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Editorial Introduction From 'a Frozen Landscape' to Structural Reforms: The Sequential Transformation of Bismarckian Welfare Systems

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While, during the 1980s, attention was centred first on analysing welfare state crisis, and then on understanding the differences between welfare states, the key preoccupation now is the analysis and understanding of welfare reforms (Martin 1997). In pursuit of this objective, recent comparisons have either analysed all types of welfare regimes (Esping-Andersen 1996; Ferrera and Rhodes 2000; Scharpf and Schmidt 2000; Ebbinghaus and Manow 2001; Leibfried 2000; Pierson 2001; Sykes *et al.* 2001; Huber and Stephens 2001; Swank 2002; Wilensky 2002), or focused specifically on the liberal or else on the Nordic regimes (Pierson 1994; Orloff *et al.* 1999; Kautto *et al.* 2001; *Revue Française des Affaires Sociales* 2003). But to date no systematic comparative research has been conducted on recent developments in the 'conservative corporatist' or Bismarckian welfare regimes based mainly on social insurance mechanisms.[1]

Despite the absence of systematic comparison within the Bismarckian family of welfare systems, the general literature on welfare state change paints a picture of the development of these systems, based on their contrasts with the other regimes. From this standpoint, the general literature usually concludes that – despite the fact that they are facing the biggest challenges and are the most in need of transformation – the Bismarckian welfare systems have proved almost wholly incapable of implementing important reforms.

This collection presents a systematic comparison of the development of social insurance programmes over the last three decades – and demonstrates, on the contrary, that Bismarckian welfare systems have changed a lot. The papers show that, after a period when increasing social expenditure and social contribution to finance a 'labour shedding' strategy was the main answer to economic crisis, they have recently developed policies aimed at restructuring their welfare systems, in line with the dominant social policy agenda set at the international level.

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In order to understand these changes, we will start by discussing what the main characteristics of Bismarckian welfare systems are. Second, we will synthesize the main changes that have occurred in these systems, and say why it is appropriate to speak of the 'realignment' of Bismarckian welfare policies to the dominant social policy agenda. Third, we will emphasize the specificity of the trajectory followed to join this common agenda, being highly determined by the typical Bismarckian welfare institutions. We will conclude, finally, that the consequences of these changes are increasing the insider/outsider cleavage.

What Is a Bismarckian Welfare System?

In what follows, we focus on the Bismarckian world of social protection, based mainly on social insurance, or the 'conservative corporatist' type of welfare capitalism. There has been continuous debate about the Esping-Andersen typology.[2] However, instead of trying to read Esping-Andersen's typology as a description of the 'real worlds' of welfare capitalism, it is useful here to conceptualize it as isolating ideal-types, differentiated both in terms of policy goals (logic or conception) and policy instruments ('ways of doing', institutions).

A number of broad normative/ideational elements are (more or less) common to Bismarckian welfare systems. The main aim and emphasis is to provide job and income security for male workers: security seems indeed the basic word (where poverty alleviation could be that of 'liberal' public welfare programmes, and equality the central aim of the Nordic ones). Security appears in the name of the main social insurance schemes: *Soziale Versicherung*, *sécurité sociale*, *seguridad social*, *sicurezza sociale*, etc. Beside this central point, one should also mention the importance of professional belonging in defining individuals' social identities, and the importance of collective protection and collectively negotiated rights. As far as social justice is concerned, these schemes are less concerned about poverty or inequalities than about ensuring the proportionality of benefits with regard to former wages (the so-called equivalence principle, which is a specific conception of equity). There is also a shared historical basis to the Bismarckian welfare systems, linked as these are with industrialization, whose expansion was largely constructed in the (postwar) heyday of Fordist, industrial capitalism – unlike many liberal (Anglo) welfare states that were established earlier (pre-industrial) and social democratic welfare states that only took off later (post-industrial) (Bonoli 2007).

In the Bismarckian systems, the level of social protection offered depends on the employment situation, market performance and merit. As a result of the relatively generous level of the social benefits provided, it also guarantees insured individuals a certain level of independence in relation to the market in the event of a contingency. In this case, dependence on the market is indirect, in so far as the level of social benefits provided by these systems is itself related to prior employment (and family situation). Universality of coverage is therefore dependent on the capacity of society to ensure full employment. As we know from gender studies, these systems were also characterized by a strong orientation towards the support of traditional family roles. This model is frequently associated with a family structure based on the male breadwinner, which implies that women are left with prime responsibility for caring (Lewis 1992). Under this model, the participation of women in the labour market is fairly low (France being an exception).

As far as policy instruments or 'ways of doing' are concerned, Bismarckian welfare systems have (more or less) a number of commonalities in respect of four key institutional variables:

1. Modes of access to social protection are based on work/contribution; these systems were primarily aimed at insuring salaried workers who were paying contributions.
2. Social benefits are merely in cash, transfer-based, proportional, earnings-related, expressed in terms of replacement rates.
3. Financing mechanisms are based principally on social contribution (payroll taxes).
4. Administrative structures are para-public, involving social partners in the management of the social insurance funds (*Kassen*, *caisses*, *cassa*, etc.).

This type of welfare system is found mostly in continental Europe. Indeed, most countries of the European continent, having followed the Bismarckian route of welfare state development, can be considered as 'social insurance states' and share these common 'welfare institutions': access to benefits is linked to work position (instead of citizenship or need); most of the benefits are in cash and contributory (instead of flat-rate benefits or social services in kind); much of their social outlays are financed via earnings-related social contributions (instead of general taxation); and they have established a more or less 'corporatist' management of their schemes via funds that are more or less independent from the state. The comparative welfare state literature has shown that Germany, Austria, France, the Netherlands, Luxembourg, Italy, Spain, Belgium, Hungary and the Czech Republic have all developed welfare systems close to this ideal-type (Germany usually being the reference case). Our basic hypothesis is that this similarity of welfare conception and institutions partly explains the similarities in the problem profile and in the trajectories of reform. However, this has not prevented the policies being implemented from changing a lot, from the 1970s to the 2000s.

Bismarckian Welfare Systems Have Gone through Important Changes to Align with the New and Common Welfare Reform Agenda

Recent literature on comparative welfare state development has not focused specifically on the Bismarckian welfare regimes, but has drawn a comparative picture of their development by contrasting them with other types of regime. When he analysed 'national adaptation in global economies' and compared the various capacities of different welfare regimes to face the new economic challenges, Esping-Andersen emphasized the rigidity of the continental welfare state arrangements, speaking of a 'frozen continental landscape' resulting from the 'frozen Fordism' found in Germany, France or Italy (Esping-Andersen 1996). He concluded that 'the cards are very much stacked in favour of the welfare state "statu quo" in these countries' (1996: 267). Scharpf and Schmidt (2000) have shown that if all welfare states present vulnerabilities to the new open economic context, the welfare systems based on social insurance face the biggest difficulties of all welfare states, while Pierson (2001) argues that reforms have been rarest and most problematic in conservative corporatist regimes.

As depicted by the current literature, most of the continental welfare states were supposed to remain the same, not only because their reaction to the crisis (the 'labour shedding strategy' – Esping-Andersen 1996) reinforced their characteristics but also because they seemed unable to implement any structural reforms. While other welfare regimes have been able to overcome their difficulties through the introduction of reforms inspired by their own tradition, Bismarckian welfare systems not only appear unable to find a way out of the crisis in their own traditions, but actually seem to be locked into their difficulties by the very weight of that tradition. However, if one focuses exclusively on Bismarckian welfare systems, and if one includes the most recent reforms (implemented since 2000), one can see that tremendous changes have occurred in the policies implemented.

And yet they changed!

In this collection, we concentrate on the social policy reforms closest to the 'Bismarckian' model: old-age insurance in Germany, France and Italy (Giuliano Bonoli and Bruno Palier), health insurance in Germany, France and the Netherlands (Patrick Hassenteufel and Bruno Palier), unemployment insurance in Germany, France, Belgium and the Netherlands (Daniel Clegg), child- and elder-care policy reforms in the same countries (Nathalie Morel),[3] long-term care policies in Italy, Austria and France (Barbara Da Roit, Blanche Le Bihan and August Österle), activation policies towards lone parents in France, the Netherlands and the UK (Trudie Knijn, Claude Martin and Jane Millar) and the role of firms and social partners in family policies in Germany and France (Ute Klammer and Marie-Thérèse Letablier).

Our common, basic hypothesis is that the similarity of welfare conception and institutions partly explains the similarities in the problem profile and in the trajectories of reform. Our comparisons demonstrate that in continental Europe, welfare reforms have followed a similar path, starting with the well-known 'labour shedding strategy' (in line with the basic conception and institutions of Bismarckian welfare), succeeded in the 1990s by attempts at retrenchment and the spread of 'institutional' reforms; all these enabling – by the beginning of this century – the multiplication of structural reforms (in line with the new global social policy agenda).

France, Italy and Germany (together with Austria and Spain) have all gone through several waves of pension reform both in the 1990s and in the early 2000s, as shown in Bonoli and Palier's contribution to this collection. Comparing the politics of these reforms in various countries shows some similar trends: reforms were usually postponed until European integration and/or economic recession forced governments to act. Before the first wave of reforms, the main 'action' was to increase payroll taxes to finance pensions. In the 1990s, reforms were usually negotiated on the basis of a quid pro quo, whereby benefits were progressively to decrease in exchange for the planned introduction of non-contributory pensions financed from general tax revenues instead of through the insurance schemes. In the second wave of reforms (during the 2000s), more innovation seems to have been introduced, with new goals such as the development of voluntary private pension funds and the emphasis on increasing employment rates among the elderly – and cutting back on early retirement. In the late 2000s, with some hindsight, it is clear that even in Bismarckian countries pension systems are more amenable to reform than had been expected. Reform processes have been difficult, and several governments have lost political capital (and sometimes, admittedly, elections) because of pensions. Nevertheless, the trend suggests that one-time 'pure' social insurance pension systems are, slowly, being turned into multi-pillar ones.

In health insurance, changes are also visible, since competition between insurers has gained in importance in Germany and the Netherlands, and the state is reinforcing its controlling capacities in France and Germany. Up to now, continental health insurance systems have remained Bismarckian (they are still mainly financed by social contributions, managed by health insurance funds, delivering public and private health care, and freedom is still a higher priority than in the national health systems), but a new 'regulatory health-care state' is emerging in Germany, France and the Netherlands (see article by Hassenteufel and Palier). Beyond the remaining role of health insurance funds, they combine a logic of universalization through state intervention and a market logic based on regulated competition. They associate more state control (directly or through agencies) with more competition and market mechanisms. Those changes are embedded in the existing institutions via a type of 'conversion' (Thelen and Streeck 2005). In short, structural changes occur without revolution in the system.

Unemployment insurance systems have also changed, shifting away from the (insufficiently productive) 'labour shedding strategy' towards the development of activation policies. Daniel Clegg speaks of qualified cost containment and reactionary recalibration and shows that activation has developed mainly at the margin, focusing on the 'outsiders' of the labour market (see also the contribution of Knijn, Martin and Millar on income support towards lone parents). In fact, many of these policy changes have helped to preserve the integrity of insurance-based, contribution-financed and managerially autonomous unemployment protection arrangements, though only for a shrinking number of 'insiders', thus heading off pressures for more fundamental institutional change. Activation at the margins has allowed insurance arrangements to renounce, *de facto*, their responsibility for 'bad risks' without undermining the normative primacy of the employment basis of rights to guaranteed income replacement, on which the survival of Bismarckian social insurances depends. Unemployment policies in continental Europe have changed, not in spite of attempts to preserve the institutional status quo, but rather because of them. This process of dualization in unemployment compensation and employment policies has occurred incrementally, with the support of the 'insiders'' own representatives defending their position – at the expense of a growing number of 'outsiders', for whom most of the losses are reserved.

Nathalie Morel likewise traces a U-turn in child- and elder-care policies. During the late 1970s and 1980s Germany, the Netherlands, but also France and Belgium had tried to keep women at home or bring them back there, whereas, since the late 1990s, attempts have been made to facilitate the (re-)entry of (certain) women into the labour market, by the development of formal caring facilities and specific leaves. She shows, however, that care policy reforms have also provided a back door for the introduction of labour-cheapening measures and for increasing employment flexibility in otherwise very rigid labour markets. Here, a focus on promoting 'free choice' has justified the introduction of measures that have simultaneously reinforced social stratification in terms of access to the labour market – meaning that some women now have much more 'free choice' than others – and weakened certain labour-market rigidities.

The analysis of long-term care reforms in Italy, France and Austria also leads to the idea of there being a common trajectory in the continental welfare systems (with specific attention to the share of responsibility between the public and private spheres), centred on the choice of a cash-for-care system. Nevertheless, the pace, methods and, above all, the impact of these choices are different for informal care and for the labour force in this sector, depending on the level of regulation of the scheme and its connection to the issue of labour market regulation and also to the grey market in each country, as Da Roit, Le Bihan and Österle demonstrate in their contribution.

However, looking at social policies towards lone parents and, in particular, lone mothers, the comparison between two continental (France and the Netherlands) and one liberal (UK) welfare system demonstrates in this case the relatively weak specificity of the first two welfare systems in these respects, when compared to the third one. A common trend towards activation policies and towards an 'adult worker' model is evident in all three national configurations. Knijn, Martin and Millar analyse the three social policy trajectories and assess the capacity of their instruments to achieve this common objective. Nevertheless, many important policy variations remain, depending on the degree of workfare orientation (punitive workfare, control and an explicit will to reduce the number of minimum income recipients) as against activation orientation. The political variable plays an important role in this context. Nevertheless, these different welfare systems seem effectively to have realigned themselves to a new common orientation.

The comparison between German and French family policies is also very instructive for understanding common trends. Despite the huge differences between these two welfare systems in terms of intervention in private life, female employment levels, and also childcare policies, a common orientation is gaining ground on the necessity to diversify the offer of services by giving enterprises a new role. Klammer and Letablier offer a detailed analysis of this common trend between two very different traditions of family policy

– and underline the differences still existing over the pace of adaptation (rapid in the German case and slow in the French).

In summary, most of the contributions argue that structural, institutional and paradigmatic changes are indeed taking place, over and above mere adaptive reforms. These changes have to be understood as being framed by Bismarckian welfare perceptions and institutions. Their direction is, however, towards the same objectives as those which have been defined for other welfare systems.

Realigning Bismarckian welfare systems

If a large part of the literature on welfare state reforms centred around a hypothesis of convergence – to defend either the progressive development of a 'European social model' or the idea of a 'downward harmonization' – this seems largely inappropriate in respect of the current reforms. By comparing the variations in social expenditure in Europe and OECD countries, Francis G. Castles, wondering whether European welfare states are converging, answered that 'they are in some respects and not in others' (Castles 2004: 91). It seems, indeed, inadequate to defend this idea of a convergence or even a simple downsizing of the welfare states: the bulk of the welfare programmes we are studying remain 'Bismarckian' in their objectives and in their instruments, and, as we will see, they follow a specific trajectory. Nevertheless, considering the policies implemented, we can see big changes in the policy agenda. During the 2000s, governments have adopted new policy objectives, rather distant from the type of 'frozen Fordism' that Gøsta Esping-Andersen once described.

In the new context of the 1970s, the first reaction (typical of Bismarckian welfare regimes) was to remove people (especially women and the elderly) from the labour market by developing specific benefits for them, and to increase social contributions to finance these measures as well as the recurring deficits. The reaction now, however, is to try to encourage (re-)entry into the labour market and to stabilize or even diminish public social spending. Joining the others who did it before them, the governments of Bismarckian welfare systems have now adopted the common or 'orthodox' social policy agenda, as framed during the 1980s and 1990s by the main international agencies.

It is not our purpose here to analyse the development, content and differences of this new and global social policy paradigm. We should just remind ourselves what its main traits are (acknowledging that this is, of course, a sketchy caricature). The agenda is especially readable from the recommendations made by various experts, particularly within international organizations such as the World Bank, the OECD and (with modification) the EU,[4] but we can outline the main features of these new norms of action, and hence recognize that they now constitute the reform agenda of continental Europe.[5] Whereas social spending was long conceived as favourable to economic growth (under the Keynesian macro-economic paradigm), one of the main new orientations is now to reduce public social spending in order to boost economic activity by bringing back firms' profitability. The reforms should make social protection schemes more conducive to employment by reducing their cost, rather than increasing social spending. The advent of retrenchment policies paved the way to begin seeking new economic functions for social protection. As a rule, the basic philosophy has been to adapt social protection schemes to a supply-side rather than a demand-side macro-economic policy. According to the new norms being developed, the welfare state should be placed in the service of competition (among businesses, states, individuals).

Looked at from this perspective, social programmes are supposed to be more employment-friendly by the linking of benefits to incentives that make it preferable to work rather than to receive social security benefits for doing nothing. Employment and social policies are more and more thought of in terms of incentives (negative, or positive in the case of 'social investment') rather than in terms of rights (or decommodification devices). Employment policies are now focused on stimulating labour supply and activation strategies (Clasen 2000). Increasing female participation in the labour market and thereby facilitating family/work reconciliation is also at the heart of the new social policy paradigms. In pensions, a multi-pillar system which includes both pay-as-you-go and funded schemes (in order to promote investment capacities in the country) is promoted, with an emphasis on the tight link between the level of the pension and the volume of contribution paid (Palier 2003). In health-care systems, the introduction of managed competition has become the main tool for regulation (Palier 2005b).

If these are the main features of the new (global) social policy agenda, then, according to our accounts of the recent reforms, we can say that even the Bismarckian welfare systems have incrementally adopted it. This does not mean that they have been successful in reaching the outcome supposedly associated with this policy agenda, nor that they have totally transformed their ways of thinking and doing. It simply means that they cannot any longer be characterized by blockages, stickiness to the past and 'welfare without work' strategies. Since most of the recent literature has been explaining that conservative corporatist welfare systems were almost unable to adapt to the current economic and social environment or to adopt the new reform agenda, how should we explain the implementation of these changes?

How Did They Change? A Sequential Process of Transformation

Our cases offer no instances of brutal departure from the Bismarckian way of thinking and doing, but rather an incremental and slow shift away from what the first reaction to the crises was. This first reaction was highly determined by the institutional logic of the Bismarckian system (labour shedding and increases in social contribution), but the orientation of the reforms has progressively been changed, by a succession of measures taking into account the consequences of the preceding ones. If we want to understand these systemic changes, we should not be analysing any one (big or small) reform separately from the others but, on the contrary, focusing on the whole 'reforms trajectory', in which each stage closes down some ventures and opens up new opportunities. Our understanding of the changes is thus based on the idea of 'cumulative but transformative' development (Thelen and Streeck 2005; Palier 2005c), a sequential process of change whereby one reform is partly to be explained by the (consequences of the) previous ones, and where learning plays an important role.

All in all, and acknowledging that the actual process varied from one country to another – as well as from one policy field to another – we can discern four main stages to this sequential process of change.[6]

(1) The first reaction to the crises consisted mainly in preserving the most productive male breadwinner's job and social protection by removing all his potential competitors from the labour market. This first phase happened 'before retrenchment', and signified a labour shedding strategy and an increase in social contributions.

(2) However, these measures had the consequence of decreasing the global employment rate and increasing labour costs (through the continuous increase in social contributions): fewer people working had to pay more and more to preserve their social protection and to provide the inactive ones with income. This trend was in great tension with the new economic context of the early 1990s, when the single market was implemented (1992) and the single currency was under preparation (Maastricht criteria adopted in 1993). Hence a second phase of the 'reforms trajectory' can be identified, associated with a lot of decisions aimed at stabilizing if not retrenching social expenditure. However, the retrenchment has been negotiated with the social partners, guaranteeing a relatively low cost for the current 'insiders' (long phasing-in of reforms in pensions, the reactionary recalibration of unemployment insurance benefits [more for those who worked full-time before, less for the precarious careers], the targeting of activation measures at outsiders – including lone mothers) and introducing a new world of welfare through the development of tax-financed, non-contributory benefits.

(3) The political difficulties caused by these attempts at retrenchment (the mid-1990s witnessed strong political opposition to such measures) and their relative failures (social expenditure continued to increase, unemployment to be high), led governments to learn that the institutional setting of the systems had become a problem. They went in for more and more 'institutional reforms', aimed at transforming the very bases of these welfare systems: changes in the financing mechanisms (towards less social contribution and more taxes) as well as in the governance arrangements (weakening of the social partners, privatization or *étatisation*). These changes have weakened the traditional pillars of the Bismarckian welfare systems, thus allowing for further structural changes since the early 2000s.

(4) This last phase has been made of paradigmatic changes, since the objectives and instruments of reform are quite different from what had been the traditional reaction of Bismarckian systems to social problems: the introduction of funded schemes for pensions (as well as reductions in early pensions), the activation of the inactive population (including mothers – even lone mothers), hence the defamilialization of care and the introduction of competition and rampant privatization into health insurance systems. These structural changes mean, first, a shift away from the typical answers to the difficulties of traditional Bismarckian welfare regimes in the 1970s and 1980s,

i.e. the 'labour shedding strategy'. Governments are currently trying to escape the 'welfare without work' trap. In the long run, this may also mean a structural transformation of the Bismarckian welfare systems themselves. So far, we can at least identify ongoing processes of dualization.

In order to provide the reader with a general picture of the policy changes that surround the specific reforms analysed in the various articles, we will now develop these four phases, in showing how much they have been shaped by the typical Bismarckian institutional setting, but also how much the consequences of the first reaction led to further progressive change in the policy agenda.[7]

Before retrenchment, the weight of Bismarckian institutions

The literature has identified several causes of the crisis of the welfare state since the mid-1970s, including socio-economic challenges such as mass and structural unemployment, low fertility and population ageing, rising female labour market participation, increasing capital mobility and intensified competition between economies. Though these trends are important everywhere, the literature on welfare state change has shown that they do not impact in exactly the same way on all countries, since they are filtered by welfare institutions and are influenced by the initial choices (path dependence). 'With its institutionalization, a welfare state becomes a powerful societal mechanism which decisively shapes the future' (Esping-Andersen 1990: 221). Pierson (1994) has shown the importance of welfare programmes in influencing the allocation of economic and political resources, modifying the costs and benefits associated with alternative political strategies, and thus altering ensuing political development. Bonoli and Palier (2000) also stress that welfare institutions structure debates, political preferences and policy choices. They affect the positions of the various actors and groups involved in reform processes. They frame the kinds of interests and resources which actors can mobilize in favour of, or against, welfare reforms. In part, they also determine who can and who cannot participate in the political game leading to reforms. Depending on how these different variables are set, different patterns of support and opposition are likely to be encountered. In order to understand their difficulties and to demonstrate why continental welfare states are the most challenged, a number of analysts refer to the institutional settings of their welfare programmes.

For many analysts, the welfare institutions typical of Bismarckian welfare systems can be said to have long prevented necessary change. Esping-Andersen (1996) has argued that the difficulties met by continental Europe are partly due to the necessity to defend the so-called 'family wage' (thereby excluding the youngest, the oldest and women from the labour market). By family wage, one has to understand the status associated with employment: a salary plus all the social benefits associated with it. Here, Esping-Andersen underlines the problem of a system in which social benefits are mostly linked to work, given to the male breadwinner – and mainly contributory and in cash. It is thus the type of social benefits delivered in continental Europe which helps to explain the specificity of the problems these systems face.

In a similar perspective to Scharpf and Schmidt (2000), Daly (2001) has shown that the Bismarckian welfare states present three specific pressure points in the face of globalization: the funding structure and methods for financing (which create problems of labour costs), the highly legitimate nature of the claim structure (which hampers retrenchment), and the lack of flexibility in a cash benefit-based system (which prevents new social risks being covered). One could thus argue that all the institutional characteristics of the Bismarckian welfare states contribute to its resistance to change: contributory benefits enjoy a particularly high level of legitimacy and are therefore difficult to cut back radically. Transfers are 'paid' by social contributions, so workers assume that they have 'bought' social rights. Benefits are usually generous, so their loss would be more significant than the reduction of a benefit which is already at a low level. People prefer to pay more (contributions) rather than see their benefits (bought by their own work) diminished. Finally, insurance-based transfers are well defended by organized interests, and in particular by trade unions of the different branches corresponding to the different professional schemes.

Looking carefully at the early reaction to the economic crises, during the 1970s and 1980s, one can indeed see the importance of welfare institutions in shaping the responses. In continental Europe, governments have long preferred to increase social contributions rather than cut social benefits. This is counterintuitive from an Anglo-Saxon (and even a Scandinavian) point of view, where the most politically risky thing to do is to raise taxes and where the population prefers some cuts in social programmes to any tax increases.

These differences are due to the differences in the type of benefits and, moreover, in the way in which they are financed. Where a Reagan, a Thatcher or a Major could denounce the excessive weight of taxes and the unwarranted cost of the social benefits delivered to those who do nothing, it was much more difficult for continental European politicians to attack social insurance rights acquired by all the working population through the payment of social contributions. Instead of reducing highly legitimate benefits, it was much easier to raise social contributions, as long as this was to preserve the social rights of all workers and families, and the level of their benefits. On the benefit side, it is also more feasible to reduce flat-rate or means-tested benefits than earnings-related ones. Since earnings-related benefits are often expressed as a proportion of a salary, there is a form of 'automatic' indexation on earnings, which tends to be the most generous form of indexation. In the case of contributory benefits, they remain constant in terms of replacement rates unless cuts in the benefit formula are adopted. These are highly visible and politically difficult to implement.

Whereas, for retrenchment in liberal welfare regimes, the population targeted was usually weak and not well represented – and whereas, in universal regimes, it was the whole population which was to be affected by the reforms – in continental Europe, the beneficiaries of social protection susceptible to cuts are well represented and defended by trade unions. This explains why the state encountered such difficulties in trying to impose retrenchment policies. In most Bismarckian welfare systems, management is shared with trade unions and employers; responsibility tends thus to be diluted, diminishing the capacity of the state to control the development of the social protection system – and particularly its levels of expenditure. Union involvement in the management of social security grants unions a *de facto* veto power against welfare state reforms (Bonoli and Palier 1996).

We see that each trait of Bismarckian welfare institutions works to render welfare retrenchment extremely difficult. Therefore, during the late 1970s and the early 1980s, governments in continental Europe responded to social difficulties mainly by raising the level of social contributions. In recognition of the new problems which they were confronting, governments thus spent more, rather than less. In Germany, '[t]he 80's were not a time of simple retrenchment. Under conditions where neither federal nor state government was obliged to pay the welfare bill, the door was open for increased benefits or expanded entitlements' (Manow and Seils 2000: 279). During the 1980s, while they were decreasing the level of direct income taxation, French governments were raising the level of social contributions paid by employees. As a proportion of taxation, the share of social contribution has increased dramatically (from 39 per cent in 1970 to 46 per cent in 1995) as well as as a proportion of GDP: in 1978, the volume of social contribution equalled less than 20 per cent of French GDP, but had reached almost 23 per cent by 1985 (Palier 2005a). The state was not paying the welfare bill: this was financed by the social contributions given to social insurance funds.

This increase in social spending in the 1970s and early 1980s can be understood in different ways. In part, governments paid the bill for commitments made in an earlier period (see Pierson 2001 for such an explanation). But governments, especially in continental Europe, also increased the generosity of social benefits, notably for those who were particularly hard-hit by the economic crisis (redundant industrial workers, lone parents, poor elderly, long-term unemployed, etc.). In particular, many governments developed benefits aimed at removing jobseekers from the labour market – such as early retirement schemes and invalidity pensions – implementing what Esping-Andersen called the 'labour shedding' strategy and thus paving the way for the 'welfare without work' trap (Esping-Andersen 1996). The point here is that this policy path appeared feasible, since all the related increases in expenditure were offset by politically acceptable increases in social contributions, which occurred repeatedly in these countries during this period. Governments used the instruments already available: their policies consisted mainly of increasing the generosity of existing benefits and increasing the level of existing social contributions.

Retrenchment to save the system: the 1990s

From the early 1990s, a changing context prohibited the continuation of these kinds of policies. Under conditions of economic recession (in the early 1990s), and with the economic constraints of the European Single Market and single currency becoming stronger, continental European governments decided (or rather felt obliged) to opt for retrenchment in the social protection system.

Reforms were introduced which aimed at reducing the level of social benefits while preserving the logic of a given system. One can refer here to the so-called 'consolidation' reforms implemented in Germany at the end of the 1980s and during the early 1990s, or to the French sectorial reforms, aimed at 'rescuing the social security system' (new medical agreements in health care, a new benefit in unemployment insurance and new modes of calculating retirement pensions; cf. Palier 2000: 122–6). One might also refer to the Italian pension reforms of 1991 and 1995, or to similar ones in Spain (included in the Toledo pacts in 1995), and so on.

Such reforms introduced new instruments but remained within the traditional (historical and institutional) logic of Bismarckian welfare systems. The reforms appeared to share certain features, related to the specific institutional settings of these social insurance welfare systems.

First, the retrenchment reforms were not presented as a means of dismantling the Bismarckian welfare state, but of preserving and consolidating it. In the political discourse justifying the reforms one heard that, if reform was necessary, it was not because the system was dysfunctional but because it was suffering the ill-effects of the current situation, where resources were decreasing (because of economic slow-down, unemployment, etc.) and spending was increasing (because of unemployment, ageing, new social demands, etc.). Since it no longer appeared possible to further increase resources, governments had to retrench (a bit). This discourse can be understood if one remembers the high legitimacy of the benefits delivered by this kind of social insurance system and the strong attachment of the population to them. These reforms were not made in the name of criticism of welfare redistribution, but in the name of the crucial necessity to restore their sustainability.

Second, such reforms were usually negotiated, often between different political parties, and almost always with the social partners (for pensions, see Schludi 2005). This can be understood as a consequence of the participation of the social partners in the management of social insurance schemes. Since the systems are financed through social contributions levied on wages (and not through taxation), the representatives of those who pay to and benefit from the systems are central players in the political game concerning social policy reforms. They have a say in the process of reforms, and have the power to eventually block them if they do not agree. Here, the role of these veto players should be understood with reference not merely to the particular political institutions but to the entire welfare state design. France is far from being a consensual political system; however, as in other Bismarckian systems, no social policy reforms could be passed in France without the (at least implicit) agreement of (at least a majority of) the social partners.

Third, the main technique used for reducing welfare benefits in these reforms was to increase the 'contributivity' of the benefits, i.e. to strengthen the link between the amount of contribution and the volume of the benefits (through a change in the calculation formula and/or stricter entitlement rules). This, of course, relied on the already-existing logic of these social insurance schemes (where one gets the right to social benefits by paying social contributions), even though these reforms usually meant a shift away from redistributive (horizontal and vertical) to actuarial principles.

Finally, the acceptance by the social partners of these decreases in benefits was usually based on a quid pro quo (Bonoli 2000), linked to the distinction between what should be financed through contributions and what should be financed through taxation. Retrenchments in social insurance programmes are often accompanied by a clarification of responsibility: the government proposing to the social partners to assume the financing of non-contributory benefits (flat-rate social minima for the elderly, the handicapped, the long-term unemployed; the crediting of contributions for periods out of work because of unemployment, childrearing, etc.) in exchange for decreases in social insurance benefits.

These changes have been based on new instruments (changes in calculation rules, a shift from defined benefits to defined contribution systems, the creation of new state subsidies, etc.), but were perceived as preserving the very nature of social insurance, and sometimes even as reinforcing it (the social partners, for example, often think that making the state pay for non-contributory benefits helps to 'purify' and thus reinforce social insurance). They do not really challenge the principles of social insurance.

Beyond retrenchment: institutional reforms

However, since the early 1990s, the welfare systems based on social insurance have increasingly been perceived as exacerbating economic, social and political difficulties. Before retrenchment, social insurance benefits were used as a support for the victims of the crisis (compensation) and as a tool to counter it (reflation policies, welfare without work strategies). In the following period, when continuous increases in social spending appeared unaffordable, retrenchments were attempted, but essentially to save social insurance, which was perceived as a victim of the crisis (fewer resources, more expenses). However, in the analyses supporting further and deeper reforms, these systems have become part of the cause of the crisis. In France, for example, social insurance has been accused of partly causing a number of economic, social and political problems: the contributory nature of most social benefits is accused of reinforcing social exclusion; the weight of social contributions, of hindering competitiveness and preventing job creation; the participation of social partners in the systems, of weakening the state's capacity to control expenditure and to implement reforms (Palier 2005a). One can see here that, in recent analyses of the problems being met by the Bismarckian welfare systems, the causes of their difficulties seem to be the very characteristics of the systems themselves (contributory benefits, financed by social contribution, managed by the social partners). If this is the case, they need not only to be retrenched but profoundly transformed.

It is not only social scientists who acknowledge the impact of institutions on problems, and their role in shaping, and sometimes preventing, change. Through learning processes, experts and politicians come to recognize these effects – and sometimes therefore to decide to change the institutions. In most of the social insurance welfare systems, (some) structural changes are taking place in order to tackle the structural difficulties.

For instance, in response to growing numbers of jobless people, youth and lone parents or long-term unemployed, new benefits have been created, or former marginal benefits have been developed: these are targeted, flat-rate benefits, usually financed by taxation and run by the state. Governments have also started to develop more active labour market policies (see the article by Clegg). In order to cope with uncontrolled increases in health expenditure, the level of public coverage has been reduced, leaving more room for private insurance (see the contribution by Hassenteufel and Palier). To face demographic ageing, pension reforms have introduced small private top-ups, voluntary and pre-funded pensions over and above the pay-as-you-go mandatory pensions (see article by Bonoli and Palier). To face the new risk of long-term care or the 'dependency of the elderly', new policies have been implemented in the late 1990s (Martin 2003; see also article by Morel).

In all cases, the coverage by social insurance (in terms both of its generosity and its universality) is diminishing, leaving room for other types of social policy instruments – and also goals.

Besides changes in benefits, some other basic pillars of social insurance have been under scrutiny: contribution financing and the involvement of the social partners in the management of social security. Some recent reforms have been aimed at modifying these institutional arrangements. This is certainly the case in France with the increase of exemptions for social contributions, as well as the development of a new tax to finance non-contributory social benefits (the CSG); and with the empowerment of Parliament in the social policy-making process (Palier 2000, 2005a). One could also mention reforms introduced in other Bismarckian countries (for example, the introduction of a 'green tax' in Germany during the 1990s and the switch between recently raised VAT and employers' contribution in Germany). Changes have also marked the governance of the system, usually at the expense of the social partners (see the increasing role of the state in France or Germany, as well as the privatization of employment services in the Netherlands or the creation of a new agency to finance the French long-term care policy; see Martin 2006). These institutional reforms introduce new instruments usually linked to a different logic of welfare (taxation, public or private management of the benefits). They are structural changes which may transform the very nature of the system.

The structural reforms of the 2000s: adopting the new social policy agenda

Since the early 2000s, a new wave of reforms has been developing in continental Europe: the 2003 pension reforms and the 2004 health reforms in France, the Hartz reforms and the 2010 Agenda in Germany, etc. These reforms are not only retrenching social insurance benefits, they are implementing structural adaptations rendered possible by the previous institutional reforms presented above. As all the following contributions show, they signify the adoption of the new social policy agenda mentioned earlier. With regard to pensions, not only are there plans to reduce benefits, but a new basic safety net has been implemented in Germany, and additional, fully funded schemes are proposed for German (Riester funds), French (PERP and PERCO) and Italian citizens. In health, more and more room is being given to competition and private actors, as with the Douste Blazy reform or again through the

2003 German changes. Activation measures are gaining force in the unemployment reforms implemented in France, Germany and other continental European countries since the early 2000s. Cheaper and more flexible jobs are being created through care policies.

The accumulation of all these recent institutional and structural changes in social insurances, new employment policies (activation, making work pay) and new developments in care policies may signify a general paradigmatic change for the continental welfare states, evincing a shift away from systems aimed at income and status maintenance towards activated and employment-friendly welfare systems. Such structural adaptations may appear marginal in the first place. However, the study of the national cases shows that, however trivial they may appear when introduced (being usually presented as a mere complement to the still central social insurance systems), these policies can develop little by little, eventually to form a veritable 'second world' of welfare within one country (as is the case for the new targeted benefit introduced (RMI) or the new tax (CSG) in France; see Palier 2005c, 2007).

A Dualization of Welfare

The Bismarckian welfare systems are being changed by the current reforms. It is too early to know whether this means a structural transformation of the systems as such. However, we can already identify a process of dualization of the welfare system, as well as of the population protected.

It has become clear that France has now a dual welfare system (Palier 2005a). On the one hand, there are 'national solidarity schemes': family benefits, health care and poverty alleviation, delivering either universal or targeted benefits, mainly financed by taxation and controlled by the state. On the other hand, pensions and unemployment/employment policies have been retained in the social insurance world, even though the meaning of social insurance has changed, becoming more reliant on actuarial and activation principles. Ferrera (1996) has shown that dualization also marked the development of southern European welfare states, and Bleses and Seeleib-Kaiser (2006) speak of the dual transformation of the German welfare state.

This dualization also means that the whole population is not covered any more by the same principles and institutions. When the insiders (with full-time permanent jobs) continue to be insured (relatively 'less well' than before, thus needing to complement their protection with private schemes), a growing part of the population is experiencing the development of 'atypical' jobs, and more people must now rely on other types of social protection than typical social insurance (mainly assistance).

This process of dualization, meaning a change in the welfare system itself, should be understood by the political dynamic created by the Bismarckian welfare institutions themselves. As both Daniel Clegg and Nathalie Morel show so well in their articles, it is in the name of the spirit and practices of typical conservative corporatist social policies that changes are introduced in a segmenting way. As Daniel Clegg puts it: 'Generally, policies have enhanced protection for "insiders" while targeting both benefit cuts and new activation initiatives on "outsiders". After a quarter-century of reforms these are thus neither fully activating nor fully compensatory welfare states, but ones that combine these facets in apparent contradiction. There is a suggestive parallel – and probably a two-way causal link – here with the dualism of labour market regulation increasingly found in much of continental Europe, where precarious employment contracts have been expanded as "exceptions" that simultaneously contradict and reinforce the "rule" of the standard employment relationship for core workers.' In the same vein, Nathalie Morel shows that '[c]are policies have not attempted to modify the traditional gendered division of labour in the household, and the family (or at least a family-like) environment is still considered as the best locus of care. Care policies have also tended to reproduce and reinforce the social stratification dimension of Bismarckian welfare systems: while low-income women have been encouraged to make use of long, low-paid parental leave schemes, and thus to withdraw from the labour market, various measures facilitating the use of private forms of childcare have been developed for higher-income women.'

We see here that everything happens as if the institutions had been changed in order to preserve the social order prevailing in the Bismarckian world of welfare! Does that mean that the future will be like the past? One can hypothesize that this dual way of reforming is the typical (conservative and corporatist) way of adapting to the new economic and social world,[8] and that this segmented pathway is quite robust and will shape the future of continental Europe. Even if the situation was already fragmented and inegalitarian, the recent trend would deepen the divisions towards a more cleft world: a dual labour market, a dual welfare system and a society divided between insiders and outsiders. Some others may think that this period of apparent contradiction in policies (activation *and* compensation, defamilialization, conciliation policies *and* maternal wages) is merely a period of transition, the old world only starting to disappear (hence its remaining traces for the old insiders) while the new one is still young (new schemes and benefits will gain in importance, the new generation will not be treated like the old one was). Since we now better grasp the direction and content of the policy changes, the next research agenda will be to analyse their economic and social outcomes, once these changes will have matured enough to show what their impacts have been.

Notes

1. One can only find isolated national case studies, for example on the Netherlands (Visser and Hemerijck 1997), Italy (Ferrera and Gualmini 2004), Germany (Bleses and Seeleib-Kaiser 2004) or France (Palier 2005a).
2. For a review of the main critiques of Esping-Andersen, see Arts and Gelissen (2002). Esping-Andersen himself considers that the most relevant critiques come from the gender studies which suggest another theoretical perspective and new concepts, like 'defamilialization', to organize the comparison and propose a typology (Lewis 1992; Orloff 1993; Hobson *et al.* 2002).
3. These four articles have been elaborated within the framework of a broader research project: 'The Politics of Reforms in Bismarckian Welfare Systems', led by Bruno Palier, which has been supported by the French Ministry of Social Affairs

(DREES-MIRE), Sciences po (Direction scientifique, Cevipof and Centre d'études européennes), the Friedrich Ebert Stiftung, the Fondation Jean Jaurès and the Harvard Center for European Studies.

4. Regarding the World Bank's approach, see, for instance, Palier and Viossat (2001); on the OECD approach, see Armingeon and Beyerler (2004); on the EU, see, for instance, Palier and Pochet (2005).
5. In the recent literature, this new agenda is analysed as having two main versions, the neo-liberal one, and the social-democratic one (then often called the 'social investment' approach by, for instance, Esping-Andersen [2002] or Jenson and Saint Martin [2006]).
6. For a broader presentation of these sequences, see Palier (2006).
7. This part is based on the following section, but also on the analyses of 'national trajectories' provided for the project 'The Politics of Reforms in Bismarckian Welfare Systems'. These analyses will be published in 2008 in a collective book entitled *A Long Good Bye to Bismarck?* published by Amsterdam University Press. It benefited greatly from various comments, including those by Fritz Scharpf, Jonas Pontusson, Peter Hall, Jane Jenson and Karen Andersen, and from discussion within a doctoral seminar co-animated by Kathy Thelen and Bruno Palier; all participants should here be thanked.
8. These dualization processes seem specific to the Bismarckian world, since in liberal countries one speaks more of the squeezing of the middle class and of fragmentation (instead of dualization) of societies, and in Nordic countries, unions, governments and their policies seem to have been able to remain encompassing.

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