1 Introduction

Federalism and the welfare state

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Now let us take the oath of this new federation. We will become a single land of brothers, nor shall we part in danger or distress.

Friedrich Schiller (1759–1805), Wilhelm Tell 1804, part 2, scene 2 – founding oath of the Swiss confederacy, attributed 1291

The federalism I have in mind – real federalism – aims to provide citizens with choices among different sovereigns, regulatory regimes, and packages of government services . . . The citizens’ ability to vote with their feet and to take their talents and assets elsewhere will discipline government in the same way in which consumer choice, in nonmonopolistic markets, disciplines producers.


The ideal that all citizens share responsibility for the welfare of their fellows, and the impulse to unite in federations have, on occasions, been historically conjoined. The founding myth of Swiss federalism, as recounted in Schiller’s Wilhelm Tell, literally makes solidarity ‘in danger or distress’ a proviso for membership in a budding thirteenth-century federation.

* We thank Martha Derthick, Susan Gaines, Hugh Heclo, Paul Pierson and R. Kent Weaver for their valuable comments and help.

** ‘Laßt uns den Eid des neuen Bundes schwören. Wir wollen sein ein einzig Volk von Brüdern, in keiner Not uns trennen und Gefahr.’ Based on the translation by William F. Wertz, Jr, Internet Modern History Sourcebook. Schiller’s play about the founding myth of Swiss federalism helped to popularize federalist thinking in the German-speaking world. According to the story, Wilhelm Tell liberated Switzerland from the Habsburg tyrant, Hermann Gessler, using just an apple, a crossbow and his son’s steady nerve.
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Federalism and social policy

Recent comparative welfare state research has acknowledged the importance of state structures in explaining cross-national variation in both the level and the dynamics of social policy formation. And yet the precise nature of this co-evolution of federalism and the welfare state, and the particular national combinations of state structures and social policy to which it gave rise, have not been subject to systematic, comparative investigation. As Paul Pierson noted in 1995, ‘comparative work on federalism is rare and comparative research on the impact of federalism on social policy is non-existent’. This volume bridges the gap by analyzing how the six major democratic federations of the ‘OECD world’ have organized their welfare states and how they manage their social policy.

More specifically, we explore the impact federalism has had on the development of their welfare states and patterns of welfare provision. Did the prior existence of federal institutions impede the early adoption and subsequent growth of welfare programmes, as economists and political scientists have maintained whenever they have touched upon the theme? And has this also been the case in the modern era of expenditure retrenchment and social policy reform? By analyzing how federal institutions in different countries have affected social policy development in the past, and the extent to which the growth of the welfare state has, in turn, influenced the form and functioning of federalism, we hope to provide a basis for understanding how political decentralization and social policy are likely to interact in the future. Our working premise is that the impacts of federalism on welfare state development are multiple, time dependent, and contingent on a number of contextual parameters, including, most conspicuously, the design of federal institutions and the power resources of social and political actors.

At first glance, the institutional arrangements of contemporary federalism and welfare states seem to fulfill antithetical functions. Federalism is an institutional device designed to secure unity by allowing a certain degree of diversity, whereas the primary goal of the welfare state is normally to enhance equal social rights for all citizens. Federalism and the welfare state thus seem to be at the opposite ends of a diversity–uniformity continuum. In federal polities, ‘citizens within the same federal state will enjoy and experience different benefits and burdens’.1


Central to the idea of social protection is the provision of nation-wide uniform social rights that supplement basic civil and political rights. Admittedly, social insurance states historically included a number of schemes for a vast range of occupationally differentiated social strata, but this differentiation typically diminished as welfare states matured. Hence one may assume that social policy in federal states generates multiple tensions and is prone to conflicts over who should get what, which tier of government should be entrusted to set up social programmes and – probably most important – which level of government should bear the costs of the spending involved.

In this book we examine how the act of sharing (social) policy responsibilities between central and sub-governments affects the process of social policy-making and social policy outcomes at different stages of welfare state development and vice versa. Since federalism and the welfare state have undergone considerable transformation over time, we distinguish early welfare state consolidation and the expenditure growth of the ‘golden age’, collectively labelled the ‘old politics of the welfare state’, from the welfare state development of more recent decades, described by Paul Pierson as the ‘new politics of the welfare state’. With regard to the ‘old politics’, there is a consensus in the comparative literature that federalism is an impediment to welfare state expansion: ‘In fact, one might point to the federalism/social policy linkage as one of the very few areas of unanimity in the literature, with writers from all the main competing explanatory paradigms arguing that federal institutions are inimical to high levels of social spending.’ This is a far cry from the brotherly spirit of early federalism’s founding myths, immortalized by Schiller. Rather, the consensus is one which is, seemingly, consistent with what Michael Greve calls ‘real federalism’, which, in the spirit of the twenty-first century, reinvents federalism as just another private market, where choice and competition are supposed to keep the government under control, and the citizens healthy, wealthy and wise.

The conclusion that federalism is inimical to high levels of social spending comes from the macro-quantitative literature. The studies that have


5 Francis G. Castles, Comparative Public Policy. Patterns of Post-War Transformation (Cheltenham: Edward Elgar, 1999), p. 82.

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matured in this literature provide empirical evidence that federal countries *ceteris paribus* spend less on social policy objectives than do unitary states. Employing a technique called Qualitative Comparative Analysis (QCA), Kittel and colleagues also find that democratic federalism has delayed the introduction of social security programmes at central state level. Thus, the picture that emerges from comparative macro-quantitative and macro-qualitative research is that federalism limits the growth of the welfare state. But does an analysis of social policy in individual federal states support this conclusion? Federal states appear to spend less on social programmes than do non-federal states – but is there evidence that federal mechanisms have actually retarded welfare growth? Here, rather than focussing exclusively on outcomes, we seek to identify processes and historical conjunctures in particular countries. If federalism has indeed hindered the development of welfare states, then *how* has it done so? Are similar mechanisms at work in different countries, and is there any pattern to those mechanisms?

The ‘new politics’ paradigm refers to a new logic of social policymaking in an era which some have described as ‘an age of austerity’ and others as a ‘silver age’ of welfare state containment and cutbacks. Rising


unemployment rates, increasing public debt, declining economic growth, globalization and changing demographics, as well as shifting occupational structures, have increased pressure on advanced welfare states, prompting social policy reform in many countries. Paul Pierson argues that the politics of welfare state retrenchment in what he describes as an era of ‘permanent austerity’ is quite distinct from the political processes underpinning earlier welfare state expansion – the old politics of the welfare state. Consequently, ‘research on the “golden age” of social policy will provide a rather poor guide to understanding the current period’.9 In other words, an understanding of the forces that facilitate and hinder the growth of programmes in the ‘golden age’ of welfare capitalism will not help us understand social policy-making in hard times.10 Indeed, Pierson argues that a new logic of politics is responsible for the remarkable resilience of the welfare state over the last two decades. This logic is driven by a politics of blame avoidance11 that has restrained politicians from trying to retrench the welfare state, given that such efforts invite electoral retribution. Politicians seeking office or re-election either refrain from welfare state retrenchment altogether, or pursue strategies of retrenchment by stealth. Central to this new politics approach is a focus on strategies of blame avoidance, including obfuscation; division and compensation; and excessively complex policy reform packages designed to diffuse responsibility for unpopular retrenchment initiatives and reduce the visibility of painful benefit cuts.12

With respect to this new politics of the welfare state, the question is whether federalism supports or hampers retrenchment policies. There is no consensus in the theoretical literature on this issue, and – compared with the findings for the ‘golden age’ period – the empirical evidence is far less clear cut. While some studies still locate the expenditure retarding effect of constitutional veto points over the past two decades,13 others suggest that this effect disappears in times of austerity.14 Given a

theoretically ambiguous impact of federalism on retrenchment policies and empirically inconsistent findings, the contributions in this volume use their analyses of policy development in individual countries to investigate the possibility of a distinct federalism effect. One hypothesis, derived from research on both the ‘old’ and ‘new politics’ of the welfare state is that federalism consistently exercises an institutional ‘ratchet effect’, hindering the development of new welfare states and hindering retrenchment initiatives in mature welfare states.

Another major theme of this study is the reciprocal relationship between federalism and the welfare state. Analyzing Canadian social policy in recent decades, Michael Prince reports that ‘changes in social policy have changed Canadian federalism’. We are interested in both aspects of the feedback loop: not just the way politics shapes the growth of social policy, but also how the development of social policy modifies the growth of the state. The welfare state is often seen as the source of a growing centralization of government and of an increasing complexity of inter-governmental relations with respect to funding arrangements across, and the division of labour between, different branches of government. In Germany, for instance, the growth of the welfare state and a developed ‘financial equalization’ (revenue sharing) scheme have been held responsible for triggering the transformation from inter-state to intra-state federalism. It is also possible that, in multi-ethnic federations, social policy may serve as the cement for reducing the depth of political cleavages. Here the welfare state, by generating mass loyalty, might contribute to the containment or reduction of centrifugal forces endangering social and political cohesion. Such feedback effects have not been widely addressed in the comparative literature to date.

This book employs a ‘most similar’ systems design, focussing on six democratic and affluent federations. In alphabetical order they are: Australia, Austria, Canada, Germany, Switzerland and the United States of America. Table 1.1 identifies the basic political and economic attributes of these six countries.


### Table 1.1 Basic political and economic features of six OECD federations

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>Austria</th>
<th>Canada</th>
<th>Germany</th>
<th>Switzerland</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democratic federation</td>
<td>1901</td>
<td>1920–34/1945</td>
<td>1867</td>
<td>1919–33/1949</td>
<td>1848</td>
<td>1789</td>
</tr>
<tr>
<td>Type of state</td>
<td>Monarchy</td>
<td>Republic</td>
<td>Monarchy</td>
<td>Republic</td>
<td>Republic</td>
<td>Republic</td>
</tr>
<tr>
<td>Regime type</td>
<td>Parliamentary</td>
<td>Parliamentary</td>
<td>Parliamentary</td>
<td>Parliamentary</td>
<td>Republic</td>
<td>Republic</td>
</tr>
<tr>
<td>Population 2003 (millions)</td>
<td>19.73</td>
<td>8.19</td>
<td>32.21</td>
<td>82.40</td>
<td>7.32</td>
<td>290.34</td>
</tr>
<tr>
<td>Real GDP per capita 2002 (ppp)</td>
<td>25,900</td>
<td>27,900</td>
<td>29,300</td>
<td>26,200</td>
<td>32,000</td>
<td>36,000</td>
</tr>
<tr>
<td>Society</td>
<td>Homogeneous</td>
<td>Homogeneous</td>
<td>Heterogeneous</td>
<td>Homogeneous</td>
<td>Heterogeneous</td>
<td>Heterogeneous</td>
</tr>
<tr>
<td>Number of constitutional units</td>
<td>6 states and 2 territories</td>
<td>9 Länder</td>
<td>10 provinces and 3 territories</td>
<td>16 Länder</td>
<td>26 cantons</td>
<td>50 states</td>
</tr>
<tr>
<td>EU membership</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

Legend: ppp = purchasing power parities.
Source: Data for GDP per capita are measured in purchasing power parities and are from the CIA World Factbook (Washington, DC: CIA, 2003; accessible on the web).
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These countries are not only amongst the wealthiest nations in the world, but also exhibit – Germany and Austria excepted – a long democratic and federal record. According to Arend Lijphart and Hans Keman,17 they form a distinct cluster within the OECD world, because they are both federal and relatively fiscally decentralized. Other democratic federations, such as India and Venezuela, are excluded because of their low levels of economic development, while Spain and Belgium, although interesting cases in various ways, are not examined here because their federalisms are of too recent a vintage to have had an impact on the ‘old politics’ of the welfare state.18

In the next section we provide an overview of the varieties of federal institutions and welfare states in the countries featuring in this study. We then review a range of public choice and institutionalist theories, and use them to derive hypotheses concerning the impacts of federalism on welfare state development. Examining these theories and the variety of federalisms in conjunction, we develop our main argument that federalism does not affect welfare states uniformly across time and space. We conclude the section by identifying the contextual factors that make these hypothesized impacts more or less likely to come about.

Varieties of federalism

What is federalism?

According to Ivo Duchacek there is ‘no accepted theory of federalism. Nor is there agreement as to what, exactly, federalism is. The term itself is unclear and controversial.19 However, all existing federations exhibit several common institutional characteristics,20 which allow us to classify them more readily. Taking a broader view we may describe federalism as


18 Spain and Belgium may, however, be a model for the future, since the federalisms of the twenty-first century are likely all to be fragmenting unitary states rather than original federal start-ups. We will return to this point in the conclusion.


Introduction

1. a set of institutional arrangements and decision rules at central government level for incorporating territorially based interests; these arrangements vary in the degree to which they provide veto powers to subordinate branches of government
2. a set of territorially based actors with ideas and interests who vary greatly in number and heterogeneity
3. a set of jurisdictional arrangements for allocating policy responsibilities between different levels of government; this refers to both policy-making and policy implementation
4. a set of inter-governmental fiscal transfer arrangements
5. a set of informal arrangements – both vertical and horizontal – between governments

This categorization of federal arrangements makes clear that federalism is a very complicated form of government. There are at present twenty-three federal states comprising about 40 per cent of the world’s population. Approximately half the population of the world’s most advanced (OECD) welfare states live under federal rule. Despite divergent terminologies employed and a lively debate over the appropriate demarcation between federations and other forms of government, federalism is generally acknowledged as an institutional device for the vertical separation of powers, which splits jurisdiction along territorial lines. According to Riker’s famous definition, ‘the activities of government are divided between regional governments and a central government in such a way that each kind of government has some activities on which it makes final decisions’. This definition has some potentially interesting implications for particular areas of policy, including the welfare state. If, in a given area of policy, there is no such division of decision-making power, is it federal in respect of that policy area? In a similar vein, Duchacek emphasizes the non-centralization of power as the crucial element of federal politics. In his view, a federal system is ‘a constitutional division of power between one general government (that is to have authority over the entire national territory) and a series of sub-national governments (that individually have their own territories, whose sum total represents almost the whole national territory)’.

24 Duchacek, Comparative Federalism, p. 194.
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To enforce such a vertical separation of power and to keep a system of shared responsibilities working, all federations have established a set of secondary federal institutions. First, all federations have a written constitution that is difficult to amend. Second, a supreme court acts as an umpire to settle conflicts between different branches of government. Third, the constitutional units participate in the federal policy process. With respect to legislation, most federations have a bicameral legislature with a strong second chamber representing the constitutional units, granting them—or, in certain instances, their populations through the ballot box—veto and deadlock powers. Finally, there are many formal and informal inter-governmental networks of cooperation addressing common problems that affect different levels of government and/or several constituent units.

Federalism has distinct functions. One, which is articulated in the Federalist Papers (Federalist No. 51), involves the establishment of a system of checks and balances designed to prevent the concentration of political power and to secure political and economic freedoms. Wherever this idea prevailed—as it did in most of the British colonies of settlement—institutions of inter-state federalism emerged to constrain the Leviathan. A second function of the territorial division of power, which is primarily relevant for large states, is to bring government closer to the people. Finally, federalism can be seen as an institutional device for successfully managing societal and ethnic cleavages by giving minorities a large degree of autonomy, as is the case in Switzerland and Canada. On the whole, Switzerland and the USA represent the extreme limits in respect of the functions attributed to federalism. Whereas federalism in the USA strongly emphasizes competition between the states, Switzerland’s federalism is an institutional arrangement originally designed to settle conflicts resulting from multi-dimensional societal cleavages and to protect minorities. As a consequence, the Swiss variant of federalism rests upon local autonomy rather than on regional competition.

Families of nations and types of federalism

The six countries under scrutiny can be seen as members of two distinct ‘families of nations’, with common cultural, historical and geographical attributes productive of quite similar public policy patterns. The

26 See Duchacek, Comparative Federalism, p. 198.
27 Linz, ‘Democracy, Multinationalism and Federalism’.
28 Wolf Linder, Schweizerische Demokratie (Bern: Haupt, 1999).
29 Francis G. Castles, ed., Families of Nations: Patterns of Public Policy in Western Democracies (Aldershot: Dartmouth, 1993); Castles, Comparative Public Policy.