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Democratisation and Social Policy in Southern Europe: From expansion to “recalibration”

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Introduction

The prime meaning of the expression “Southern Europe” is geographical. In its broad sense, this notion denotes the lands stretching from the Iberian Peninsula to the Bosphorus, including the largest islands of the Mediterranean Sea, from the Balearics to Cyprus. In a narrower sense, however, the expression is mainly used to designate the four biggest countries located within this broad area: Portugal, Spain, Italy and Greece. In the social science debate of the last three or four decades, these countries have tended to be treated as a distinct “region” or cluster, sharing not only geographical, but also other, substantive traits. In this debate, the notion of Southern Europe has a richer, politico-economic connotation, which invites and facilitates intra-regional comparisons (Gunther, Diamandouros and Puhle, 1995).

Looked at from a long-term perspective, each of the four countries included in the narrow notion of Southern Europe witnessed, at different times, periods of power and splendor in European history. All of them entered however the epoch of modernity in a state of socio-economic and political decline (Malefakis, 1995; Sapelli, 1995). Throughout the XIX century, their economies remained characterized by backward agricultures and marked underdevelopment, especially in certain areas (the “Souths of the South”). In social relations, patron-client networks survived for a much longer time than in other, early modernizing European countries (Eisenstadt and Roninger, 1984). Industrial take offs were delayed and had to overcome severe structural disadvantages (e.g. the paucity of natural resources and difficult communications). When economic modernization caught momentum, at the turn between the XIX and the XX century, its “compressed” timing and its internal variegation (sectoral and territorial) exacerbated social conflict, promoting working class radicalization and “maximalist” militancy both within industrial workers and the peasantry. Especially in Italy and Spain, the period 1880-1920 witnessed very turbulent labour relations, which left a legacy of ideological polarization and offered fertile grounds for the rooting of communist movements and doctrines. The factious and polarized nature of civil society remained a rather typical trait of Southern Europe well into the 1970s.

Political modernization was also far from smooth and easy. During the XIX century the road to liberalism, first, and mass democracy later was rough and constantly challenged from both the right and the radical left. The XX century brought about long authoritarian spells: two decades of Fascism in Italy, four decades of Francoism in Spain, half a century of dictatorship in Portugal under Salazar and Caetano and recurring periods of autocratic rule in Greece. The same period also

witnessed moments of acute social and political conflict, culminating in civil wars (in Spain and Greece)¹ or “revolutions” (in Portugal). The long authoritarian spells and the episodes of war-like internal conflict left a deep mark in the politics of Southern European countries.

After World War II, Portugal, Spain, Italy and Greece found themselves at their socio-economic and political nadir: deep economic problems (with the partial exception of Portugal), marked social impoverishment, overt political polarization in Italy and Greece and severe political repression in Spain and Portugal. In the subsequent quarter century, however, a process of rapid and – again – highly compressed change took place, which led to the emergence of a “new” Southern Europe by the end of the 1970s (Morlino, 1998; Pridham, 1984). This change affected the economic, the social, the cultural and the political dimensions at the same time and allowed the four countries to rapidly catch up with the rest of Western Europe. Italy was the first country to leap forward, with an early consolidation of the new democratic regime and an economic “miracle” that more than doubled average per capita income between the 1950s and the 1970s, transforming this country into one of the biggest and most prosperous economies of the world. In the other three countries economic development proceeded at a lower pace, disturbed by military concerns (in Portugal and Greece) and persisting protectionism. But change did take place: during the 1960s and early 1970s both the Iberian countries and Greece became increasingly richer, more open and modern – also in the wake of the spread of compulsory education, growing urbanization and the intensification of external contacts through tourism and the mass media. With the demise of the authoritarian regimes in the mid-1970s and the return of democracy, Southern Europe became “new” from its Atlantic shores to the Aegean Sea.

The 1980s and 1990s witnessed an acceleration of modernization dynamics, partly promoted and supported by EC membership (Ferrera and Gualmini, 2004; Guillen, Alvarez and Adao Silva, 2001; Sotiropoulos, 2004). The economy continued to grow and its internal structure rapidly changed, substantially attenuating historical dualisms and backwardness. Social relations have gradually “civilized” and levels of political legitimacy and systemic loyalty have “normalized” (Morlino and Montero, 1995; Morlino, 1998). Portugal, Spain, Italy and Greece are now fully part of the group of rich and stable democracies. At the beginning of the new millennium Southern Europe has lost much of its “peripheral” character: indeed, some areas and some aspects of South European

¹ To some extent, Italy also experienced a quasi-civil war during 1943-1945: according to some historians, the *Resistenza* was at the same time a war of liberation (against the Nazis), a civil war (fascists vs. anti-fascists) and a class war (proletarians vs the bourgeoisie): cf. Pavone (1994).

societies can today offer “models” and “benchmarks” to other societies – in Europe as well as in other regions of the world.

On top of a common floor of substantive and “developmental” traits, there are of course big differences between the four countries: Southern Europe is not a “region” or a “family of nations” in the same sense as the Nordic area, for example. We agree however with Gunther, Diamandouros and Puhle (1995) in suggesting that there is sufficient evidence of similarities and shared experiences at the socio-economic and political levels for undertaking fruitful comparative analyses across the four countries.

Resting on this methodological assumption, this paper will offer a comparative discussion of welfare state developments in Portugal, Spain Italy and Greece since the end of World War II. The idea that Southern Europe forms a distinct cluster not only in general socio-economic, cultural and political terms, but also as regards the welfare state in particular started to be an object of debate in the early 1990s (Castles, 1993; Leibfried, 1992; Ferrera, 1996; Petmesidou, 1996a). But this idea could not be pursued based on the literature of the 1970s and 1980s. On the one hand, in fact, past research on the political economy of Southern Europe had largely neglected the social dimension; on the other hand, the mainstream comparative welfare state literature had not traditionally included Southern Europe (with the partial exception of Italy) within its samples of observation. Starting from the early 1990s, the social protection systems of the new Southern Europe have become however an increasingly investigated object of research, largely confirming the presence of common characteristics (e.g. Rhodes, 1997). Building on this literature, this paper will try to pinpoint the main features and trajectories of development of the welfare state in the four countries, to identify the contextual factors which can be called into question for explaining such traits and trajectories and to discuss the present problems and future prospects of social policy in this area of Europe.

The paper is organized in four sections. Section I will offer a historical reconstruction of welfare state developments from the early origins up to the late 1980s, highlighting some of the problematic features emerged from the interplay between the developmental sequence of social policies and its socio-economic context. Section II will discuss the politics of welfare state expansion and the role played by social policy in consolidating and legitimizing the new democratic regimes. Section III will illustrate the adjustment process of the 1990s, aimed both at responding to inherited problems

and at modernizing social protection, also in the wake of European integration. Section IV will draw some comparative conclusions.

I. Welfare state formation in Southern Europe: an overview

In the three decades after World War II, the various OECD countries accomplished (or at least pursued) three grand achievements, which greatly enhanced the security and welfare of their citizens, i.e.:

- 1) full employment with “good jobs” for all (men) who were expected to work for a living;
- 2) social insurance of workers against the risk of sickness, invalidity, unemployment and old age, coupled with generous family benefits;
- 3) social assistance to prevent the poverty of those without other sources of support².

On each of these three crucial fronts, Southern Europe has indeed striven to move along the direction followed by the other, more advanced countries. As we shall see, by the end of the 1970s all four countries had put in place a wide array of labour and social policies. But the effort of forming a fordist labour market and a fully-fledged welfare state encountered greater obstacles than in other areas of Europe and the policy solutions that were adopted in the 1960s and 1970s have occasionally worked to exacerbate, rather than overcome, these very obstacles. Let us examine the three objectives in turn, starting with a brief survey of labour market and labour policy developments, and then focussing more specifically on the two welfare state objectives proper.

Labour markets: weak fordism

As far as the first objective is concerned, i.e. the promotion of an inclusive “fordist” labour market, the four South European countries have lagged chronically behind compared with its core European counterparts, both in terms of employment levels and in terms of an adequate supply of “good jobs” to those in employment. This is partly due to a difference in starting conditions: in the 1940s and 1950s these countries were still predominantly based on agriculture and self-employment, with

² cf. Scharpf and Schmidt (2000).

a very high incidence of the informal economy. In order to escape from poverty and under-employment, many South European workers took the road of emigration: during the 1950s and 1960s Portugal, Spain and Greece suffered a veritable haemorrhage of work force³. The transition towards industrial fordism was much more complex than elsewhere in Europe and was still under way when the oil shocks hit the Western economies in the 1970s, increasing their vulnerability and structurally undermining the viability of fordist arrangements as such.

Figures 1, 2 and 3 show some data on the sectoral composition of the South European labour force since the 1960s, comparing trends in each of the four countries with the average of the other 11 EU member states. As can be seen, in 1960 agricultural employment was predominant: more than 40% in Portugal and Spain and more than 50% in Greece. Only in Italy had agriculture already witnessed a relative decline, displaying a value slightly above 30%, on a par with industry. In the rest of Europe, on average the agricultural sector absorbed less than 20% of the labour force, while industry was already the prevailing sector, with an average employment of 40%. It must be noted that South European agriculture remained characterized (well into the 1970s) by traditional forms of economic and social relations (e.g. share-cropping or tenant farming) and by a high incidence of self-employment. As we shall see, the salience of agricultural employment had significant implications for welfare state building. Figure 2 shows that industrial employment increased until the mid 1970s, surpassing agricultural employment also in Portugal, Spain and Greece. But already during the 1970s tertiary employment affirmed itself as the largest occupational sector – even though at lower levels than the EU11 average. This development offers a clear example of South European “leap-frogging”, i.e. a very compressed transition from pre-industrial to industrial and then post-industrial socio-economic structures. During the 1945-1975 period (the *Trente Glorieuses*) Southern Europe did witness a remarkable change of her employment structure, creating many “good” industrial jobs for many male workers. But the supply of these jobs remained lower than in the core EU countries, giving rise to a “weak” variant of labour market fordism.

³ This was also true for Italy, but this country experienced also a massive internal migration from South to North.

Fig. 1

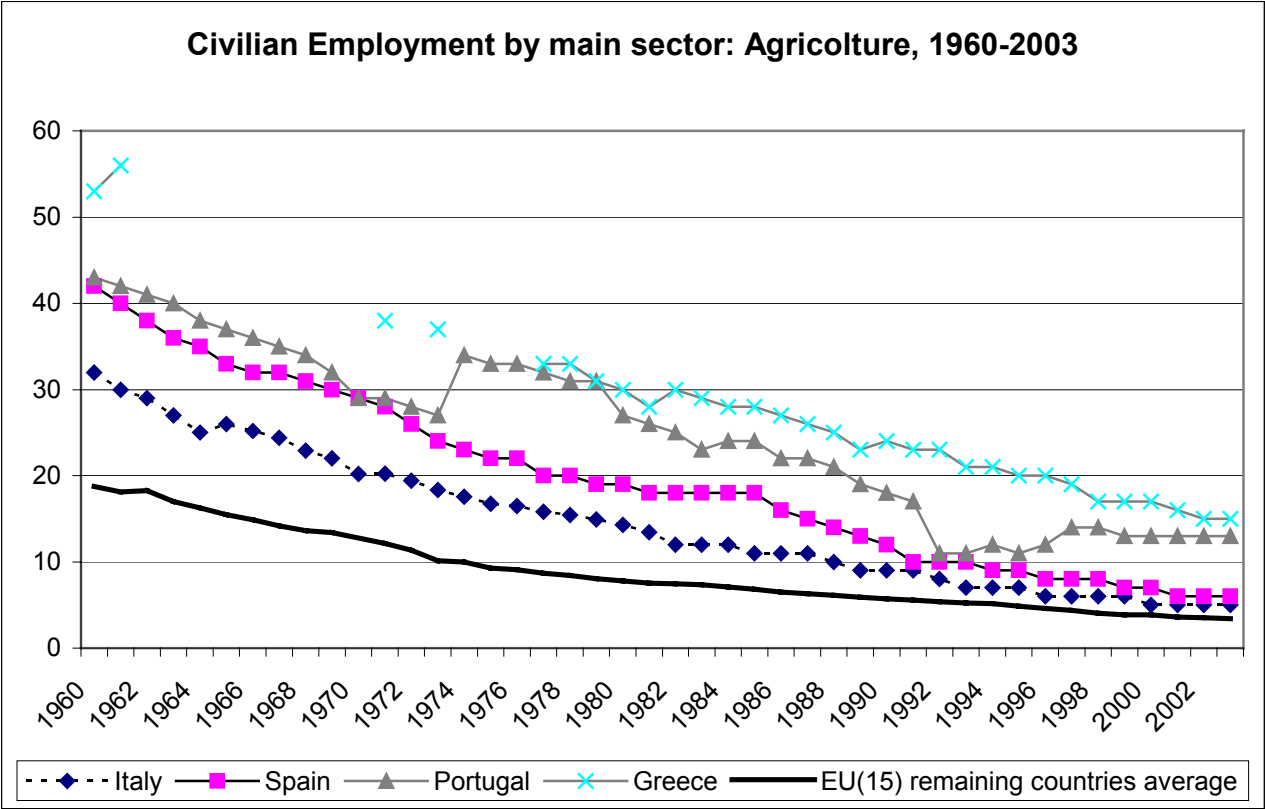


Fig. 2

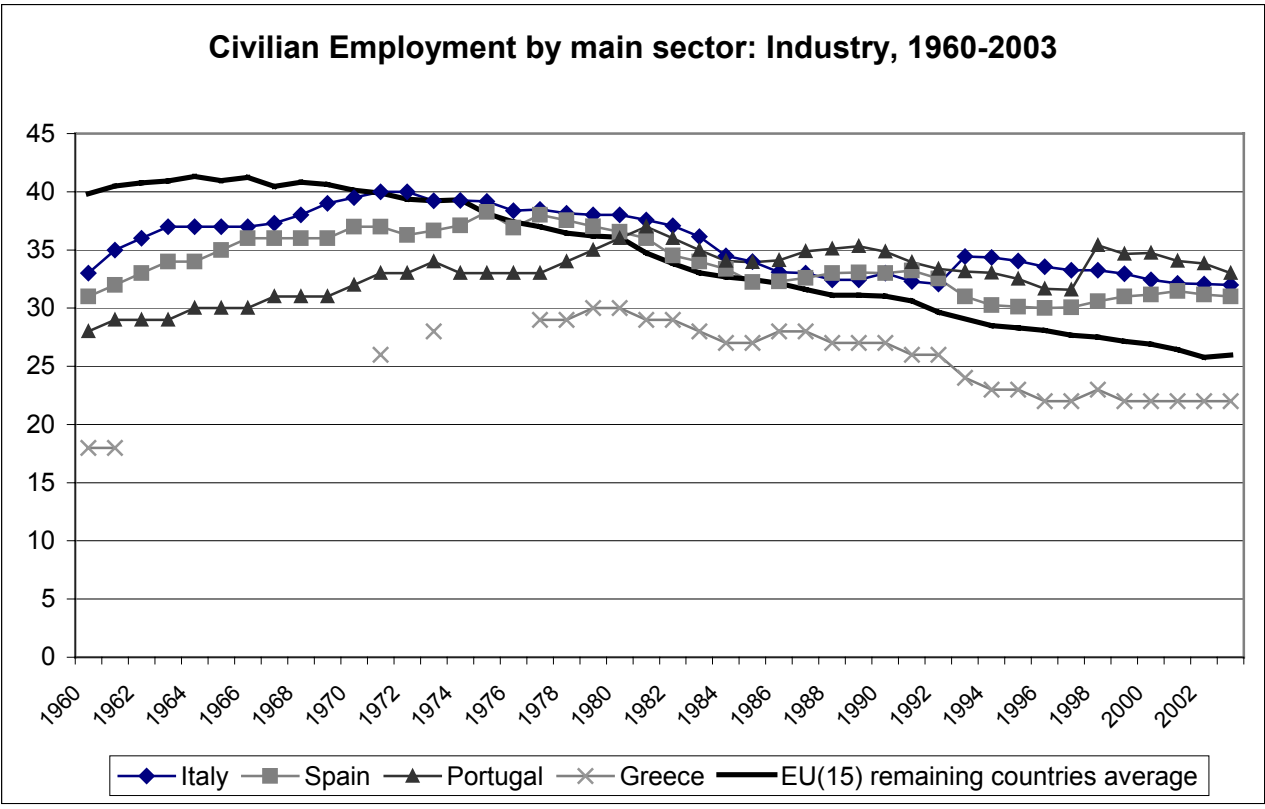
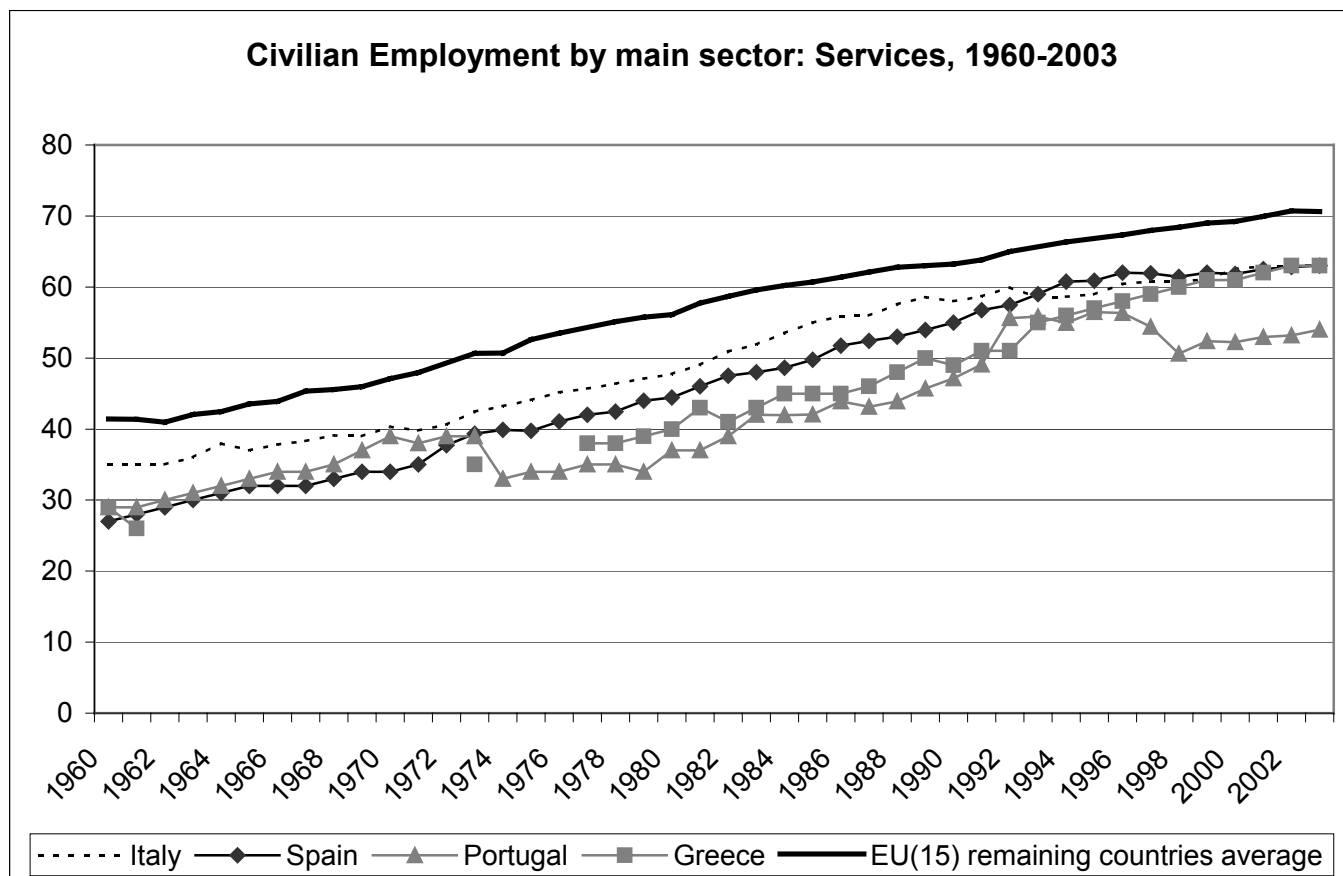


Fig. 3



Source: OECD, Labour Statistics, various years; ILO, Yearbook of Labour Statistics, various years;

A number of institutional choices made during the transition to industrialism gave rise to another peculiarity of South European labour markets: a pronounced insider/outsider cleavage. All four countries put in place highly protective employment regimes (especially in terms of job tenure) for those working in the core sectors of the economy (e.g. the public sector and large industrial enterprises). These regimes operated as differentiating devices, gradually segmenting the South European labour markets into three juxtaposed sectors, hugely different in terms of working conditions and job security: the “core/regular”, “peripheral/irregular” and “underground” sectors (Ferrera, 1996; Moreno, 2000; Pérez-Díaz and Rodríguez, 1994). The core/regular sector was characterized by relatively rigid rules regarding hiring and firing, high job stability, and “family wages” with strong links to seniority. The peripheral/irregular sector (e.g. small enterprises, the building sector etc.) was characterized by more flexible entry and exit rules, job instability (term-contracts, seasonal employment and so on) and a much more differentiated wage structure. The

underground sector was characterized –by definition – by marked fluidity, informal and differentiated rules, very high job instability and performance-based (low) wages. The large size and institutional distinctiveness of the latter two sectors and the ensuing degree of polarization between guaranteed and non-guaranteed workers remained a hallmark of the South European labour markets, especially during the 1970s and 1980s.

South European labour markets shared with the other Continental labour markets a particular trait: the low level of female participation. In the 1950s and 1960s female employment kept below 30% in Spain, Italy and Greece. In Portugal female employment levels were already somewhat higher because of the high incidence of military service among Portuguese males that pushed many women into paid jobs. Female workers had a more limited access to the core/regular sectors and were largely employed in the peripheral and underground sectors, especially in agriculture.

The 1980s were a period of rapid change for South European labour markets (Bermeo, 2000). Agriculture stepped up its decline and tertiarization accelerated. Regime transition, external opening and EC membership promoted a dynamic of productive modernization in Portugal, Spain and Greece. Southern European countries ceased to be a source of foreign migration and started to experience immigration, especially from North Africa (Venturini, 2004). As in all other European countries, unemployment made its sinister appearance: by the mid-1980s, the unemployment rate was above 8% in all four countries, with a peak of 20% in Spain. The plague of unemployment hit in particular young people, with impressive levels in Italy (35% in 1988) and especially Spain (45% in 1985). The above mentioned insider/outsider cleavage thus acquired during the 1980s a marked generational and gender profile.

Social insurance: dual systems

The early origins of South European social insurance date back to the first two decades of the XX century, prior to the advent of authoritarianism (cf. Table 1). Italy was the pioneer in this field, introducing compulsory work injury insurance already in 1898. The “big bang” occurred in 1919, when the Nitti government passed a law establishing compulsory insurance for old age, invalidity and unemployment. Greece introduced a (limited) insurance against work injuries in 1915. Portugal and Spain also made first steps towards social insurance in 1919.

Table 1 Main steps in the expansion of social insurance in Southern Europe

Portugal	Spain	Italy	Greece
<p>1919: first attempt at establishing compulsory social insurance (remained on paper)</p> <p>1935: compulsory insurance against old age, invalidity, work injuries, sickness and unemployment</p> <p>1960-1961: minimum pensions</p> <p>1969: improvement and codification of benefits for agricultural workers</p> <p>1974-75: means-tested social and invalidity pension; raise of minimum pensions; improvement of unemployment benefits and of benefits for agricultural wage earners</p> <p>1979: National health Service</p> <p>1984: broad re-organization and system improvement under the Social Security Law</p> <p>1985: unemployment insurance reform</p>	<p>1919: first limited compulsory old age insurance</p> <p>1932: compulsory insurance against work injuries</p> <p>1942: compulsory sickness insurance</p> <p>1947: compulsory old age and invalidity insurance</p> <p>1961: compulsory unemployment insurance</p> <p>1963: institutional re-organization and benefit improvement under the Basic Social Security Law</p> <p>1966: reorganisation of social insurance for agricultural workers</p> <p>1974: pension reform</p> <p>1978: broad institutional re-organisation. Benefit improvements</p> <p>1982: means-tested social disability pension</p> <p>1985: pension reform</p> <p>1986: National Health Service</p> <p>1988-1991: improvement of minimum and non-contributory pensions</p>	<p>1898: compulsory insurance against work injuries</p> <p>1919: compulsory insurance against old age, invalidity and unemployment</p> <p>1933-35: first sickness schemes and family benefits</p> <p>1945: compulsory sickness insurance</p> <p>1952: pension reform</p> <p>1955: family benefits improved</p> <p>1958-1967: pensions extended to self-employed</p> <p>1968-72: unemployment insurance improved</p> <p>1969: pension reform. Benefit improvements and means-tested social pension</p> <p>1977: employment policies expanded</p> <p>1978: National Health Services</p> <p>1989: pensions of the self-employed improved</p>	<p>1915: compulsory insurance against work injuries</p> <p>1934: compulsory insurance against old age, invalidity and sickness</p> <p>1951: pension reform</p> <p>1959: family benefits</p> <p>1961: extension of compulsory insurance to agriculture</p> <p>1972: benefits for large families</p> <p>1978 and 1982: various improvements of pension benefits (incl. a means-tested social pension)</p> <p>1980-1982: elderly services and first active labour market policies</p> <p>1983: National health Service</p> <p>1984,85,86 and 87: various improvements of pension benefits</p>

During Fascism, Italy consolidated the schemes established in 1919, experimented with sickness insurance (which was made compulsory at the end of World War II) and introduced new family benefits and services. The period between the 1950s and the 1970s witnessed several important ameliorative reforms, especially in the field of pensions, which put in place a highly articulated social protection system.

The building blocks of the Greek social insurance system were posed in 1934, with the establishment of compulsory pension and sickness schemes. The system was extended and improved on various occasions between the 1950s and 1970s. But the big wave of expansive reforms came after the return of democracy and especially in the 1980s. As table 1 indicates, pensions were a central concern of Greek social reformism during the expansionary phase.

In Portugal compulsory social insurance was introduced under Salazar's *Estado Novo*, in 1935. The reach of these early compulsory schemes remained relatively circumscribed, despite the reforms of the 1960s. After the revolution of 1974, a rapid expansionary phase took off, which gradually put in place a modern system of social protection covering the whole population.

In Spain the actual introduction of compulsory insurance was delayed by the turbulent events of the First Republic and the Civil War. While work injury insurance was introduced in 1932, compulsory sickness insurance was only implemented in 1942 and compulsory pension insurance in 1947, both under Franco's regime. In the 1960s and early 1970s, during the *desarrollismo* (i.e. a growth oriented phase of economic policy), the regime promoted some expansion also of social insurance. But as in Portugal and Greece, the big wave of reforms came only after the transition to democracy. As we shall see, in these three countries welfare state reform and expansion played an important role in the rapid legitimization of the new democratic regime.

Even if its timing was different in each of the four South European countries, the path followed by social insurance displayed a number of similar traits in all of them. To begin with, social insurance co-evolved with a segmented labour market, and thus acquired its own degree of internal polarization: generous entitlements for core/regular workers, modest benefits for the peripheral/irregulars, and only meagre crumbs (if anything at all) for those workers who were unable to establish a formal contact with the regular labour market. In addition to this, in its expansionary phase South European social insurance over-privileged the risk of old age (at least in terms of legal formulas) and reserved only a marginal role for family benefits (Ferrera, 1996). In

line with the conservative-corporatist tradition, it also privileged transfers over services and promoted the proliferation of differentiated schemes, tied to occupational status. Institutional fragmentation reached impressive levels in Italy and especially in Greece. It has to be noted, however, that the link with the Bismarckian tradition was broken in the field of health care (Guillen, 2002). All the four countries established national health services during the 1970s and 1980s (cf. Table 1): a rather infrequent but very significant instance of “path shift”, which has worked to smoothen the profile of the welfare state edifice and has contributed to upgrading the allocative and distributive efficiency of social expenditure in these countries.

The institutional growth of social insurance reflected itself in expenditures trends. It is not easy to trace the long-term development of social expenditure in Southern Europe. Reliable comparative statistics are only available for the post-1980 period. Table 2 shows some figures on “social security transfers” (thus excluding services and benefits in kind), in order to at least give an idea of the timing and the order of magnitude of quantitative growth. In 1960 Italy already spent 9.8% of her GDP on social transfers: a figure that was higher than the EU15 average. Greece was spending 5.3%, while Portugal and Spain lagged markedly behind, at 2.9% and 2.3% respectively. In 1974 – a milestone for the democratic transitions of Portugal and Greece – social transfers had grown to 7.1% in Greece, 5.3% in Portugal and to a remarkable 9.5% in Spain – confirming the expansionist drive in social policy of the *desarrollismo*. With her 13.7%, Italy continued to keep above the EU15 average. The fifteen years 1975-1990 witnessed a marked increase of social transfers in all countries, but especially in Greece (8.1 percentage points, up to 15.2% of GDP) and in Spain (6.4 percentage points, up to 15.9%). The lion’s share of this quantitative growth was absorbed by pensions. In only one decade (1980-1990) these benefits grew by 94% in real terms in Greece, by 33% in Italy, by 27% in Portugal and by 23% in Spain. Family benefits on the contrary stagnated in Italy and Portugal, declined in Spain and only grew modestly in Greece⁴.

⁴ OECD (2004).

Table 2 Social security transfers as a percentage of GDP, 1960-1990

	1960	1974	1990
Portugal	2.9	5.3	10.8
Spain	2.3	9.5	15.9
Italy	9.8	13.7	18.2
Greece	5.3	7.1	15.2
EU15	9.7	13.3	17.1

Source: OECD (1999)

Social assistance: gaps and fragmentation

Social assistance and the fight against poverty have been, finally, the weakest front of achievement for our four countries – at least up to the late 1980s (Matsaganis et al., 2003). The South European safety net evolved slowly, through a sequence of fragmented and mainly categorical additions (orphans, widows, disabled, poor elderly etc.) with disparate rules and differentiated benefit amounts, with a low (if not altogether lacking) degree of integration between cash benefits and services and with wide holes in the overall fabric of public provision. As a consequence of this, poverty levels have traditionally remained very high in Southern Europe. Many poor households were (and still largely are) ineligible for social assistance because they failed to fulfil the narrow conditions set out by the various categorical programmes. Needless to say, those affected by this syndrome included the largest groups of outsiders: the long-term unemployed, the new entrants into the labour markets, the irregulars and underground workers and –increasingly- immigrants.

Which factors explain the marginal role of social assistance within South European systems of social protection? Why have these countries reserved little attention to the third grand objective of the (European) welfare state project? Various factors can be called into question. The first factor is of a “developmental” nature. In all Bismarckian countries social assistance has tended to remain the Cinderella of social policy: minimum income schemes only saw the light in the 1970s and 1980s; South European welfare states are still partly in maturation and will eventually catch up – the argument goes - also in this field. Even though it contains a grain of truth, this developmental explanation is not fully adequate. The relative neglect of a comprehensive anti-poverty dimension

has in fact coincided in Southern Europe with a steady growth of total social spending: if anything, as mentioned, certain social programmes (most notably pensions, especially in Italy and Greece) are over-developed, to the point of crowding out investments in other policy areas. Therefore it is elsewhere that the causes of the low profile of social assistance in Southern Europe must be sought: in the unique set of constraints that have inhibited its development. The three most relevant of these are the role of the family, the incidence of the irregular and underground economy and low administrative capacities, especially at the peripheral, street-level end of the state apparatus.

As has been highlighted by a vast literature, South European families historically functioned as an effective (though informal) safety net: a social “shock absorber” and welfare broker for their members, active across a whole range of policy fields such as child care, unemployment assistance, care for the elderly and the disabled or housing (Moreno, 2004; Naldini, 2003). The extended household, comprising three or more generations (and/or lateral kin), has survived for a long time, virtually up to the present: even if actual co-habitation has been sharply declining in recent decades, the intensity of contacts and of solidaristic ties among family members is still much stronger than in all other parts of Europe. South European familism is known to heavily rely on unpaid female work. The “familialization” of social assistance functions has given rise to a distinct gender regime (with formal and informal rules), treating women principally on the basis of their family roles as regards their duties and sending them unprotected in the market (especially in the irregular and underground sectors) in case of economic need (Saraceno, 1994; Trifiletti, 1999). Very often, caring for children or older relatives is only possible at the expense of erratic careers or full withdrawal from the labour market. The high incidence of strong and cohesive extended families and of a familistic culture have probably played a blocking role, initially, in respect of public social assistance, keeping low the demand for benefits and services in this field. Families would meet the care needs of all their members and guarantee basic economic security; the state could refrain from intervening on this front and concentrate instead on other priorities (among which, typically, pensions). This syndrome has had undoubtedly positive results in terms of inclusion: the poor have remained more firmly integrated into the social fabric. But it has also generated some socio-economic pathologies: the low rates of female employment, especially in Spain, Italy and Greece, and partly also the dramatic decline of fertility among women -sandwiched between heavy home duties and unfriendly labour markets- clearly indicate the high social strains present in the Southern model of welfare (Moreno, 2002). And if it is true that poor people in the South may suffer less from isolation and exclusion than in Northern Europe, there are signs that family protection may also be perceived as a straightjacket (Gallie and Paugam, 2002: 52).

The irregular and informal economy represents the second factor that –in combination with strong familism – has worked to weaken both the functional need and the political demand for public anti-poverty interventions. The irregular economy has provided a substantial number of jobs for marginal workers (e.g. seasonal workers in agriculture, the building sector or retail trade), offering low wages – with low contributions - but at least some anchor to the system of social protection (e.g. health care or minimum pensions). The informal economy has added in its turn an equally substantial range of earning opportunities, in the most disparate activities but with no formal link with the welfare state⁵. The informal economy is estimated to produce between 15 and 30 percent of total GDP in the countries of this area (probably higher in the past). To be sure, this fact is by no means an exclusive of Southern Europe: other European countries display sizeable informal sectors as well (Schneider and Enste, 2000). However, at least two elements have made the South European situation distinct: 1) the sectoral and territorial concentration of informal activities (e.g. traditional sectors, including agriculture, small and very small businesses, home sub-contracted work., which in turn tend to be more widespread in backward regions)⁶ and 2) the more pronounced separation between the formal and the informal sector. While in countries such as Belgium, Sweden or Denmark (where the shadow economy has been increasing since the 1980s) the informal sector primarily consists of (additional) undeclared activities on the side of people who have a formal job (“moonlighting”), in Southern Europe informal workers have tended to operate fully outside the formal circuit (“underground work”)⁷. The informal sector has traditionally constituted an important source of income for all the outsiders (especially women and young people). Poor families in Southern Europe are known to pool all possible crumbs of income to make ends meet: for instance the social pension of a grandfather, the “official” but modest seasonal earnings of the first spouse, the unemployment subsidy of the second spouse, topped by some undeclared income from the informal economy, occasionally brought home even by the so-called “economically active” children⁸.

While strong familism and an extended irregular/underground economy have operated on the demand side of social protection, the third factor has operated on the supply side: low state

⁵ It must be noted that the earnings opportunities provided by the informal economy have paradoxically contributed to the maintenance of low wage levels in the formal economy, and thus to the high numbers of working poors (especially in Portugal).

⁶ To be sure, informal activities in small and very small businesses are present also in some of the more developed areas of Southern regions, such as Veneto in Italy or Catalonia in Spain.

⁷ For a detailed discussion of the underground economy in South European countries cf. Ahn and De la Rica (1997) and Carillo and Pugno (2002).

⁸ For a discussion and some estimate on child labour in Southern Europe, cf. ILO (1996).

capacities have restrained innovation and reform in the field of social assistance, for fear of activating or exacerbating particularistic behaviours and syndromes of “group predation” (Arriba and Moreno, 2005). As is well known, the delivery of means-tested benefits (such as, typically, a minimum income to poor claimants) requires administrative competencies that have been slow to develop in Southern Europe. Owing in part to the legacy of authoritarianism, the administrative systems of this area have historically suffered from low autonomy, low implementation effectiveness and weak (or in any case, belated) incentives to develop those relational and pragmatic skills which are necessary to manage individualized social rights, i.e. rights conditional upon individual requisites that must be carefully and closely verified and monitored through time. Moreover, the low level of institutional autonomy of the administrative system in some part of Southern Europe has made it difficult for officers in charge of benefit delivery to stand up to external pressures. As a result, the relationship between benefit administrators and beneficiaries has come to be often mediated by “brokerage” structures between local and central authorities (and sometimes linked to political parties or the trade unions: cf. below, Section II). To these factors, one must add the traditionally poor integration of social assistance (administered by different authorities and subject to different rules), resulting in eligibility overlaps and gaps in coverage.

Since social assistance benefits are typically granted on the basis of the means test, the capacity of administrators to assess “need” with some degree of accuracy is an essential requirement. Poor capacity is doomed to lead to poor performance, if not to outright failure. The combination of extended households, high rates of (mainly traditional) self-employment, large informal economies, tax evasion and an institutionally weak administrative apparatus has created peculiarly infertile grounds for the establishment and consolidation of social safety nets in Southern Europe. On such grounds, it is objectively very difficult for administrators to judge the material circumstances of applicants and thus their “real” eligibility to benefits (Atkinson, 1998). Especially in Italy and Greece, fears of triggering off or exacerbating “welfare patronage” have been often evoked as politico-institutional justifications for limiting the scope of targeted schemes, except for those based on relatively straightforward categorical criteria (such as old age or physical impairment).

Highly segmented labour market regimes, dual systems of social insurance, patchy and ineffective safety nets: these were the main problematic features shared by the South European welfare states at the end of the long and “glorious phase” of post-war development. The 1980s and, more explicitly, the 1990s have however witnessed not only a growing awareness of these three problems, but also the launching of a sequence of reforms aimed at gradually “recalibrating” institutional and spending

priorities and at strengthening institutional capacities for the governance of social policies (Ferrera and Hemerijck, 2003). This recalibration process will be the object of Section III. The next Section will instead offer a closer discussion of the politics of welfare in the four countries, focussing in particular on the role played by social benefits in securing political stability, legitimacy and consensus.

II. The politics of welfare state expansion and its role in regime consolidation

As illustrated by a vast literature, the expansion of social insurance coverage and the improvement of its benefits have played an important role in stabilising European democracies since World War II⁹. On the one hand, welfare state programs have strengthened citizens' loyalty to national institutions, enhancing the latter's "bottom up" legitimacy; on the other hand, such programs have operated as "anchors" that political institutions have cast towards the various groups of civil society, thus securing their allegiance through the provision of material advantages – a top-down process of consensus building and socio-political stabilisation (Morlino, 1998). The literature on the democratisation of Southern Europe has already highlighted the importance, in general, of social policy for easing and smoothening the transition and especially for the consolidation of the new democratic regimes (Gunther, Diamandouros and Puhle, 1995; Diamandouros and Gunther 2001; Morlino, 1998). In this section we will identify some of the main forms and mechanisms through which the link between social policy and democratic consolidation has manifested itself in the four countries. Given the different mode and timing of the Italian regime change with respect to the other three, we will first deal with this case. We will then deal with Greece – which shares some common traits with Italy in terms of welfare politics – and finally with the two Iberian countries.

Italy

Democracy returned in Italy in 1945 after a national referendum, which established the Italian Republic. The new Republican Constitution entered into force in 1948. In the same year, after a heated campaign, the elections consigned the national executive to the Democrazia Cristiana (Christian Democracy or DC), which had defeated a Popular Front comprising both Communists and Socialists. Between the late 1940s and the 1980s Italy's party system has been characterised as

⁹ For a literature survey, cf. Myles and Quadagno, 2002.

a form of “polarised pluralism” (Sartori 1976; 1982), displaying not only high fragmentation (many parties), but also a wide ideological distance between left and a right. Ideological polarization made the legitimation of the new democratic regime a rather difficult and slow process. The centre of the political spectrum was occupied by the DC, which presented itself as a watchdog of Western style liberal democracy and market capitalism. The left pole was occupied by the largest communist party of the Western world (PCI) while the right pole was occupied by a fairly strong neo-fascist party (MSI). Both the PCI and the MSI were anti-system parties, i.e. they explicitly aimed at altering in fundamental ways the country’s political and economic regime. In this setting, electoral competition followed a distinct tri-polar and centrifugal logic. All three poles had an interest in playing on the pro-system vs. anti-system dimension. Sitting in the middle, the DC had an interest in expanding its votes both towards the left and towards the right, trying to capture all potentially pro-system voters. The other two poles had in their turn an interest in capturing all anti-system voters located around the extremes (lest splinter parties emerge), by means of various strategies of issue radicalisation and social mobilization. Squeezed between the DC and the PCI, the socialist party (PSI) oscillated between pro-system and anti-system stances during the 1950s, but opted for the former at the beginning of the 1960s, negotiating an organic alliance with the DC and forming the first *Centro-sinistra* (centre-left) government in 1962.

Already during the 1950s, the DC centred its strategy of electoral expansion and regime legitimation on an extensive use of public sector resources¹⁰. As many scholars of the Italian party system have underlined, the DC (especially in the period 1950-1970) can largely be seen as a “mass patronage party”, inclined to seek consensus via a web of political exchange relationships, which developed especially in the South of the country (La Palombara, 1964; Di Palma, 1977; Hine, 1993). The proliferation of social insurance schemes for various occupational categories (often micro-categories) can be seen as one side – the most visible – of mass patronage practices. There was however a second, less explicit side of such practices, which rested on individualized forms of political exchange. In order to gain votes, the DC provided its “clients” with individual benefits in a number of ways: for instance granting them job opportunities in the public sector or assisting them in obtaining a subsidy from the welfare bureaucracy. The “control” of the exchange on the side of the party mainly occurred through the system of preference votes, in ways, which were not necessarily illegal (Ancisi, 1976). The extended area of *sottogoverno* (i.e. the various spoils represented by state enterprises, public agencies of various sorts, social security funds etc.) was the main *loci* of these particularistic exchanges, and welfare benefits their privileged currency.

¹⁰ On the development of the Italian welfare state see: Ascoli (1984); Cotta and Isernia (1996); Ferrera (1986; 1993); Ferrera and Gualmini (2004); Maino (2001); Regonini (1996).

The micro-clientelistic use of the welfare state for electoral purposes was implemented in two ways (Ferrera, 1986 and 1996): 1) through the partisan penetration of the welfare administration – not only the upper end of the administrative echelon, but especially the lower end, i.e. the points of actual benefit delivery; 2) through the by-passing of the welfare administration via the creation of ad hoc bodies (e.g. “political commissions”) entrusted with discretionary powers with respect, again, to the provision of individual benefits.

Agricultural sectors in the background *Mezzogiorno* (Italy’s South) were the preferred (though not the sole) grounds of operation of such a clientelistic market. In these sectors, state subsidization was often the only opportunity to gain income and unemployed or underemployed (e.g. underground or peripheral) workers were well prepared to “sell” their votes to political entrepreneurs capable of supplying some sort of income, especially an invalidity pension. The growth of invalidity pensions in Italy during the 1960s was really spectacular, especially in the South. Their number almost trebled between 1960s and 1971 and came to overtake the number of old age pensions in 1972. The peak was reached in 1982, with 5,379 million pensions in payment (i.e. almost one invalidity pension every ten Italians). It was only in 1984 that a restrictive reform was finally introduced, with a view to preventing abuses. Even if to a lesser extent, a clientelistic market for benefits also developed in the field of unemployment insurance, especially, again, in agriculture.

The particularistic exchange of social benefits and votes was the product of a sophisticated “political machine” based on specialised structures both within the party-union network and the welfare administration network. At the party-union end, the demand for benefits (e.g. an invalidity pension or an agricultural unemployment subsidy) on the side of weak occupational figures was articulated and aggregated by the *patronati*. These were quasi-partisan and or union organs offering personal assistance to welfare applicants (such as information on opportunities and procedures; preparation of the necessary documents; urging the competent administration in case of delay; administrative and court actions in case of rejected applications etc.). At the welfare administration end, the particularistic “capture” of benefits was secured either via the connivance of the party-loyal bureaucrat or (more systematically) via the establishment of separate political committees within INPS (the main social insurance fund), entrusted with the competence to adjudicate on appeals (made by the *patronati*) against rejected applications¹¹.

¹¹ The committees were able to satisfy the increasing demand for benefits thanks to the high margins of discretion left by the law, which defined invalidity broadly as “reduced ability to gain income” rather than reduced ability to work,

It would obviously be misleading and exaggerated to interpret Italy's welfare state developments between the 1950s and the 1980s only in terms of clientelism. Important sectors of this country's welfare state operated according to modern, universalistic criteria. In the education, health care and social service sectors innovative reforms were passed in the 1960s and 1970s (e.g. the establishment of a British style National Health Service in 1978), which significantly contributed, to modernizing the political culture and social behaviours and to substantially improving living conditions. As a matter of fact, with the launch of the *Centro Sinistra* –the alliance between the DC and the PSI - a very ambitious project was elaborated, aimed at replacing the prevailing mode of regime legitimation and consensus building, based on mass patronage practices, with a new mode resting on universalistic inclusion. The project was especially ambitious in the field of pensions: but it failed to materialize, largely owing to the electoral logic of polarised pluralism. The story is very interesting and is definitely worth a brief summary.

The *Centro Sinistra* coalition was formed in 1962 and rested upon grand programmatic ambitions of welfare state reform and modernization. In the field of pensions the idea was that of introducing a universal first pillar scheme, supplemented by occupational benefits. This plan could be presented as a true “structural reform”, progressive yet Western style, i.e. capable of satisfying both the redistributive expectations of the workers' movement and of re-assuring at the same time the capitalist establishment. The universalistic option would not have harmed the already covered groups (their entitlements would remain unaltered with the interplay of first and second pillar schemes), while it would have benefited a large and politically crucial constituency of uncovered categories, ranging from self-employed to unemployed, housewives, marginal workers, small businessmen, the poor elderly etc. The pension reform could serve two purposes: strengthening the pro-system attitudes of such categories in general and linking them to the DC and to the PSI in particular through a universalistic, rather than particularistic “anchor”. Although matured in a different context, a similar reform in the Netherlands in 1956 had achieved precisely these outcomes (Ferrera, 1993; Van Kersbergen, 1995). Of course, the PCI could not be entirely excluded from the reform game: this party had huge “blackmail” power vis-à-vis the government and could prompt vast mass mobilizations against policies that it disliked. But in 1964 a softer line was emerging within the PCI, led by Giorgio Amendola: a line sincerely interested in institutional modernization and open to negotiation with the new government coalition. Thus for a moment a window of opportunity seemed really available for a sweeping pension reform along universalistic

tout court, considering “the socio-economic conditions of the area of residence”. This definition was modified in a restrictive direction in 1984.

lines: and a first move was made in 1965, with the approval of a law bearing the title of “launch of the pension reform”.

The window of opportunity closed too soon, however, for putting all the pieces together. Despite the compromising and centripetal attitudes of individual leaders such as Moro (DC), Nenni (PSI) and Amendola (PCI), the logic of inter-party competition continued to operate in a centrifugal direction during the 1960s. As a matter of fact, the formation of the *Centro-sinistra* worked to exacerbate the syndrome of polarized pluralism. After a harsh campaign entirely centred on the political significance and programmatic goals of the new coalition formula, the 1963 elections marked significant losses for both the DC and the PSI, to the advantage of the liberals (PLI) and neo-fascists (MSI) on the right and of the PCI on the left. The PSI paid a high price for its entry into the cabinet: in January 1964 a group of internal dissidents left the party and founded the “Socialist Party of Proletarian Union” (PSIUP). With its highly maximalist stance, this new party conditioned the PCI from the left: the XI party congress held in 1966 defeated the Amendola line and pushed the PCI back towards anti-system intransigence. In the same year the formation of a new Marxist-Leninist splinter party (Partito Marxista-leninista italiano) unleashed a syndrome of extremist pulverisation to the left of both the PCI and the PSIUP. The 1968 elections poured in their turn a chilly shower on the DC-PSI *entente*: not so much for the DC (which came out stronger), but for the PSI and the smaller social democrats (PSDI). These two parties had experimented with a pre-election merger, which was highly penalised by the voters. Participation in government was not delivering its promises in terms of electoral support: in fact it was revealing itself as a dead end.

These competitive dynamics worked heavily against the universalistic option in pension reform, especially owing to the strains and divisions inside the left. The gains of the PCI and the losses of the PSI at the 1963 elections alerted the latter party against communist competition, which was particularly acute within working class voters in the industrial North: a growing electoral constituency, increasingly unionised and very sensitive to the destiny of its pension contributions. After the PSIUP split, PSI leaders in government lost touch with the stronger union, the CGIL: most of this union’s cadres belonging to the socialist area adhered in fact to the PSIUP and this party did not support pension universalism, pressing instead for a rigorously “workerist” design of social insurance aimed at defending blue collar interests. The 1966 congress pushed the PCI in the same direction, advocating closer links between the party and workers in the defence of their current and deferred wages. Rather than a universalistic, two-pillar pension system, the PCI started to voice for the strengthening of the existing system, with substantial ameliorations for employees. In such a

climate, in the second half of the 1960s no actor on the left of Italy's political spectrum (not even the leftist currents of the DC) had any political interest left in pursuing a universalistic reform design. The government was not prepared, however, to accommodate the financially very demanding requests of the PCI and the CGIL. In 1968 a partial deal was struck with the other two unions, CISL and UIL. But the disappointing results of the 1968 elections (partly centred, precisely, on the pension issue) and the widespread protests and strikes on the side of workers against the 1968 reform re-opened the games. A big package deal was negotiated, "universalist" only in the sense that all participants got some spoil. The real winners were the PCI and the CGIL, which obtained the introduction for all employees of one of the most generous pension formulas ever introduced in Europe, including the option to retire after 35 years of insurance regardless of age (the infamous – with hindsight - seniority pensions). Even if excluded from the government, the PCI had demonstrated its massive "blackmail potential" vis-à-vis the social and economic policy choices of the government, thanks to its power to mobilise workers in the electoral and industrial conflict arenas. Politically, the 1969 pension reform inaugurated a new phase of all inclusive spoils-sharing system, extended to the PCI and to the trade unions (which gained an important role in the actual management of the pension funds, including grass-root decisions about disability pension applications: the political machine described above). Institutionally, the reform created a true "labyrinth" of different occupational funds, with different regulations. These funds continued to remain easily permeable to partisan manipulations and mass patronage practices. Financially, the reform created a spending engine that in the span of two decades brought pension expenditure up from 6,9 percent of GDP in 1970 to 11,8 percent in 1990 (1992=12,8%)¹². Though clearly effective in terms of consensus building, the Italian pension system –and welfare state more generally - had embarked upon a path of financial unsustainability, which was only abandoned – with socially painful reforms - in the course of the 1990s.

Greece

As in Italy, also in Greece the welfare state has been widely used for purposes of consensus building via clientelistic practices¹³. The clientelistic manipulation of social policy had already been inaugurated in the pre war period, during which many influential social groups (especially the urban free professions) were able to set up highly advantageous and state subsidized social protection

¹²Ministero del Tesoro (1981), Ministero del Lavoro e della Previdenza Sociale (2000).

¹³ On welfare state developments in Greece, see: Katrougalos (1996); Mavrogordatos (1997); Petmesidou (1991; 1996a; 1996b; 2000); Symeonidou (1996); Tsoukalas (1986).

funds (Liakos, 1997). World War II, the occupation and the civil war exacerbated the country's social and political divisions, generating a climate of marked ideological polarization (Diamandouros, 1994). Ruling elites continued to use social policies (and especially occupational pension insurance funds) as particularistic “anchors” for the selective inclusion of groups that were seen as crucial for political stability (e.g. farmers). A military regime took over in 1967 and the authoritarian spell lasted until 1974. The return of democracy ushered in a period of rapid welfare state expansion (Matsaganis, 2005): as witnessed by table 1 above, social spending more than doubled between 1974 and 1990. Institutional and quantitative expansion was particularly intense during 1981-1989, after EC accession (which was considered as a hallmark on Greece's re-established democratic stability) and under PASOK rule: as table 2 indicates, ameliorative reforms were passed almost every year, especially in the field of pensions.

In 1981 the Socialist party rose to power in the wake of a “re-aligning” election, which saw the emergence of a new social bloc consisting of employees (blue and white collars), pensioners, the petite bourgeoisie (independent farmers, artisans and shopkeepers) and the new middle classes (public sector employees, the liberal professions) (Sotiropoulos, 2004). PASOK's social policy during the 1980s closely reflected the interests of this new social bloc. One of the first measures of the new government was the raise of the statutory minimum wage by 40%, with a corresponding increase of all the various “social minima” that were indexed to it. Immediately after, the agricultural pensions were doubled and extended to women, while in 1982 a means-tested social pension was introduced for those with insufficient contributions and incomes below a certain threshold. Such redistributive policies had a high political and symbolic visibility: they were in fact presented – and largely perceived – as a “just reward” for social groups that had been kept aloof from the rapid economic progress of the 1960s and had been most hit by the high inflation of the 1970s. PASOK's program included an ambitious reform of health care along universalistic lines, aimed at offering good medical coverage to the whole population. In 1983 a “National Health Service” was officially created, based on a wide network of local health care centres: also this reform had high symbolic visibility, at least on paper.

PASOK's social reforms did open the gates of the welfare system to formerly excluded or under-protected social categories, thus bringing them closer to state institutions and enhancing their loyalty to the democratic regime. Such reforms fell however prey to traditional modes of consensus building and – as in Italy – they set the welfare state on a dangerous course towards financial bankruptcy.

Although for the Greek case the formation of Mezzogiorno-style “political machines” for the individualised exchange of social benefits for votes is not documented, most commentators agree that traditional patronage practices survived and indeed proliferated after the return of democracy and under PASOK rule¹⁴. This is especially true for invalidity pensions, which soared in the mid-1980s, often as a result of local committees taking a “broad view” on applications that failed to meet strict medical requirements (Matsaganis, 2005). In Greece, mass patronage took more explicitly the form of selective (often micro-selective) legal advantages to various components of the new social bloc that formed with the 1981 election. In the civil service, mothers were granted the rights to retire after a mere 15 years of service (a practice already experimented with, and on a grander scale, in Italy since the 1950s). Various groups of private employees were granted the status of workers in “hard and arduous occupations”, to the point that almost one half of the insured of IKA (the main social insurance schemes) came to be classified under this heading. A number of categories of self-employed obtained the establishment of very advantageous supplementary pension funds. Clientelistic fragmentation thus continued to prevail in the fields of cash transfer. In the field of health care, the 1983 reform remained largely on paper. A “veto coalition” of health professionals and occupational fund managers blocked the actual implementation of the National Health Service, perpetuating a financial and organizational status quo that allowed for extensive corruption (Mossialos and Davaki, forthcoming; Petmesidou, 2000). A strong “advocacy coalition” of insiders (economically and politically) made sure, in other words, that the massive expansion of public resources for social policy would produce “concentrated benefits” for each constituent of such coalition, at widely distributed or even hidden costs for the Greek economy: in the early 1990s public debt had soared to 125%, in a political syndrome sharing many common traits that were experienced by Italy in the same period.

Portugal

The Portuguese transition to democracy was very different from that of the other three South European countries¹⁵. The authoritarian regime collapsed suddenly on April 25, 1974, with a *coup d'état* accomplished by the Movement of the Armed Forces (MFA) led by general Antonio de Spínola. A *Junta* of National Salvation was formed and a very turbulent political period began,

¹⁴ Cf the references quoted in note 12 above and especially Petmesidou, 1991 and Mavrogordatos, 1997

¹⁵ On the development of Portuguese welfare state see: Guibentif (1997); Guillen, A.M., S. Alvarez and P. Adao e Silva (2001), Mozzicafreddo (1997).

which included a second attempted *coup* on the side of the most radical components of the *Junta* in November 1975. The coup failed, and with it the project of turning Portugal into a Soviet-style communist regime. But ideological juxtapositions and political instability remained high and it took several years for democracy to actually consolidate. In 1976 a new Constitution was adopted, establishing representative institutions, but under the tutelage of a Revolutionary Council comprising top military cadres. This body was eliminated in 1982, through a Constitutional revision, which marked the end of the transition and the beginning of a new phase of fully, fledged representative democracy (Bruneau and Maclead, 1986).

The period between the revolution of April 1974 and the 1982 Constitutional revision witnessed a veritable “big bang” in terms of social policy developments. In 1974 and 1975 minimum pensions were doubled and a ceiling was posed on higher benefits; non-contributory benefits were introduced for old age and disability; unemployment subsidies were introduced for all wage-earners and the coverage gaps of agricultural labourers were filled. The 1976 Constitution included two articles (no. 63 and 64) offering extremely ambitious and universal guarantees in the field of social insurance, health care and social assistance. In 1979 the National Health Service was legislated into existence. By 1980 social spending had almost doubled compared to 1970. This rapid expansionary phase can partly be explained as a reaction to the social conservatism of the Caetano regime: at the Revolution’s eve, the Portuguese welfare state was indeed in a state of marked underdevelopment. But the “big bang” was also the result of high political turbulence, rapid and intense social mobilisation, ideological maximalism, organisational and financial chaos. The Revolution opened the gates of the state and prompted a rapid process of institutional disarticulation and fiscal profligacy. It is also true, however, that given the economic crisis following the Revolution, the extension and improvement of social benefits provided an economic safety net serving important purposes of basic social integration – an essential condition for the successful completion of democratic consolidation.

After the 1983 general elections a new political coalition called *Bloco Central* rose to power, bringing together the centre-left Socialist Party (PS) and the centre-right Social Democratic Party (PSD). The two fundamental (and interconnected) objectives of the new government were economic and fiscal stabilisation, on the one hand, and EC accession on the other hand. A new policy of budgetary austerity was inaugurated, which lasted until 1986, when Portugal was finally

admitted into the EC¹⁶. During this period the level of social expenditure per capita fell slightly. But social policy remained at the centre of Portuguese politics and continued to serve important legitimisation functions in at least two ways. In the first place the *Bloco* government maintained the momentum of welfare state building in institutional terms: in 1984 a comprehensive Basic Law for social security was passed, which re-designed in a more rational and orderly fashion the whole system, creating three distinct spheres: contributory schemes, non-contributory schemes and “social action” programs (i.e. social assistance and services). In the second place, the government made explicit efforts to involve the trade unions in economic and social policy making, experimenting with forms of neo-corporatist concertation (Mozzicafreddo, 1997). In 1984 a Permanent Council for Social Dialogue was set up, in which all social partners were given a seat. The Communist trade union (CGTP) initially refused to occupy its place – a refusal that slowed down the institutionalisation of the new body and its effectiveness in terms of policy making and consensus building. But the creation of the Council and the first rounds of social dialogue did help in legitimising the austerity package of the *Bloco* executives. The first tripartite social pacts between the government, the unions and the employers were signed in 1986. After EC accession, a new expansionary phase begun, also in the wake of the inflow of cohesion funds from Brussels. It is estimated that the latter gave an impulse to economic growth equal to an average of 2.6% per year between 1989 and 1993 (1.5% in Spain). In 1989 the percentage of fixed gross capital formation due to the structural funds was equal to 7.7% (2.9% in Spain) (EC 1993). Between 1986 and 1995 (Cavaco Silva’s government: the epoch of *cavaquismo*) social expenditure per capita grew from 32.4% of the EU average to 47.6% .

As this brief outline shows, Portuguese developments followed a rather different trajectory in respect to both Italy and Greece. The transition originated initially a syndrome of “hyper-inflation” of new social entitlements, in a context of high ideological radicalisation and fiscal irresponsibility. After 1982, an almost specular syndrome of “containment” developed itself, which cooled down popular expectations and demands for social protection and posed the basis for a new and more balanced *reprise* after EC accession. Although the literature has highlighted the occurrence of patronage and spoil sharing practices within Portugal’s public sector on the side of political parties and local notables (Lopes, 1997), these practices do not seem to have affected specifically the welfare state as in Italy and in Greece. Moreover, contrary to the latter two countries, Portugal was able to enter the “Maastricht decade” in a much better shape from the fiscal point of view: not a bad performance, given the unpromising post-revolutionary start.

¹⁶ In 1985 the *Bloco Central* fell apart and a new minority executive led by the PSD leader Cavaco Silva was formed. The PSD won an absolute majority in 1987 and then ruled until 1995.

Spain's democratic transition during the 1970s proceeded smoothly and at a low speed, without the outbreak of major social or political turbulences. The authoritarian regime came to an end with the death of Franco in November 1975. During the first half of the 1970s, Franco had already made some steps towards forms of socio-economic pluralism, for example allowing for the establishment of informal collective bargaining in industrial relations. The transition to representative democracy was characterized by a highly consensual style and rested on a number of political and social "pacts" that defined the basic institutional framework of the new democratic regime through widespread and open negotiation. The new Constitution was adopted in 1978. Its text explicitly mentioned a number of universal social rights and recognized significant powers to the autonomous communities in health care and social assistance.

Gradualism and consensualism characterised also the institutional reform of the welfare system and its politics. Social insurance had been broadly re-organised in 1972 and in 1974 the pension system had been substantially improved. Both reforms had been accompanied by a relatively broad debate. With the advent of democracy, this debate rapidly widened in terms of participants and articulated itself in terms of diagnoses and proposals. In 1976 and 1977 there was a true proliferation of publications on social protection. While the general orientation of this new phase of debate was towards expansion and improvement – in order to "catch up with Europe" – a number of different positions emerged on various issues: e.g. universalism vs. professionalism, centre-periphery relations, public vs. private management etc. (Guillen, 1992 and 1996).

The unions and the left parties were strongly in favour of a rapid expansion and universalisation of social protection, along Scandinavian lines¹⁸. The employers and right wing parties advocated an incorporation of private initiative in the management of the system and insisted on the need to streamline public finances and the tax system as a pre-condition for any concrete reform. The

¹⁷ On the development of the Spanish welfare state, see: Guillén (1997; 2002),; Guillen, Alvarez and Adao e Silva (2001); Moreno (2000).

¹⁸ The Communist party and the *Comisiones Obreras* (the Communist trade union) were however more in favour of reforms that immediately improved the position of workers, rather than all citizens.

government –controlled by the centrist UCD party – kept social policy high in its agenda, but was both cautious and vague in formulating actual proposals. The Moncloa pact of 1977 did include the amelioration of social insurance and the consolidation of a progressive tax system among its policy priorities but it also promised to keep employer contributions under control. Consensus building in the field of social protection was painstakingly low during the transition also owing to the demands of self-determination (especially in fiscal and welfare affairs) on the side of the “historical nationalities” and the difficult negotiations on the relationships between the central state and the autonomous communities.

Debating, negotiating and “pacting” did not result in significant departures from the institutional status quo inherited by Francoism. The economic crisis of the late 1970s posed in its turn additional constraints on reformist ambitions. A major organisational reform was however adopted in 1978. The old Institute for Social Provision (INP) created by Franco was dismantled and four separate institutes were set up in its place: INSALUD for health care, INSS for pensions and other temporary cash transfers, INSERSO for social services and INEM per unemployment benefits and policies. The establishment of the latter institute was particularly important from a symbolic point of view, given the mounting employment problems of the country. The social partners were programmatically included in the governance of the new bodies. In 1981 the National Employment Agreement (ANE) strengthened union participation in the management of social security institutions.

Despite institutional continuity, the 1975-1982 period witnessed a significant quantitative expansion of social benefits. According to Guillen, “the number of pensioners rose by 31.6% between 1976 and 1982, while the contributors only increased by 0.04%. Such a high increase was only partly due to the expansion in the amount of retirement pensions (16.5%); the upward trend in disability pensions was much more significant, amounting to an increase of 42.2 %. The latter figure may be explained by the use of disability pensions as a substitute for unemployment insurance” (Guillen, 1992, p. 130). In 1981 social expenditure was one and a half higher than in 1975 (Guillen, 1996).

In 1982 a new phase begun for the Spanish welfare state. The PSOE won an absolute majority at the elections and then won again in 1986 and in 1989, governing for 14 consecutive years. It thus gained the opportunity of implementing its modernizing and universalising ambitions in social protection. But the economic context did not favour expansionist reforms –at least initially. Though in a better shape than its Portuguese counterpart, the Spanish economy was in crisis – as regards

both production and employment- and the new government had to adopt an austerity approach, also with a view to joining the EC. In 1983-84 a number of measures (e.g. temporary contracts) were introduced with the aim of flexibilising the labour market and in 1985 a restrictive reform was passed in the field of pensions. These provisions posed an end to the “historical brotherhood” between the UGT and the PSOE and to neo-corporatist pacts.

The second half of the 1980s witnessed a change of climate and a wave of expansionist reforms. The economy improved, EC accession brought a significant inflow of cohesion funds. During their second legislative term, the Socialists could thus implement much their modernizing and universalising project. In 1986 the National health Services was established. Between 1988 and 1991 some measures improved pensions (including the introduction of non contributory benefits), family allowances and unemployment subsidies. Powers in the field of social services and assistance were devolved to regional governments, prompting a process of decentralized innovations and improvements (Moreno, 2001). Even though labour market conditions continued to be rather problematic (due to high unemployment rates), the second half of the 1980s and the early 1990s were the heyday of the post-authoritarian welfare state: a sort of belated and compressed “golden” phase, in which Spanish GDP per capita grew from 69.7% of the EU average in 1985 to 79.8% in 1993 and social spending per capita grew from 54.3% of the EU average to 66.2% (Guillen et al, 2001).

There can be little doubt about the role which social protection played in sustaining Spain’s democratic transition and consolidation and in the overall modernization of this country between the death of Franco and the early 1990s. As in Portugal (though with a different timing), social pacts were important instruments for both consensus building and policy-making. Initially very contentious, the issue of the division of powers between the central government and the meso-governments – especially those of the historical nationalities, such as Catalonia or the Basque Country- gradually found a viable settlement, allowing all actors to keep a slice of the social protection pie and thus to take advantage of its legitimacy-generating potential.

It must be noted that the rapid and massive expansion of social benefits has produced also in Spain some incentives (and offered material resources) for the formation of clientelistic channels of consensus building and political exchange, especially in agriculture and in the less developed regions. During the 1980s patronage-based circuits developed for the delivery of subsidies in exchange for deferent votes, involving party and union notables at the local levels (Cazorla, 1992

and 1994). Though on a much smaller scale than in Italy, the “spectre of neo-clientelism” (Perez Diaz, 1994) made its appearance during the Spanish *dix glorieuses* (i.e. the 1980), building on a historical residue of cultural and institutional predispositions. In the course of the 1990s, the opportunities for patronage practices linked to the design of specific programs were gradually closed, in the context of an overall financial and institutional adjustment of the Spanish welfare state that started after 1993.

III. Welfare state recalibration in Southern Europe

In the wake of the developmental trajectory illustrated in the previous sections, South European social protection entered the 1990 in a state of still incomplete institutional maturation and laden with internal imbalances, of both a functional and a distributive nature. Social transfer systems displayed an institutional bias in favour of old age protection, to the detriment of other life-course risks (and typically of the needs linked to family and “care” needs, as well as active labour market policies: cf. Table 4 below). From a distributive viewpoint, Southern welfare was in turn characterized by peaks of generosity (at least in terms of legal formulas) for certain occupational groups (“core” industrial employees and civil servants) and gaps of protection for certain others (e.g. irregular workers, workers located in small enterprises, workless households in general). “Insiders” and “outsiders” were still separated by a sharp divide in terms of guarantees and opportunities – in some cases with a middling group of semi-peripheral workers bouncing between the inside and the outside (Moreno, 2000; Perez Diaz and Rodriguez, 1994). The black economy was still very extended in these countries, posing serious efficiency and equity problems. Public services were rather unevenly distributed and in some cases insufficient and/or inefficient. It must be noted that the “calibration” problems of Southern Europe were aggravated by pronounced territorial disparities – with the south of the South displaying a situation of cumulative disadvantage.

The most natural and politically simplest way out of this syndrome would have been to complete the developmental parabola, gradually ironing out the internal imbalances with more institutional and quantitative growth. But this option was made more difficult in the early 1990s by exogenous constraints (especially the prospect of EMU). In 1993 – when the Maastricht Treaty came into force, envisaging a GDP/deficit ratio of 3% as a maximum by 1998- public deficit was 7.1% in

Portugal, 7.3% in Spain, 9.5% in Italy and 16.3 in Greece (EU average = 6%) . South European countries were thus forced to tread on the politically perilous grounds of internal restructuring: less generous benefits for insiders in order to cut down debts and deficits and – to the extent that budgetary constraints allowed – in order to finance new benefits and services for the outsiders. Southern Europe is definitely the geo-social context for which the metaphor of “recalibration” – recently suggested by the literature (Ferrera, Hemerijck and Rhodes, 2000; Ferrera and Hemerijck, 2003)¹⁹ - seems most appropriate. To a large extent this is also the context where this metaphor has served as an explicit reference point for policy reform: both per se and in connection with the wider goal of “catching up” with the other member states – perceived, precisely, as possessing a more balanced and solid array of social programs (Guillen, Alvarez and Adao e Silva 2001; Guillen and Matsaganis 2000).

Given starting conditions, promoting the recalibration of Southern welfare has not been an easy operation. The inherent difficulty of this operation has been aggravated not only by EMU’s *marche forcé* and the increasing winds of “globalisation” but also by a particularly adverse demography. South European populations (especially those of Italy and Spain) are ageing at one of the fastest speeds in the world (Castles, 2001). Yet despite such difficulties a rather ambitious agenda was pursued in the four countries during the last decade, centred on the following ingredients: attenuation of generous guarantees for historically privileged occupational groups, accompanied by an improvement of minimum or “social” benefits; introduction and consolidation of the so-called safety net, especially through means-tested minimum income schemes; the expansion and amelioration of family benefits and social services –with explicit attention to gender equality and equity issues; measures against the black economy and tax evasion; the reform of labour market legislation with a view to promoting de-segmentation and modification of unemployment insurance benefits. Another distinctive element of South European recalibration has been politico-institutional: additional competencies have been assigned to regions and local governments (especially in the fields of health and social services and especially in Spain and Italy) and novel concertative approaches have been experimented with (at the national, but also sub-national levels: e.g. territorial pacts), promoting the involvement of social actors in the process of policy formulation and the formation of mixed partnerships in processes of policy implementation (Rhodes, 2003)

¹⁹ This notion refers to institutional reforms deliberately aimed at shifting the weight and emphasis among the various instruments and objectives of social policy, with a view to better responding to new risks and to adequately the most vulnerable social groups, while scaling down the most generous benefits for insider groups.

Italy can be regarded as an almost emblematic case of multi-dimensional recalibration since the early 1990s (Ferrera and Gamine 2000). Functionally, this country strove to halt the expansion of its hypertrophic pension system, with a view to “restoring to health” its battered public budget in the new post-Maastricht framework and to make room at the same time for some upgrading in the underdeveloped areas of family policy and social assistance. Pensions were reformed in 1992 and then again in 1995, 1997 and 2004 (cf. table 3). The so-called Dini reform of 1995 completely changed the pension formula, linking it closely to contributions in a quasi-actuarial fashion. This reform was reached through a compromise between the Dini government and the trade unions that actively contributed to outlining the technical contents of the law. If we exclude the brief parenthesis of the first Berlusconi government (1994), the 1990s were characterized by close concertation between the various governments and the unions, with two official social pacts signed in 1993 and in 1998 (Ferrera and Gualmini, 2004). Between 1998 and 2000 family benefits were improved and a broad reform of social services and assistance was passed by the Amato government in 2000, establishing an “integrated system of social services and interventions” and introducing - among other things - a minimum income guarantee against extreme poverty²⁰.

From a distributive point of view, the reforms of the 1990s worked in the direction of levelling off social rights and obligations (e.g. contributory rates) across the various occupational groups. Within the pension system, for example, the privilege enjoyed by civil servants to retire after only 20 years of service regardless of age (which had created a mass of “baby pensioners” since the 1960s) was phased out by the 1995 and 1997 reforms; on the other hand, pension rights were accorded to atypical workers, and lower pensions were repeatedly upgraded – most recently through the 2002 budget law passed by the Berlusconi government. Outside the field of pensions, some traditional gaps in social coverage were eventually filled (e.g. the introduction of means-tested maternity benefits for uninsured mothers, accompanied by a thoroughgoing reform of parental leave), and new schemes were created for poor households (e.g. a means-tested allowance for families with three children or more, as well as the experimentation with the RMI). Despite the efforts of the subsequent centre-left “*Ulivo*” governments (1996-2001), little progress was made in de-segmenting the Italian labour market: the rigid labour norms protecting the employed were only marginally relaxed and the baroque system of “social shock absorbers” (i.e. the panoply of wage

²⁰ The new scheme is called *reddito minimo d’inserimento*-RMI (minimum insertion income) and is largely modelled on the French RMI analogue. The Italian scheme was introduced in 1998 as a pilot experiment in a number of local municipalities and was subsequently extended to a larger sample in 2000. The Berlusconi government has announced that the scheme will not be generalized and seems to be oriented towards the establishment of a non binding framework of regional minimum income schemes (Sacchi and Bastagli, 2005).

guarantee and unemployment compensation schemes) was not reformed. In the winter of 2001 the Berlusconi government asked to Parliament a broad mandate to proceed on both fronts, but no

Greece	Italy	Portugal	Spain
<p>1990</p> <ul style="list-style-type: none"> -Pensions indexed to projected inflation rate only -<u>Public sector</u>: tightening of eligibility conditions for old age pensions; benefits reduction through modification of the pension formula; introduction of employees' contributions -<u>Private sector</u>: extension of the period to assess reference earnings (last 5 years); lengthening of the minimum contributory period; raised contribution rate. <p>1992</p> <ul style="list-style-type: none"> -Harmonization of contribution rates -Gradual homogenization of retirement age between schemes -Equal retirement age for men and women (new entrants in the labor market) -Reduction of replacement rate (60%) for pensions in IKA, for new entrants in the labor market -Introduction of a public contribution (10%) for new entrants in the labor market <p>1999</p> <ul style="list-style-type: none"> -Increase of the generosity of minimum pensions -Cumulability of pensions with income from work -Unification of funds for self-employed workers <p>2002</p> <ul style="list-style-type: none"> -Regulatory framework for supplementary (funded) pensions -Introduction of a single replacement rate (70% of reference earnings) for public and private employees -Incentives for postponement of retirement -State share of financing fixed at 1% GDP 	<p>1992</p> <ul style="list-style-type: none"> - Extension of the period for assessing earnings (last 10 years – whole career for new entrants in the labor market) -Raised retirement age: 65 men; 60 women -Lengthening of minimum contributory period for old age pensions (20 years) -Extension of contributory period for seniority pensions in the public sector (35 years) -Regulatory framework for supplementary pensions, with tax incentives plus possibility to use the Tfr. <p>1995</p> <ul style="list-style-type: none"> -“Notional Defined Contribution” (NDC) system phased-in with a long transition period -Flexible retirement age (57-65) -Reduction of minimum contributory period for old age pensions (5 years) -Gradual phasing-out of seniority pensions -Introduction of contributory credits for care activities -Creation of a new scheme for “atypical workers” -Revision of the regulatory framework for supplementary pensions; more generous tax incentives <p>1997</p> <ul style="list-style-type: none"> -Tightening and harmonization of eligibility conditions for seniority pensions -Partial cumulability between pensions and income from work restored -Raised social pensions <p>2004</p> <ul style="list-style-type: none"> -Incentives for postponement of retirement (till 2007) -(Starting from 2008) Raised and fixed retirement age in the new NDC system: 65 years -Tightening of eligibility conditions for seniority pensions -New incentives for the development of the second pillar 	<p>1993</p> <ul style="list-style-type: none"> -Extension of the period for assessing earnings (best 10 years over the last 15) for new entrants in the labor market <p>1998</p> <ul style="list-style-type: none"> -Introduction of minimum pensions for both private and public employees <p>1999</p> <ul style="list-style-type: none"> -Introduction of flexible retirement; penalties for early retirement, incentives for postponement of retirement -Possibility of partial retirement -Creation of a public reserve fund <p>2000</p> <ul style="list-style-type: none"> - Extension of the period for assessing earnings - whole career - for new entrants in the labor market -Tightening of eligibility conditions for old age pensions: retirement age at 65 years for men and women -Regulatory framework for supplementary occupational pensions with tax incentives <p>2002</p> <ul style="list-style-type: none"> -Gradual increase of the level of minimum pensions -Revision of regulatory framework for supplementary pensions 	<p>1995</p> <p>“Toledo Pact”</p> <p>1997</p> <ul style="list-style-type: none"> -Extension of the period for assessing earnings (last 15 years) -Modification of accrual rate to achieve a greater proportionality between contribution and benefits -Gradual harmonization of contribution rates between the different schemes -Merging of special regimes into a single regime by 2001 -Creation of a public reserve fund -Gradual separation of financing sources for contributory and non-contributory benefits -Benefits adjustment to real inflation rate if the latter is higher than projected one -Reduction of penalties for early retirement (over 40 years of contributions) -More generous survivors and orphans' pensions <p>2000</p> <ul style="list-style-type: none"> -Increased level of basic pensions <p>2002</p> <ul style="list-style-type: none"> -Incentives for gradual and flexible retirement

actual reform has followed so far (2004).

Table 3. Pension reforms in Southern Europe since 1990

Source: *Elaboration by the author*

The reforms of the 1990s have sculptured a new organizational profile to the Italian welfare state – especially in the field of pensions, health care, active labour market policies, social services and assistance. Between 1997 and 2001 substantial powers were transferred from the central government to the regions (and from these to municipalities). While creating numerous problems of implementation and giving rise to new risks of inter-territorial inequities, this process of quasi-federalization of important sectors of Italy’s social protection system constitutes a far-reaching experiment in politico-institutional recalibration. In the spheres of active labour market policies and social assistance, such recalibration implies not only a movement from the national to the sub-national levels of governments, but also the establishment of direct links between the sub-national levels and the EU’s coordinated strategies on employment and social inclusion.

Finally, this sequence of reforms was accompanied by the appearance of a novel discourse on the current state and future prospects of the Italian social protection system. This new discourse contained an articulated diagnosis of the traditional imbalances of the status quo and put forward a range of possible courses of remedial action, explicitly building on various notions of “social equity”, “inter-generational justice”, “gender equality”, “productive efficiency”, “economic compatibilities”, “subsidiarity” (vertical and horizontal) and so on. The ideas that the Italian welfare state ought to give “more to children, less to fathers” (Rossi 1997), that it should be aimed less at “indemnifying” than at “promoting” people’s opportunities, and that more autonomy should be given to the local level became the object of a dense calendar of public discussions and events (from TV shows to party congresses). Measured against an historical background of harsh ideological confrontations between opposing visions of the world (“communism” vs. “capitalism”), the new argumentative climate of the late 1990s can be undoubtedly taken as a clear indicator of a significant “normative” recalibration, that is a process of collective redefinition of the nature and role of Italy’s *stato sociale* in a changed economic context – especially in the wake of European integration.

European integration played a prominent role in prompting recalibrating reforms also in the Iberian countries (Guillen, Alvarez and Adao e Silva 2001). In their effort to join EMU by 1998, both Portugal and Spain engaged in restrictive pension reforms (cf. table 3). Like Italy, however, they also proceeded during the 1990s to improve minimum benefits: in the field of old age, of family

allowances and of the basic safety net. As regards the latter, in Spain all the regions introduced their own RMI schemes, embarking on a path originally opened by the Basque country in 1989 (Arriba and Moreno, 2005). Portugal introduced in turn a pilot national minimum income scheme in 1996, which was generalized in 1997 (Capucha et al., 2005).

In Spain the 1997 pension reform was the result of a broad process of negotiation and consensus-building. The process started with the preparation of an articulated report on social insurance reform in 1995, which was accepted by the main political parties with the “Toledo pact” and then adopted by Parliament. The report envisaged a clearer separation of contributory and non-contributory benefits, as a result of which universal health and social services as well as means-tested social assistance were to be fully financed out of general taxation, while a reserve fund was to be set up within the contributory regime to strengthen its future viability. The provisions of the Toledo Pact were agreed upon by the social partners in the course of 1996 and in 1997 the pension reform was finally adopted (table 3).

During the 1990s Spain witnessed – like Italy- a thoroughgoing process of decentralization of competencies in health care and social services from the central government to the regions. But the major challenge that this country had to confront during that decade was labour market reform, in order to reduce the remarkably high levels of unemployment. Several measures were introduced with this objective in mind by the Socialist government up to 1996 and by the Conservatives thereafter: the introduction of flexible forms of contract, the rationalization of unemployment benefits, new programs and incentives to reconcile family responsibility and work (and thus gender equality), various activation measures, and a broad reform of employment services. Compared to Italy, Spain has made more progress in terms of labour market de-segmentation: in 1997 and again in 2001 labour laws were changed, relaxing the protection of “core” employees and improving both the social security rights of irregular/temporary workers and their opportunities to access the regular labour market. These reforms were introduced by the new conservative government, which was voted into office in 1996. Though initially opposed to the reforms, the unions adopted a negotiational rather than an antagonistic stance: they were aware of the weakness of the Left, which was affected by internal divisions and by the corruption scandals of the time (Gutierrez and Guillen, 2000). As a result of these new labour policies, Spain’s employment performance has undoubtedly improved: unemployment fell from 24 per cent in 1994 to 13 per cent in 2001.

In contrast to Spain (and many other European countries) Portugal's employment performance remained remarkably good. In 1999 this country registered one of the highest employment rates in the EU (including a surprisingly high female employment rate of 59 per cent) and an unemployment rate of only 4.5 per cent. While the superior employment performance of the Portuguese labour market in the European context is connected with certain characteristics of this country's economic structure and political history²¹, its low unemployment rates during the 1990s are instead linked to specific policy choices – especially with the advent of the new Socialist government in 1995. The modernization of social protection was a prime objective of the new government, which placed particular emphasis on active labour market measures and, more generally, social inclusion policy (Cabral Villaverde, 2000; Guillen, Alvarez and Adao e Silva, 2001). Unemployment insurance was broadly reformed, occupational training and insertion programs were expanded and specific incentives were deployed in order to promote a “social market for employment”, based on insertion enterprises and local initiatives targeted on the most vulnerable groups of workers. In 1996, an innovative “social pact for solidarity” was signed between the government and the associations of municipalities, charities and mutualities, with a view to mobilizing local potentials for employment creation. In the wake of this pact, a national scheme of guaranteed minimum income was introduced in 1997 – the first of this kind to be introduced in Southern Europe (Capucha et al., 2005). With its explicit reference – in official policy statements and public debates - to the principles of solidarity, social inclusion, but also to the fight against frauds and abuses on the one hand (especially in the field of sick pay) and to the need to rationalize pension protection, on the other, the Portuguese reforms of the 1990s can be interpreted as an interesting case of normative redefinition of the tasks and priorities of this country's social policy.

While Italy and the Iberian countries have clearly made significant steps forward in recalibrating their welfare systems, Greece has definitely lagged behind (Guillen and Mastaganis, 2000). The 1990s did witness in this country some movements towards reform in many sectors and a gradual re-orientation of the overall discourse on social policy, reflecting the new EU guidelines and recommendations. But the pace of institutional innovation has been very slow. The hyper-fragmented character of Greek society and its mechanism of interest representation have posed insurmountable obstacles to the formation of adequate social and political consensus about reforms:

²¹ As a consequence of the colonial wars, which kept large numbers of men away from home serving as soldiers, Portuguese women were used to participating in the labor market already in the 1960s and 1970s. In the mid-1970s, at the collapse of the authoritarian regime, the female employment rate was 48.2% (EU average=44.5%; Spain=31.5%; Italy=30.7%; Greece=33.6%). Female employment was (and still largely is) concentrated in agriculture (which absorbed in 1999 more than 15% of total female employment), traditional industrial sectors (e.g. textiles, often resorting to forms of subcontracted home work) and domestic services (data taken from EC, 1999).

as noted by Petmesidou and Mossialos, in comparison to the other South European countries no platform of social concertation for reform emerged in Greece during the 1990s, owing to the weakness of state institutions, on the one hand, and to the extended veto powers detained by a great number of sectional interests (Petmesidou and Mossialos, 2005). The government did intervene more than once on the pension front, with a view to recalibrating an internally polarized and financially unsustainable system (see table 3). But none of these interventions has been able to effectively tackle the roots of the Greek pension crisis (Matsaganis, 2004): pension expenditure projections for Greece are the gloomiest of the whole EU. On the other hand, the efforts to strengthen the safety net, with a view to filling its relatively wide the coverage gaps have not resulted in any substantial reform (Matsaganis, 2005). Most of the items on the Greek-specific recalibration agenda still remain to be implemented.

The

Table 4 Social expenditure 1993-2001, selected functions

	Old age & survivors			Family			Active labour market policies			Social Exclusion		
	<i>1993</i>	<i>1997</i>	<i>2001</i>	<i>1993</i>	<i>1997</i>	<i>2001</i>	<i>1993</i>	<i>1997</i>	<i>2001</i>	<i>1993</i>	<i>1997</i>	<i>2001</i>
Denmark	8,8	9,1	8,3	3,7	3,7	3,8	1,7	1,7	1,5	1,2	1,2	1,1
Finland	10,3	9,3	8,9	4,0	3,6	3,0	1,7	1,5	0,9	0,7	0,7	0,5
Sweden	11,6	10,5	9,8	4,4	3,2	2,9	2,9	2,0	1,4	1,2	0,9	0,7
Ireland	5,4	4,0	3,5	1,7	1,9	1,6	1,4	1,3	0,7	0,3	0,3	0,3
UK	9,0	8,8	8,7	2,4	2,3	2,2	0,6	0,4	0,3	0,3	0,2	0,2
Austria	13,1	13,4	13,4	3,1	2,9	2,9	0,3	0,5	0,5	0,4	0,3	0,5
Belgium	11,8	11,4	11,3	2,4	2,4	2,3	1,2	1,2	1,3	0,6	0,4	0,4
France	12,1	12,5	12,1	2,9	3,1	2,8	1,2	1,3	1,3	0,3	0,4	0,4
Germany	11,1	11,8	12,1	2,1	1,9	1,9	1,5	1,1	1,1	0,5	0,6	0,5
Luxembourg	10,1	9,6	8,1	2,7	2,8	3,4	0,2	0,3	0,1	0,2	0,2	0,2
Netherlands	8,9	7,9	7,0	1,5	1,3	1,1	1,3	1,3	1,5	0,7	1,3	1,4
Greece	11,1	11,8	13,6	1,7	1,8	1,8	0,3	0,3	0,2	0,3	0,3	0,6
Italy	13,6	14,1	13,9	0,8	0,9	1,0	0,1	0,4	0,5	0,0	0,0	0,0
Portugal	6,9	8,2	9,4	1,0	1,0	1,2	0,8	0,7	0,6	0,1	0,1	0,3
Spain	9,2	9,4	8,9	0,4	0,5	0,5	0,5	0,5	0,8	0,1	0,2	0,1
EU-15	10,2	10,1	9,9	2,3	2,2	2,2	1,1	1,0	0,9	0,4	0,4	0,4

Elaboration by the author from OECD (2004) (Eurostat for social exclusion)

IV. Conclusions

As was said in the Introduction, during the second half of the XX century the four nations of Southern Europe have gradually “caught up” with the more advanced European countries and are now fully part of the group of rich and stable democracies. Italy pioneered developments, consolidating the new, post-fascist democratic regime by the end of the 1940s and then inaugurating in the 1950s a process of rapid economic growth, accompanied by an equally rapid expansion of the welfare state. In Portugal, Spain and Greece democracy consolidated in the late 1970s and the process of welfare state expansion took off later and in a highly compressed time. Total social expenditure, as a percentage of GDP, is still somewhat lower than the EU average in all four countries: but the distance has been gradually declining.

Welfare state building has followed a distinct path in Southern Europe. In section I we have tried to capture this through the metaphors of “weak fordism”, “dualistic social insurance” and “faulty and fragmented safety nets”. From a political point of view, welfare state expansion has undoubtedly played an important role in “anchoring” the democratic regime, in fostering increasing levels of legitimacy and civic cohesion. In certain historical moments, policy sectors and territorial areas, social benefits have however fallen prey of forms of clientelistic manipulations and have at times prompted dynamics of fiscal irresponsibility.

The 1990 witnessed in all four countries substantial efforts to streamline and further modernize the welfare state, under the increasingly constraining spurs of European integration. Through various institutional reforms- often directly negotiated with the social partners- the South European welfare states have embarked upon a process of incisive recalibration of their policy instruments and budgets, with a view to achieving more efficient and equitable labour markets, more sustainable and internally more homogeneous social insurance systems and a more effective and inclusive safety net.

To what extent are developments in Southern Europe and recent innovations relevant for other regions of the world? A debate has recently started on the potential relevance of the experience of Portugal, Spain, Italy and Greece for Eastern and in particular South Eastern European countries. As argued for example by Sotiropoulos (2005) there are a number of features that make a comparison between the two groups of nations worth pursuing – especially if one looks at the “South of the East”, i.e. countries such as Rumania, Bulgaria, Albania, Croatia and Macedonia.

Four elements stand out in particular in these countries: 1) the high incidence of agriculture and the ensuing presence of a pronounced urban-rural divide; 2) a widespread informal economy and concomitant tax evasion, which produce a skewed (and highly opaque) income distribution and high rates of “false positives” in social assistance programmes (i.e. the inclusion of non-poor people in poverty alleviation schemes); 3) the persistence of extended and traditional forms of households, with all the ensuing implications in terms of gender; 4) limited administrative capacity, both on the revenue side (low capacity to raise taxes) and on the spending side (low capacity to manage means-tested schemes).

Based on these elements, it could be suggested that South Eastern countries are very likely to embark (if they have not already done so) upon a path to welfare state building which will bear many resemblances with that followed in the past by Greece, Italy, Spain and Portugal (probably in this order). The labour market, social insurance and social assistance systems of these countries have high probabilities of evolving towards the segmented, functionally and distributionally unbalanced conditions displayed by South European countries between the 1970s and early 1980s – with the additional challenge of much more disadvantaged starting conditions and a much more turbulent international economic environment. As pointed out, again, by Sotiropoulos (2005), symptoms of the insider-outsider cleavage, of relatively generous social guarantees for the former and macroscopic gaps of coverage for the latter are already clearly visible in South Eastern Europe.

Can Southern Europe “teach” anything to her poorer Eastern neighbours? Policy transfer is a tricky institutional operation and it seldom works. There are however weaker forms of cross national policy links that might play a positive “bridging” role between the South West and the South East of Europe: let us think of “benchmarking”, of initiatives for studying and taking inspiration from good practices (but also from other countries’ failures), initiatives for promoting the formation of expert and more generally epistemic communities that can facilitate and channel innovation from one national context to the next. On these fronts there is much that could be done or at least experimented with – including loose forms of “open coordination”.

Southern Europe is not used to considering itself as a social policy “model”: but, as the third section of this paper has suggested, some promising lights have started to glow in the South during the last fifteen years. And besides, everything is relative, including social policy models. For Eastern European reformers in search for ideas and inspiration, the Greek, Italian and Iberian experiences are the most obvious and probably a very most promising point of reference.

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