SUSTAINABLE SOCIAL POLICIES IN AN ERA OF GLOBALISATION: LESSONS FROM THE SWEDISH CASE

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Abstract

The welfare state is challenged by the globalisation of the world economy and by the fact that ageing populations demand more redistribution. To promote political and social sustainability in this context, the "destructive" forces of market competition have to be met by "constructive" social policies. In Europe, the Scandinavian countries are the best performers in combining inequality reductions with high employment rates and excellent growth records. A framework for reform inspired by this starts from the notion that in order to be successful in meeting new needs with restricted resources we must improve incentives, human resources, social services and employment opportunities. The ageing of our societies means we also need to rethink our policies in other ways. The discussion has, however, been unduly focused on pension reforms and savings to ensure future living standards for the elderly. Instead, we should focus more on how social policy interacts with education, fertility and other fundamental determinants of the future tax base. In order to design social policies that are sustainable for the future, we need to put our children and youth first. The Swedish case is relevant here, with its institutions that promote gender balance and investment in life-long learning. We should, however, make sure that we base our policy recommendations not on wishful thinking but on a knowledge-based and realistic assessment of how the world works.

CHALLENGES: GLOBALISATION AND AGEING POPULATIONS

The globalisation of the world economy is most often perceived as a threat to national systems of social protection. It is not all that clear, however, why the welfare state is not possible for nation states with open economies. The old conventional wisdom used to be that most open economies among the advanced industrial societies also had developed the most generous social security systems, as an alternative, in fact, to the kind of social protection that high tariffs and other import restrictions offered domestic employment.

The globalisation process is, however, still often used as an argument, or excuse, for welfare state retrenchments. It has been used to create "a climate of no choice". It is thus an important challenge to seek reform strategies that can make welfare state commitments compatible with exposure to a globalised economy. What appears clear is that the liberalisation of capital implies that the profitability of investments in any country would roughly have to follow what applies in the rest of the world, otherwise investors – foreign as well as domestic – will move their capital. This puts very clear constraints on the financing of social protection.

The mobility of labour also puts restrictions on how high levels of taxes can be raised in relation to the kinds of benefits and services that are provided. Yet the level of income taxation and the size of social security contributions are not of primary importance as such, as long as employees and their trade unions recognise the cost of social security. If the cost of social policy – the social wage – is not taken into consideration in wage negotiations, the result might be inflation and eroded competitiveness. However, competitiveness is not threatened as long as the cost of the social wage is recognised, and even if profit levels are difficult to reduce in single countries, the division between what is paid as direct wage and what is paid as social wage ought to be flexible.

In Europe, as in New Zealand, demographic projections indicate a quite considerable ageing of the populations. These projections also indicate a high probability that this trend will last for most of the current century. An important part of this ageing is due to increasing longevity of persons above retirement age, but the trend is reinforced by birth rates falling below reproduction levels in most countries. Social security and the welfare state are strongly redistributive over the life cycle of individuals. From that perspective, it is obvious that financial pressures on social policy will increase, and it becomes an important concern how social policy can be designed to generate positive feedback for fertility and human capital formation in general, as well as other fundamental determinants of the future tax base such as labour supply (Institute for Futures Studies 2006).

SOCIALLY CONSTRUCTIVE RESPONSES TO DESTRUCTIVE PROCESSES

The 19th and 20th centuries have witnessed great transformations of economic systems around the world. During such transformations there are always winners and losers. In the wake of big changes, old forms of security are vanishing and new ones are taking shape (Kangas and Palme 2005). Following the Austrian economist Schumpeter (1950), we can speak about a "constructive destruction". This term refers to a situation where the old, inefficient forms of production are destroyed and replaced by more efficient systems. How and to what extent it is possible to exploit the destruction in a socially justifiable way, and to create social and economic institutions that can effectively utilise the potentials and possibilities the new situation opens, is the underlying question of this paper. I will use the Swedish experience as an illustration of the problems and potentials.

Views on the merits and drawbacks of the Swedish model diverge widely among observers. There are those who think that the Swedish welfare state is the best of all possible worlds. Indeed, there are notable achievements in the field of poverty reduction. The Swedish poverty rates – and those of the other Scandinavian countries – have been the lowest in the world for decades. And it appears possible to unify equality, big welfare state and a high level of taxation with economic growth. Critical voices phrase the situation quite differently. They argue that by equalising incomes through generous welfare benefits, the welfare state creates work disincentives and discourages individual initiatives, which hampers economic growth, meaning that in the longer run this will also hurt the poor. The extreme views expressed on both sides are often based on wishful thinking or prejudice, on myths rather than reality. This is a challenge for social science research. If we want to take social policy making as a "learning process" seriously, we need to base our evaluation of different social policy strategies on facts and systematic analysis – not on assumptions. Comparative studies can make a contribution by contrasting different solutions and their advantages and problems (Kangas and Palme 2005).

What appears to be a real challenge for those who want to defend the welfare state is to promote social cohesion in open economies within this new context of deregulated financial markets and mobile global capital. It is hence of vital importance to find social policy strategies that can combine equality and efficiency considerations.

EQUALITY *AND* EFFICIENCY

During the decades following World War II, most countries with large welfare states came to combine several objectives previously regarded as incompatible. High economic growth was combined with far-reaching economic equalisation and, moreover, full employment. The oil crises of the 1970s were followed by slower growth rates, but this is a feature common to all the most affluent of the industrialised countries, including countries with less generous welfare models. Empirical research in this field does not serve to show that major welfare state commitments in themselves have a negative impact on growth. An encompassing welfare state appears to be compatible with growth (Atkinson 1999).

Criticism of encompassing welfare states has focused on the incentive problems associated with the high levels of taxation involved, and the lack of control over the growth of public expenditure. As far as actual labour market behaviour is concerned, however, it is hard to find any pronounced negative deviations in the patterns of economic activity in, for example, the large Swedish welfare state in comparison with the patterns prevailing in other kinds of welfare state in the Western world. On the contrary, Sweden has one of the world's highest employment participation rates despite the high level of unemployment. This is largely due to the high participation among women.

However, the relationship between the welfare state and efficiency is under-theorised and under-studied, both theoretically and empirically. Several factors contribute to this. One factor is that intentions are confused with actual outcomes. Another factor is that the architects of the systems might have feared a critical examination of the outcomes. There is also an unfortunate combination of perspectives in economics. The neo-classical starting point is that all forms of taxation mean efficiency losses. This starting point leads to a bias towards focusing on the negatives aspects of all state intervention. I would argue that it is misleading to compare state intervention in the form of benefits and taxation with no intervention at all. In our kinds of society – in fact, in all advanced industrial countries – the state intervenes in many different ways. This suggests that it is more fruitful to compare different kinds of intervention; i.e. how the size and design of transfers/services and taxation affect equality and efficiency.

What is needed is a theoretically motivated analysis of how the incentive structure is affected by the different kinds of policy packages. What is also warranted is an analysis of how public spending can be used to improve the conditions for economic growth. The roles of education, training, health, housing, environment, social networks, etc. for promoting growth need to be explored in more systematic ways.

There have been interesting attempts in this direction. Barr (2004) gives excellent examples in terms of both equality and efficiency. He points out that the potential advantages of public programmes are often neglected. With regard to administration, they are much cheaper to run, because of economies of scale but also because of the uniform conditions. The transaction costs are much lower. Portability is usually much better in public programmes. The possibility of controlling both the incentive structure and the costs should be recognised. This boils down to something very similar to the approach advocated by Atkinson (1999): we should worry less about the aggregate social spending and level of taxation, and more about the actual design of both the programmes and the methods of financing them, if we are interested in improving the efficiency of welfare state programmes. This is at least what the empirical research on the behavioural impact of welfare state programmes suggests.

The strongest criticism of social security benefits, though, has not been concerned with its intended social policy aims but rather with the unintended effects on incentives to work. However, empirical research does not produce any simple negative correlation between generous benefit levels and labour supply (Sjöberg 2000) or work commitment (Esser 2005). To understand this result, we have to consider the incentive structures produced by social policy regimes, but also that other conditions influence the behaviour of individuals. The advantage of earnings-related benefits, for example, is that incentives to work are part of their essence. The more you work, the higher your social insurance compensation will be.

With regard to the economic criteria mentioned above, the following can be noted concerning universal and earnings-related programmes. The administrative cost-efficiency of universal programmes is one clear advantage. Another strength of universal systems that are fully earnings-related is that they reduce the "transaction costs" on the labour market. Individuals, firms and unions do not have to spend time negotiating the provision of basic insurance and services such as health care. Such systems also promote mobility and flexibility in the labour market because the universal character of the system means that workers do not lose their earned rights when they move from one job to another – the portability of social insurance is high.

One neglected aspect, and advantage, of public systems is that it is in principle possible to control the incentive structure. Another important role of institutions is that they should promote stability and predictability in society. Stable economic institutions – like property rights – are important for growth. Among the most advanced industrial nations, growth was higher in the post-war years in countries with the most stable institutions for interest mediation. Social protection has a potential to contribute here. When it comes to cost control, it is interesting to observe that many large welfare states have their public finances in a better shape than small spenders (Korpi and Palme 2003). Achieving consolidated public finances is not the ultimate goal of economic policies, and it is not the only instrument for pursuing successful economic policies. But it is most likely to be a necessary precondition for making such a public commitment – to secure the welfare of all citizens – viable in the longer run.

Public expenditure can, of course, promote growth and equality simultaneously by affecting the distribution of education and health in a favourable direction. What I will argue in what follows is that investments in these kinds of human resources are critical if we want to succeed in making social protection sustainable in ageing societies.

The fact that the system of social protection, designed decades ago, is not always an effective means to promote social policy objectives makes it worth reforming the existing structures. In terms of the future, the systems have also been seen to be overburdened financially; read: taxes cannot be raised without jeopardising competitiveness on the global market. In this context it is argued by the European

Commission that policies have to be seen as productive factors; they have to be made employment friendly, and they have to be financially stable when needs grow stronger as populations are ageing. The proposals for reforms concern both the benefits and how to finance them. They deal with individualisation of rights and with the transition both from work to retirement and from unemployment to employment.

The European integration creates a momentum for all European countries to take a serious grip on their national problems. The globalisation of the economy should also widen our horizons on the social issues. Why should we restrict the diffusion of ideas and "learning from others" to the economic sphere? On the European scene it should be recognised that even if social policy is within national jurisdiction, and it may remain as such, there is an explicit ambition in the EU to promote a convergence of social policies as well. This is where the Open Method of Co-ordination (OMC) comes in.

The OMC, which was launched at the European Council in Lisbon in March 2000 as a new form of governance within the EU, has generated hopes of overcoming the asymmetry between policies promoting market efficiencies and policies promoting social protection and equality. The outcomes of national social policies are to be discussed and compared by a system of benchmarking. Indicators of performance in various fields, such as participation in the labour market and poverty rates, are to be prepared by national experts and then subjected to comparison. In this way, "best practice" is supposed to be diffused. The OMC is thus a kind of soft law. Learning is fostered, but actual implementation is left to the national political arenas. If in the end national politicians are convinced about what constitute the best practices, such convictions will also inform policies at the national level. The question is then: How can we build a framework for a reform strategy that can be successful in mitigating economic and social considerations?

A FRAMEWORK FOR RETHINKING SOCIAL MODELS

There are good reasons to point to the common concerns generated by ageing populations and the effect this will have on macroeconomic development (Institute for Futures Studies 2006). Weak growth of the European Single Market has repercussions for all countries. Given that the declining size of the labour force is problematic from a growth perspective, there are good reasons to suggest that a more balanced population development in Europe should be a common concern. Moreover, within the OMC framework, the member states of the EU have agreed on common objectives when it comes to employment, pensions, health care and social inclusion. There is very little to suggest that these objectives can be reached without a deeper, and at the same time explicit, concern with human capital formation. This is in congruence with the work of the Commission on Modernising Social Protection, but would also benefit from being operationalised within the OMC framework. Human capital formation ought also to be an integral part of the thinking about other common objectives of the member states.

The ageing of our European societies is putting increased pressures on redistribution, whether performed by the state, market or family. This requires us to rethink our social and economic policies. The debate has been focused on pension reforms and savings to ensure future living standards for the elderly. We should instead focus on how social policy interacts with education, fertility and other fundamental determinants of the future tax base. This strong policy recommendation is based on our observation of a causal structure whereby education is the central driving variable for GDP increases in Europe (Institute for Futures Studies 2006). In order to design sustainable social policies for the future, we need to put our children and youth first (cf. Esping-Andersen 2002). This is contrary to what has been done so far within the framework of the OMC.

The reason is simple: without massive attention to the future tax base in terms of both the number of tax payers and their productivity, there will be little left worth labelling sustainable pensions and health care systems, not to mention social inclusion. At the heart of this is the urgent need to find new ways to reconcile production and reproduction. This is what the new gender balance should be about. Working life needs to be made more flexible when it comes to the needs of families to balance the two spheres. This demands new public–private partnerships. The gap in the OMC process needs to be filled; the situation of children, youth and their families should be a new domain. But this is not enough. There need to be sanctions, or at least incentives, to encourage better performance. The social deficits of the member states need to be addressed as promptly as the deficits in their public finances. This cannot be done overnight, but Europe has to try harder and act more wisely.

The current discussion on the future of the European Social Model (ESM) has created a momentum for the politics of European integration. For those who believe that change bears the potential for betterment, this is hopeful. Improvement is badly needed when it comes to "social Europe" as we know it. European leaders should join forces and make the massive but necessary investments in human capital. Even if the ESM is about our self-interests as European citizens, in the end it is also about our moral obligations towards our children. This may be coming late, but it should not be too little.

A framework for reform starts from the notion that in order to be successful in meeting new needs with restricted resources, as well as avoiding trade-offs between equality and efficiency, we must improve incentives, human capital, social services and employment opportunities. When it comes to *incentives*, two central questions are: How can poverty traps be avoided? and How can marginal effects be reduced? A good rule of thumb is to use universal benefits and services rather than means-tested benefits. The reason is that as soon as we start means-testing, it affects the profitability of, particularly, low-income people – often women – engaging in paid employment. Another strategy is to make social insurance provisions earnings-related, making it profitable for people to work and pay social security contributions. The more they earn and pay, the better the benefit entitlements will be. If we are interested in improving the efficiency of welfare state programmes, empirical research suggests that we should worry less about the aggregate social spending and level of taxation, and more about the actual design of both programmes and methods of financing (Atkinson 1999).

The strategy when it comes to *human capital* is education and training aimed at improving the employability of unemployed persons. Public expenditure can promote growth and equality simultaneously by affecting the distribution of two aspects of human resources – skills and health – in a favourable direction. *Social services* can be seen as another form of resource, making it possible for adults in families with small children, or frail elderly relatives, to participate in the labour market. This requires subsidies to public services, such as day-care facilities and the care of frail elderly people. Social services may be seen as investments that in a dynamic way provide people with the opportunity to become tax payers and thus contribute to balancing state finances.

However, social policies cannot make up for failures in economic policy to provide *employment opportunities*. This means that a successful strategy has to be based on successful macro-economic policy making. A fundamental problem of unemployment in Europe is that there are too few jobs. But successful macro-economic policies are not likely to be enough, either, if the skills of the unemployed persons do not match the demands of the labour market.

In what follows, I will first discuss some intergenerational issues linked to the increased pressure for redistribution in ageing societies. The family policy area will then be used as an example for a more general argument about the salience of policy design for dealing with the dilemmas of policy making in ageing societies.

RETHINKING SOCIAL POLICY IN AGEING SOCIETIES

Towards the end of the 19th century what was labelled the "old-age issue" contributed to the creation of statutory pension systems and other elements of what turned into the modern welfare state. These institutions have come to be labelled "intergenerational contracts" (Laslett and Fishkin 1992). In the 21st century, ongoing demographic transition is changing the social and economic context of these social contracts in fundamental ways. The ageing of societies challenges how we think about intergenerational contracts. Principles for economic justice between generations over time have generally been discussed in the context of balanced population growth, where each generation constitutes a fixed proportion of the population. It is relatively straightforward, given such assumptions, to offer an accounting framework that allows us to discuss how taxes and benefits should be distributed over the population. However, this accounting framework becomes complicated outside of the balanced growth assumption, and different sizes of cohorts introduce numerous other issues. But this is the real world in which we live, and if the reproduction of the tax base is insufficient to finance public transfers to the elderly, then the system will not be sustainable (Lindh et al. 2005).

The demographic transition is making the working-aged population responsible for the support of an increasingly large number of elderly. The 20th century debate about generational equity mainly focused on the issue of transfers from young to old. In practice, transfers from old to young have tended to exceed those that flow the other way. The private transfers in both time and money that flow from parents and grandparents to children and grandchildren are difficult to measure, but it seems clear that substantial amounts of what the elderly receive as public transfers flow back to children and grandchildren through private transfers. Parental altruism is a very strong driving force behind intergenerational transfers. Intergenerational interdependency, as opposed to generational conflict, should not be underestimated.

In terms of public policy, the ageing of our modern societies has focused a lot of attention on pension systems. Partly this is a result of the way institutions were built, with mandatory or at least common retirement ages and strong disincentives for continuing to work above these ages. All countries in the advanced industrial world have been affected by what the World Bank (1994) labelled the "old-age crisis," and many countries have taken action. The kind of action taken appears to depend on the kind of pension system (social model) in place. As pointed out above, for countries with flat-rate benefits, two kinds of actions have been taken. One has been to shift responsibility for income security on to the private, individual and occupational spheres. The other has been to use various forms of modest means-testing to exclude high-income earners from being subject to public support, either by income testing of pension benefits or by claw-back via the tax system. For countries with income security oriented pension systems, the earnings-related benefits have been tied to longer contribution requirements for full benefits.

Here the Swedish pension reform is an interesting case in point (Palme et al. 2003). This kind of reform means that members of the working-age population are committed to contribute a specific proportion of their incomes to the pension system.

There is a profound difference between defined benefit (DB) plans and defined contribution (DC) plans in terms of the kind of intergenerational contract underlying the two systems. DC plans involve treating like cases alike in the sense that current and future generations are burdened with the same contribution rate, but at the same time they do not take account of how past generations have been treated (Goodin 1999). Yet they do not entail any automatic compensation for the effects of different cohort/generation sizes. Another aspect of the DC framework is that it changes who is taking the risk when it comes to supporting the ageing populations economically. In a DC system, the size of benefits will be adapted to the sum of contributions rather than to the final salary of the retired person. This has interesting implications for generational equity. For example, if employment declines, the contribution sum will decline. If longevity increases, this means that the same sum of contributions will have to suffice for longer periods. The system is financially sustainable if we assume that future generations are willing to pay the same share of their incomes into the pension system. The question is whether it will be politically sustainable if incomes of retired populations develop poorly due to increased longevity. In any case, the kind of DC reforms that Sweden, Italy and some other countries have implemented come closer to what has been labelled "strong" generational contracts (Laslett and Fishkin 1992). In their terms, the DB frameworks are "weak" generational contracts open to recurrent renegotiation.

MODELS OF FAMILY AND WORK

Raising children in modern societies is linked to a social dilemma, since children impose a costly economic burden on parents but are very valuable to society as a whole. The direct economic benefits of having children are small, and if provided with efficient means of controlling their fertility most parents will restrict their fertility in a way that leads to population decline. Governments have an interest in supporting family formation, but then they have to recognise another dilemma: modern women want to be engaged in paid employment and not just unpaid reproductive work. The analysis of welfare state policies should therefore acknowledge the potential effects of welfare state arrangements on issues of family formation (Lindh et al. 2005).

Welfare state programmes can hence be seen as attempts to solve different kinds of collective action problems – the increasing costs of raising children in modern societies being one obvious example. Another major dilemma concerns the issue of women's agency in terms of balancing participation in the productive and reproductive spheres. It may be that the old myth of the voluntary three-generational contract plays a role here in the sense of promoting certain views about our obligations to take care of frail elderly people and other dependants. If we are persuaded to think that these intergenerational contracts are the natural way to do things, we might be more willing to take on the obligations the welfare state imposes.

It can be argued that the essence of welfare state policies is to redistribute resources between individuals at different positions in the life cycle. In the case of the extensive European welfare states this is obvious; the welfare state channels support through a mix of cash benefits and social services. Yet, as argued above, the European welfare states differ to a considerable extent in terms of both the kind and degree of benefits offered. The redistributive role of the welfare state over the life cycle is also mediated by the structure of the tax system. The important role of income and consumption taxes within industrial nations implies that high income middle-aged people contribute more public resources than other age groups. However, the redistributive effects of welfare states on the economic situation of different age groups are highly dependent on the exact design of taxes and benefits. This is why it is necessary to carry out precise institutional analysis of the fiscality of specific programmes and their interactions.

The dependence of contributions given and benefits received on age implies that future changes in the age structure will have a direct bearing on the financial situation of the welfare state. This raises questions about the sustainability of the system. In Europe, "sustainability" has become a buzzword and is integrated in the new EU governance as part of OMC. What is striking, though, is that the basic conditions concerning human capital formation have remained outside the OMC. Yet it can be argued that fertility and human capital investment in children are the critical factors for ageing societies.

The apparent conflict in many European countries between the expansion of higher education and childbearing has been given very little attention. Formal education is getting longer and has begun to intrude into women's prime fertility period at the same time as we are observing a substantial decrease in fertility rates (Institute for Futures Studies 2006). It seems that education has indeed led to delayed births for large parts of the population, and to a widening gap between desired fertility, which is still above the reproduction level of 2.1 children, and actual fertility, which in many European countries has become considerably lower. This means that it will be hard to reproduce the tax base without resorting to extensive immigration. Since the continuing longevity trend is likely to require much more than a reproduction of the current tax base, if the relative living standards of the elderly are to be maintained this is worrying. There should, however, be scope for reasonably comprehensive and inexpensive policies in order to facilitate the combination of education and family formation without any harmful effects on female labour-force participation.

Evidence for this can be found in the fact that the previously negative cross-country correlation between female labour-force participation and fertility rates has turned positive in the 1990s. It is no longer the case that countries with higher female labour-force participation have lower fertility rates. Dual-earner families are also an important factor in keeping child poverty rates down (Ferrarini 2006). This, in turn, increases the probability that children grow up in circumstances that improve their future tax-paying capability as well as their own welfare. Fertility studies also indicate that the increased gender equity that is part of dual-earner activity has positive effects on the propensity to have children. Moreover, the available evidence does not seem to indicate any systematic negative effects on the educational performance of children as a result of full-time employment by their mothers (Esping-Andersen 2005).

Analysis of family policy institutions in the EU member states shows that they are important factors for explaining cross-national patterns of gendered distributions of paid and unpaid work, socioeconomic outcomes (such as poverty patterns among children) and childbearing (Institute for Futures Studies 2006). One important link seems to be the way family policy institutions simultaneously support or discourage female labour-force participation and childbearing.

The most common type of family policy is the *male breadwinner model*, where paid and unpaid work is highly divided so that fathers have the main responsibilities for carrying out paid work in the labour market and mothers carry out the lion's share of reproductive care work in the home. The benefits of such a division of work include childcare leave benefits paid in low flat-rate amounts, as well as various mainly flat-rate cash and tax benefits in support of children and the dependent spouse (wife). Earnings-related parental leave benefits to both parents hardly exist, and childcare for the youngest children is less developed. In countries with male breadwinner models, female labour-force participation and fertility rates are generally at a comparatively low level, with the exception of France. Poverty levels among children are typically at medium levels, possibly because male breadwinner support is generous enough to stimulate mothers to stay at home to care for the children at the same time as labour market participation and women's earnings are held at a lower level than what would have been possible otherwise.

The other main type of family policy is the *dual-earner model*. This family policy model supports female labour-force participation and to a large extent also male participation in care of children. The main characteristics of this model are parental leave benefits directed to both parents, which are generous regarding both duration and earnings replacement, and publicly subsidised childcare after the termination of parental leave. This model of family policy has enabled these countries to combine high levels of female labour-force participation with relatively high levels of fertility. Countries with dual-earner models of family policy also have the smallest gender differences in care work, which is probably partly due to family policy measures supporting male involvement in the care of children. Due to the combination of generous earnings-related benefits, publicly subsidised services and high female labour-force participation, poverty levels among households with children are kept at low levels in these welfare states.

A third model of family policy involves neither support to the traditional family nor to the dual-earner family; instead, parents have to rely on the market to provide such arrangements. In countries with a *market-oriented model* of family policy, poverty levels are highest while fertility levels and female labour force participation rates are at medium levels.

Hence, whereas increased family policy generosity overall seems to decrease poverty and facilitate childbearing, it appears to have a more ambiguous relationship to female labour-force participation. High female labour-force participation is in turn related to both higher fertility levels and lower child poverty. Comparative analysis evidence indicates that child poverty has become associated with there being only one earner in the family. Thus the traditional family model seems less and less able to provide for child welfare. This must raise concern about future human capital formation in several different dimensions. The potential to achieve the desired number of children for families that rely on a single breadwinner are at the very least not favoured by this trend. Nor can we expect the cognitive development of children living below poverty levels to be competitive. But what also appears warranted is to rethink our ways of organising educational regimes in relation to our modernised "social models".

Evidence on educational performance indicates that the educational attainment of mothers is important and possibly increases in importance over time. We also find that the effects from maternal labour-force participation are positive on educational performance in the data from the PISA study (Esping-Andersen 2005, Institute for Futures Studies 2006). Combined, these two pieces of evidence give reason to believe that the need to enrol more women in the labour force in the future need not have negative effects on the cognitive development of children. Rather, it is likely to yield positive effects on educational attainment by reducing the risks of child poverty.

HOW DO WE MAKE SOCIAL POLICIES WORK?

From a European perspective, we may conclude that there is no European social model in the sense of a unified strategy for organising social protection. Instead, there are different institutional strategies among the European countries, often labelled "models". The member states of the European Union have, however, agreed on a common set of indicators/benchmarks of policy performance emerging from the process of establishing the OMC. The OMC is about goals, and hence about common European values that deserve to be taken seriously. The fundamental question is whether our social models are adequate for the goals we have defined. We should make sure that we base our policy recommendations not on wishful thinking but on a knowledge-based and realistic assessment of how the world works.

Comparative institutional research can contribute by contrasting different policy interventions in order to assess the impact of different kinds of policy regimes. In the context of the OMC process and its focus on micro-outcomes, it also appears worthwhile pointing to another strand of welfare research that has appeared with different labels: in Scandinavia as the "level of living approach" and in the work of Amartya Sen as the "capability approach" (Palme et al. 2003). This tradition is policy relevant since it, like much of the OMC process, is multi-dimensional and resource-oriented. It also focuses on conditions that can be manipulated, which again is of clear policy relevance. Finally, the approach is democratic, both in its recognition of agency and because it is open to differences in value judgements.

There are a number of policy options that should be part of a future-oriented approach. However, to invest in human capital and to use migration as a way of increasing the labour force are good examples of policies for the future that will require substantial public intervention. Such policies boil down to increasing the number of future taxpayers and their productivity. What is required to succeed in this endeavour is a balanced approach: a synthesis involving a concern with the way in which the welfare state supports different groups in society on the one hand, and a realistic view of how society works on the other hand. Such an approach could cast new light on an issue that is likely to be confused by zero-sum perceptions of social and economic development in ageing societies. Here, as in many other areas, theory is not enough. We need empirical data to grasp what is going on in the real world.

In 2007, the European Union encompasses more than 450 million people and the enlargement of the Union will continue, even if there are obvious disagreements on how far and at what pace, as well as under what forms. The President of the European Commission, José Manuel Barroso, has declared that the European Social Model (ESM) is about "social inclusion and equality of opportunity", and Commissioner Vladimir Spidla has introduced a "Globalisation Fund" to deal with the social consequences of the structural transformation resulting from the continued integration of the European economies into the world markets. The attention to the future of the European Social Model is a response to the political crisis of European integration. The pursuit of a Single European Market and further political integration can only be successful if the European populations support it, and that this will only happen if the "destructive" forces of market competition have to be met by "constructive" social policies (Kangas and Palme 2005).

The history of the various European social models is about the attempts by social democracy and Christian democracy and social liberalism to apply "a strategy of co-operation". The rise of neo-liberalism and the fall of the Iron Curtain shifted that balance. The previous ideological accords were challenged by neo-liberalism for more than two decades. That rhetoric appears to have lost steam, but when will employers view co-operation as a possible strategy again? The news is that there has been a tilt of power in favour of "capital" as a result of the exit options offered to capital in the wake of the deregulation of financial and credit markets over the past decades, and there is no end in sight concerning this. The return on capital has been elevated as a consequence, and the exit option offered to capital puts the question to employers as to whether they want to co-operate in a different light. Are they still interested in fostering co-operation as a way of achieving positive sum solutions for conflicting interests?

It may be that we can afford the systems of social protection if we design the various programmes in an adequate fashion. The desirability of this is largely a question of value judgements. Whether or not it is possible to extract the necessary taxes in the future will depend on what people want. This makes modernisation a democratic problem, with national as well as international dimensions.

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