

Social Protection for the 21st Century*

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We are entering a new millenium after a decade marked by mass unemployment and crisis of the welfare state. The fact that many of the economic indicators now are pointing in a favourable direction creates a momentum for reflection about directions for the future. The aim with this text is stimulate debate and discussion of the modernisation of social protection in the Nordic and other European countries by advocating a single strategy for the reform work rather than outlining many different alternatives, notwithstanding that other alternatives do exist. The views expressed here are solely those of the author.

Challenges that demand response

In the Nordic countries, as in other parts of Europe, the systems of social protection are challenged by many different factors. Populations are ageing, which means heavier pressures to increase public spending on both transfer systems and care services. People are leaving the employment sector at progressively lower ages, at the same time as it has become more difficult for young persons to get paid employment. The declining fertility rates are not only problematic in terms of maintaining a balance between workers and retirees in the future, it is also an indication of a failure to support families with children. In addition, divorce rates and single-parenthood are increasing. Mass unemployment is accompanied by poverty and social exclusion, not least of immigrants. Changes on the international scenes are putting restrictions on what national governments can do but may also open up new opportunities.

History shows that the reforms of social policy programmes in the Nordic countries are responses to changing economic and social structures, as well as political mobilisation. The important phases in this development have involved clear elements of learning and diffusion. Thus, the Nordic countries have established a universal model of social protection, where benefits and services based on residence are combined with earnings-related social insurance programmes. This universalism emerged as a response to the different needs of the rural and urban populations, as well as to the political mobilisation of these interests. Similarly, in the post-war period, earnings-related social insurance has been a strategy to include workers and salaried employees, and both public and private sectors, within the same

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system of protection. The expansion of services has partly been a response to ageing populations but is also intrinsically connected to the growth in female labour force participation as well as by political participation by women.

If the Nordic countries will not respond to the new challenges, important common achievements are jeopardised. The Nordic model has been successful in terms of combating poverty and social inequalities. This is exemplified by declining poverty rates among families with children and among the elderly. These groups represent the phases in the life-cycle that historically have been the most poverty-stricken and where we still find large variations from country to country, even among the most advanced industrial nations. It appears that the Nordic strategy of also including the better-off in the systems of social protection, has been more successful in terms of reducing social inequalities than strategies more exclusively oriented to the poor. But the success of the Nordic model cannot be explained without understanding how employment and participation, particularly among women, has been promoted by improved incentives, resources and opportunities.

The crisis of the welfare state and the relevance of the Nordic model

Macro-economic failure has triggered the crisis of the welfare state. This has, in turn, highlighted a number of dilemmas for present and future reform work. What is warranted is a strategy for resolving these dilemmas without diluting the socio-political and moral content of the Nordic welfare state model. This report tries to identify important elements-- a framework-- for such a strategy in the perspective of the "modernisation" project of the European systems of social protection. The framework for reform starts from a notion that in order to be successful in meeting new needs with restricted resources, as well as in avoiding trade-offs between equality and efficiency, we must improve incentives, human resources, social services and employment opportunities, but we should also try to establish a proper balance between rights and responsibilities. To maintain, and sometimes restore, the universal character of benefits and services, as well as the earnings-relatedness of social insurance programmes, is a core element of this approach.

There are several reasons why the reform of the Nordic model is of interest to the discussion of the future of the European welfare states. One reason is that the Nordic model ought to be of relevance is simply because the Nordic countries have been successful in promoting social policy goals, as well as increasing employment. Another reason is that each of the Nordic countries are facing dilemmas, the discussion and resolution of which can utilise aspects of the EU modernisation project, and the social insurance tradition in other parts of Europe. Moreover, most European countries are struggling with the same kind of dilemmas. This report tries to identify elements of a strategy for reforming the Nordic model that are compatible with not only the old social and efficiency goals but also the changing needs and

environment. Part of that changing environment is the process of European economic and political integration.

What is the modernisation of social protection about?

The basic feature of the modernisation process is to adapt the system of social protection to change. Three key areas have been identified by the European Commission: the changing nature of work, the ageing of populations and the new gender balance. Why then is modernisation necessary? One reason is that the system of social protection, designed decades ago, are no longer effective means, for example, of fighting poverty. Another reason is that the system is overburdened financially and difficult to fully finance in the future. It is argued in the Communication from the European Commission on modernisation of social protection from 1997, that policies have to be seen as a productive factor, they have to be made employment friendly and they have to be financially stable when needs grow stronger as populations are ageing. The reform proposals concern both the benefits and the way they are to be financed. They deal with simplification of the co-ordination of rights for migrant workers, individualisation of rights and with transitions both from work to retirement and from unemployment to employment. In short, social protection has to be modernised and improved in order to promote employment, induce gender equality, provide adequate care for the elderly and combat social exclusion.

One way of approaching the social challenges for the future of social protection is to take a life-cycle perspective. This goes very well together with our perspective on welfare in terms of resources. How appropriate is the system of social protection in terms of safe-guarding the necessary resources that make it possible for individuals to deal with the various stages of the lifecycle? The social support system may be seen as an instrument for helping individuals to deal with the projects in life that are common to all of us: the chance to get a proper education in order to find a job; then to actually find a job; to form a family; to have children; to combine family life with participation, on the labour market and in society at large; to be economically secure in case of exposure to unemployment and ill-health; to get a pension at old-age; to receive the necessary social services and care when the physical abilities are decreasing. In modern society, these problems cannot be solved by the family and the market alone. This perspective can also be applied in a comparative perspective as an attempt to examine different social policy regimes and their consequences.

Equality and efficiency: sometimes an illusive trade-off

With regard to economic efficiency criteria, the following can be noted concerning universal and earnings-related programmes of a Nordic type. The administrative cost-efficiency of universal programmes is of course 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 on negotiating about the provision of basic insurance and services like health care. It furthermore promotes mobility and flexibility on 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. The American economic-historian Douglass North has argued that 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.

Public expenditures can of course promote growth and equality simultaneously by affecting the distribution of at least two aspects of human resources: education and health, in a favourable direction. With regard to health it can be noted that, internationally speaking, the overall performance in terms of general health objectives appear to be good among the Nordic countries. Low infant mortality and long life expectancy are clear examples.

In this context it may also be relevant to reflect on the what is argued by the British economist Anthony Atkinson: If we are interested in improving the efficiency of welfare state programmes, then 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. This is at least what the empirical research on the behavioural impact of welfare state programmes suggests.

The dilemmas we are facing are of different kinds. There are, undeniably, major problems maintaining the Nordic model as needs increase with the obvious constraints on the financing side. One apparent dilemma is thus to protect and secure the social rights of people while controlling the development of expenditures. The solution to this dilemma will partly be to find strategies for increasing the number of tax payers.

Universalism, incentives, resources, and opportunities

The underlying ambition with the modernisation of the Nordic model of social protection should in my view be to maintain, and when necessary restore, the universal approach to social protection. By this is meant, not only that entire populations should be covered within the same framework, but also that benefits and services should be adequate enough to really provide protection for people in different situations and with different income levels. In order to make the system of protection work in practice, it is vital that we find techniques that, in essence, help to increase the number

of tax-payers and, whenever possible, to decrease the number of benefit recipients.

The following questions are central when it comes to the incentive structure. How can the poverty traps be avoided? How can marginal effects be reduced? How can welfare state programmes be designed so that it pays more to work while protecting entitlements? To put it differently, the question is how we can design economic rewards so that they induce the desired behaviours.

A rule of thumb is to use universal benefits and services rather than means-tested ones. The reason is that as soon as we start means testing, it will affect the profitability of, particularly, low-income persons - often women - to 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. A technique that has become popular in the Anglo-American parts of the world, but applied also in Iceland, is to have tax credits for recipients of means-tested benefits so that benefits will not be fully reduced if recipients start to earn an income. Notwithstanding that this is different from the "mainstream" Nordic tradition, where the approach to the problem has been to apply strict activity/work-tests and no one in principle should be able to say no to a job offer, it still appears worthwhile to evaluate the tax credit approach seriously.

It appears to be fruitful to discuss resources as a matter of both of skills and of adequate social services. The classical strategy when it comes to the first kind of resource is education and training, as well as other forms of active labour market policy, such as public relief work and forms of subsidised employment. The aim of these measures was to improve, or at least maintain, the employability of unemployed persons. In Sweden, this approach has probably contributed to the overall high employment rate. However, when some of the Nordic countries were hit by mass unemployment, the problem was that the funds were so small that governments often found it necessary to give priority to cheap and "passive" measures. The latter kind of resource, social services, makes it possible also for adults in families with small children, or frail elderly relatives, to participate on the labour market. The Nordic approach to social service resources is to give heavy subsidies to public services, such as day-care facilities. This has undoubtedly contributed to the overall high employment rate among women.

Even if the labour force is highly skilled, and poverty traps, as well as high marginal taxes have been avoided as much as possible, this is of little comfort as long as people do not get the opportunity to exercise their skills. If there are no, or too few, jobs to apply for, good skills might not be enough to get employment. Social policies cannot make up for failures in economic policy. This means that a successful strategy has to be based on successful macro-economic policy making, and the fundamental problem of mass unemployment is that there are too few jobs. But then, on the other hand,

successful macro-economic policies are not likely to be enough, either, if the skills of the unemployed persons do not match what the new vacant jobs demand.

Contributory and non-contributory benefits: getting the balance right

While differences in the basic design of the social security systems of the European countries persist, there is also an interesting commonality emerging from the fact that the nation states, irrespective of tradition, are trying to meet both the goals of basic security and income security. The Nordic countries have, on the one hand, introduced earnings-related elements into the various branches of the social security system but the universal character of the systems has been retained, i.e. everybody is insured within the same system. The corporatist countries have, on the other hand, introduced complementary, second-tier, programmes to give protection to those who do not qualify for a contributory benefit, partly as a way of dealing with high and persistent levels of unemployment. Another strategy has been to introduce or strengthen the credits going to low-income earners within the insurance system.

The fact that countries are trying to find a balance between the protection of workers and citizens creates a momentum for the exchange of experience between different policy regimes. The problems of means testing were mentioned above. Even if the primary reliance thus happens to be on non-contributory benefits, the element of contributory programmes does not lack relevance for the goals raised by the European Commission relating to the individualisation of rights, changing the gender balance in working life, creating a sound incentive structure and putting pension systems on a sustainable basis (read increased fertility and improved workers to retirees ratio). What I am also thinking of is the growing importance of parental leave benefits among the European countries. If such benefits are contributory and earnings-related this creates incentives for women and men to educate themselves and enter into the labour market before they get children. This will increase their future employability status, which is good - not only if and when they choose to return to paid employment as married spouses, but also if they divorce and have to be self-supportive. In addition, the earnings-related design promotes the participation of fathers in care responsibilities since they in fact "can afford" to utilise parental leave benefits. The balancing of the basic and income security goals is relevant also for the protection of disabled persons.

In reforms of pension systems over the past decades, it is apparent that the European governments have struggled to achieve goals of both income security and basic security, while trying to control the costs in the longer run. I think that it is possible, within the different frameworks elaborated in the various countries, to improve the balance between the two types of benefits. I would argue that it is not only possible to find a reasonable balance between contributory and non-contributory benefits in different social-policy contexts, but also that it is an advantage to combine earnings-

related and residence-based benefits since such a strategy coupled with an individualisation of rights will promote employment and gender equality. Apart from an individualisation of rights, I would argue that the abolishment of other barriers to labour force participation such as lack of adequate social services should be put high on the agenda.

Social services as "empowerment"

There is a universal tendency towards increased female employment and an outspoken political ambition to equalise the participation of men and women, both on the Nordic and European levels. If governments fail to respond to the needs of social services, this is likely to reinforce old, and create, new divisions of welfare. Low income parents are especially dependent on subsidised social services for being able to seek and uphold employment, not to mention lone-parents. I would argue that in this context social services probably provide the most efficient way for lone parents to simultaneously break potential "benefit dependency" and improve the economic standards of their families. This should be seen as a double strategy of both improving the resources of lone parents, and for "empowering" the children.

At the heart of the modernisation project lies that family support should be designed to make family and work life possible for two-earner families. Policies aimed at equal opportunities of men and women on the labour market and equal participation and responsibility in family life should be encouraged. "Family-friendly jobs" are a necessary ingredient. This has been recognised by the Danish government which is a good example of the ambition to promote both equality and efficiency by improving social cohesion-- the dialogue between different players on the labour market, and this is part of a Danish offensive to promote an international discussion on these issues.

The lack of adequate resources in terms of social services, such as child care and care for frail elderly relatives, are effective barriers primarily for the participation of women on the labour market but also in society in general. Social services may be seen as investments that in a dynamic way provide people with the opportunity to become tax payers and thus to contribute to balancing state finances. Social services are also needed to ensure the full participation of all citizens in society in general and not only on the labour market. The access to services is therefore a democratic problem.

Home care for the elderly is an area where considerable differences have been emerging. Developments in Denmark, Norway and Sweden are described in recent research. Sweden started from the most generous and comprehensive level a couple of decades ago but has changed the character and distribution of home care since then. We in Sweden now seem to be in a situation when universalism in elderly care is fundamentally questioned-- at least in practice. The situation in Denmark is very different with a high overall coverage of services and no user fees. In Norway, the production of publicly

financed care is also produced by public providers. The fact that these countries have pursued such different strategies suggests to me that there is a lot to learn from each other. For the future, we need to answer the following questions: What kind of services should be public? How should they be financed when needs increase in the future? What are the limits to user fees if we do not want to create inequities? What is the problem with the private provision of publicly financed services?

Erosion of the Nordic model of social protection

There are some critical areas for the reform work, where the Nordic countries have problems of maintaining the Nordic model. Historically, Denmark has lacked the earnings-related component in the pension system. During the 1980s, several attempts to create a compulsory earnings-related programme failed. The degree of income-testing has also been increased. There are also obvious problems of maintaining an earnings-related social insurance model in Denmark. Over the past decades the maximum earnings for benefit purposes have gradually lagged behind what an average production worker would earn. This means that the replacement level of an average worker now is closer to 60% than to the formal 90% level. The same pattern can be observed for both unemployment benefits and sickness cash benefits. Compared with the other Nordic countries, Denmark has, on the one hand, problems of maintaining a universal system in the social insurance sector, but it has, on the other hand, kept universalism in the social service sector to a very high degree.

Norway has started to get severe problems of maintaining high ceilings for benefit purposes in terms of sickness cash benefits. The ceiling now roughly equals what a typical worker would earn. Moreover, in the early 1990s, decisions were taken that have further reduced the earnings-relatedness of old-age pensions for medium to high income earners.

Sweden is struggling with similar problems. This is most evident in the unemployment insurance where the ceiling for benefit purposes has been below average earnings in manufacturing for some time. In the future, we might also see the same trend in sickness insurance. Even if decisions have been taken to raise the ceiling, these decisions have not been implemented. The picture is different when it comes to the pension system where the 1994 pension reform means that the ceiling will be indexed to the incomes and earnings that give pension entitlements. However, it is Finland that is sticking hardest to the earnings-relatedness of social insurance, not only in the pension system but also in sickness and unemployment insurance.

However, in the future it is not enough to deal with the programmes at a national level. The Nordic countries were successful in using the Nordic arena for strengthening their systems of social protection during the expansionary period, both in using policy learning and in terms of protecting migrant workers and their families. It remains a challenge to use the Nordic arena for the purpose of adapting the Nordic model to change,

while maintaining its universal and employment-oriented character. If we do this successfully, we may also contribute to the modernisation of social protection in Europe by showing good examples.

Why is the financing of the welfare state so central to its future?

One reason is that the increased needs of ageing societies will put heavier demands on the public purse and the various sources of financing. Another reason is that critique of the welfare state is based on claims about (i) lack of cost control and (ii) eroded incentives to work. Intimately linked to the question of financing is the question of the protection of migrant workers within the European Union. As markets of labour capital and products become more mobile, this also makes most tax bases more difficult to control.

If we continue to move towards "employment society", contributory benefits and financing will continue to grow, and if we succeed in maintaining earnings-related social insurance this development will be even stronger. Moreover, I would argue that it is a good rule of thumb that benefits for workers should be financed from social security contributions by employers and insured persons, and benefits for non-workers should be tax-financed. But we should nevertheless resolve this protection within the same framework so that, as the Swedish sociologist Walter Korpi once put it; "the poor would need not to stand alone". This could perhaps be seen as the essence of the European strategy.

The question of financing is also intrinsically linked to the protection of migrant workers and the different instruments used for that purpose. My view is that discussion of this issue should start from the political goals of intervention measures. The goal with the EU Regulation 1408/71 is very clear: Obstacles for the free movement of labour should be removed. The relevant instrument is co-ordination of social rights for migrant workers. The question now is: should the European Union be something more than "market making" (in this case; the free movement of labour)? Should the goals be widened? In this context, the notion of a Citizen's Europe has been formulated as an alternative to the more restricted Businessman's, or possibly Worker's, Europe. Another important consideration when we are thinking about the future of 1408/71 is that the social rights of workers and citizens of Europe are not only about insurance benefits and other cash transfers but also, and increasingly so, about social services. This is an area where the differences between the member states are much larger than in the social insurance sector, in terms of both costs and financing strategies. A third point of departure is what the expertise see as a strong need for simplifying the regulations on co-ordination.

Notwithstanding that the co-ordination of rights in many respects has been successful, there appears to be a wide agreement that important problems prevail in terms of (i) gaps in protection, (ii) inequities and (iii) "moral hazards". The problems are largely due to the fact that the various social

policy models developed among the European countries differ so much, in coverage and adequacy of benefits as well as in financial structure. The differences in social policy traditions are century-long and are likely to persist. Moreover, it is clear there are several empirical indications of increased variation in terms of financing. At the same time, many experts argue that there is a strong need for simplification of regulation 1408/71.

This calls for a thorough discussion of the proper status of the rights of workers and the rights of citizens. Even if the crisis of the welfare state is a threat to the social protection of all workers and citizens, it might also create a momentum for desired reforms.

If we agree on the need for simplification and the desirability of creating a Citizen's Europe, this leads to the question of which persons and which rights should be considered for co-ordination. I believe that there is a conflict between concern for migrant workers and the goal of securing the position of citizens of European nations. This tension has first of all to do with the prevalence of derived rights, i.e. rights that are derived from the contributions of the bread-winner. Even if there is no natural order for the financing of social insurance benefits, cash transfers and social services, the situation can be simplified by restricting the co-ordination to income replacement programmes typically related to employment and thus to the movement of labour. Other benefits and services should be considered as part of Citizen's Europe and be awarded to the residents of each nation state by the relevant state. Even though there might be an ethnocentric bias in this proposal it would undoubtedly simplify the situation and put a new meaning to Worker's and Citizen's Europe by clarifying the responsibilities of the nation states with respect to these two groups.

An interesting question is how Nordic countries can make a contribution. A Nordic strategy could entail (i) a clear division between social insurance and social services, (ii) a no to derived rights, and (iii) a serious discussion of restoring earnings-relatedness in social insurance and its financing.

Public and private: mixing it right

The Nordic countries are rightly associated with a big public involvement in both cash benefits and care. The debate about the "proper" public-private mix of welfare is often fought with more or less ethical arguments. On one hand, it is claimed that the state should leave much more room for private alternatives and that a major state involvement in the financing and provision of insurance and services is bad as such. On the other hand, it is claimed that lesser state involvement necessarily means less welfare. It is not always clear what the problem of privatisation actually is and what can be done about it. Privatisation can take place along several dimensions. It is not always a question of reducing social rights. Private providers can, for example, be used to deliver publicly financed services. Sometimes the private providers are more efficient than the public ones and then it can be seen as a strategy of cost control without intruding on the rights of citizens.

We can also find examples of public benefits being a very important condition for making private care possible. The care allowance paid to relatives of disabled persons is one way of making it possible for family member to take care of disabled persons at home. This is often a much less expensive solution for the public purse if the alternative is institutional care. Despite the massive expansion of public care, most care work is still provided by family members.

One problem with privatisation is that the ideas about what it is and what it can achieve are so vague. This naive approach is problematic in several respects. One important aspect of co-ordination is how private pensions are treated. If public and private systems are unconnected this might actually be good for household savings, because when private pensions reduce public benefits, it does not make much sense to save. An important aspect to consider is that private providers of publicly financed services might enable choice. This is, however, not always the case. Some forms of privatisation just replaces public providers in specific geographical areas. It is also evident that the reasons for privatisation differ. Some of it is motivated on purely ideological grounds, while sometimes it is used for introducing competition.

Another problem of privatisation is that the potential for poor instruments of quality control. This is not an argument against private providers as such, rather it points to the necessity of keeping a public responsibility for private social services, too. This argument is of course especially strong when it comes to publicly financed services. It should also be recognised that public alternative might be superior in some areas but that private solution might nevertheless be better than poor/inadequate/constantly-changing public arrangements.

What constraints does globalisation impose on the systems of social protection?

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 project as such would not be possible for nation states with open economies. Quite the contrary, the conventional wisdom used to be that the most open economies are. Quite the contrary! The conventional wisdom used to be that most open economies among the advanced industrial societies 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 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 an 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 foreign and domestic investors will move their capital. This puts very clear constraints on the financing of social protection. The mobility of labour also puts restrictions on how far wages can be compressed, and how high levels of taxes can be raised in relation to the kinds of benefits and services that are provided.

The globalisation of the world economy puts certain limits on what can be done in individual countries. The clearest constraint is that, for reasons outlined above, profitability has to be on a competitive level. This is, however, not to argue the level of income taxation and the size of social security contributions is of primary importance. Yet employees and their trade unions must recognise the cost of social security. "There is no such thing as a free lunch." 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. This is a lesson which the Swedish and other Nordic labour movements hopefully have learnt from past decades. Competitiveness is not threatened as long as the cost of the "social wage" is taken into consideration in wage negotiations. Even if profit levels cannot be reduced in single countries, the division between what is paid as direct wage and what is paid as social wage ought to be flexible.

Epilogue

In the end, the modernisation of social protection should be put into the context of democracy and security. Failing to reform the systems of social insurance, service and assistance, when necessary, not only threatens to leave many people in poverty and despair, and disable many children from exploring their full potential in the future. It also threatens democracy insofar as it hampers the full participation of all persons as citizens and full members in society. And if democracy is threatened, this means that political security in Europe is on a shaky ground. If European governments are serious about the European Union as a peace project, then they have to be serious about the social security systems of their own and other countries. This calls for a serious discussion of the future of social protection on a European level. It is my belief that the Nordic experience, in several respects can make a contribution in this context.

With the Hungarian sociologist Zsuzsa Ferge, I would like to argue that the welfare state can be seen - and should be - a project of civilisation. This means that the states should redistribute resources so that the poorest persons can also enjoy the degree of civilisation which would otherwise be reserved only for the rich. In this civilisation project, the design of the systems of social protection can play a very important role. The same thing goes for systems of education and vocational training, as well as other aspects of active labour market policies.

Good intentions and political commitments are not enough to make the reform work successful, the design of the existing programmes needs to be critically evaluated. In this context, the Nordic tradition of welfare research

can make a contribution. This is a fruitful starting point, not only to study whether the social policy goals are actually being achieved, but also to examine unintended consequences of the programmes.

In democratic politics, different and divergent values and interests are expressed in various ways. But behind these differences there must be common values about what constitutes a democratic society. Here, the question of participation is critical, and, from T H Marshall and onwards, it is linked to the question of social citizenship.

We may thus conclude, on the basis of empirical research on equality and efficiency, 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. The old systems will only serve their purposes well if they are reformed without weakening their social policy content and if they are designed to promote efficiency. Whether or not it is possible to extract the necessary taxes in the future will depend on what people want, and probably on international co-operation. This makes the modernisation a democratic problem.

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