9: The Western industrial countries in a ranking of social justice (Z-scores, weighted)

	(5) Poverty	(4) Education	(3) Labour market	(2) Welfare state	(1) Income distribution	Weighted average
Norway	0.158	0.478	0.239	0.000	0.243	0.244
Finland	0.224	0.387	0.047	0.203	0.371	0.239
Sweden	0.118	0.295	0.217	0.284	0.260	0.216
Denmark	0.124	0.295	0.210	0.126	0.220	0.193
Switzerland	0.371	0.020	0.237	-0.165	-0.193	0.141
Austria	-0.016	0.020	0.130	0.181	0.272	0.068
Belgium	0.257	-0.072	-0.200	0.048	0.290	0.052
France	0.011	0.050	-0.114	0.249	-0.077	0.022
Germany	0.237	-0.347	-0.033	0.190	0.156	0.016
Netherlands	0.171	-0.225	-0.110	0.117	0.045	-0.006
Canada	-0.169	0.203	0.147	-0.288	-0.065	-0.015
Italy	-0.076	-0.225	-0.357	0.192	-0.089	-0.137
Spain	-0.069	-0.225	-0.438	-0.031	-0.170	-0.186
Great Britain	-0.369	-0.194	0.054	-0.083	-0.362	-0.199
Ireland	-0.136	-0.133	-0.303	-0.290	-0.316	-0.201
Australia	-0.242	-0.255	0.041	-0.420	-0.199	-0.210
US	-0.395	-0.072	0.233	-0.311	-0.385	-0.238

Note: The numbers 1 to 5 in brackets indicate the factors with which the respective justice indicators were weighted

The continental European countries secure a good second place in the group ranking. Germany is in the middle of both the weighted and the unweighted ranking (see tables 8 and 9). Can one therefore give the 'all clear' sign? Is there really a significant need to reform the continental welfare states from the perspective of a theory of justice? Can this "solid" middle position be retained in the future?

Is Blair's or Giddens' 'third way', with its particular emphasis on education, inclusion into the labour market and the activation of the welfare state, a path without significance for continental Europe, considering its bad score in the justice ranking?

My first answer to these questions is 'No'. After all, the fundamental and grievous lack of justice within the continental welfare states - excluding Austria - lies in the persistently bad results in the labour market. Shaped by the Bismarckian social insurance state, characterised by strong regulation of labour markets and high social contributions, the prototypical continental welfare states - Germany, France and Belgium - display a particularly low level of inclusion in the labour market. General and female employment rates are below not just those of Scandinavia, but also substantially lower than in Great Britain and the US. Unemployment and particularly long-term unemployment is substantially higher than in both the Scandinavian and Anglo-Saxon country group. Standards of social security, however, are far higher than in the Anglo-Saxon countries (Schmidt 1998). The number of those entitled to social transfers is higher, the transfers more generous, the compulsion to take up work milder. In spite of high unemployment, the percentage of poor people in continental Europe is only half of that of the UK. Discrepancies in the distribution of income and wealth are significantly lower than in the Anglo-Saxon world. It is surprising, though, that educational spending is lower than in the two other country groups. To be more explicit: in terms of spending on social consumption, the continental European states lead the field, while in terms of spending on social investment, they come in last. This is not only a mis-institutionalisation of intergenerational justice, but also insufficiently opens the central ladder towards social advancement - education - to the lower social strata, threatening to entrench their subordinate position in economy and society. Moreover, it is particularly spending on social consumption that is becoming a burden in the European and global race for competitiveness. Their financing is becoming less and less secure, and their acceptance amongst the citizenry, excluding pensioners, is on the wane.

But the continental European states are in need of substantial reform not only from an economic perspective, but also from that of a theory of justice. Their capacity to fully include the people into society is insufficient, due to their bad performance on the labour market¹⁸. The Anglo-Saxon countries, however, can hardly serve as a model for such a reform, as public expenditures on primary and secondary education are insufficient, and inclusion in the labour market does not automatically prevent poverty, or guarantee integration into society. The high poverty rate and the phenomenon of the 'working poor' are the real Achilles heel of the Anglo-Saxon welfare states, including the UK. Also, the final calculation of the justice tallies and the resulting ranking clearly show the Anglo-Saxon countries as the losers in this justice contest. Consequently, the wide income-gap in the Anglo-Saxon countries does not lose its relevance for a theory of justice. These are good reasons not to view the Anglo-Saxon example as a model for the reform of the welfare states of continental Europe. Rather, I would like to argue in conclusion that it is the normative, economic and political logic of the institutions of the Scandinavian, particularly the activating Danish welfare state that make them an appealing model for reform on the continent.

4. The institutional question: distributional justice, political preferences and the institutional logic of reform

In my closing observations I will analyse the institutions of the welfare state from the perspective of reform, viewing them both as dependent and independent variables. In this, I embrace the theoretical point of view of actor-centred institutionalism, especially with regard to its assumption that institutions influence not only the rational utility calculations of individual and collective actors, but in the long term also their normative predispositions (Rothstein 1998, Scharpf 2000a). Political actions and normative action-orientations are shaped to a large extent by how political institutions structure the situations within which actors make their decisions, and how they influence the actors' confidence and expectations.

Institutions, therefore, also have a role in shaping norms and values. Normative convictions are not only socially pre-determined, they can also be politically influenced and created. From this perspective, one can invert Robert Putnam's (1993) thesis of the accumulation of social capital: political institutions, then, are less codified social conventions or reified social action, but rather institutions devised and conceived to stimulate desired actions already in the short term, and to create certain social norms in the long term. If this is true, politics would have considerable room for institutional norm-making, as it is then possible, through the design of political institutions, to exert influence over which norms should prevail and co-determine individual actions in the long run (North 1990: 5; Rothstein 1998: 135). This is also roughly Amartya Sen's argument¹⁹ when he points out that people employ two utility-functions: They either act on the basis of their individual interest, or on the basis of "collective goods". Moral reasons oriented towards collective goods are particularly important in decisions where a rational utility calculation does not produce clear results. Moreover, extensive empirical research in Scandinavia and Great Britain supports the assumption that it is the incentive-structure of an institution that co-determines whether individual or collective utility calculations have a stronger influence on actions. This will form the backdrop of my concluding reflections. The overarching hypothesis is this: In order for the institutions of a welfare state to successfully and systematically implement social justice in democratic capitalist societies, they have to abide by at least three logical imperatives: the normative, the economic, and the political logic.

The normative logic: In order to fulfil their intended steering functions, the institutions of the welfare state must also comply with the normative logic of fairness. To disregard this logic is to increase the likelihood of unintended outcomes, because individuals would then judge institutional regulations exclusively on the basis of their utility-maximising calculations. The "logic of fairness", on the other hand, implies that citizens must be able to believe that

- the political programme is fair,
- free riding is kept to a minimum and that the other citizens, in solidarity, follow the welfare state's regulations,
- the implementation of measures is not discriminatory and likewise observes the standards of fairness.

My first argument then is that universalistic welfare state institutions implement these principles of fairness more effectively than means-testing, selective welfare benefits with discriminating tests and extensive controlling bureaucracies to guard against the possibility of fraud, which are often blown out of proportion by the media and political discourse and utilised against the welfare state. In this respect, selective welfare state institutions, unlike universalistic ones, have a built-in risk of erosion of the reservoir of legitimacy that normally guarantees their continued existence. The constantly recurring public debate amongst the majority of tax-payers about the minority of "undeserving poor" therefore not only violates the latter's self-respect and personal autonomy (Rawls, Walzer, Sen), it can also considerably narrow the political options for a reform of the welfare state by reducing support for this institution.

The economic logic: By designing institutions of the welfare state one also have to take the economic logic into account. That means that welfare institutions must not impede economic innovation and prosperity, since these enter citizens' utility calculation on the positive side. Social contributions that are primarily financed via non-wage labour costs, however, usually weaken an economy's competitiveness under the rules of global competition (Scharpf 2000). They moreover impede the growth of employment in the lower-skilled service sector, which in turn contributes to high long-term unemployment, low employment rates and increasing social exclusion. This, then, is also a compelling argument from the perspective of social justice against financing social security by payroll taxes, and an argument for an increasingly tax-financed welfare state. As a side effect, one would also achieve greater redistributive effects with financing through progressively graded tax rates than through proportional social contributions.

The political logic: Last but not least, every reform of the welfare state must take into account the political logic, that is, the logic of broad public support. Above all, this means that the middle classes have to be won over. They are, as it were, the critical electoral mass of support for the welfare state (Rothstein 1998: 153), since, as we know from empirical studies, support for the welfare state diminishes with social advancement. Among the middle classes there is a slight prevalence of the rational calculation that they "put in" more than they "get out". Nevertheless: the middle classes can, under three conditions, be convinced to support an universalistic welfare state even with reference to economic rationality:

- the welfare state's services have to be easily accessible,
 - they have to be high-quality services and
 - must provide a credible insurance against life's vagaries.
- Middle-class citizens can therefore support welfare state-institutions even if they "get out" less than they pay in, provided that universalistic benefits do not require that in case of sickness or old age they first dispose of personal wealth or subject themselves to discriminating means-testing. The rational motive, then, is an insurance against dramatic and unforeseeable social emergencies. In Scandinavia this type of insurance and the networks of social services of a good quality are still important reasons for the widespread support of the universalistic principles of financing and provision of certain social benefits (Rothstein 1998: 166f.).

I do not suggest that the universalistic principle has unchallenged domination in terms of all three logical imperatives, or that it alone satisfies all of the above preferences of justice. Nor can the universalistic principle be at all times the one and only determining and optimal principle for all areas of social policy and the welfare state. Health care and pensions can certainly be structured in a more universalistic manner than is feasible for welfare and poverty relief or unemployment insurance. Nonetheless, it is not only normative reasons that warrant more universalistically oriented welfare reforms. In conclusion, I will demonstrate this by justifying with a sort of "pyramid of exclusion" why a more universalistic

reform of the welfare state can in fact count on social acceptance and political feasibility:

- The political logic can warrant any of the three welfare-state principles, depending on which norms of justice empirically prevail in a society (see Wegener 1995): Anglo-Saxon societies will tend more towards the meritocratic principle, the societies of continental Europe more towards security of status, and the Scandinavian societies more towards social inclusion.
- The economic logic however, in an era of globalisation, is sufficiently respected only by the institutions of either the universalistic or the marginal welfare state.
- The normative logic of fairness, however, is sufficiently satisfied by the universalistic model alone; since this normative logic can also produce positive momentum for the acceptance of a welfare state, it can certainly not be dismissed as "wishful thinking" and does not militate against but rather for reforms aimed at more universalism.

A structural reform of the continental social insurance state in an era of globalisation and individualisation does not have to minimalistically strive to emulate the selective institutions of Anglo-Saxon welfare capitalism. After all, the normative logic of selectivity, as a result of its in-built erosive dynamic constantly challenges the legitimacy of welfare benefits from the perspective of "realpolitik". Yet certain activating elements must always be included in a universalistic reform of the welfare state, but they should not be bound to the logic of selective welfare state institutions. Rather, they could actually be integrated into a Scandinavian-style, tax-financed and more universalistic welfare state in a manner that conforms to the logic of that system. Denmark's successful active labour market policy with its stringent 'welfare to work' criteria demonstrates how effectively this can be done without violating the commitment to justice in the process.

To be sure, a welfare state's institutions are sluggish and full of inertia. Special interests and a culture of claims and expectations protect them from radical reform. This is especially true of the continental welfare state's pension systems. But the visible path-

dependency of every reform must not be misinterpreted as structural determinism that makes any course corrections impossible. For already in the medium term the institutional logic of an activating, increasingly universalistic and tax-financed welfare state should provide more sustainable support for this system than the normative, economic and political logic of the selective, means-testing institutions of the Anglo-Saxon welfare capitalism, and the status-securing insurance institutions of continental welfare capitalism.

Footnotes

- 1 I am of course referring to the 'early' Nozick of *Anarchy, State and Utopia* (1974) and not to the "converted late" Nozick of "communitarian infinity" (Zintl 2000: 117).
- 2 In this quadrant we are dealing with rigorously liberal theories that are mostly subsumed under the heading "libertarian".
- 3 This strand of "social", "developed" or "modern" liberalism calls upon the state as to guarantee to its citizens not just formal, but actual equality of resources and opportunities (see e.g. Rawls 1975 [1971], 1993; Dworkin 1981a, 1981b, 1987a, 1987b).
- 4 Quotes from the German version: *Sphaeren der Gerechtigkeit*, 1992.
- 5 The term 'meritocratic principle' is often somewhat imprecisely translated as 'achievement principle'. 'Meritocracy' refers to merit, that is, something that one has legitimately earned as a result of one's efforts and achievements.
- 6 This argument is supported even more strongly by the pronounced resource-egalitarianism of Dworkin (1990).
- 7 It is one of the oddities of the current debate in Germany about a reform of higher education that the demand for a "prohibition of tuition fees", coming primarily from the social-democratic left, ignores this aspect of justice, thus compromising even a sophisticated "left position".
- 8 Such structures are to be found especially in the continental welfare states (e.g. Germany, France, Belgium).
- 9 For the research and compilation of the following data I thank

my assistants Minko Krueck and Kai Muehleck.

- 10 This refers to Greece, Portugal and Spain. To portray the welfare states of southern Europe as a separate "fourth world" of welfare capitalism (e.g. Lessenich 1994) is neither theoretically nor empirically particularly convincing, because it is not the institutions, procedures, rights or obligations that diverge categorically from those of the continental welfare states. Rather, it is mostly the level of transfers and partially the modalities of financing them that make a (more quantitative) difference. This is true especially for the economic latecomers Greece, Portugal and Spain.
- 11 Because of gaps in the data, New Zealand was not included in the Anglo-Saxon country group.
- 12 Italy is being included in the group of continental welfare states because it should neither economically nor with respect to the extent of its democratisation be put into one category with the latecomers under a possible heading of 'Southern European welfare states'.
- 13 National statistics indicate a small reduction. Cross nationally standardized and comparable data are not yet available for this period.
- 14 The six countries are calculated as a group; and as a group (world) they come off badly, despite the -partly - good performance of Austria and the Netherlands.
- 15 In the OECD-countries, the poverty line is defined as 50% of the average income.
- 16 Z-score calculation: Subtraction of one country's score in one dimension of justice from the mean score of that particular distribution. Afterwards, the standard deviation of that particular distribution is divided by the result of said subtraction.
- 17 The data show rather clearly that the Third Way, conceived by Giddens, has until now been wholly inadequately translated into justice-increasing policy-outcomes by the Blair administration.
- 18 The Netherlands and Austria are the exceptions.
- 19 See also most recently Fritz Scharpf (2000).

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Appendix

Empirical Studies of Social Justice

Israel and Germany compared to the Three Worlds of Welfare Capitalism

Anglo-Saxon Welfare States: Australia, Canada, Great Britain, Ireland, New Zealand, USA

Scandinavian Welfare States: Denmark, Finland, Norway, Sweden

Continental Welfare States: Austria, Belgium, France, Germany, Italy

South-European Welfare States (separately): Greece, Italy, Spain, Portugal

Ranking of Social Justice (z-scores, weighted)

	Poverty(5)	Education(4)	Labour market(3)	Welfare state(2)	Income distribution(1)	Average
Norway	0.844	1.528	1.160	0.009	0.984	2.963
Finland	1.129	1.210	0.147	0.843	1.470	2.817
Sweden	0.672	0.892	1.220	1.175	1.050	2.798
Denmark	0.701	0.892	1.118	0.523	0.896	2.474
Belgium	1.272	-0.380	-0.661	0.202	1.161	0.884
Austria	0.101	-0.062	0.359	0.748	1.094	0.784
Germany	1.187	-1.335	0.040	0.784	0.653	0.587
Netherlands	0.901	-0.911	0.051	0.488	0.234	0.445
France	0.215	0.044	-0.494	1.029	-0.230	0.319
Israel	-1.099	2.164	-0.291	-0.767	-1.730	-0.195
Canada	-0.556	0.574	0.420	-1.177	-0.186	-0.353
Italy	-0.156	-0.911	-1.536	0.791	-0.274	-1.544
Great Britain	-1.414	-0.805	0.545	-0.338	-1.311	-2.128
Spain	-0.128	-0.911	-2.035	-0.125	-0.583	-2.244
Ireland	-0.413	-0.593	-1.191	-1.188	-1.135	-2.304
Australia	-0.871	-1.017	0.256	-1.720	-0.693	-2.357
USA	-2.385	-0.380	0.892	-1.276	-1.399	-2.945

Note: The data are z-transformed. The mean for the distribution for each indicator is 0, the standard deviation 1. The numbers 1 to 5 in brackets indicate the factors with which the respective justice indicators were weighted

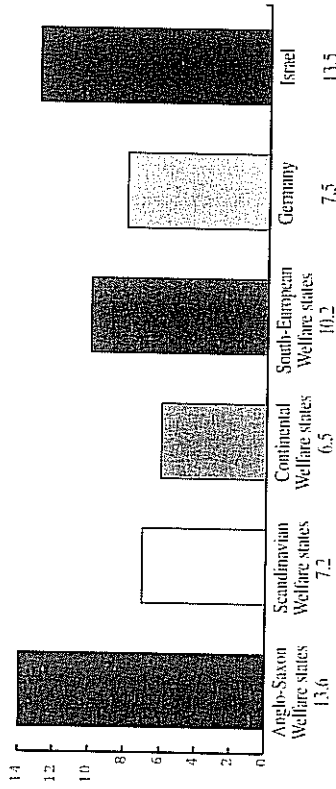
Ranking of Social Justice (z-scores, unweighted)

	Poverty	Education	Labour market	Welfare state	Income distribution	Average
Sweden	0.672	0.892	1.220	1.175	1.050	1.002
Finland	1.129	1.210	0.147	0.843	1.470	0.960
Norway	0.844	1.528	1.160	0.009	0.984	0.905
Denmark	0.701	0.892	1.118	0.523	0.896	0.826
Austria	0.101	-0.062	0.359	0.748	1.094	0.448
Belgium	1.272	-0.380	-0.661	0.202	1.161	0.319
Germany	1.187	-1.335	0.040	0.784	0.653	0.266
Netherlands	0.901	-0.911	0.051	0.488	0.234	0.152
France	0.215	0.044	-0.494	1.029	-0.230	0.113
Canada	-0.556	0.574	0.420	-1.177	-0.186	-0.185
Israel	-1.099	2.164	-0.291	-0.767	-1.730	-0.345
Italy	-0.156	-0.911	-1.536	0.791	-0.274	-0.417
Great Britain	-1.414	-0.805	0.545	-0.338	-1.311	-0.665
Spain	-0.128	-0.911	-2.035	-0.125	-0.583	-0.756
Australia	-0.871	-1.017	0.256	-1.720	-0.693	-0.809
Ireland	-0.413	-0.593	-1.191	-1.188	-1.135	-0.904
USA	-2.385	-0.380	0.892	-1.276	-1.399	-0.910

Note: The data are z-transformed. The mean for the distribution for each indicator is 0, the standard deviation 1. Missing data for Portugal, Greece and New Zealand.

First Priority: Prevention of Poverty
Indicator: Poverty Rate (relative)

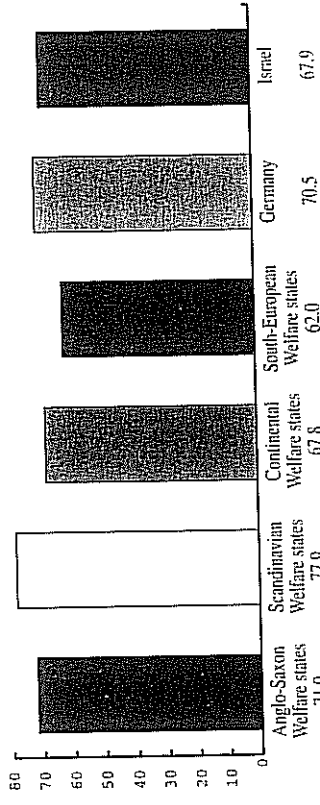
Poverty rates as a percentage of population with income below 50% of average income
Data refer to different times between 1990 and 2000



Source: Luxembourg Income Study 2002: <http://www.lis.econ.uhioventytable.htm>; Israel: UNDP (2001); Human Development Report, S. 152

Third Priority: Inclusion in the Labour Market
Indicator 1: Employment Rate

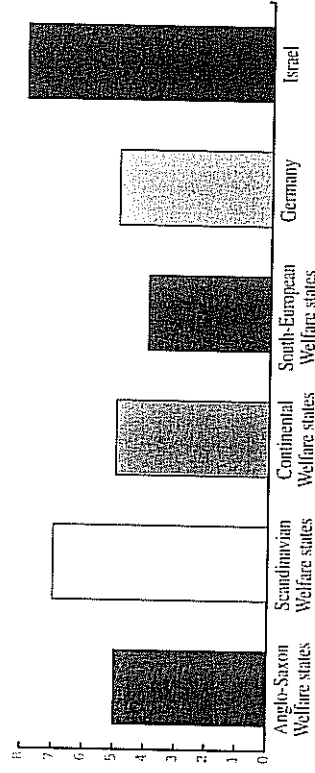
Employment rate as a percentage of the working-age population
The data refer to different times between 1990 and 2000



Source: OECD 2000; OECD Wirtschaftswachstum, Nr. 67, Juni 2000, Paris: 289; Israel: ILO (2000); World Labour Report, S. 269

Second Priority: Education and Training
Indicator: Spending on Education

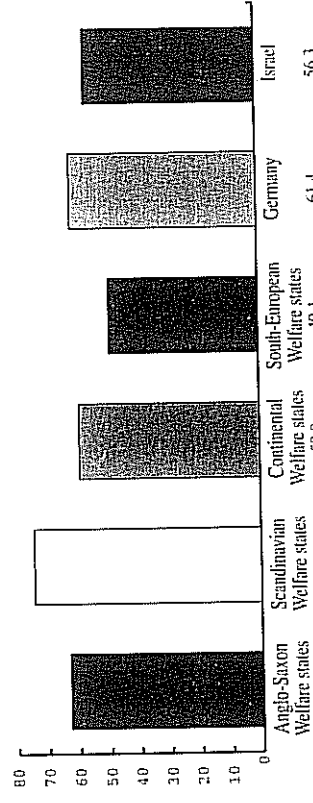
Spending on Education as a percentage of GDP
The data refer to different times between 1991 and 2000



Source: OECD diff. Yearly Education at a glance; OECD indicators, Paris; Israel: UNDP (2001); Human Development indicators, S. 196

Third Priority: Inclusion in the Labour Market
Indicator 2: Female Employment Rate

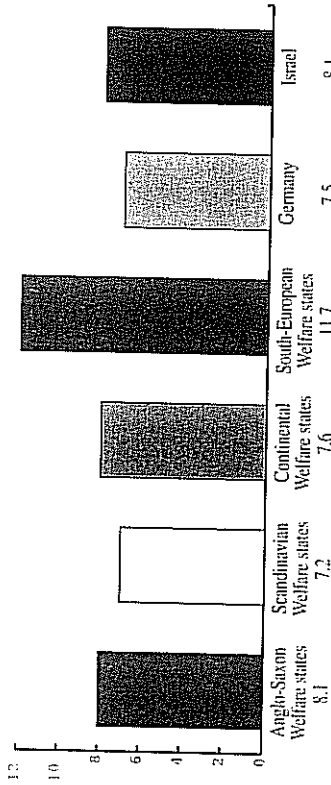
Female employment rates as a percentage of the female working-age population
The data refer to different times between 1990 and 2000



Source: OECD 1999; OECD Historical Statistics 1960-1997; OECD 2000; OECD Employment Outlook, June 2000, Paris: 205; Israel: ILO (2000); World Labour Report, S. 269

Third Priority: Inclusion in the Labour Market
Indicator 3: Unemployment Rate

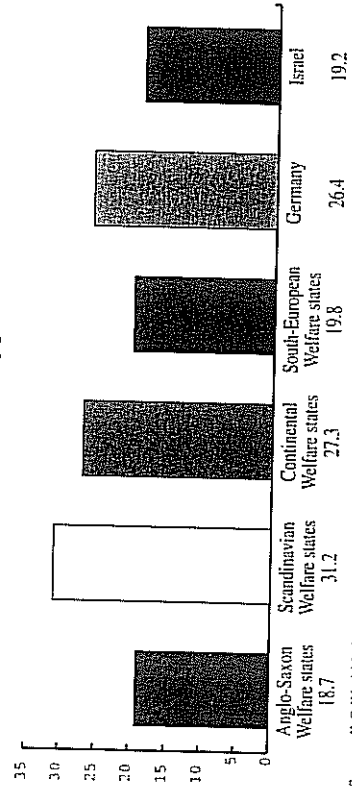
Unemployment Rate (ILO Definition)
 Average 1990-1997



Source: OECD 2000; OECD Wirtschaftswissenschaften, Nr. 67, Juni 2000, Paris:292
 Israel: ILO(2000); World Labour Report, S. 292

Fourth Priority: Social Security
Indicator 1: Public Social Expenditure

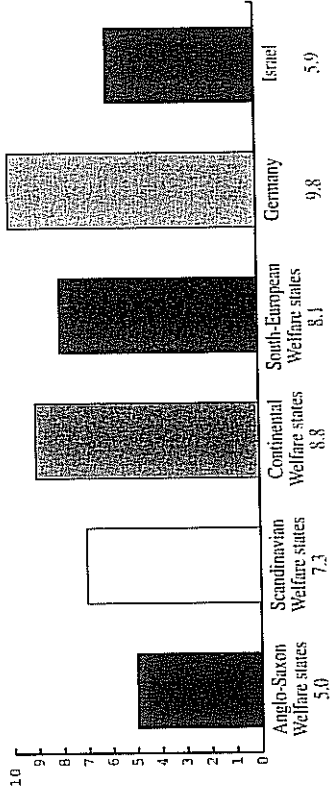
Public Social Expenditure as a percentage of GDP
 Year 2000



Source: ILO World Labour Report 2000, S. 312

Fourth Priority: Social Security
Indicator 2: Public Expenditure on Pensions

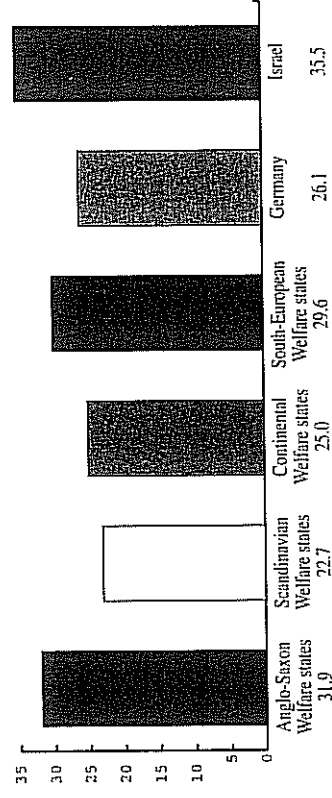
Public Expenditure on pensions as a percentage of GDP
 The data refer to different times between 1990 and 2000



Quelle: OECD 1999; Social Expenditure Database 1980-96 (online-Version), Paris, Japan und Korea: ILO World Labour Report 2000, S. 313

Fifth Priority: Reduction of Income Gaps
Indicator: Gini-coefficient

Income distribution (Gini-coefficient)



Source: Luxembourg Income Study 2000; <http://issy.ceps.in/fineq.htm>, Israel: ILO(2000); World Labour Report, S. 290.
 (The data refer to different times from 1990 to 2000).

