

Social Democracy in the Globalized Post-industrial Society

Democratic government, rule of the law, observation of basic human and civil rights, individual freedom from unwarranted impositions by others (including the community), increasing (and sustainable) material prosperity and an adequate participation of all citizens in that prosperity can be considered to be central goals of the affluent welfare states in Europe, the Pacific Basin and North America. The goal that every citizen shall participate to an adequate extent in the prosperity of the nation is the one that is most distinctly »social democratic« even though it is by no means specific to social democratic or socialist parties. It has in the past been shared and promoted by political forces that would not consider themselves as social democratic. The slogan »prosperity for all«, which sums up very well what a »social« democracy (taken here as a generic term, not a label of a particular political group) is about, has been coined by German Christian Democrats. Other terms which refer to the essence of a »social democracy« are »social market economy«, »social citizen rights«, »inclusive society« or »just society«.

This paper tries to outline the policies which can ensure »prosperity for all« in advanced capitalist countries in the foreseeable future. It identifies several crucial challenges that put this central social democratic value at jeopardy and discusses policy options for coping with them. Altogether, it presents a case of comprehensive optimism with regard to the economic feasibility of the agenda made up by these options. The author is less optimistic about the chances of constructive turns in the ideology-driven public debate and of problem-adequate policy re-designs in real-life politics, but also about the political support a truly social democratic agenda can still muster.

Fundamental challenges

At the turn of the millennium, the achievement of »prosperity for all« faces a number of serious challenges, which require major institutional adjustments. These challenges are:

- ▶ increased exposure of national economies to international competition;
- ▶ relative abundance of labor and a corresponding scarcity of stable well-paid jobs;
- ▶ the »aging-society« syndrome;
- ▶ greater volatility of work-life.

To these challenges another, far less comprehensive one could be added: the rising costs of health care and the ensuing threat to its general availability. The paper will not address this problem. However it recognizes that it could – depending on a country's particular health care system and the particular political dynamics of the adjustment process – turn into a major issue with regard to the maintenance of a »social democratic« society.

Neither will the paper explore challenges that in certain respects are crucial to modern society but are not directly related to the maintenance of »prosperity for all«. These additional challenges include

- ▶ the »globalization« of a whole range of social relations beyond production and markets (relating to culture, values which orient the conduct of life, global commons, migration, crime, hazards of all kinds)
- ▶ the persistent and partially widening North-South prosperity gap
- ▶ the erosion of the socially cohesive traditional values inherited from pre-modern times
- ▶ the growing manipulative power of man with regard to its own natural fundamentals (environment, genetics, artificial intelligence).

As mentioned, the paper's basic concern is with the threat that the four challenges listed above pose to the achievement of »prosperity for all«. Yet

this concern would be too restricted and would omit an important element of what a »social democratic« society should offer to its members if it did not pay attention to the human and social costs of material prosperity. There are »social externalities« to the market process which are in danger of being neglected to an excessive extent. The concept of »social externalities« refers to the negative (restrictive or destructive) effects the economic process has on the non-commercial sphere of life, on human and societal reproduction, but also on the enjoyment of life (which from the restricted point of view of economics is subsumed under the concept of »consumption«). Under this extended perspective, meeting the four challenges means safeguarding »prosperity for all« while at the same time protecting the »sphere of life« from excessive impositions made by and on behalf of the market process. However, broadening our focus like this invariably brings an additional challenge into the picture: the erosion of family functions in the wake of the emancipation processes associated with modernity.

This paper will discuss the options in dealing with the five challenges which are seen as requiring adjustments in the way »social democracy« functions. On the whole, it will define plenty of scope for adjustments that are liable to consolidate »social democracy« in the »globalized post-industrial« society. However there is a challenge on a different level: The very concept of »social democracy« (or »inclusive society« or »social market economy«) is in danger of losing consent and of being abandoned as an overriding societal goal. A generalized belief is currently emerging that »social democracy« is a concept of the past and illusory in the new age of globalization, information or whatever. This belief is made up of a perception of accumulating problems, of an ideologically enhanced cover-all interpretation (»too much state«) and an instinctive resistance against higher financial burdens. While the ideal of an »inclusive society« may remain appealing on a highly abstract level it may nonetheless lose support as a relevant political agenda. Solutions to the problems exposed below may be feasible and sensible in technical economical terms but they may not meet the test of political acceptance. Therefore, the over-riding challenge for those who want »prosperity for all« is to maintain (or regain) the

legitimacy of the »social-democratic« agenda. This implies three things:

- Support must be mobilized for the agenda. This requires on the one hand a comprehensive »vision« that connects the essential values of »social democracy« with modernized policy concepts and on the other hand probably a good deal of political skill and charisma.
- Priority must be given to policy options that have a higher chance of acceptance than others. In the present ideological climate this implies, for instance, that low-tax solutions are to be preferred to high-tax solutions, even if the latter may in some cases constitute a more rational approach.¹ In other words, attention must be paid to efficiency-legitimacy trade-offs.
- The temptation must be resisted to allow the essence of the agenda to be hollowed out in the quest for political support.

»Prosperity for all« yesterday and tomorrow

The means to achieve the goal in the past

In the decades after World War II, some countries have achieved the goal of »prosperity for all« to a very high degree. The socio-economic mechanisms which were crucial for this achievement were:

- an economy that ensured (nearly) full employment at »decent« wages (the full-employment pillar of the social democratic society);
- effective insurance against the standard risks of life, such as disease, disability, old-age poverty, temporary unemployment (the social-security pillar);
- (means-tested) income support and specific consumption subsidies for the needy (the poverty-alleviation pillar);
- provision of essential public goods free of charge, most importantly: education up to university level (the public-goods pillar).

The relative importance of the various mechanisms varied from country to country, giving rise to various attempts at classifications. For our purpose of discussing the options »social democracy« has

1. See in this respect e.g. Holtham's plea for developing public ownership (Holtham 1999).

for coping with the challenges listed, a distinction proposed by Gøsta Esping-Andersen (1990) is of particular value. So-called »residual« welfare states concentrated on correcting market results through income and consumption subsidies targeted at those without adequate market income (»the poor«). The ideal-typical example is the USA. The »Christian Democratic« welfare state, typical for the founding countries of the European Community, emphasized social insurance tied to employment and aiming at the preservation of employees' economic status throughout the vicissitudes of life. The »Social Democratic« welfare state of Scandinavian provenience centered on the universal provision of essential services and income-maintenance as economic citizen rights, independent of citizens' market income.

Equality of chances as a substitute?

Now that these pillars would have to be mended in order to obtain the goal of »prosperity for all« under the changing conditions referred to above, the goal itself is being questioned. It is being proposed that major increases in income inequality be accepted as compatible with the concept of a »just society« and that justice be seen to a larger extent in the equality of chances rather than the equality of results (see e. g. Giddens 1999). The proponents of this conceptual adjustment see it as a concession to the perceived impossibility of attaining income equality in the future to the extent that some countries have experienced in the past. Yet, if pursued seriously, equality of chances is a fairly radical concept that would be in conflict with well-established privileges. It implies a high degree of downward mobility for the privileged. Typically, equality of chances has not been achieved in most existing welfare states. But the persisting inequality was acceptable because of a general participation in society's growing prosperity. Compensating a higher degree of social polarization with increased equality of chances would be politically much more demanding than compensating persisting privileges based on wealth and family background with »prosperity for all«.² This paper does not investigate the options for establishing true equality of chances, but rather concentrates on the options for safeguarding adequate general partici-

pation in national prosperity, a goal that is very far from any »equality of outcomes« often alleged to be the unrealistic alternative to a strategy aiming at equal chances.³

The capitalist context for the pursuit of the goal

Social democratic society, in the wider meaning of the term, has so far been based on a capitalist economy. The term »social market economy« points to that particular combination of organizing principles. It implies the belief in the ability of »domesticating« capitalism through an appropriate regulative and corrective framework – regulative for the purpose of mustering the market forces for the goal of mass prosperity, corrective for the purpose of protecting the victims of the market. This belief is not adopted here as an axiom which should never be questioned. But the paper does adopt the strategy of investigating future chances of »domesticating« capitalism through adjusted welfare-state mechanisms before thinking of more radical alternatives. Moreover, it gives priority to domestic solutions before turning to supranational ones.

Citizens, not employers, should pay for social security: Meeting the challenge of international competition

Even though several European welfare states have always had highly open economies, international competition has assumed a new quality. It is no longer only the international trade that defines openness, increasingly it is transnational organization of production within firms. National firms used to be an asset of national economies competing in the global market-place. »Global firms« no longer qualify as such an asset. It is now increasingly territory-bound national production factors that compete for the »favor« of being hired by transnationally operating firms.

2. See also Le Grand 1991 and Holtham 1999: 54 ff.. For a summary of the relation between equality, justice and citizen rights see Plant 1998.

3. »Adequate participation« corresponds to Frank Vandenbroucke's notion of a »threshold version of equality« (Vandenbroucke 1998).

Safeguarding prosperity

Intensifying global competition has raised fears that the very basis of »prosperity for all«, namely national prosperity itself, is in danger. Even though the issue of how to safeguard the national economy's competitiveness in the global market-place is the dominant theme in many national debates, this is not a challenge which can be meaningfully addressed on a general, not country-specific level. All the tremendous transformations in the organization of production, businesses and markets are, first and foremost, a prosperity-enhancing force – otherwise the market would quickly discard them. But it can, of course, be that *some* countries have to adjust so as to facilitate high value-added production, employing national manpower, on their territory.

To a large extent, such adjustment does not question any of the four basic pillars on which »prosperity for all« rests. It refers to the traditional means which enhance a country's »industrial fertility«, i.e. provision of human capital, of infrastructure, knowledge-creating and disseminating institutions, etc.⁴ It also refers to the removal of obstacles that keep enterprises from unfolding their innovative and productive potential. But a prevalent theme in national debates is, in addition, cost competitiveness. In this respect, a conflict between the conditions for safeguarding national prosperity and the goal of having all citizens participating in this prosperity might be perceived.

Safeguarding »prosperity for all«

The new quality of international competition, i.e. transnational organization of production by »global firms«, implies the danger that cost disadvantages will lead to a loss of market chances more quickly than was the case when they could spur national companies to higher levels of productivity. At any rate, the threat of shifting production or investment abroad has become a bargaining chip of companies in negotiations over wages, non-wage labor costs, taxes and workers' rights. International comparisons of hourly wages, taxes on companies, employers' contributions to social security etc. can be more readily instrumentalized for political pressure towards downward adjust-

ment. Most of all, this appears to weaken the »social-security pillar« of a »social democratic« society. In addition, it could be seen as eroding the »full-employment pillar« and the »public-goods pillar«, the latter because of dwindling tax revenues.

As to competition and social security, the proposition that traditional welfare state protection has become too expensive in today's global market-place is conceptually wrong. Cost competition would affect those parts of welfare-state protection and redistribution (a core part of the »social democratic« society) which are financed by companies, including

- ▶ employers' contributions to social security schemes (important in some, but not all modern welfare states),
- ▶ wage payment during sickness,
- ▶ paid leaves during pregnancy and early motherhood, and
- ▶ on a somewhat different level: the regulation of working-time as a function of family/community priorities rather than productive priorities.

Yet from an economic point of view, cost competition is essentially irrelevant for the affordability of social protection, welfare-state services and redistribution. That overall production costs stay within the limits dictated by competition has always been a condition that had to be met in the production of tradables. The level of employees' total remuneration compatible with these limits has always depended on productivity. The mechanisms to keep real pay within viable limits economy-wide have been collective bargaining, exchange-rate adjustments, productivity adjustments and occasionally government subsidies. More weight lies today with collective bargaining as the exchange-rate is less available as a policy instrument and as productivity adjustments are less reliable as a response of companies. But the affordability of a particular component of overall costs does not depend on the limits to these costs. Welfare-state costs are about the *share* of income citizens are prepared to devote

4. On the concept of industrial fertility see Kampeter 1995.

- ▶ to the provision for old age and the risks of life, and
- ▶ to solidarity with their less privileged fellow citizens.

These shares result from essentially political decisions about priorities and are not a question of economic affordability.

If welfare-state costs face increasing pressure by international cost competition, that is because the institutionalized process of decision-making in these matters obscures the priority question rather than bringing it to the fore. It tends to exclude trade-offs between cash and entitlements from the bargaining tables. It is typical for the continental European welfare states of the »Christian Democratic« type that the process which leads to the determination of employers' social security contributions and to employees' entitlements is separated from the process of wage determination. Thus, the inherent trade-off between take-home wages and social entitlements of all sorts disappears from the »screen« of policy-relevant attention.

To defuse the politically salient but economically inappropriate question of how much social security etc. is compatible with competitiveness, institutionalized attention must be directed to the question of how to divide overall available income (itself a function of market prices, productivity and labor's bargaining power) between present consumption, provision for the future and solidarity. The answer to this question is inherently political, reflecting citizens'/employees' preferences. Abandoning employers' contributions to social security systems would greatly facilitate an explicit decision on preferences in this matter. Alternatives are:

- ▶ financing social security expenses out of the government budget (the Danish model);
- ▶ financing it through employees' mandatory contributions only.

An additional element of freedom with regard to preferences could be introduced by leaving provision for the future and for risks (not solidarity!) to a certain extent up to the individual (the Swiss model). If social security is to be financed out of the government budget (like other welfare-state components anyway) the revenues needed would have to be raised primarily through taxes on households and consumption and not through

higher than normal taxes on enterprises. The result of either kind of adjustment would be that welfare-state costs would be largely immunized against international competition. Political attention would be relieved from this apparent issue and could focus on the really relevant issues.

Using Esping-Andersen's typology, immunizing social protection against international cost competition implies that the employee-centered »Christian Democratic« welfare systems of continental Europe would move closer to the citizen-centered »Social Democratic« type of Scandinavia (see Levy 1999).

Safeguarding taxation justice

The fallacy of the cost-competitiveness argument with regard to welfare-state protection extends also to the provision of public goods. They, too, are essentially a matter of political priority and not of affordability. But such analogy does not apply to the fear that increasing competition might undermine the »full-employment pillar« of a »social democratic« society. I shall deal with this challenge in the next chapter. At this point, I want to refer briefly to another aspect.

While international cost competition does not affect the affordability of welfare state entitlements (protection and access to public goods), the international mobility of capital does create a problem of justice. Income accruing from capital can be shifted abroad in order to avoid national taxation whereas the bulk of wage income can not (see e. g. Tanzi 1995 and Rodrik 1997). As a consequence, the rich get away with contributing less to the provision of public goods and to solidarity with the poor.⁵ Labor's share in financing public expenditure tends to increase. To the extent that the welfare state amounts to a redistribution from high-income to low-income citizens (everywhere a rather small extent indeed) this tends to become a redistribution within the »working class«.

Restoring taxation justice must form part of a social democratic agenda – because basic principles

5. Anthony Giddens (1998: 103) refers to this as the self-exclusion of the elites in the globalized economy, which supplements the involuntary exclusion of those without decently paying jobs.

of justice are violated and because the acceptance of collective solutions to many problems (solidarity with the destitute, provision of public goods) might become threatened. There are a number of obvious ways to reduce the extent of the problem. One is the closing of legal tax loopholes so as to broaden the tax base on rich people's income that stays in the country. Another one is a consumption-based tax structure that discriminates against luxury consumption. A third possibility is offered by taxes on real estate, the least mobile of all assets. Finally, competition policy should be mentioned as a potentially powerful instrument for limiting profits and distributing the fruits of productive progress among the mass of consumers. Such domestic solutions go a certain way, but most likely they will not amount to a complete remedy. To tackle the problem at the root, international agreements are needed which set reasonable floors for taxes on capital. Countries that pursue a deliberate tax haven policy, such as Luxembourg, would have to be put under international political pressure.

It should be emphasized that a satisfactory solution to the problem of how to fight tax evasion by mobile capital is *not* a precondition for making adequate social protection »globalization-proof«. Social-protection schemes are overwhelmingly financed by their very beneficiaries and constitute for the most part neither a redistribution from capital to labor nor from the rich to the poor. Those elements of redistribution which are in fact part of the classical western welfare state (important in health care and public education, essential in income support for the needy) have always amounted much more to a redistribution within the »working class« than to a redistribution from capital to labor.⁶ There is no indication whatsoever that they can no longer be financed by taxes which remain unchallenged by »globalization«.

Higher growth rates and three options of labor market adjustment: Meeting the challenge of labor abundance

It is quite evident that the »full-employment pillar« of the modern »social democratic society« is in bad shape throughout much of the Western world. The labor market, from the 1970s onwards, has stopped being a mechanism which ensures »pro-

sperity for all«. In many countries it has instead become a mechanism of exclusion, be it in the form of mass unemployment or be it in the form of mass low-wage and low-security employment. Compensatory welfare-state mechanisms (part of the »social-security pillar«) were not designed to cope with such a large number of victims of the market. Expenses have gone up because more people have become dependent on substitute income (unemployment insurance and others). Welfare scheme revenues have declined because the number of contributors has decreased. Thus, the »social-security pillar« is being put at jeopardy as well. At the same time social polarization has become more accentuated, thereby eroding the essence of the »social market economy« or the »social democratic society«. This has increased the importance of the »poverty-alleviation pillar«. However, as we shall see, this pillar is also increasingly being questioned in the attempt to deal with mass unemployment.

Throughout large parts of the West, reasonably well paid jobs have become scarcer during the last 25 years due to the combined effect of three processes:

- ▶ Productivity increases have continued to make production less labor-intensive, albeit on a lesser scale than during the era of near full employment.
- ▶ Economic growth, i.e. the expansion of production, has declined considerably and has often not sufficed to compensate for the labor-saving effect of productivity increases (see table 1 below).
- ▶ An increasing labor force has in some countries and during some time periods elevated the threshold of minimum economic growth needed for preventing an increase in unemployment. This increase in the labor force has been due in part to immigration, in part to demographics (baby boom generation) and in part to an increasing participation of women in the labor market. It has been countered to some extent through a declining average retirement

6. Of course, the redistributive element varies in significance between the different types of welfare states. It is least pronounced in Esping-Andersen's »Christian-Democratic« type, which prevails in Continental Europe (Germany, France, Italy etc.)

age and a later average entrance age due to longer education.

The last mentioned of the three processes will in some countries (especially those with low female participation rate so far) keep increasing the demand for jobs. In other countries it might even alleviate the pressure on the labor market because baby boomers reach retirement age. Productivity growth has recently somewhat accelerated again, but has still not reached the speed of the 1950s and 1960s. In the long run, it is to be expected to slow down because the sectors of the economy susceptible to high growth rates of productivity (most of all manufacturing) will provide for an ever shrinking percentage of total employment. Service branches without much potential for productivity growth (and hence for labor-saving) will increase in relative importance.

It should be emphasized here that at the root of the problem is a *general* turn to the worse in the labor market equation and not just a decline in the demand for low-skilled labor, as it is often maintained. A mere shift in the *composition* of labor demand towards higher skill levels – be it due to developments of production technology, to changing consumer preferences or to increasing low-wage competition – would boost high-skill employment at the same time as it diminishes low-skill employment. If supply were inelastic it would boost high-skill wages. With the exception of highly specific and relatively small labor market segments, neither of the two phenomena can be observed in the slowly expanding economies, characteristic of the Western world over the past decades. However, a

point can perhaps be made that the scarcity of high-skill labor has turned into a bottleneck-creating obstacle of economic growth, causing output growth to trail productivity growth.

The issue of economic growth

At present, long-term tendencies of labor supply and productivity growth notwithstanding, economic growth appears as the decisive variable in the labor market equation. If average economic growth (throughout the business cycles) accelerated sufficiently labor abundance would soon be a phenomenon of the past (leaving only problems of mismatch, which are susceptible, however, to effective treatment). The following table illustrates the growth gap which is at the origin of increasing labor abundance.

Despite the obvious importance of economic growth in the labor market equation, here the overall argument is being made that it is possible and desirable to ensure »prosperity for all« in a context of generally *slow* economic growth. The line of reasoning is as follows:

- It is highly uncertain that sustained high growth can in fact be engineered through appropriate economic policies.
- »Prosperity for all« should not be made hostage to such an insecure outcome.
- The dismal effects of labor abundance can in fact be neutralized through appropriate labor market policies even under conditions of protracted economic stagnation.

Table 1:

Real economic growth in major highly developed countries (in average yearly percentage rates)

	1961–1970	1971–1980	1981–1990	1991–1998
USA	4,1	3,0	2,9	2,6
Germany	4,7	2,7	2,3	2,0
France	6,0	3,4	2,4	1,6
Great Britain	3,0	1,8	2,7	2,0
Italy	5,9	3,9	2,2	1,2
Japan	10,9	4,4	4,0	1,4

Source: OECD.

However, it is, nonetheless, a political imperative to do everything possible to accelerate economic growth in a sustained way. Every bit of success on the growth front alleviates the task on the labor-market front. Besides, enlarging the »cake« that constitutes the prosperity to be shared is a worthwhile goal in itself. In a way, activating economic growth is the primary challenge of *any* government today – all over the world. Any »social democratic« agenda has to include a bid for higher growth, even though it has to provide, on the other hand, for the social consequences of continuing slow growth.

Social democrats have traditionally been advocates of Keynesian demand management as an essential policy tool in the bid for full employment. Yet there is nothing inherently »social democratic« in Keynesian approaches to economic growth. The affinity of Keynesian economics and social democracy was one of convenience during the first three decades after World War II: Keynesian economic management might have helped – under the specific conditions of the time – to sustain a high demand for labor, which was the basis of »prosperity for all«. If it were possible to restore that virtuous circle of growing productivity, rising wages, increasing mass demand and the expansion of productive capacity, it would certainly be good news for the social democratic agenda. But growth-enhancing policies have to be judged by their present functional adequacy, not by their affinity to social democratic traditions. That implies that the social democratic agenda also has to be open to those supply-side ideas about economic growth that have traditionally been associated with the center-right of the political spectrum. Whether supply-side and/or neo-liberal ideas on economic growth are right or wrong, is a judgment that can not be derived from social democratic concerns about distributive justice. However the judgment does not affect the validity and viability of the »social democratic« agenda of justice either. If economic analysis and empirical information suggest that demand management has its limits in the context of investment-impairing and/or demotivating supply-side obstacles to growth the social democratic agenda has to – and should be perfectly able to – accommodate that.

- ▶ A balanced, though counter-cyclically modulated, state budget

- ▶ stability-oriented wage increases
 - ▶ a monetary policy that fully takes into account the economy's productive potential
 - ▶ investment-encouraging and facilitating regulations (including taxes)
 - ▶ the provision of overheads that favor productivity and innovation
 - ▶ a manpower policy that prevents early bottlenecks in labor supply
- might well add up to an adequate policy mix, rewarded also by the financial markets and hence »globalization-proof«.

But it is not the aim of this paper to discuss the most promising way to faster economic growth. The point is that this discussion can and should be conducted in an open, »value-free« fashion. Still, a few words are in order on the dimensions the discussion might get us into. Demand management versus supply-side improvements is perhaps too narrow, too technocratic a focus. The key to the understanding of the marked slow-down of economic growth since the 1970s might be the successive dismantling of a framework of stability and secure expectations in the post-Bretton Woods era. »Globalization« might well have contributed to this destabilization. Moreover, the whole process might have to do with a secular shift in »class« alliances away from the »growth-and-productivity« coalition between labor and capital towards a new pre-eminence of interests centered on asset markets (see Schulmeister 1998). In this case it would have to be a central »social democratic« objective to forge a new »growth-and-productivity« coalition, something which could be envisaged as fought for under the banner of a new »post-neoliberal« ideology (which would have to go well beyond the Third Way) but as well as the outcome of transformations that do not follow a blueprint and are not yet clearly understood at the time when they take place.

Coping with labor abundance under conditions of slow growth

Higher economic growth would be the best way to restore full employment at »decent« wages, which was the economic foundation of »prosperity for all« in the so-called golden age of welfare capitalism. However, as argued above, allowance

should be made for the probability that sufficient growth will not be forthcoming – the US »miracle« of the 90s notwithstanding. Even if a mix of appropriate policies and favorable circumstances should significantly accelerate sustained economic growth (for an optimistic view see Bluestone/Harrison 2000) it is highly unlikely that it will reach the magnitude needed for restoring, by itself, full employment at »decent« wages in countries like Germany, France or Spain. *Some* adjustment of the labor market to conditions other than permanent spectacular growth rates is unavoidable in these countries. The dose of the adjustment needed will, of course, depend on the rate of economic growth. This applies to countries with better adapted labor markets as well.

The USA has shown how a widely deregulated labor market can in fact make economic growth much more employment-intensive. But non-amended it might create large-scale employment at unacceptably low wages and at unacceptably bad conditions. There are three basic options to adjust the labor market in a way that is compatible with the core values of social democracy:

- ▶ deregulation plus a top-up income for those who earn unacceptably low wages (either directly via negative income tax etc. or indirectly via social security subsidies, wage subsidies to employers etc.);
- ▶ expansion of state employment (e.g. in socially useful services);
- ▶ sharing of available (»decently« paid) employment among all members of the labor force.

The first two options have to be financed by the tax-payer, i.e. by the citizenry at large, even though top-up incomes are, to a certain extent, self-financing because they make income support for the unemployed obsolete.⁷ The third option is more specifically at the expense of »job-owners«, because as a principle they must not only renounce part of their work but also part of their remuneration.⁸ The three options can be combined and they can be put to practice in many different concrete ways. All this merits an in-depth discussion of relative advantages and disadvantages, a discussion which has to be omitted here. It may suffice to remark that the second option has been practiced by Sweden and to a lesser degree by other Scandinavian countries, where the state has not really been the »employer of last resort«, but rather an

important employer of »permanent resort«. A variant of the third option can be observed in the Netherlands (much part-time employment) while the first option is being timidly tinkered with in the USA (earned-income credit) and in Germany (»Ökosteuerreform«).

The crucial point here is that there is no gratis option for regaining full employment at »social democratic« conditions, save the »deus ex machina« of sustained high economic growth (see also Solow 1998). Full employment at socially acceptable conditions, in turn, is the single most important condition to be met if »prosperity for all« is to be regained in a way that is broadly compatible with a market economy. For full »high-wage« employment secures that basic justice in market outcomes which keeps post-market corrections in manageable and politically acceptable dimensions.

The three alternatives listed above indicate the major strategies available for adjusting the labor market in a socially acceptable way to protracted slow growth. The choice between them is not entirely one of political preference. Only the first option (deregulation plus top-up income) is compatible with the existence of a large low-skill sector in the work-force. The other two, especially the third one (reducing labor supply by shortening working time), are only feasible if the skill structure of labor supply can be adjusted to more or less match the structure of demand. To the extent that skill requirements change more rapidly nowadays than they used to, this would require a major effort at retraining people and most likely also of making them retrainable through an adequate basic education. The emphasis the Third Way concept lays on that point is fully justified. But, of course, making people employable does not get them employed if jobs are scarce.

7. Employment-facilitating wage subsidies are implicit in any social-security system that is financed out of general tax revenues rather than by employer/employee contributions. In this respect, the German »Ökosteuer« tax reform (introduction of energy taxes against relief of social-security contributions for the receivers of low wages) is in the line of the deregulation-cum-top-up-income approach to full employment.

8. For an elaboration on the question of who pays for the various full-employment strategies see Pfaller 1998: 11 ff..

Those people who are – for genetic or other reasons – bound to stay in the low-skill bracket despite improved education and training can only earn »decent« wages if a booming labor market makes their »skills« scarce as well. But if it is true, as it is often claimed, that the new international division of labor and/or the technological innovations of the »information age« make the kind of work they can do in large part obsolete,⁹ the first strategy presents in fact the only way to have them participate in their society's growing prosperity. However, one should not be too hasty in defining rigid skill resistance as the central problem to which the labor market has to adjust. The differences in the skill composition of the labor force, say between the USA and Japan, seem to indicate that institutions can achieve a lot before genetic limits are felt. Adjusting labor markets along the US pattern (even if sweetened by generous top-up incomes for low-wage workers) could amount to a significant waste of potential »human capital«.

Reform options, but no solutions: Meeting the challenge of the »aging-society« syndrome

The changing demographic composition of society throughout the OECD world and even beyond (Asia Pacific) is another challenge that affects the »social-security pillar« of the »social market economy«. It makes one of the three adjustments in the old-age pension systems, or a combination thereof, unavoidable:

- ▶ higher financial provisions for retirement
- ▶ lower income during retirement
- ▶ later transition into retirement.

All three options are highly unpopular, but none of them mean social disaster. However, the disaster of a re-appearance of wide-spread old-age poverty could result from a non-adjustment of the pension system to the erosion of »standard« full employment. The central question should be how to present the unpleasant choice to the citizens in such a way that decisions reflect their preferences. The heated debate on the financial limits of present pension schemes, which prevails in countries with a pay-as-you-go system, somehow implies that people would opt for anything but higher contributions (»unaffordable«). In reality, three issues get mingled here.

One is the affordability for employers in the context of international competition, an issue dealt with above. This problem is not confined to a pay-as-you-go system, but considered as particularly salient there. The clearest way of avoiding it in such a system is to finance the monthly disbursements to the retired out of the government budget, i.e. through general taxes rather than specific contributions. This has the additional advantages of (a) facilitating employment by reducing the overall pay-roll tax, (b) ensuring a fairer distribution of the financial burden in times of wide-spread unemployment and (c) avoiding the danger of the »contribution fatigue« referred to above. However, such a state-financed system is permanently vulnerable to political pressure arising out of budget problems in the wake of economic down-turns or government profligacy or overall »tax fatigue«.

A second issue is the current contributors' suspicion that their ever-rising contributions to the system will not be rewarded later on when they are retired. As this suspicion approaches conviction, political pressure is building up to limit the contribution-load on the economically active population and have the retired share the burden of adjusting to the aging of society. This, in turn, confirms the suspicion that the implicit promises of the »generation contract« will no longer be honored – a vicious circle which destroys the system's legitimacy. The implication is not that the economically active are over-burdened, that they prefer to make less provisions for their retirement age and rather consume more now. On the contrary, they might supplement their contributions to the public pension system by increased payments into private pension funds – out of fear. The point is that the pay-as-you-go system rests on trust and that it is doomed when this trust is eroded. There are two ways out of this problem:

- ▶ to abandon the system and replace it by another one, less dependent on trust, though not necessarily more rewarding as far as the buying-power of future pensions is concerned, or
- ▶ to fully restore the trust on which the system hinges.

9. For a recent review of the low-wage-competition-vs.-technological-change controversy see Feenstra 1998.

The first way out leads to privatization (see below). The second way out implies that decisions on the system's functioning are taken out of the sphere of politics and enshrined in some kind of a »pensions constitution«.¹⁰

The third issue refers to the extent, to which the individual should be allowed to choose between the three adjustment options of (a) safeguarding the present consumption standard at the expense of old-age income, (b) safeguarding old-age income at the expense of present consumption and (c) working longer. There is nothing inherently unsocial in setting a limit to compulsory provision and to the monthly pay-out derived from it, leaving everything beyond that to voluntary provision. That leaves the – manageable – problem of honoring the acquired entitlements during the transition phase to a more restricted public pension system.

Partial or full privatization of the old-age pension system has several advantages.

- ▶ It reduces the politically ultra-sensitive share of the public sector in GDP, without necessarily affecting the level of social protection during old age.
- ▶ It takes the issue of the relation between monthly pay-outs and wages out of the realm of politics because the entitlements acquired through a life-time of contributions are fixed in terms of an overall financial volume available for monthly disbursements. This volume reflects the accumulated yields of the capital investments done with the contributions. But it does not in any way respond to the changes in average life expectations between the signing of the insurance or savings contract and the start of disbursements. Longer life expectancy automatically means smaller disbursements.
- ▶ It has a real financial advantage as long as interest rates, which expand the fund available for pensions, are higher than economic growth rates, which determine the reference variable for pensions in a pay-as-you-go-system. This condition has applied during the past 25 years or so, but not during the 20 years before.

However, privatization also carries risks. One is that interest rates drop below growth rates, as it should be anyway. More importantly, the negative saving of the swelling cohorts of retired persons must be matched by increased (voluntary or com-

pulsory) savings of the shrinking relative numbers of the economically active if their claims on a growing share of the national product are not to be invalidated. Such depreciation of the real value of the funds accumulated during a life-time can happen via inflation (the saved money buys less goods, whereas the active population protects itself against that inflation through wage increases) or via a nominal depreciation of the pension funds' financial assets (many sellers, few buyers).

A longer working-life defuses most clearly the »pension time-bomb«. But it constitutes an additional burden on the labor market and would demand more radical adjustments there along the lines discussed above. Since these adjustments cost, they would neutralize at least part of the relief from the contribution load which the prolonging of working-life is all about to start with. That is to say that lower contributions into pension schemes of whatever sort would have to be bought by higher taxes needed for top-up incomes or the expansion of public employment or by lower wages coming as a corollary of shorter working hours within work-sharing schemes. However, it can perhaps be expected that in a well-functioning economy (how to ensure that?) more labor supply allows for additional economic growth rather than just adding to unemployment.

From the point of view of social democratic values, the whole range of pension reform options is acceptable. The decision for a particular adjustment mix should be informed by a careful examination of the trade-offs involved in every option and, ultimately, by political preferences. However, some reforms would require particular provisions to protect persons unable to acquire adequate individual entitlements (e.g. mothers without a full labor market career or surviving spouses who relied on family-related entitlements).

Retraining, detaching social security from employment, setting limits to flexibility: Meeting the challenge of working-life volatility

There is a trend throughout the industrialized world towards greater volatility of working life

10. Peter Bofinger (1999) has elaborated a proposal along these lines for Germany.

with its triple aspects of less standardized working time, reduced job stability and increasing demand for professional and geographical mobility. This trend reflects, first of all, the new flexibility needs of modern production. Standardized large-scale industrial production that set the paradigm for the organization of work life in the past is becoming more and more obsolete, a transition referred to in the concept of post-Fordism. This has to do with technological changes in industrial production, the increasing importance of services and a more rapid pace of market changes due to innovations.

Increased working-life volatility affects – like most of the other challenges – the »social-security pillar« of a »social democratic« society. In addition it touches upon an intangible, yet crucial, aspect of such a society: an adequate protection of the »sphere of life« against the demands of the market. Moreover, it poses a challenge for society's manpower management for the sake of both competitiveness and employability. Repeated retraining might become an important precondition for maintaining both and, hence, for mending the damaged »full-employment pillar« of the »social democratic society«. Finally, the decreasing importance of stable employment in large production units weakens social democracy's traditional political basis, making it more difficult to mobilize support for a »social democratic« agenda (see below the chapter on political strategies). On the other hand, economic restructuring – an important precondition for continued prosperity – might become politically more difficult as well, because in the context of labor abundance, less stability in employment creates significant economic insecurity for the individual member of the work force and, hence, resistance against structural adjustments.

But the principal question which arises in the context of our normative focus is how to deal with the danger the increasing volatility of work-life implies for the »social-security pillar« and for the as yet undiscussed meta-economic »sphere of life«.

To the extent social security is linked to »standard« employment, as it is in Esping-Andersen's »Christian Democratic« type of welfare states, a twin problem arises: The number of contributors to the various insurance schemes declines, which has negative effects on the schemes' finances and might increase the financial burden on the re-

maining contributors and their employers. At the same time, social security protection declines, leaving an increasing part of the work force not covered by the schemes. The twin threat can be neutralized if social security were detached from employment, be it by extending compulsory membership to all citizens, not just the dependently employed ones, or be it by financing the schemes out of the government budget. Conceptually, this is not a major change but in practice it constitutes a rather radical departure from welfare-state traditions in some countries.

The response to the other challenge is less straightforward. Working-life volatility highlights a relatively recent tendency in modern affluent societies that reverses a more than hundred year old trend of protecting private life from the demands of working-life. The old, and always precarious, compromise between market and »life« or »working-life« and »private life« is being undermined. The demands of the market reduce the time autonomy of the individual, the protected time space in which citizens can organize their private life becomes narrower. Added to the growing demand for mobility, this tends to erode the stable social environments which had been allowed to form after the upheavals of the early industrialization period and to put at jeopardy their integrative effects (see also Ehrke 2000: 89 f.).

However, sacrificing private autonomy to the demands of working-life should be a personal decision, not one imposed by a demand for manpower which shows itself inflexible in this respect. In fact, the flexibility needs of production are themselves flexible. Productive progress has done away with the necessities once imposed by nature. There is no real societal need to sacrifice private autonomy and enjoyment of life to ever higher productivity. Society and individuals should have the choice of sacrificing productivity and income gradually, without suffering drastic sanctions in terms of chances on the labor market. The concept of a »social democratic« society clearly should set limits to the flexibility imposed on employees (see Etzioni 1998).

It is not valid here to argue with the necessities of post-Fordist production or intense international competition. Limits to working-life flexibility may reduce hourly productivity and hence – depending on foreign competition – the wage that can be

paid. In a dynamic context, limited flexibility would narrow the scope for wage increases rather than reducing wages. There are different ways of institutionalizing the possibility of choice in the trade-off between money income and freedom from excessive adjustment pressure. The choice can be imagined on the individual level (e. g. optional, higher-paid off-hours work) as well as on the level of collective bargaining, where the protection of the »sphere of life« has been a prominent function throughout the history of labor unions.

If a production sector is not exposed to international competition the government can set certain limits to flexibility, substituting law for collective agreements. In these sectors, the cost of protecting the »sphere of life« are passed on to the consumers. Such limits are economically feasible also in sectors in which foreign unit labor costs are not dramatically lower. But, of course, there may be economic activities in which competitive unit costs cannot be achieved without adjusting to foreign flexibility standards the benefits of which have been passed on to global consumers. Here a rational choice would have to consider the option of renouncing that particular activity, just like highly industrialized countries did when they abandoned many production lines to low-wage countries. Naturally, such a decision is difficult in a context of mass unemployment, which tends to justify everything that saves jobs.

Ultimately, to the extent that the »sphere of life« is sacrificed at the altar of competitiveness, we have an exploitation of workers by consumers (who reap the benefits in the form of low prices or the convenient supply of services). But to the extent that the consumer and the worker are one and the same person, a collective decision in favor of more »time autonomy« at the expense of less »consumer benefits« should be perfectly acceptable to the market. That »consumer benefits« get preference does not reflect a legitimate choice of society, but the absence of an institutionalized opportunity of choice. The flexibility »needs« of production tend to be presented as an absolute rather than as a question of trade-off. Accordingly, the enhanced flexibility's yield of productivity gains is often not even passed on to those who made them possible by sacrificing their time (or geographic) autonomy.

Permeable work careers or socialized child-rearing: Meeting the challenge of eroding family functions

The social costs of unchecked increases in production efficiency are compounded by another process with deeper roots, which emanates from the emancipatory aspect of modernization and exposes a fundamental deficit in the social regulation of the society-market relationship. The sphere of »reproduction« has never been radically adapted to the individualistic emancipatory core values of modernity. It has to a very large extent continued to function as a relic of pre-modern times, making use of the commercially unrewarded work of women. To a large extent, modernization proceeded on the very basis of women maintaining their traditional role of taking care of the household, most importantly: of the raising of children. Once it incorporates women on equal terms, modern work-life – the way we know it, not the way it can be imagined in utopian thinking – greatly reduces the space for the care for children. To put it succinctly, children do not really fit into a fully modern society (see also Stiefel 1998). Other forces eroding family functions must be added to this, forces that also have their origin in the individual's liberation from pre-modern compulsory social ties.

This is the least tractable, but perhaps also the most serious threat to a desirable kind of society. It goes beyond the challenges which are specific to the goal of »prosperity for all«. It is not just a matter of »quality of life«, individual time autonomy or freedom from adjustment pressure. At stake is an important pillar of the external foundations on which modern society with its highly differentiated institutional spheres – among them the industrial economy with its high division of labor and its highly elaborate market exchanges – rests. The sphere of »reproduction« is part of the »societal commons«, so to speak, which the economy has always made use of. These are now being threatened not only by the economy's dis-regard for them (as is the natural environment) but also by an immanent tendency of erosion. This carries the danger of large-scale anomy with all its disruptive consequences, thus destroying the basis of any »social democracy« (see also Oppenheimer 1994, Fukuyama 1999 and Lewis 1999).

One can think of three basic responses to meet this challenge: (1) restoring the endangered social environment in its old family form, (2) devising a substitute of the family that is functionally equivalent in terms of societal (not just physical) reproduction, (3) releasing resources from the economic to the family sphere so that the latter can make up for the »loss of the house-wife«. Restoring traditional family life would mean undoing women's economic emancipation. This is neither desirable as a general norm in a »social democratic« society nor really feasible without stable family support and without a stable »bread-winner« income. Moreover, a general restoration of the old male-breadwinner family is hard to imagine without the underpinning of wide-spread traditional value orientations. And a reversal of the economy-driven process of individualization is not in sight. But on the other hand, women will never have equal chances in working-life as long as the responsibility for child-rearing remains *de facto* overwhelmingly theirs. Therefore one has to turn to the other two response options.

One of them is to replace the economy's old eroding reproductive support structure by a new one that is functionally equivalent. This could be achieved by good-quality collective child-rearing facilities from earliest infancy till the end of high school that are available to *all* mothers. Private supply of child-rearing services (»day-mothers«) is available only for the well-to-do and can not solve the larger problem.

The other option would be to devise flexible life-time income flow schemes that allow for longer paid and only minimally career-destroying education periods for women *and* men (perhaps based on part-time work during intensive child-rearing periods), topped up by significant public subsidies.

No ready solutions are at hand. At present it would be important to counter the trend of treating child-rearing as a collective good that is available for free to the economic sphere, i.e. not paying sufficient attention to the fact that the traditional supply structures of this »collective good« are eroding. Creating new viable institutions of child-rearing must be recognized as one of the top priorities on the agenda for the decades to come.

Political strategies

National and international strategies

This analysis has not brought to the fore any urgent need for internationally coordinated or supranational approaches to safeguard »prosperity for all« in the foreseeable future. In fact, the conclusion is straightforward: With the exception of taxation justice, all the challenges can be successfully met at the national level. And taxation justice, though highly desirable, is not a necessary condition for »prosperity for all«. This does not mean that supranational approaches are irrelevant. Within the European Union in particular they can make up for the lack of political will on the national level. They can create new relevant majorities. The same applies to internationally agreed social standards. These can make it easier for countries to withstand the pressure of foreign competition when it comes to deciding on costly protection schemes.

Where it is not a matter of mandatory supranational standards, at least informal pressure by a certain »community of states« can be established. Foreign examples can also adopt a normative quality in the domestic debate.

The importance of international coordination appears in a different light when it comes to the issue of economic growth. Depending on the explanation of growth rate variations over time and between countries, coordination can be seen as a key policy factor for moving up the trend rate of economic growth. This refers to macro-economic process policies and to the regulative framework for cross-border transactions. Macro-economic coordination can make sense for purposes of effective demand management, particularly in response to globally significant demand or supply shocks (hikes in oil price, financial crises, recession in a major country). It can also make sense for the purpose of stabilizing investment-relevant expectations, most of all with regard to exchange rates. There are strong arguments supporting the notion that markets need for their proper functioning a set of rules which are effectively enforced by a sanction-wielding authority. If the arguments hold it is difficult to see why global markets can do without such rules. For instance, contagious financial crises of such negative wel-

fare effects as we have witnessed in 1997/98 point at the need for more appropriate regulation concerning cross-border monetary transactions (see e. g. Griffith-Jones 1999 or Eatwell/Taylor 1999). Such regulation then must be incorporated into a social democratic agenda because it could help safeguard »prosperity for all«.

Of course, international approaches are unavoidable where national policy is already bound by supranational agreements and rules, as it is the case in the European Union and even more so within its EMU core. There it is no longer a question of moving policy decisions on to a, supposedly more effective, supranational level. It is a matter of setting the right direction for supranational policies. The case may even arise for regaining national freedom to pursue appropriate policies, as some have claimed with regard to the stability pact ruling EMU members' fiscal behavior.

How to ensure support for effective »social democratic« policies

There is plenty of reason to assume that the idea of »prosperity for all« continues to have considerable appeal in most of the advanced capitalist countries. However, this is by far not enough to secure effective support for policies that make the ideal prevail in practice. Nor is it enough that parties that consider themselves »social democratic« gain elections and get into the positions of government power. In fact, programs and policies that gain elections might conflict with policies that secure »prosperity for all«. The extent to which this might be the case varies with regard to the various challenges dealt with in this paper. Moreover, to deal meaningfully with the issue of political support would require a very differentiated approach which is not feasible here. But at least one of the core challenges, abundance of labor, stipulates responses that easily set the interest of an affluent majority against the ones of a needy minority (see also Ehrke 2000: 87 ff.). This tendency can be expected to be especially pronounced in times when large parts of the middle strata, without really becoming bad off, face a certain danger of economic decline.

Policies that demand additional sacrifices from majorities whose consumption standards and prospects for the future are already under stress can-

not be sold easily to these majorities. It is rather burden-relieving programs which gain in appeal. The danger arises that the ideal of »prosperity for all« is pushed aside by a new legitimizing formula that stresses individual merit and mobility, postulates equality of chances without really establishing it (see section II of this paper) and tolerates a large number of »losers«. Not to belong to the »losers« becomes then more important than to make sure there are none (see also Crouch 1999). It is not too far-fetched to attach to such shift in priorities the label »Americanization«. In view of this perspective, a decisive political battle will be fought on the ideological front: How to keep »social democratic« forces from adopting such a US-style »winners-oriented« policy stance (»Neue Mitte« without the »new excluded margins«)? As a political realist one might be tempted to see the only salvation in renewed strong economic growth that raises the majority's incomes and increases, thus, their willingness to endorse policies conducive to a broader participation in the newly assured prosperity. This constitutes, in fact, another strong reason to assign high priority to economic growth on the »social democratic« agenda. It would also be a reason to favor solutions that make the financial burden less visible. With regard to old-age pensions, for instance, a solution that relies largely on private provision would seem most acceptable. With regard to labor market adjustment, deregulation plus income support seems to be more in line with the general sentiment than increased public employment or cuts in working time and take-home pay, because it pays, to a great extent, for itself and contributes to low consumer prices.

Another line of thinking directs attention to the area of political mediation beyond (or below) the sphere of electoral politics. Policy packages that are decisive for meeting the challenges discussed above are seldom simple enough to be »sold« directly to the electorate. Negotiations between organized interest groups could prove much more important for determining outcomes. This perspective brings two crucial aspects to the fore:

- the institutions that facilitate or impede constructive negotiations (keyword: corporatism),
- the deals that can be struck between the negotiating parties so as to advance the cause of a »just society«.

With regard to the first aspect, the turn-around achieved in the Netherlands as well as in Denmark in mass unemployment seems to indicate that »corporatist« approaches are in fact promising. As to the second aspect, it seems important that restraints or temporary sacrifices imposed on a party be bought by concessions made or guarantees given to them. But, as for instance Jonah Levy's »vice-into-virtue« approach (Levy 1999) suggests, the essence of corporatist solutions is not just the compromise between conflicting interests according to a zero-sum logic, but the consent to solutions in the common interest (positive-sum logic) which is ensured by such compromises. Non-corporatist political institutions might have considerably more difficulties with clearing the zero-sum conflicts that block the way to positive-sum solutions. Such institutions should be expected to be more conducive to the substitution of the »prosperity-for-all« agenda by a new »populist« Third-Way type agenda. On the other hand, it remains an open question as to what the real outcomes will be when »populist« middle-class centered rhetoric supersedes corporatist negotiation. ◀

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