BETWEEN NEO-LIBERALISM AND NO LIBERALISM:

PROGRESSIVE APPROACHES TO ECONOMIC LIBERALIZATION

IN WESTERN EUROPE

by

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BETWEEN NEO-LIBERALISM AND NO LIBERALISM: PROGRESSIVE APPROACHES TO ECONOMIC LIBERALIZATION IN WESTERN EUROPE[i]

In the literature of comparative politics, political economy, and globalization, progressive policy is typically portrayed as an *alternative* to economic liberalization: social democracy as an alternative to neo-liberalism (Garrett 1998); a social investment strategy as an alternative to neo-liberal austerity (Boix 1998); a coordinated market economy as an alternative to a liberal market economy (Hall and Soskice 2001). Progressive approaches enable governments to *avoid* economic liberalization. It is by avoiding liberalization that progressive governments are able to project sovereignty and give expression to their political values.[ii]

I believe that this dichotomous vision rests on a limited conception of economic liberalization. My central claim is that there is more than one way to liberalize. *How* a country liberalizes is as important as *whether* it liberalizes. Economic liberalization need not be synonymous with the harsh, neo-liberal methods of Ronald Reagan, Margaret Thatcher, or George W. Bush. It is possible to reconcile liberalization with concerns about equity and the disadvantaged, depending on how liberalizing reforms are constructed. Moreover, such progressive liberalizing reforms are not simply abstract possibilities, but rather the very real practice of a number of European governments.

I call this approach to economic and social reform "progressive liberalism." Progressive liberalism accepts many of the liberal arguments about the virtues of reduced government spending, lower taxes, and more flexible labor markets. Where it parts company is in the distributional arena. *Progressive liberalism adopts a Rawlsian approach to economic liberalization, constructing liberalizing reforms so as to preserve or even enhance the well being of low-income and disadvantaged citizens.* Simply stated, those at the bottom of the income scale should benefit more (or, in the worst case, suffer less) from economic liberalization than those at the top – and the favorable impact should be immediate, rather than a long-term, trickle-down effect of a stronger economy.

This chapter provides an overview of progressive liberal practices in Western Europe. It is organized into five sections. Section 1 analyzes the linkages between left politics and progressive liberalism. Sections 2 through 4 describe three sets of progressive liberal reforms: deficit reduction in Italy and Sweden (Section 2); tax relief in France, Holland, and Britain (Section 3); and efforts to boost labor market participation in Holland and Sweden (Section 4). In each case, I show how European governments have sought to implement liberalizing reforms, while avoiding the increases in inequality and poverty associated with neo-liberalism. Finally, the conclusion (Section 5) briefly discusses the political and theoretical implications of progressive liberalism.

Section 1: Left Politics and Progressive Liberalism

The progressive approach to economic and social reform has long rested on a mixture of Marx and Keynes. Marx provided an endpoint, a sense of history or direction to reform. The goal of progressive policy was to move society toward socialism through structural reforms like nationalizations or codetermination that rolled back the frontiers of capitalism. Keynes offered more immediate and tangible relief (Przeworski and Wallerstein 1984). Redistributive measures on behalf of the disadvantaged could be justified not only in social terms, but also in economic terms. The Keynesian strategy of sustaining aggregate demand centered on boosting the purchasing power of those who were most likely to spend. Given that the poor spend more of their income and save less than the rich, economic logic favored channeling resources to the poor.

Since the late 1970s, both Marxism and Keynesianism have largely fallen into disrepute. Socialism failed to deliver either freedom or prosperity. It has ceased to offer a model for the future. The record of Keynesianism is more mixed. It can be argued that Keynesian policies helped smooth business cycles in the postwar boom period, although there were certainly many examples of mistimed and counterproductive stimulus packages (Boltho 1982). Even if we allow that Keynesianism is desirable, however, it has become increasingly impracticable. With the dramatic increase in trade flows, demand stimulus tends to “leak,” sucking in imports (and swelling trade deficits), as opposed to reviving domestic production. Moreover, central bank leaders, who have grown in power and independence, generally frown on budget deficits, responding to Keynesian measures by tightening monetary policy and dampening growth. It also bears mentioning that Keynesianism is of little or no use when economic problems are located on the supply side, rather than the demand side (poor workplace organization, backwards technology, insufficient capacity, etc.), as has often been the case in recent times.

The eclipse of Marxism and especially Keynesianism has deprived left-leaning governments of their primary means for reconciling the promotion of economic efficiency with distributional commitments to low-income and disadvantaged groups. The neo-liberal paradigm, which has come to dominate economic policy-making, more or less denies this possibility. As British Prime Minister, Margaret Thatcher famously argued, “There Is No Alternative” (TINA). In the 1980s and 1990s, Thatcher revived the British economy and restored full employment through a combination of tax cuts, deregulation, privatization, and curbs on social spending. These reforms were anything but painless. Poverty and inequality grew dramatically, while Britain's deindustrialized cities began to experience American-style social pathologies, including teenage pregnancy, drug abuse, and violent crime. Still, Thatcher contended, there was no alternative: the choice was between neo-liberal reform and no reform.

The recent experiences of leftist governments in major European countries would seem to confirm Mrs. Thatcher's understanding. On the one hand, the leftist coalition of Lionel Jospin that governed France from 1997 to 2002 approximated the strategy of no liberalism, of resisting liberalism. On the other hand, the Social Democratic-Green coalition of Gerhard Schroeder that governed Germany from 1998 to 2005 followed a course of cautious neo-liberalism. Both strategies presented serious drawbacks.

The French left has generally defined progressive principles in terms of resistance to economic liberalism. The role of a progressive is to combat the extension of market forces, not to cultivate the market. From this perspective, left-led governments that engage in liberalizing reforms are guilty of the worst kind of betrayal. Indeed, the label "social liberal" is an epithet for the French left, much like "social traitor" or "social fascist" in an earlier age. It denotes a politician who professes to be on the left, while pursuing policies that benefit business and the affluent – a free-market wolf in Socialist's clothing.

A strategy of resistance to liberalization, while appealing to the leftist faithful, suffers two important problems. The first is that the left is placed on the defensive, championing what is in many cases an unpopular status quo. For example, in the name of progressive principles, Prime Minister Jospin refused to introduce any job search requirements into France's unemployment insurance system and guaranteed minimum income (RMI). Yet a strong majority of French voters supported some kind of reasonable job search obligation. Jospin's resistance to labor market reform lent credibility to conservative critiques that he was avoiding hard choices, that he was placating interest groups rather than modernizing the country – a charge that damaged Jospin badly in his unsuccessful campaign for the presidency in 2002.

The second problem of resisting liberalization is that such resistance cedes control of reform to actors other than a government of the left. To continue with the previous example, the

Jospin government did not prevent the reform of the unemployment system. Rather, the reforms were initiated by the French employer association and extended by a government of the right that succeeded Jospin in 2002. Not surprisingly, these reforms, reflecting the preferences of employers and political conservatives, tended to be long on obligations for the unemployed and short on countervailing compensations. The same trajectory occurred in the case of pension and health care reform: Jospin resisted change, only to have his conservative successors enact reforms that slashed benefits and increased payments in a fairly regressive manner.

If the traditional leftist strategy has been to resist economic liberalization at every turn, self-styled “modernizers,” such as Gerhard Schroeder in Germany, have frequently gone to the opposite extreme, pursuing an essentially neo-liberal agenda under the guise of “modernization” and activism. The phrase “Nixon goes to China” is invoked to describe this strategy (Pierson 2001; Green-Pedersen 2002). Just as only a fierce anti-Communist like Richard Nixon could recognize Communist China, only a Social Democratic leader like Schroeder could slash social spending, loosen labor market regulations, and lower taxes. Schroeder sought to appeal to German voters on two counts: first, as an economic modernizer, introducing needed market reforms into Germany’s stagnant economy (the so-called “Agenda 2010”); second, as a social modernizer, making Germany a more tolerant and cosmopolitan country through a number of “post-materialist,” lifestyle reforms (liberalization of citizenship rules, gay rights, restrictions on nuclear power, etc.).

The principal drawback of Schroeder’s Nixon-goes-to-China approach is that it hurt low-income and vulnerable groups. Both Schroeder’s pension and tax reforms had regressive consequences and, in a reversal of roles, it was the center-right Christian Democrats who were calling for a fairer sharing of costs and benefits. Schroeder’s most controversial initiative was the “Hartz IV” labor market reforms introduced at the beginning of 2005 that dramatically scaled back unemployment benefits. The presumption behind Hartz IV was that the unemployed were not taking jobs because benefits are too generous. Yet with the German economy in recession and unemployment having surged from 4 million to over 5 million during Schroeder's tenure in office, there was clearly a problem of job creation.

The Nixon-goes-to-China approach confronts electoral as well as social problems. It disorients and discourages the leftist faithful, who are inclined to either stay at home or punish the government at the polls. Shortly after assuming office, Schroeder's government was defeated in a series of regional *Lander* elections, losing control of the second chamber of parliament (the *Bundesrat*) in 2000. The Hartz IV reforms triggered a series of protests in German cities throughout 2004, notably in the East, led by union members and leftist politicians. Dissatisfied leftists within the SPD then broke away to create a new party, the WASG, which merged with the revamped former East German Communist party (PDS). The product of that merger, the *Linkspartei*, received over 8 percent of the vote in the 2005 elections, draining support from the SPD and arguably costing Schroeder his position as chancellor. More generally, Schroeder's liberalizing reforms were so unpopular that he went down to defeat against a colorless and inexperienced conservative adversary, Angela Merkel, who – by all accounts – ran a very poor campaign.

Taken together, the Jospin and Schroeder experiences appear to validate the TINA perspective. Jospin preserved social protection at the expense of reform, while Schroeder pursued reform at the expense of social protection. Jospin and Schroeder do not represent the sum total of all options available to leftist reformers, however. In between the no reforms of leftist traditionalists and the neo-liberal reforms of the self-styled "modernizers," there is a third possibility – progressive liberal reforms.

The notion that economic liberalism can take more than one form has historical precedent in the plasticity and diversity of earlier, overarching economic and social arrangements. The postwar “golden age” was marked by the so-called “Keynesian compromise” or “compromise of the Keynesian welfare state” (Offe 1984; Przeworski and Wallerstein 1984). The general framework of this compromise was that left parties and unions accepted the private ownership of the means of production and widespread managerial discretion in the organization of the workplace, while employers accepted Keynesian demand management and a sizable welfare state to cushion the working class from the vicissitudes of capitalism. Yet within this general framework, both Keynesianism and the welfare state admitted tremendous cross-national variation.

We may have all been Keynesians, in the words of Richard Nixon, but Keynesianism looked very different from one country to the next (Boltho 1982; Hall 1989). Many countries increased social spending and government deficits in a recession, in the classic Keynesian manner. Indeed, the operation of large welfare states tended to produce this effect automatically. Yet there was more than one way to engineer a budget deficit. The US tended to implement Keynesian ideas through tax cuts and military spending, rather than social spending. French authorities ran deficits primarily as a result of subsidies to business. Sweden privileged public investments in a recession. Under the general rubric of “Keynesianism,” countries pursued very different economic strategies with very different distributional consequences.

The same observation could be made with respect to the welfare state. If welfare states expanded dramatically in the postwar period, social protection took very different forms from one country to the next (Titmuss 1987; Esping-Andersen 1990; Huber and Stephens 2001). Gøsta Esping-Andersen identifies three varieties or “worlds” of welfare capitalism: a liberal world, aiming to limit hardship among the “deserving poor” and relying heavily on tax-subsidized private provision; a Christian Democratic world, seeking to preserve social order and hierarchy through income-based benefits; and a Social Democratic world, striving to expand citizenship and alleviate worker dependence on employment – what Esping-Andersen terms "decommodification" (Esping-Andersen 1985; Esping-Andersen 1990).

Another important insight provided by Esping-Andersen is that partisanship figured prominently in the construction of these various welfare regimes, and not just for parties of the left. Although the welfare state might appear to be at odds with everything that conservative parties stand for, Esping-Andersen and others have shown that center-right Christian Democrats erected welfare regimes that were essentially as expensive as those established by the Social Democratic left (Esping-Andersen 1990; Huber, Ragin et al. 1993; Kersbergen 1995). The reason is that Christian Democrats were able to forge welfare states that corresponded to their values and the interests of their constituents: providing the largest benefits to those who earned the most; dividing and demobilizing the working class; focusing on transfer payments, rather than social services, so as to keep the state bureaucracy small; and reinforcing traditional family structures, the so-called "male breadwinner" model. In an analogous manner, this chapter suggests that left-leaning parties, operating on the apparently inhospitable terrain of economic liberalization, can construct liberalizing reforms in ways that are compatible with their political principles and the interests of their supporters.

I call this effort to reconcile market reform and distributional equity "progressive liberalism." Progressive liberalism fuses a liberal concern for efficiency with a Rawslian commitment to low-income groups. Under progressive liberalism, the character of the liberalized economy – of the smaller government, lower taxes, and more flexible labor markets – is itself defined by progressive social principles and concerns for the disadvantaged. Liberalizing reforms are designed to benefit those at the bottom of the income scale more than those at the top and to do so immediately, rather than as the result of some uncertain, future, trickle-down effect.

Figure 1 situates progressive liberalism relative to the main alternative economic strategies. It draws two distinctions. The first relates to the *principal institution or agent of economic coordination*: the state in the top half of the figure; the market in the bottom. The second distinction relates to the *beneficiaries of state policies*: workers and low-income groups on the left side of the figure; employers and affluent groups on the right.

INSERT FIGURE 1 HERE

The top half of the figure is composed of two ideal-types of state guidance of the economy. *Social Democracy* (quadrant 1) represents the pro-labor variant of statism. Characteristic policies include: redistributive Keynesianism, Social Democratic welfare states, and various forms of *Marxisant* reforms, such as codetermination and nationalizations. The *developmental state* (quadrant 2) represents the pro-business variant of statism. Characteristic initiatives include: industrial policy, protectionism, and cheap credit. The corrupt or degenerated version of this strategy is crony capitalism. When conservatives have expanded spending on social policy as well as industrial policy, this spending has tended to take the form of a Christian Democratic welfare state (also located in quadrant 2).

Over the past twenty-five years, there has been a general movement from the top of Figure 1 to the bottom, from state to market direction of the economy. (The movement has been somewhat less pronounced in social policy than in economic development policy.) Again, though, we can identify two variants, which are distinguished primarily by their distributional or class orientation. Both neo-liberalism (quadrant 4) and progressive liberalism (quadrant 3) seek to roll back dysfunctional regulations, increase labor market flexibility, and reduce state spending and taxation. But neo-liberalism tends to pursue these liberalizing objectives by redistributing resources upward, while progressive liberalism seeks to redistribute resources downward (or, at least, to limit the upward redistribution of resources). The result, as this chapter will show, is very different policies of economic liberalization. Whereas neo-liberalism cuts social spending across-the-board or targets low-income groups, progressive liberalism focuses cuts on dysfunctional programs or those that benefit the affluent disproportionately. Whereas neo-liberalism reduces taxes on the highest earners, who pay the most taxes, progressive liberalism reduces taxes on wage earners, who have the greatest need and often confront the highest effective marginal tax rates. And whereas neo-liberalism promotes labor market flexibility by scaling back protections and benefits, progressive liberalism may curtail protections, but also takes measures to increase the returns to paid employment (to "make work pay").

Progressive liberalism represents an ideal-type, not a widely diffused policy model. No government has openly proclaimed its allegiance to the progressive liberalism and implemented this agenda in a comprehensive, across-the-board manner. Still, the effort to reconcile liberalization and social justice has shaped the actions of a number of governments, however experimental and uncertain their strategies. By and large, the cases that come closest to the progressive liberal ideal-type are Sweden under the Social Democrats, a Labor-Liberal coalition that governed Holland from 1994 to 2002, and Tony Blair's New Labour government in Britain. But even in countries like Italy, France, and Germany, one can find isolated instances of progressive liberal reform.

Progressive liberalism has generally been the product of *a constrained or corrective European left*. For parties of the right -- even if the continental European right is different from the Anglo-American right -- policies that expand the play of market forces fit well with their basic policy orientation, and the upward redistribution of wealth that accompanies such reforms benefits their electoral base. Thus, conservative parties are reasonably comfortable with a conventional neo-liberal agenda. For parties of the left, by contrast, economic liberalization challenges fundamental beliefs, while an upward redistribution of wealth harms their supporters. Consequently, the European left has tended to embark on liberalization with great reluctance, usually as a result of some kind of constraint. Progressive liberalization has emerged when this reluctant liberalization has been structured so as to assuage the distributional concerns of leftist advocates and voters.

All of the leftist governments examined in this chapter have operated in a constrained or corrective capacity. Often, the constraints have been economic or fiscal, such as Maastricht budget deficit targets. Both the center-left in Italy and the Social Democrats in Sweden sought to reduce massive budget deficits in the 1990s. When the left gained power in these countries, the deficit exceeded 12 percent of GDP, roughly double the peak US figure during the Reagan years and four times the Maastricht target. Qualifying for EMU was an explicit goal of the Italian government, meaning that the deficit had to be reduced quickly and dramatically.

Other constraints have been political, such as the need to govern in coalition with center-right parties. In Holland, initial austerity reforms were conducted under a center-right coalition from 1982 to 1989. The Labor party then entered the government as a junior partner in 1989, before leading a so-called “Purple Coalition” with the Liberals from 1994 to 2002 (red of Labor + blue of the Liberals = purple). Thus, for Labor to have any influence, it needed to reach an agreement and make important concessions to center-right allies.

Finally, in some cases, progressive reforms have emerged as a corrective to prior neo-liberal reforms by center-right governments. This corrective undertaking has been most apparent in the case of Tony Blair’s New Labour government in Britain, which assumed office after eighteen years of Thatcherite reform. New Labour has accepted a considerable degree of economic liberalization, but has sought to harmonize the more liberal economic context with left values and constituent interests, in particular, by reducing poverty.

Progressive liberalism represents a possibility, not an inevitability. As we have seen, leftist governments in France and Germany have gravitated toward alternative approaches. If economic and political constraints have often laid the foundation for progressive reforms, other options remain available. Consequently, progressive liberalism is, to some extent, the product of strategic choice and political leadership.

The rest of this essay describes progressive liberal policies of various European center-left governments. My analysis focuses on three sets of liberalizing reforms: deficit reduction, tax relief, and labor market activation. For each case, I will proceed in four steps. First, I will define the traditional leftist position that opposes any change. Second, I will present the neo-liberal position, which favors change with regressive distributional implications. Third, I will show that the liberalizing reform in question does indeed harbor progressive potential. Fourth, I will describe how the reforms have been implemented in practice by European governments, so as to capture many of the benefits of neo-liberalism, while safeguarding or enhancing commitments to low-income and disadvantaged groups. I begin with the case of deficit reduction in Italy and Holland.

Section 2: Reducing Budget Deficits and Equity Deficits

The commitment to increased government spending on social programs has long been a defining feature of Social Democracy. Indeed, for Social Democratic scholars, the traditional measure of left power, of labor's "power resources," is social spending as a share of GDP. From this vantage, cuts in social programs constitute a clear step backward.

The neo-liberal perspective on government spending is more critical. Social spending diverts resources from productive uses, crowds out private investment, and reduces work incentives. By and large, government spending is suspect, and reductions in social spending are desirable. The risk from a progressive standpoint, of course, is that such cuts – even if they generate some economic benefits – will increase the vulnerability and hardship of the poor.

Yet deficit reduction need not yield such regressive outcomes. The starting point for a progressive approach to deficit reduction is a more cold-hearted, calculating take on social spending. When systems of social protection absorb 30 to 40 percent of GDP, as they do in most West European countries, "not only the poor" are benefiting (Goodin and Le Grand 1987). Much of the spending goes to middle-class or even affluent groups, and some of this money is used in ineffective or even counterproductive ways. In other words, a lot of social spending is at odds with progressive values and interests. By implication, then, it is possible to reduce social spending without undermining social justice.

The key to realizing this possibility is what I have termed turning "vice into virtue" (Levy 1999). The vice-into-virtue strategy targets inequities within the welfare system that are simultaneously a source of either economic inefficiency or substantial public spending. Savings are extracted, not from virtuous programs that help the poor and disadvantaged, but rather from the attenuation of "vices," that is, cuts in programs that concentrate benefits on the affluent, that are marked by patronage or fraud, that are patently dysfunctional, or that are at odds with stated program objectives. An example of such an inefficient inequity might be generous disability pensions paid to hundreds of thousands of people who are neither sick nor disabled. By attenuating these historic "vices" or inequities, progressive reformers may be able to extract resources with which to pursue a variety of "virtuous" objectives, such as reducing budget deficits without slashing benefits to the truly needy. In more general terms, inherited welfare "vices" can be manipulated so as to soften or even obviate the supposedly ineluctable trade-off between efficiency and equity.

The experience of Italy in the 1990s illustrates the possibilities for a vice-into-virtue approach to deficit reduction (Baccaro and Locke 1996; Ferrera 1997; Ercole and Terribile 1998; Levy 1999). Between 1992 and 1998, successive governments reduced the overall deficit from over 10 percent of GDP to less than 3 percent, enabling Italy to qualify for EMU. The reforms were conducted by a combination of technocratic governments, supported by parties of the left, and explicitly leftist governments, who were in office for the first time since the immediate postwar years. Tax and pension reform accounted for much of the deficit reduction. Obviously, some of these measures were painful. Still, the bulk of the savings came from the attenuation of unfair privileges that had been distributed to political supporters by the corrupt Christian Democratic establishment that had governed Italy throughout the postwar period. Three sets of "vices" of the old Christian Democratic regime figured most prominently in the center-left's austerity policies.

The first was the elimination of some of the most egregious forms of early retirement, notably so-called "baby pensions" that allowed some civil servants to retire after a mere twenty years on the job. The left established a minimum retirement age of 57, while also requiring 35 years of contributions to qualify for a full pension. The second change was to harmonize the pension rules for all retirees. The main effect of the change was to scale back substantial government subsidies to many public-sector workers and to the self-employed, who are a relatively affluent group. The third change was to impose a minimum level of taxation on the self-employed. No longer could wealthy lawyers, doctors, and accountants pay little or no taxes by underreporting their earnings.

The Italian retirement age of 57 is still too low; further pension and budgetary reforms are likely to be necessary; and there has been some fiscal backsliding under the right-wing Berlusconi government that succeeded the left in 2001. For all these limitations, however, the changes of the 1990s bolstered Italy's fiscal position, while improving fairness and equity. Indeed, some Italian observers have gone so far as to describe the reforms as a "success story" that "makes transparent the conditions for financial sustainability and significantly reduces the large inequalities characterizing the old system." (Ercole and Terribile 1998)

It might be objected that the Italian experience is of little relevance to progressive reformers elsewhere because that country's system was so uniquely riddled with "vices." Scholars generally agree that among the three "worlds of welfare capitalism" identified by Esping-Andersen, the Christian Democratic system (found in Germany, France, Austria, Belgium, and Holland) is the most problematic and unfair (Esping-Andersen 1996b; Levy 1999). It overtaxes labor, spends too much on "passive" labor market programs that pay people not to work (early retirement, disability pensions, unemployment benefits, etc.), favors "insiders" at the expense of "outsiders," and excludes women and minorities from employment opportunities and welfare benefits. In the case of Italy, the genetic defects of the Christian Democratic welfare model have been magnified by endemic corruption (Ferrera 1996). Still, if Italy represents an extreme case, it does not represent an isolated one.

The Italian experience of pension reform is echoed across a number of contexts. According to Myles and Quadagno, the main direction of pension reform has been to reduce deficits while heightening progressivity (Myles and Quadagno 1997). In so-called "Bismarckian" pension systems, like that of Italy, where benefits are proportional to earnings and financed by payroll taxes, reformers have tightened the links between contributions and benefits. The effect in most cases, as in Italy, has been to squeeze subsidies to the self-employed and other affluent groups that were paid for by payroll taxes levied on blue-collar workers. In so-called "Beveridgean" pension systems, where benefits are flat rate and financed by general taxation, reformers have deployed "clawbacks" or "means-testing from the top." Put simply, the principal source of savings has derived from eliminating or reducing the pensions of high-income groups. In an almost perfect illustration of the vice-into-virtue logic, Myles and Pierson note that Canada used part of the savings from reduced pensions for the affluent to pay for increased pensions for the needy (Myles and Pierson 1997). The result was to bring elderly poverty rates down to near Scandinavian levels, despite the decrease in overall spending.

Moving beyond pension reform to the more general challenge of deficit reduction, the experience of Sweden in the 1990s suggests that vice-into-virtue strategies need not be confined to corrupt, Christian Democratic systems (Anderson 1998; Palme and Wennemo 1998; Levy 2000; Lindbom 2000; Palme 2000).[iii] Sweden is, in many ways, the hardest case for a vice-into-virtue argument. The Swedish welfare state was constructed by parties of the left, not the right, so contrary to Italian progressives, Swedish leftists did not inherit an array conservative programs that they could scale back. Moreover, Sweden is generally portrayed as something like social best practice – social programs are managed properly and efficiently; they are geared toward maximizing labor force participation; and they are relatively free of archaic or sexist values (Esping-Andersen 1990; Esping-Andersen 1996a; Esping-Andersen 1999; Huber and Stephens 2001). Yet even in "virtuous" Sweden, Social Democratic reformers found a number of "vices" to correct.

I do not wish to suggest Swedish authorities completely avoided painful or regressive measures. Confronting a massive budget deficit of 13 percent of GDP in 1994, the Social Democrats were forced to make difficult choices. In particular, they reduced the general replacement rates for unemployment, pension, and parental leave programs from 90 percent to 75 percent of previous wages (later raised to 80 percent). That said, much of the savings came from attenuating vices, correcting programs that had degenerated over the years and moved away from their stated objectives.

The case of sick pay provides an illustration (Anderson 1998). Although the government had set sick pay at 90 percent of wages, collective bargaining agreements often topped up these payments to a full 100 percent. What is more, the reference wage for calculating sick pay included bonuses and vacation pay. As a result, employees could actually "earn" more by staying at home than by going to work. Adding to the temptation, no medical exam was required if the employee were absent for less than one week, and even if employees were absent longer, the insurance board accepted any doctor's certificate more or less automatically. Not surprisingly, Swedish absenteeism was sky high. In the late 1980s, the average Swedish worker was out sick for five weeks every year, and Sweden was devoting 3 percent of GDP to sick pay, roughly double the figure of any other European country.

When the Social Democrats returned to office in 1994, they attacked the "vice" of sick pay paid to people who were not really sick through a series of changes. As noted above, the reimbursement rate was reduced to 75 percent of wages (later raised to 80 percent), and fringe benefits and vacation pay were excluded from the calculation of the reference wage. The government also prohibited collective bargaining agreements from topping up sick pay. Those out sick were required to submit medical documentation on a regular basis; the doctor had to explain how the injury or sickness prevented the patient from working; and the insurance office, rather than the physician, was given the final say over whether the patient was able to work. Finally, to induce employers to control absenteeism, companies were made financially responsible for the first four weeks of sick pay (while receiving tax breaks in compensation).

The effect of these reforms was to reduce Swedish absenteeism and sick pay spending by almost 60 percent. Although some on the left denounced the changes as an erosion of social protection, the government replied that the purpose of sick pay is to protect sick people, not to provide unpaid vacations. And even with the reforms, Swedish employees were still taking an average of twelve days per year for sick leave – not exactly the American system.

The Swedish Social Democrats repaired other social programs that had evolved in unintended or undesirable directions. The disability scheme had become a de facto early retirement program, removing laborers from the work force at the age of 58 (Wadensjö 1991; Wadensjö 1999; Ebbinghaus 2000). The Social Democrats tightened the definition of disability, protected the jobs of older workers, and reduced reimbursement rates for disability insurance to the same level as other social programs, while expanding means-tested programs to protect low-income disability pensioners (Hort 2001; Swedish Government 2001). The government not only saved money, but Swedish labor force participation rates for workers aged 55 to 65 are among the highest in the OECD (OECD 2001a; Swedish Government 2001). The government also closed loopholes in the advance maintenance allowance, a child support guarantee for custodial parents. Many Swedish couples had been making child support payments under the table, so that the custodial parent would qualify for the state advance maintenance allowance. The reformed system imposed a minimum payment of roughly $250 per month on the non-custodial parent, undercutting the possibilities for evasion.

The Social Democratic austerity package was balanced roughly evenly between spending cuts and tax increases. Employees were hit with higher payroll taxes, although the blow was softened by a reduction in value-added taxes on food, and payroll taxes were cut subsequently, as the Swedish economy recovered in the late 1990s. Businesses and high-income groups were also required to contribute to fiscal recovery. The government boosted taxes on capital and production and raised the top marginal income tax rate from 50 percent to 55 percent. Combining the effects of program cuts and tax hikes, the Swedish government estimates that the wealthiest fifth of households paid 43 percent of the costs of the fiscal consolidation program, while the bottom fifth paid 11 percent (Swedish Ministry of Finance 2001: Annex 5). Again, my claim is not that poor people were spared entirely from the effects of austerity, but rather that even in virtuous Sweden, it was possible to extract much of the savings from affluent groups and from programs like sick pay and disability that had evolved in unintended and undesirable directions ("vices").

No dimension of the liberal economic agenda is more wrenching and painful for progressives than cutting government spending. In hard economic times, governments often have no choice but to impose some of the burdens on citizens who can afford them the least. Still, progressive liberal austerity, of the kind implemented in Italy and Sweden in the 1990s, is very different from the regressive assaults on programs for low-income groups associated with neo-liberalism. The existence of vices in the mammoth welfare states of Western Europe, of programs that are tilted toward the affluent or that operate in perverse and unjust ways, offers opportunities for improving efficiency and equity at the same time. If the low-hanging fruit is most visible in the dysfunctional Christian Democratic regime, all the more so in a historically patronage-ridden system like Italy, such fruit has also grown, perhaps less luxuriantly, in the austere, northern climate of Scandinavia. Thus, all austerity packages are not created equal. In the next section, we will see that tax relief likewise offers opportunities for progressive distributional strategies.

Section 3: Lower Taxes, Fairer Taxes

Tax relief encompasses two kinds of changes. The first is tax <u>reallocation</u>: reforms that adjust the composition of taxation, while leaving the overall level of taxation as before. The second kind of relief is tax reduction, reforms that lower the overall burden of taxation and may also alter the composition of the tax burden.

Traditionally, tax relief has not been central to the vision of European progressives. The way to deliver benefits to constituents was through increased social spending. From this perspective, taxation was a necessary evil more than a component of progressive strategy. Indeed, the tax systems of large welfare states like Sweden were often less redistributive than those of the residual liberal systems, like the US or UK (Steinmo 1993; Kato 2003). Part of the reason was that higher expenditures required substantial taxes on all groups, not just the affluent. No less important, taxation was rarely seen as the arena where Social Democracy found expression; rather, taxation was a support for the progressive policies that were enacted on the spending side.

The neo-liberal approach to tax reform encompasses both an aggregate and a distributive dimension. In aggregate terms, neo-liberals see government spending and taxation as too high. Society's resources are being diverted from their most productive use by excessive government spending. Moreover, much of this spending erodes work incentives by providing citizens with an alternative to paid employment. Thus, neo-liberals favor tax cuts as a way of lowering the burden on saving and investment, not to mention constraining future government spending.

The second dimension of the neo-liberal approach is distributional. Tax relief should be focused on affluent groups, rather than low-income groups. The case can be made on equity grounds, in that the affluent tend to pay the most taxes, hence they should receive the most relief. From an electoral perspective, to the extent that it is parties of the right that are conducting tax reform, an upward redistribution of wealth favors their voters. Finally, there is an economic argument. The affluent have a higher propensity to save and invest, hence to generate growth and employment opportunities for the rest of the population.

The central risk of the neo-liberal tax-cutting agenda, from a progressive standpoint, is that it will redistribute substantial resources from low-income to affluent groups. This concern is certainly not ill founded. In Britain, the Thatcher and Major governments did not reduce overall taxation during their eighteen years in office from 1979 to 1997, but they did make the composition significantly more regressive (Giles and Johnson 1995; Adam and Frayne 2000; Clark and Leicester 2002; Kato 2003). The top marginal income tax rate was reduced from 83 percent to 40 percent; the corporate tax rate fell from 52 percent to 35 percent; and the top inheritance tax rate was slashed from 75 percent to 40 percent. To pay for all these tax cuts, which strongly favored high-income groups, the Thatcher and Major governments increased a series of regressive taxes that are paid disproportionately by average and low-income groups. The national sales or value-added tax (VAT) more than doubled, from 8 percent to 17.5 percent, and employee payroll taxes jumped from 6.5 percent to 10 percent. Taken together, this combination of tax cuts for the affluent counter-balanced by tax hikes for average and low-income workers accounted for roughly one-third of the massive 40 percent increase in inequality under the Tories.

The 2001 and 2003 tax cuts enacted by the Bush administration in the United States tell a similar tale (Krugman 2003; Steurle 2004; Hacker and Pierson forthcoming). The tax cuts were incredibly regressive: the richest 1 percent of Americans are slated to receive 36 percent of the benefits, a share roughly equal to that of the bottom 80 percent of Americans (Hacker and Pierson). This regressive outcome is the product not only of generous income tax cuts for high earners, but also of the phasing out of the highly progressive Estate Tax, which applied only to inherited estates valued at more than $675,000, that is, to the top 2 percent of all estates.

If the Thatcher/Major and Bush experiences point to the perils of tax relief, they do not represent the sum total of tax relief strategies. Tax relief can be progressive if constructed properly. Two features of contemporary tax systems, in particular, open the possibility for progressive reform. The first is that tax systems impose significant burdens on average and low-income groups, not just the well to do. When the public sector absorbs 40 to 60 percent of GDP, as is the case throughout Western Europe, it is not just the rich who are paying taxes. The fiscal contribution of middle- and low-income groups is especially significant if the definition of "taxes" is extended beyond the income tax to include social security charges (or payroll taxes). Although low-wage workers generally pay little or no income tax, they pay hefty social security taxes. Even in the United States, Social Security and Medicare taxes total 15.3 percent of earnings (up to a ceiling of around $88,000 per year). The burden is especially heavy, reaching 40 to 50 percent of wages, in the Christian Democratic or Bismarckian welfare states – such as Germany, France, Italy, and Holland – which finance their systems of social protection primarily through social security contributions. Thus, there is a lot of room for cutting the taxes of average and low-wage groups. Instead of cutting inheritance taxes or the income taxes of the very rich, as under the Bush reforms, governments may choose to reduce the burden of less privileged groups.

The second feature of the tax system that creates possibilities for progressive tax reform is that every tax system contains inequities and irrationalities ("vices"). The heavy taxation of labor income, described above, is not just inequitable; it also generates perverse incentives. In many countries, the combination of income taxes, social security charges, and means-tested benefits that are reduced or withdrawn as income rises imposes very heavy marginal tax rates on people moving from unemployment or other social benefits to paid employment. These tax rates can easily exceed 70 percent – far higher than the rates confronted by those at the top end of the income scale. Consequently, reforms that reduce the tax burden on low-wage workers are good for social justice, but also increase work incentives, improving the functioning of the labor market.

A further opportunity for welfare-enhancing tax reform arises from sizable positive or negative "externalities," that is, gaps between social costs and the costs borne by the agent.

Environmental policy is a classic example: households and businesses do not bear the full costs of their energy consumption and pollution, consequently they have an incentive to over-consume scarce natural resources and to over-pollute. An "eco-tax" that raised the costs of polluting and consuming natural resources would reduce harmful behavior, while generating fiscal resources that could be put to other uses.

A final feature of the tax code that merits mention is its malleability. Paul Pierson has demonstrated that efforts to retrench or redirect social spending programs tend to be fraught with difficulty, as current recipients mobilize to protect their benefits (Pierson 1994). Social policy has, therefore, seen relatively little change over the past twenty-five years. Tax codes, by contrast, have been reformed on a regular basis. The less visible and understandable character of taxation creates opportunities for progressive authorities to redirect benefits in a way that would be much more difficult on the spending side.

Progressive tax relief has operated through both reallocation and reduction. The reforms of the French left since the early 1990s offer an example of progressive reallocation (Levy 1999; Levy 2004b).[iv] One of the hallmarks of the Christian Democractic or Bismarckian welfare state found in France is an over-reliance on wage-based contributions. Occupational programs were constructed originally along actuarial lines: wage-based contributions by employers and workers would fund the old-age, accident, family, and unemployment insurance programs from which employees would eventually benefit. Over the years, however, political authorities grafted social policy missions onto these insurance schemes. In most countries, for example, health coverage and minimum pensions have become available to all citizens regardless of prior contributions. Yet many of these programs continue to be funded under the occupational insurance system. In other words, even when Bismarckian, employment-based programs evolved into universal (or

Beveridgean) schemes, their mode of financing has tended to remain Bismarckian. Social insurance has been called upon to finance social assistance, Bismarck to pay for Beveridge.

The conflation of Bismarck and Beveridge is both unfair to low-wage workers, who pay for benefits enjoyed by all citizens, and detrimental to employment, since it raises the post-tax cost of labor. Consequently, in 1991, the French left began shifting the financing of universal programs away from Bismarckian payroll taxes to a flat tax, the *contribution sociale généralisée* (CSG), which is levied on all earnings, including those from capital and real estate. In 1998, the Jospin government raised the CSG to 7.5 percent of wages, while all but eliminating employee health insurance contributions. The reform was revenue-neutral, but it boosted worker purchasing power by over 1 percent. Today, in the wake of these fiscal reforms, the CSG brings in more money than the French income tax.

Holland, like France, has a Bismarckian welfare state that over-taxes labor. As in France, excessive payroll taxes erode wage-earner purchasing power and discourage hiring. Dutch authorities have responded to this problem through a combination of tax reallocation and tax reduction (Levy 2004b).[v] The main revenue-neutral strategy for reducing taxes on labor has been to "green" the tax system, that is to replace taxes on labor with taxes on energy consumption and pollution (First Dutch Green Tax Commission 1998; Second Dutch Green Tax Commission 2000; Abrate 2004). Greening the tax system holds out the possibility of a so-called "double dividend" (Koskela, Schob et al. 1999; OECD 2001b). The first dividend is that a tax on energy or pollution internalizes the costs to the agent, thereby reducing socially damaging behavior. The second dividend is that with the revenues generated by new environmental taxes, governments can lower taxes elsewhere.[vi]

Dutch authorities have been at the forefront of European efforts to green the tax system. In the 1990s, the share of green taxes in total government revenues rose from 8.6 percent to 14.1

percent (Second Dutch Green Tax Commission 2000: 7). Like most European countries, the Netherlands imposes heavy taxes on energy and transportation (i.e. gasoline). Where Holland broke new ground was with the introduction of a so-called “Ecotax” in 1996, which extends to pollution and the use of natural resources (extraction of fresh ground water, tap water, and the disposal of garbage) (Abrate 2004). Today, environmental taxes in the Netherlands total between 3.5 and 4.0 percent of GDP, among the heaviest – by some measures, the heaviest – in Europe (Abrate 2004: 246). The growth in green taxes has generally been accompanied by reductions in payroll taxes, boosting employee take-home pay and lowering labor costs to employers.

Dutch authorities have used tax reduction as well as tax reallocation to reduce the fiscal burden on wage earners. Indeed, tax policy has played a central part in the Dutch strategy of job growth through negotiated wage restraint. In 1982, confronting a stagnant economy, double-digit unemployment, and most important, a newly-elected center-right government that was threatening to emulate the industrial relations practices of Mrs. Thatcher, Dutch trade unions reluctantly agreed to dampen their wage demands. The resulting “Wassenaar agreement” made the revival of corporate profitability the centerpiece for relaunching investment and employment. By the late-1990s, Dutch unemployment had fallen below the US rate, while inequality and poverty had increased little, if at all. This ability to reconcile full employment and social cohesion led a number of observers, including the OECD, to speak of a “Dutch miracle” or “Dutch model” (Visser and Hemerijck 1997; OECD 1998).

One of the keys to this felicitous outcome was tax policy. In the 1990s, as the Dutch economy recovered, budget deficits turned to surpluses, and a Christian Democratic government gave way to a Labor-Liberal “purple” coalition, Dutch authorities targeted tax relief at ordinary wage-earners (OECD 1994a; Dutch Government 1998; Dutch Government 1999; OECD 2000; Dutch Ministry of Finance 2001; Dutch Government 2002; Dutch Ministry of Finance 2004). By boosting take-home pay, tax relief helped sustain wage moderation in the face of tighter labor markets. According to an IMF report, "The impact of cuts in taxes and social security contributions was quite substantial; whereas the real wage of the average production worker increased by only 0.9 percent over the 1983-1998 period, the corresponding net real wage went up by 14.8 percent." (Bakker and Halikas 1999: 25) In other words, tax policy has essentially spelled the difference between wage stagnation – a difficult sell to union members – and appreciable gains in take-home pay. It has underwritten a win-win game between Dutch employers and workers that has increased employment and equity in tandem.

Like Dutch authorities, Britain's New Labour government has deployed tax reductions on behalf of progressive, redistributive objectives (Levy 2004b).[vii] When Tony Blair became the British prime minister in 1997, her inherited a double legacy from his Conservative predecessors. On the positive side, the British economy was no longer the sick man of Europe, as it had been in the 1970s. In the late 1990s, economic growth exceeded the European average, public finances were in excellent shape, and the country neared full employment. On the downside, the impressive economic turnaround under Margaret Thatcher and John Major had been purchased at a very high social price. Income inequality had increased by 40 percent and childhood poverty had tripled (Goodman 2001; Brewer, Clark et al. 2002; Clark and Leicester 2002; Piachaud and Sutherland 2002).

The Blair government's response to this dual legacy has been to use some of the fruits of the former legacy (a stronger economy) to alleviate the latter (child poverty). In 1999, Prime Minister Blair announced the goal of eliminating all child poverty within a generation. Subsequently, the British Treasury translated this goal into quantitative targets: a 25 percent reduction of childhood poverty (measured as 60 percent of median income) by 2004; 50 percent by 2010; and 100 percent by 2020 (Brewer and Gregg 2001). Thus, New Labour is acting as a corrective left, seeking to undue some of the shocking increases in poverty and inequality introduced by the Conservatives.

New Labour is also a constrained left. A combination of political and economic constraints has led the government to make tax reform the primary vehicle for pursuing its redistributive objectives. Politically, Tony Blair was able to end Labour's eighteen-year exile from office by reassuring financial markets, the business community, and moderate voters that his brand of politics would be different from the ruinous tax-and-spend policies of the 1970s. The renaming of the party as "New Labour" was part of this effort to break with the past, as were reforms designed to curb the power of the trade unions within the party. In the run-up to the 1997 election, Blair added a further reassurance by pledging to adhere to the rigorous spending targets of the Conservative government – targets that, ironically, few expected even the Conservatives to respect. So the new government found itself with relatively little room to increase social spending. Cutting taxes, by contrast, resonated with the values of business and finance. The complexity of tax reform also provided a less visible way of channeling resources than a straightforward spending program. Indeed, Treasury officials referred to the government strategy as "redistribution by stealth."

The government has sought to distance itself from the traditional Labour party by insisting that the best way to fight poverty, including childhood poverty, is through paid employment, as opposed to social benefits. It has launched a series of so-called "New Deals" designed to move benefit claimants into the labor force (Lødemel and Trickey 2000; Judge 2001; British Government 2002). The first New Deal centered on youths under the age of 25. Subsequently, New Deals have been established for workers over 25, older workers, lone parents, partners of the unemployed, and the disabled.

The New Deals were inspired by US welfare-to-work programs. They include increased surveillance, mandatory meetings with caseworkers to design a program for securing a job, and, in some cases, benefit loss as punishment for non-cooperation. Labour's goal is not simply to move people into the workforce, however, but also to move them out of poverty. The government is especially concerned about childhood poverty, given its highly publicized targets for reduction. Consequently, work must pay and pay well, especially for families with children. Toward this end, the government reestablished the national minimum wage in 1999 at a level of £3.60 per hour ($5.40). The minimum was raised to £4.20 ($6.30) in October 2002 and to £4.85 ($7.27) in October 2004. Still, there are clear limits to this strategy, given the risk of pricing British workers out of jobs. Consequently, the government's efforts to make work pay for low-wage employees (especially workers without children) have centered on tax policy. British authorities have mobilized five sets of tax reductions or credits to alleviate poverty (British Treasury 2002; Brewer 2003; British Government 2003b; British Treasury 2003; Levy 2004a; Levy 2004b).

The first is income taxes. In contrast to recent US practice, the Blair government focused income tax cuts on *low* earners, rather than high earners, slashing the bottom tax rate from 20 percent to 10 percent, while keeping the top rate unchanged at 40 percent. Second, the government has scaled back the taper rate dramatically (the rate at which public benefits are withdrawn as income rises), from 70 percent to 37 percent. Third, acknowledging that childcare costs reduce the returns to employment, New Labour established a means-tested Childcare Tax Credit (CTC). The CTC can cover as much as 70 percent of childcare expenses up to £135 per week ($203) for one child and £200 per week ($300) for more than one (Chote, Emmerson et al. 2003). Fourth, the administration increased income support and tax credits for low-income workers (the equivalent of the Earned Income Tax Credit in the United States) to as much as £90 per week ($135). Fifth, the government created and expanded a collection of tax credits for low-income families. These were gathered into a single program, the Integrated Child Credit (ICC) in 2003, providing between £33 ($50) and £110 ($165) per week, depending on earnings. Taken together, the combination of a higher minimum wage and tax credits raised the minimum weekly income guarantee for a family with one child and one full-time worker by almost one-third in four years, from £182 ($273) in 1999 to £241 ($362) in 2003 (British Government 2003a: 90).

The tax policies of Labour government have brought genuine improvements in the plight of low-income households. Between 1997 and 2003, tax policies boosted the income of the poorest tenth of the population by 15 percent, as compared to 3 percent for the richest decile (Chote, Emmerson et al. 2003: 6). Government policies have been especially generous to lone parents on low incomes. According to the OECD, for a lone parent with two children, earning two-thirds of the average production wage, the British tax system is the most generous of all the affluent democracies, with an effective tax rate of <u>negative</u> 10.8 percent (OECD 2002: 36). Perhaps most important, the Labour government met its initial childhood poverty target -- a 25 percent reduction between 1998/99 and 2004/05 (Brewer, Goodman et al. 2004). While there is clearly more work to be done and while this work may prove expensive, for the first time in over a quarter-century, British social indicators are heading in the right direction.

This section has shown that it is entirely possible to reallocate or reduce taxes in ways that are compatible with progressive principles and concerns for the disadvantaged. Progressive reform has generally grown out of two features of the tax code. The first is what I have termed “vices,” that is, the inevitable inequities, irrationalities, and perverse incentives that have infiltrated the tax system over the years. Fixing these “vices” can generate resources for more virtuous fiscal objectives. The second feature is significant taxation of wage earners. A critical starting point is to frame “tax reform” as including social security charges or payroll taxes, rather than just being confined to income taxes. Once the artificial exclusion of social security charges is effected, then the opportunities and rationale for cutting taxes on low-income groups are increased immeasurably.

This section has also shown that channeling tax relief to low-income groups, rather than high-income groups, is not simply a matter of choosing equity over efficiency. Rather, there are plenty of compelling economic reasons for focusing tax relief on the bottom of the income scale. Because of the withdrawal of means-tested benefits, the lowest earners often confront the highest effective marginal tax rates. To the extent that efficiency is equated with countering marginal effects, economic logic would dictate focusing relief on low-wage workers. Moreover, as the Dutch case illustrates, in countries suffering from high unemployment, concentrating tax relief on average and low-wage earners has the added advantage of facilitating wage moderation, since post-tax wages rise even if nominal wages are stagnant. Wage moderation then accelerates the pace of job creation and the return to full employment. Thus, an efficiency-enhancing tax reform can just as easily favor those at the bottom of the income scale as those at the top. In the next section, we will see that efforts to move the unemployed or non-employed into the workforce, what the Europeans describe as "labor market activation," can likewise be structured so as to yield progressive distributional outcomes.

Section 4: More Jobs, Better Jobs

The term "labor market activation" derives from the distinction between so-called "passive" labor market expenditures that pay people not to work (unemployment insurance, early retirement, etc.) and so-called "active" labor market expenditures that help people find jobs. Labor market activation conveys two main ideas. The first is that people should derive their income primarily from paid employment, as opposed to government transfers. The second notion is that the goal of policy is not simply to minimize unemployment, but also to maximize total employment. In other words, in addition to reducing *formal* unemployment, the goal of activation is to move people *outside* the labor force – stay-at-home mothers, disabled workers, early retirees, discouraged workers – into the labor force. Part of this activation strategy may also entail loosening regulations that limit part-time and temporary employment, so as to expand the supply of jobs available to those not working.

Progressives have voiced a number of concerns about labor market activation policies. For those pushed into the labor market, "activation" entails the transformation of an unconditional right of citizenship into a privilege that is dependent on the goodwill of the caseworker (King 1999; Handler 2003). Activated workers are at risk of being coerced, humiliated, and deprived of personal dignity and rights (Cloward and Piven 1971). They can be forced to take substandard jobs at substandard wages, on pain of losing their benefits. The risk is all the greater if pressures to seek employment are combined with an easing of restrictions on less desirable part-time and temporary jobs. In addition to hurting the activated workers, such substandard jobs undercut the wages and employment conditions of others in the labor market. In short, activation transforms Marshallian citizens into a reserve army of the unemployed, mobilized on behalf of capital and against the rest of the workforce.

The progressive criticisms point to real risks associated with activation, but one can also identify possible benefits. Moving people into paid employment has the potential to improve their economic well being and sense of self-worth if conducted properly. The judgment about the merits of activation strategies depends to considerable extent on how such measures are conceived and implemented. Are recipients abused, forced into lousy jobs? Do they benefit financially from working? Do they receive support and services that they need? The answers to these questions – hence the character of activation – vary widely.

The progressive liberal approach to labor market activation is distinguished from a neo-liberal strategy in two main ways. The first is a concern for the ***quality*** of employment, for improving the situation of activated workers, not just for the ***quantity*** of employment. Whereas the neo-liberal approach favors more jobs, the progressive liberal approach favors more ***and better*** jobs, jobs that provide better living circumstances and life chances.

The second feature of the progressive liberal approach to labor market activation is a much more extensive, positive role for public policy. The neo-liberal strategy consists primarily of withdrawing state protections, so as to increase work incentives and employment opportunities. It is largely a negative approach, rolling back state interventions that are seen to be at the heart of labor market dysfunctions. The neo-liberal strategy is also a "thin strategy." It rests on a relatively limited or "thin" set of policy instruments. The progressive liberal strategy may include some "thin" measures, but it goes much further. It entails positive as well as negative reforms; it re-regulates as well as deregulating labor markets; and it demands much more of the state as well as of the individual – a plethora of public policies to support workers as they reenter the labor force. As a result, "thick," progressive labor market policies are often as expensive, or even more expensive, than the passive labor market programs that they replace.

This section describes two sets of progressive liberal, labor market reforms. The first is the expansion of part-time employment in the Netherlands. The second is a reform of the unemployment system in Sweden. Both changes have increased pressures on the unemployed and those outside the labor force to take jobs, but they have also increased pressures on the state. "Thick" accompanying regulations and supports have sought to protect activated workers against exploitative employment practices and to boost their living standards.

Traditionally, most European countries have placed heavy restrictions on part-time and temporary employment (Levy 2004a). Unions and the left, in particular, have been wary of part-time and temporary employment for three reasons. The first is that, even under the best of circumstances, such jobs are unlikely to be sufficient to sustain a family. Given that most European societies were long organized according to the so-called "male breadwinner model," male workers needed to be able to earn enough to support a non-employed wife and children. A second reason why progressives have been wary about part-time and temporary employment is that companies have often sought to use these jobs to pay substandard wages and benefits. Left unchecked, the spread of "atypical employment" risks fostering a vulnerable, exploited "reserve army," forced to toil without the protections afforded full-time, core, unionized workers. The third and related concern of progressives is that atypical employment will place downward pressure on the wages, benefits, and rights of core workers. Full-time workers will be forced to either make hefty concessions to employers or see their jobs migrate to the atypical sector.

Neo-liberal reformers have generally sought to remove restrictions on part-time and temporary jobs. They argue that temporary and part-time jobs are better than no jobs and may even enable the employees to secure full-time jobs at some point in the future (Lindbeck and Snower 1988; Friedman 1990: ch. 8; OECD 1994b). Neo-liberals are not too concerned that employers might use part-time and temporary workers to undercut the wages and working conditions of core, full-time workers. Indeed, from a neo-liberal perspective, if part-time and temporary employment threatens the status of full-time workers, this is a good thing. Full-time workers are privileged "insiders"; their high wages and job protections come at the expense of "outsiders," who are unable to obtain jobs on these terms (Olson 1982; Lindbeck and Snower 1988). Weakening the privileges of insiders attenuates the "insider-outsider problem," making labor markets more flexible, better able to create jobs for all.

Despite these risks, promoting part-time and temporary employment may have a legitimate place in a progressive agenda. In an era of mass unemployment, it can be argued that part-time or temporary jobs are better than no jobs, and many jobs can only exist on a part-time or temporary basis. A significant segment of the economy is seasonal in nature, for example. In sectors like agriculture, construction, and retail trade, there is a lot of demand for workers at certain times of the year, but that demand would dry up if the workers had to be retained permanently.

Changes in the economy have spawned a number of legitimate business needs for part-time or temporary employment. Intensified international competition and shorter product cycles make it harder for employers to forecast their labor needs. To compete in fast-changing markets, companies often seek to employ a portion of their workforce on fixed-term contracts, so that they can reduce costs when demand drops. Another economic change, the shift from manufacturing to services, has expanded the need for part-time employment. The consumption of many services is concentrated at a few times in the day (noon, after work), so companies need to be able to hire part-time workers to meet these moments of peak demand.

Business is not the only potential beneficiary of part-time and temporary employment. With the mass entry of women into the labor market, many employees have substantial caring responsibilities. Mothers with young children, single mothers, and daughters caring for elderly parents often cannot work a full-time job.[viii] For them, the choice is a part-time job or no job.

Part-time employment can also be an important vehicle for combating poverty. Dual-income households constitute a form of risk spreading. Even if the male breadwinner loses job, his wife is still bringing home a paycheck (and may be able to increase her hours to limit the family income loss). Dual-income households are at less risk of poverty, therefore, than single-earner households, even if the second income is from a part-time job. Moreover, as wages at the bottom of the pay spectrum have stagnated or declined in the post-OPEC period, a second (part-time) income has often prevented families from sinking into poverty. Finally, part-time jobs can help preserve the skills and job contacts of mothers with young children. As a result, mothers are less at risk of being unable to find a job when their children are older and they wish to return to paid employment. Perhaps even more important, they possess an independent earning capacity in the event that separation, divorce, or death deprives them of a partner's income.

Temporary and part-time employment offers a number of potential benefits, then: more jobs, jobs that are often better suited to the needs of working mothers, protections against household poverty. From a progressive standpoint, the problem is not part-time or temporary employment *per se*, but rather the way in which such employment is generally promoted.

The thin, neo-liberal approach is not the only way to promote part-time and temporary employment. The Netherlands has become the world champion of atypical employment, in particular part-time employment, but has done so in a very different manner from the neo-liberal approach (Visser and Hemerijck 1997; OECD 1998; Levy 1999). Holland has greatly increased part-time employment over the past 20 years. From 1979 to 1996, part-time employment increased from 16.6 percent to 37.4 percent of total employment, far and away the highest figure of any OECD nation.

Part-time employment has not been synonymous with worker exploitation, however. While relaxing prohibitions on part-time employment, Dutch authorities and social partners have simultaneously upgraded the (hourly) wages and benefits of part-time and temporary workers to the levels enjoyed by their full-time counterparts. In this way, Dutch employers are now able to hire part-time and temporary workers in response to genuine needs for flexibility, but not as a means of evading wage rates and benefits paid to full-time workers.

The equalization of working conditions has occurred through a combination of collective bargaining and legislation. Over 80 percent of collective bargaining agreements mandate pro rata wages and fringe benefits for part-time work, and the gap between part-time and full-time (hourly) wages has narrowed to only 5 percent. In 1993, the government put an end to the provision exempting jobs of less than one-third the normal working week from the application of the legal minimum wage and related social security benefits. The 1995-1996 "flexibility and security" agreements guaranteed pension and social security benefits to all part-time and temporary employees. Most recently, the Working Hours Adjustment Act of 2000 gave part-time workers an explicit right to equal treatment in all areas negotiated by the social partners, including wages, basic social security, education and training, childcare, holiday pay, and supplementary pensions (Hemerijck and Vail 2006 forthcoming). With few exceptions, these changes have improved the conditions surrounding part-time and temporary employment, as opposed to undercutting the position of full-time employees. In other words, harmonization has occurred as much through a race to the top as to the bottom.

Part-time employment in the Netherlands has been largely female employment (although the rate of male part-time employment in Holland is also the highest in the world, more than double the OECD average). Roughly three-quarters of part-time jobs are held by women, as a generation of Dutch housewives has entered the labor force on a part-time basis. Whether this situation is transitional, with younger Dutch women gravitating toward full-time jobs, or whether the Dutch one-and-one-half earner model constitutes a stable alternative to the Swedish dual-earner model, is an open question. What is not in question is that the expansion of part-time employment in the Netherlands has been conducted in such a way as to protect the interests of both established, full-time workers and new part-time workers.[ix]

So-called “welfare-to-work” or “work-first” programs have likewise lent themselves to progressive construction. As noted above, state initiatives to move claimants of unemployment or welfare benefits into paid employment run the risk of bullying vulnerable citizens into taking substandard jobs. That said, such strategies also hold potential benefits to both society and the activated individual (Ellwood 1988; Field 1995; Deacon 1996; Field 1997; Deacon 2002). From a societal perspective, paying people not to work is incredibly wasteful, especially when the recipients of passive benefits are capable of holding jobs. Moreover, the legitimacy of welfare state can be jeopardized when programs are perceived as rife with abuses or encouraging behavior at odds with social norms. When one-seventh of the adult population in Holland is receiving a disability pension, for example, it is only a small step to conclude, in the words of a center-right prime minister, that “the Dutch welfare state is sick” (Visser and Hemerijck 1997). Finally, social expectations about work have changed over the years, and it could be argued that the welfare state should evolve with the times. If in the 1950s, a “good mother” was someone who stayed at home full-time with her children, rather than pursuing “selfish” career interests, today, the vast majority of mothers are employed, and it seems unfair for mothers on welfare not to have to go to work like everyone else (Orloff 2001).

It is not just society that stands to benefit from welfare-to-work initiatives, but also the activated themselves. A job often brings an increased sense of self-worth and pride. Reliance on earnings, as opposed to social transfers, reduces personal dependence of the activated individual on the whims of policy-makers and caseworkers (although it substitutes a dependence on employers). From a political perspective, people who are employed are a much more sympathetic constituency, making it easier to upgrade benefits subsequently. Activation neutralizes a wedge issue, transforming “them” (the non-working poor) into “us” (hard-working people, who are struggling to get by) (Ellwood 1988; Weir 1998). When people who are not working are poor, opponents of government intervention can always argue that the solution to their problem is to get a job; when people who *are* working are poor (or lack health insurance), the case for government support becomes much stronger. Once again, then, the assessment of activation depends very much on how such measures are constructed.

The thin, neo-liberal strategy attributes unemployment to personal failings or excessively generous benefits, rather than broader social and economic factors. It, therefore, emphasizes cutting benefits and training opportunities. This approach is guided by the English Poor Law principle of "less eligibility": welfare benefits should be (considerably) less attractive than the worst paid employment. Typically, benefit levels are lowered, as under the Thatcher government, so that claimants will have more incentive to accept a job. In addition, neo-liberals advocate scaling back alternatives to employment, such as training programs and higher education, which are seen as undermining job search and parking the unemployed temporarily in useless programs.

Coercion and control also figure prominently in the neo-liberal approach. Eligibility rules are tightened in an effort to move people off the public rolls. Claimants are forced to meet with caseworkers more regularly (meetings that can be quite unpleasant) and can lose their benefits as punishment for missing meetings or declining job offerings.

The neo-liberal approach emphasizes moving people into jobs, with little regard for the quality of those jobs. The main metric of "success," under this approach, is the reduction in welfare caseloads, as opposed to improvements in the living standards of welfare leavers. A second measure of success is the reduction in government spending, made possible by shrunken welfare rolls. Relatedly, the work-family tensions arising from paid employment, such as childcare and elderly care, are seen largely as a "private" matter to be handled by individual, rather than the government.

The thin, neo-liberal approach is most closely approximated by the 1996 welfare reform in the United States (Weaver 1998; Weir 1998; Weaver 2000). The title of the US legislation, The Personal Responsibility and Work Reconciliation Act of 1996 (PWORA), reflects the emphasis on personal failings as the root cause of poverty and unemployment. The central objective of the 1996 reform was to move people off welfare. Again, the language was revealing: Aid to Families with Dependent Children (AFDC), the welfare program dating to the 1930s, was replaced by *Temporary* Aid to Needy Families (TANF). The 50 states administering welfare were required to cut their caseloads by 50 percent by the year 2002 or else face steep penalties. By contrast, no targets were set for the earnings and living standards of welfare leavers. Indeed, states were not even required to collect data on plight of former beneficiaries.

The 1996 welfare reform was also supposed to save money – an estimated $52 billion over a five-year period, primarily by denying benefits to legal immigrants, reducing spending on food stamps, and tightening eligibility for Supplemental Security Income (Weaver 1998). The legislation capped the federal government's financial commitment to welfare. PWORA replaced AFDC's open-ended federal commitment to match state spending on welfare recipients with a block grant: if welfare rolls surged, it would be the states, rather than the federal government, that would foot the bill. Moreover, since the federal grant is not indexed to inflation, it has declined in real terms by around 20 percent since 1996.

While greatly increasing the obligations on welfare mothers, the 1996 legislation provided little in the way of support services. In moving from welfare to work, claimants often fall between two health insurance stools, earning too much to qualify for Medicaid, but holding low-end jobs that do not provide health insurance. Since single mothers, by definition, have children, they also confront increased outlays for childcare. Transportation to and from work represents a further need. Yet the 1996 legislation offered scant help with these challenges. As two scholars wryly note, "Expanded access to assistance for working families was in no way mandated by TANF" (Gais and Weaver 2002: 39).

The 1996 welfare reform in the US incarnated the thin, neo-liberal approach. Benefits and government spending were cut; states were required to reduce caseloads, but not to improve the well-being of welfare leavers (or even to track their status); and while tightening work requirements, US authorities provided little in the way of accompanying services or benefits, such as childcare. Yet welfare-to-work programs need not be conducted in the harsh US manner. In several European countries, such reforms have been conducted with more generous intentions and supportive public policies. As described in the previous section, Britain's "New Deals" intensified job search requirements, but were accompanied by a number of measures to make work pay for those who entered the labor market: a higher minimum wage, childcare subsidies, assorted tax breaks and credits.

Recent reforms in Sweden extend the "thick" approach to activation further still (Levy 2004a). The Swedish strategy has revolved around three sets of policies. The first has been the commitment to traditional "active labor market policy," as pioneered by Sweden in the 1950s: heavy investments in job training, job matching, and geographical relocation for displaced workers (Hort 2001). This approach was bolstered during the 1990s, by the "Adult Education Initiative," which allowed the unemployed to pursue higher education full-time while still receiving their unemployment benefits. The university population doubled in the 1990s (Björklund 2000), and many young Swedes were able to reenter the labor market with a stronger knowledge and skill base.

The second strand of Swedish activation was a reform of the unemployment insurance system in 1999 (OECD 2001a; Swedish Government 2002). The reform established a so-called "activity guarantee." This initiative corresponded more closely to the thin neo-liberal approach, tightening supervision and increasing the demands on claimants. Even so, the activity guarantee was not entirely coercive. The reform simultaneously increased unemployment benefits by up to 30 percent and was supported by the LO trade union.

The "activity guarantee" was designed to remedy the problem of the quaintly-named "benefits carousel." Formally, unemployment benefits in Sweden expire after two years. In practice, however, whenever benefits were about to end, recipients would be placed in a training program. They would remain in the program for six months, thereby requalifying for another two years of unemployment benefits. Thanks to this "carousel," there was no effective time limit on the receipt of unemployment benefits. Another problem with the "benefits carousel" was that the unemployed received the attention of public authorities only at the end of their two-year benefit period. The rest of the time, they were left to their own devices. This benign neglect by public authorities created opportunities for fraudulent unemployment claims. It also left many unemployed workers isolated, discouraged, and depressed.

The "activity guarantee" broke with the logic of the "benefits carousel" and lax public supervision. After 100 days of unemployment, claimants are no longer allowed to remain at home. They must be "active" for eight hours per day, with "activity" defined as a job, a training program, a public internship, or some other kind of structured routine outside the home. The "activity guarantee" has helped some unemployed people by providing contact with caseworkers and placement opportunities. It has also made it more difficult to cheat the system. Claimants can no longer receive unemployment benefits while holding a job under the table, since they must account for their actions eight hours per day. Not coincidentally, recent Swedish statistics reveal a sharp drop-off in the unemployment rolls at the 100-day mark.

The third dimension of the Swedish activation strategy has centered on carrots, instead of sticks. The goal has been to reduce the financial penalties on employment – to lessen the "poverty trap," as it is commonly called. The thin neo-liberal strategy for "making work pay" is to slash unemployment benefits (the principle of "less eligibility"), while perhaps tendering some kind of tax credit to low-income earners. As we have seen, Sweden increased unemployment benefits, rather than cutting them. Consequently, in order to "make work pay," Swedish authorities needed to also boost the financial pay-off from holding a job.

One way of "making work pay" has been to reduce taxes on labor income. A 7-percent employee payroll tax, which had been imposed as part of the austerity measures of the 1990s, was phased out over a four-year period, from 1999 to 2003 (Swedish Government 2002). This change put money in the pockets of Social Democratic constituents, while also increasing the pay-off for moving from welfare to work.

Swedish authorities have done more than cut taxes. They have also lowered "taper rates," that is, the rate at which transfer payments are withdrawn when a claimant earns money from work. Swedish policy has always been based on the assumption that the best way to combat poverty is to allow people to combine government transfer payments with earnings from work. This orientation is especially important for single mothers, who often can only work part time because of their child-rearing responsibilities. Poverty rates among single-parent households have been kept at very low levels by allowing lone parents to combine earnings from a (typically part-time) job with social benefits (Gustafsson 1995).

The third way in which Swedish authorities have increased the returns to employment has been by phasing out means-tested benefits. Swedish Social Democrats despise means-tested programs, not only because they see such programs as stigmatizing, but also because the means test functions as an additional income tax, one that is concentrated on the poor. Typically, as a person moves from welfare to work, means-tested benefits are reduced, sometimes drastically. Most Swedish social programs are, therefore, organized on a universal basis. In contrast to the United States, the unemployed in Sweden do not have to worry that they will lose health care or childcare benefits should they take a job, since these benefits are available to all citizens at little or no cost. Nonetheless, means-tested programs have always existed around the edges of the Swedish welfare state, and they were expanded in the 1990s, as fiscal austerity made it more difficult to provide universal benefits at an adequate level. With the return to more flush fiscal times in the past few years, the Social Democrats have made it a priority to curtail means testing.

In 2002, a sliding scale for childcare fees was replaced by the "maximum fee," which limits the maximum parental contribution to about £100 per month, cutting costs for the average family by 40 to 50 percent (OECD 2001a; Swedish Government 2002). Children of the unemployed also became eligible for public childcare, so that their parents would be able to search for work. The Social Democrats attempted to reform another means-tested program, the housing allowance. Arguing that housing costs are primarily a problem for households with one income, they proposed to turn the means-tested housing allowance into a non-means-tested benefit for single mothers. Even in "woman-friendly" Sweden, however, this proposal proved politically unfeasible. As a fallback, the Social Democrats have frozen the housing allowance, allowing it to wither on the vine, while channeling the savings into a universal child allowance that is not means-tested. The result, again, is to phase out means testing.

The thick, Swedish approach to activation has activated public authorities as well as the non-employed. Under the "activity guarantee," the non-employed are held accountable for their actions during the workday. But the government is also held accountable. The unemployment benefits of people who genuinely cannot find jobs have been increased by up to 30 percent. Swedish public authorities also forged expensive new instruments, such as the Adult Education Initiative, to boost the human capital and employment prospects of job seekers. Most important, the Social Democrats retooled public policies across a range of areas to improve the financial returns from employment: lowering taxes on labor; allowing people to combine substantial earnings from work with social transfers; providing high-quality, universal services virtually free of charge; and phasing out means-tested programs. In short, the thick, Swedish policy has been geared not only to move people from welfare to work, but also to improve their welfare in the process.

The punitive, US approach to labor market activation is understandably unappealing to progressives, but it is not the only option. A more humane and supportive approach is also possible. The thick activation strategy deployed in Holland, Sweden, and Britain under New Labour moves beyond the thin, neo-liberal agenda of coercion, "less eligibility," and scaled-back state protections. It regulates as well as deregulates labor markets; it promotes good jobs as well as more jobs; it increases the income and opportunity of the activated as well as their obligations; and it forces state authorities to rethink and expand their interventions across a range of policy areas, including areas outside formal labor market policy (taxation, social services, and means-tested benefits, to name just a few). In short, thick, progressive liberal activation represents a very different set of policies, with very different economic and social consequences, as compared to thin, neo-liberal activation. It offers a valuable set of policy instruments for improving the lot of the disadvantaged.

Section 5: Conclusion

This chapter has identified the elements of a progressive approach to economic liberalization. The hallmark of progressive liberalism is the effort to reconcile the pursuit of economic efficiency through liberal, market-supporting reforms with traditional leftist distributional commitments to low-income and disadvantaged groups. Progressive liberalism has generally been the product of constrained or corrective left governments that are compelled for political or economic reasons to move in a liberal direction, but determined to allocate the costs and benefits of such reform in an equitable manner.

The progressive liberal reforms of constrained or corrective European governments have differed in fundamental ways from the harsh neo-liberal strategies of Margaret Thatcher, Ronald Reagan, and George W. Bush. The austerity budgets of Italy and Sweden extracted the largest savings from what I call “vices,” that is, programs that either privileged affluent groups or had evolved in unintended and undesirable directions. The tax relief of France, Holland, and Britain concentrated reductions on low-income wage-earners, yielding both a social benefit in the form of lower poverty and increased take-home pay for those at the bottom of the income scale, and an economic benefit in the form of improved work incentives and wage moderation that facilitated further hiring. Finally, the labor market activation programs of Holland, Sweden, and Britain increased employment levels, but also the living standards and workplace rights of those who took jobs. In short, under progressive liberal reforms, efficiency and equity have advanced together.

The findings of this chapter point toward three theoretical conclusions. The first is that there are varieties of economic liberalism. Neo-liberalism is a subset of liberalism, not a synonym. There is more than one way to reduce government spending, alleviate the tax burden, and encourage labor market participation. Progressive liberalism achieves these goals, while safeguarding or even enhancing Rawlsian distributional priorities. It represents a different kind of liberalism, not a diminished liberalism.

The second conclusion relates to the strategies of left parties. It is often argued that in the contemporary context of globalization, European integration, and intensified competition, left parties must shift their programmatic strategies from economic or “material” issues to “post-materialist,” lifestyle issues (Kitschelt 1994). The optimal strategy is to more or less accept the neo-liberal economic agenda of the right, while seeking to carve out a distinct identity in the post-materialist arena. To be progressive today is to combine neo-liberal material policy with liberal, pluralistic post-materialist policy (i.e. support for environmental protection, feminism, gay rights, and outreach to minorities and immigrants). Certainly, there are plenty of good reasons for supporting a post-materialist agenda, but as the experience of Gerhard Schroeder in Germany suggests, such an agenda may not be enough to secure re-election (and some post-materialist issues, like outreach toward immigrants, are probably electoral losers, even if justified for other reasons). More important, this chapter has demonstrated that the left can still appeal to the electorate on material issues, even in a context of globalization and economic liberalization. Accepting economic liberalism need not mean accepting the distributional priorities of the right. Contrary to Mrs. Thatcher's assertions, "There Is a Progressive Materialist Alternative" to neo-liberalism (TIAPMA, not TINA) – and that alternative is progressive liberalism. Consequently, whatever the virtues of post-materialist reforms, such reforms should be seen as a complement to a progressive material agenda, rather than an alternative.

The third conclusion concerns the relationship between politics and economic liberalization. By and large, this relationship is portrayed in binary terms: political leaders can either accept and accommodate economic liberalization or they can resist it (Keohane and Milner 1996; Friedman 1999). This chapter suggests a third possibility: political choices can define the character of economic liberalization, its contours and distributional implications. Given that there is more than one way to liberalize, it is politics that selects among these alternatives. It is politics that determines the extent to which liberalizing strategies approximate progressive liberalism as opposed to neo-liberalism. Simply put, the decision to pursue economic liberalization is not where politics ends; it's where politics begin. Thus, it is politics, not some overarching logic of globalization or competitiveness, that has and will continue to structure the kind of society in which we live.

FIGURE 1 – PROGRESSIVE LIBERALISM IN COMPARATIVE PERSPECTIVE

	BENEFICIARIES OF STATE POLICIES	
AGENT OF ECONOMIC COORDINATION	LOW-INCOME GROUPS	HIGH-INCOME GROUPS
STATE	*SOCIAL DEMOCRACY* - Socialism: nationalizations, codetermination - Redistributive Keynesianism - Social Democratic welfare state 1	*DEVELOPMENTAL STATE* - Industrial policy, protectionism, cheap credit - Crony capitalism - Christian Democratic welfare state 2
MARKET	3 *PROGRESSIVE LIBERALISM* - Cuts in dysfunctional government programs and programs for affluent groups - Tax cuts for wage earners - Reduced protections for	4 *NEO-LIBERALISM* - Across-the-board spending cuts or cuts for programs on low-income groups - Tax cuts for the affluent - Reduced protections of

	the non-employed, along with increased benefits for the employed	workers and benefits for the non-employed

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[ii] Throughout this essay, it should be clear that I am using the word "liberalism" in the European sense -- a belief in limited government, maximum individual liberty, and free markets -- as opposed to the contemporary US usage, conveying faith in government activism and social programs. I mean the liberalism of John Locke, Adam Smith, or *The Economist* magazine, not of Lyndon Johnson and Edward Kennedy. The closest American approximation of the concept would probably be "libertarianism."

[iii] In addition to written sources, this account is based on interviews with Swedish officials in the finance ministry, prime minister’s office, and parliament, as well as business and labor leaders, in June 2000 and March 2002.

[iv] In addition to written sources, this account is based on interviews with French officials in the finance ministry, the prime minister’s office, and the Socialist party in June 2000, June 2002, and June-July 2004.

[v] In addition to written sources, this account is based on interviews with Dutch officials in the finance ministry and Labor party in March 2002.

[vi] Less discussed in the economic literature is a potential “national dividend”: to the extent that countries import energy resources, environmental taxes will reduce transfers to (foreign) suppliers of energy, bolstering the balance of payments.

[vii] In addition to written sources, this account is based on interviews with British officials in the treasury, prime minister’s office, and Labour party in June 2000 and June 2002.

[viii] Without denying that men are sometimes the primary care givers, for purposes of linguistic simplicity, I am equating care-givers/part-time workers with women and breadwinners/full-time workers with men.

[ix] Perhaps for this reason, Dutch women voice considerable satisfaction with part-time work. According to a recent survey, only 7 percent of part-time female employees wish to work full-time; conversely, 35 percent of those working full-time would like to work part-time (Survey cited in OECD 1998: 36). In other words, if the Dutch labor market perfectly mirrored the expressed preferences of the female population, the result would be *more* women working part-time, not fewer. This satisfaction with part-time work may be a product of false gender consciousness among Dutch women or the absence of quality child-care facilities that would make full-time work more attractive. Still, one cannot ignore the fact part-time employment is unusually attractive in the Netherlands, owing to the alignment of (hourly) wages and benefits on the rates paid to full-time workers. Indeed, part-time employment is not just attractive to women. One-sixth of all Dutch men work part-time, the highest figure in the OECD by far and more than double the OECD average.