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978-1-107-00563-1 - Comparative Welfare State Politics: Development, Opportunities, and Reform

Kees Van Kersbergen and Barbara Vis

Excerpt

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## I

## Introduction

*The Political Opportunities and Constraints  
of Welfare State Reform*

## I.I. BIG QUESTIONS

Thursday, 1 December 2011: in Greece schools are closed, hospitals are staffed with emergency personnel, and public transport has come to a near standstill as a result of the first strike against a new and broad coalition government, which aims to push through a tough retrenchment and welfare state restructuring program in an attempt to come to terms with the country's sovereign debt crisis.

Wednesday, 30 November 2011: 29 unions in the United Kingdom (UK) organize one of the biggest nationwide strikes in 30 years. Approximately 2 million public sector workers block services (including hospitals and schools) as a protest against the government's plan to retrench pensions.

Sunday, 20 November 2011: the new Danish center-left government presents a budget plan that proposes public investments to kick start the economy and major reforms in active labor market policies to fight unemployment. Following tradition, the main opposition party supports the law.

Wednesday, 16 November 2011: United States (US) senator Bernie Sanders gives a remarkable speech, which is worth quoting at some length:

There is a war going on in this country.... I am talking about a war being waged by some of the wealthiest and most powerful people in this country against the working families of the United States of America, against the disappearing and shrinking middle class of our country. The reality is that many of the nation's billionaires are on the war-path, they want more, more, more. Their greed has no end.... The reality is that many of these folks [the wealthy] want to bring the United States back to where we were in the 1920s. And they want to do their best to eliminate all traces of social legislation, which working families fought tooth and nail to develop to bring a modicum of stability and security to their lives.... While we struggle with a record breaking deficit and a large national debt, caused by the wars in Iraq and Afghanistan, caused by tax breaks for the wealthy ... caused by the Wall Street bailout, driving up the deficit, driving up

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the national debt, so that people can say oh my goodness, we have got all of those expenses and then we got to give tax breaks to millionaires and billionaires, but we want to balance the budget. Gee, how are we going to do that? Well, obviously, we know how they are going to do that. We are going to cut back on health care ... education ... childcare ... food stamps, ... we surely are not going to expand unemployment compensation, ... we got a higher priority, ... we have got to, got to, got to give tax breaks to billionaires.<sup>1</sup>

Welfare state reform occurs in all advanced capitalist democracies, but not everywhere to the same extent and degree, in identical ways, or with similar consequences. In some welfare states, such as a couple of continental European countries (see, e.g., Palier 2010a; Hemerijck 2013) or in Denmark (Larsen and Andersen 2009), social policy adjustments have been radical and path-forming (Hay 2011) by breaking with habitual courses of development and by taking groundbreaking new directions. In other cases, such as in most other continental countries, reform has been smaller, slower, derivative, and very often incomplete – in short, path-dependent. In yet other cases, such as the United States, policies have been allowed to “drift” (Hacker 2004; Hacker and Pierson 2010) as a result of deliberate political decisions to abstain from adjusting social policies or tax policies even if the social outcomes – for instance, high and still rising inequality – are clearly not in congruence with the original policy goals. Interestingly, in some cases, as the examples of the United Kingdom, the United States, and Greece signify, welfare state reform is accompanied by deep social conflicts and harsh political struggles, whereas in other cases, such as in Denmark but also Sweden, reform seems a relatively smooth and balanced process of policy learning and comparatively consensual politics (for a review of the literature, see Starke 2006).

What explains these differences? In this book we try to uncover, map, and explain the political opportunities and constraints of contemporary welfare state reform in advanced capitalist democracies. Welfare states come in different shapes and sizes; they are constructed on diverging conceptions of social rights and duties; some stress equality and solidarity, others freedom; and the range of policy objectives is vast and widely dissimilar. Still, we agree with Barr (2004: 7) that in a general sense welfare states exist “to enhance the welfare of people who (a) are weak and vulnerable, largely by providing social care, (b) are poor, largely through redistributive income transfers, or (c) are neither vulnerable nor poor, by organizing cash benefits to provide insurance and consumption smoothing, and by providing medical insurance and school education.” Enhancing the welfare of vulnerable groups of people in society and offering or facilitating social protection for all is what a welfare state is about.

We define welfare state reform in a similarly broad manner, namely, as change, in any direction, in the organization and implementation of the amalgam of

<sup>1</sup> <http://euwelfarestates.blogspot.com/2011/11/inequality-and-politics-of-welfare.html> (Accessed December 2011).

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social policies (benefits and services) that make up a nation's welfare arrangements and that are to enhance welfare and offer protection. Welfare state reforms have many appearances. One is *retrenchments*, which roll back social protection and other welfare state interventions and are meant to increase citizens' market dependence. The lowering of benefits and the tightening of eligibility criteria of social insurances are examples of this. We regard as a subcategory of retrenchment those reforms that aim at *containing the rising costs* due to rising demand of a program (e.g., sick pay) or of an entire sector (e.g., health care). Furthermore, there are *adaptations* that are meant to modify existing policies so that they can continue to do what they have been doing. Another form concerns social policy *updates* or *recalibrations* (Pierson 2001a) that aim to amend or renew the existing policy instruments in an attempt to respond to new social risks or political demands. The expansion of family policies to facilitate the growing participation of women (mothers) on the labor market is an example of updating. *Restructuring* is the broad term that we use to indicate the type of reorganization of benefits and service delivery that is undertaken to redefine the relations of power that govern a program, amend the rights and duties of stakeholders and clients, or terminate a policy entirely. An example of restructuring is the transformation of governance arrangements of social security programs, including privatization and marketization. Subsumed under restructuring is what others call *dismantling*, that is, the diminution of the number of policies, the reduction of instruments, and the lowering of intensity (e.g., instrument settings and scope, administrative capacities) (Bauer and Knill 2012: 33–35; Pierson 1994). Increasingly, welfare state reforms involve more than one dimension (Häusermann 2010; Bonoli and Natali 2012a). Häusermann (2010), for example, focuses on the dimensions of benefit levels (retrenchment), the financing mechanisms (capitalization), the privileges of specific occupational groups (targeting), and gender-equality (recalibration) to explain the politics of pension reforms in Continental Europe.

As indicated, *policy drift* may also lead to welfare state reform, usually in the direction of a deterioration of the status quo, but it is an effect of the conscious decision *not* to reform and thus not to adapt policies and instruments to changing circumstances. Hacker and Pierson (2010), for instance, explain the, comparatively speaking, dramatic rise in inequality in the United States in the past decades as a result of such intentional policy drift: “policy change often occurs when groups with the ability to block change effectively resist the updating of policy over an extended period of time in the face of strong contrary pressure and strong evidence that policy is failing to achieve its initial goals” (168). Intentional policy drift, then, is the “politically driven failure of public policies to adapt to the shifting realities of a dynamic economy and society” (170). Unlike simple inaction, which may stem from, for example, a relative unawareness of the changed social and economic circumstances, intentional policy drift assumes knowledge of policy failure and implies that “policy makers fail to update policies *due to pressure from intense minority interests*

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or political actors exploiting veto points in the political process” (170, emphasis in original). This is what Bauer and Knill (2012) define as *dismantling by default*, a strategy of social policy dismantling, which is not based on an overt decision and has low visibility, but which nevertheless has harsh consequences in the long run. For instance, not adjusting benefits to inflation and the increase in wages for a protracted period of time reduces the real value of benefits considerably (Green-Pedersen et al. 2012).

To account for the variation in the politics of welfare reform across countries and over time, we adopt a broad perspective and ask and answer “big” questions about the welfare state. Why did we need a welfare state in the first place? How did we get it? Why did we get different worlds of welfare and do we still have them? What does the welfare state actually do? Why do we need to reform the welfare state? Why is reform so difficult and electorally risky but why does it nevertheless happen? Can and will the welfare state survive the current financial, economic and debt crisis? By focusing on such big questions, for which current comparative welfare state research already offers some – admittedly controversial and in any case still scattered – answers, this book not only brings together central findings of various research fields but also aims to make its own substantial contribution by presenting recent data and new analyses. In other words, the book is explicitly conceived and designed as a cross between a text- or reference book that informs the reader comprehensively about the state of the art in the field of welfare state studies and an academic research monograph that aims to contribute theoretically and empirically to the ongoing debate on the politics of welfare state reform.

Our leading idea is that the opportunities and constraints of welfare state reform depend crucially on the welfare state’s architecture, on its positive and negative social and political feedback mechanisms, on the functional demands placed on it, on the distribution of (political) power, and on the capacity of political actors to design reform packages that are not only functional (i.e., economically efficient and/or socially desirable) but also politically feasible. Moreover, and in marked contrast to that part of the literature that has considered welfare state *stasis* the main explanatory problem, we propose that welfare state *reform* is what has been happening all along. This observation derives from the following counterfactual argument: the fact that the welfare state has survived several crises and so many critical changes in its environment (as we discuss in more detail in Chapters 2, 7 and 8), must mean that it has been permanently reforming (i.e., retrenching, adapting, updating, or restructuring) so as to cope with these changes. If such reform had not occurred, we would be observing much more policy drift or dismantling than we actually do. Welfare state reform is thus not something that only appeared recently, as some suggest (Palier 2010b: 19). As Ringen (1987 [2006 edition]: xlvii) wrote more than 25 years ago, “The welfare state is reform on a grand scale. It is an attempt to change the circumstances individuals and families live under without basically changing society. No less; no wonder it is controversial. *If the*

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*welfare state works, reform works*” (our emphasis). This means that in order to understand welfare state reform, we need to retrace the welfare state’s history and functioning. Specifically, we need to appreciate the origin of the welfare state, why we have different worlds or regimes of welfare, how these regimes function, what the pressures in favor of reform are, why reform is so difficult and politically risky, and why it nevertheless happens. We introduce a broad and *open functional approach to welfare state reform* (see Chapter 2 and more extensively Chapter 6), which stresses that “objective” challenges and pressures for reform emerge from key changes in the international environment (especially globalization) and the domestic context (e.g., the postindustrialization of the labor market). The politics of welfare state reform is the struggle to respond to such pressures and challenges and deal with them.

We draw on a very large body of accumulated welfare state research and related literature to help us uncover, map, and explain the political opportunities and constraints of contemporary welfare state reform in advanced capitalist democracies (for an exhaustive overview of the whole field, see Castles et al. 2010). If we look back at more than four decades of welfare state research, four types of relatively detached fields of research emerge: (1) approaches that focus on the causes of the emergence, expansion, and cross-national variation of welfare state regimes; (2) theories of the “crises” of the welfare state; (3) studies that explain the political and institutional resilience of social policy arrangements, in spite of mounting pressures to change; and (4) attempts to understand the conditions under which reforms take place, in spite of resilience and political and institutional sclerosis (see van Kersbergen 2002; Green-Pedersen and Haverland 2002; Starke 2006; Häusermann et al. 2013). This characterization roughly represents the historical development of welfare state research (say, from the 1960s to the present) and also provides an impression of which research problems have been predominant. This book builds on the conviction that to understand the politics of welfare state reform, we can learn and must benefit from a critical exchange with all four fields of research, aiming at a workable integration of the main insights, and adding to it our open functional approach.

Our broad and open functional approach to welfare state reform is therefore different from many recent and excellent studies of welfare state reform that tend to adopt a narrower focus, for example, by examining a very specific empirical puzzle (e.g., why radical retrenchment occurs, as in Starke 2008; why the welfare state persists, as in Brooks and Manza 2007; or how politics and policies shape insider–outsider divides, as in Emmenegger et al. 2012), by looking at a limited number of countries (e.g., Green-Pedersen 2002; Clasen 2007; Stiller 2010; Afonso 2013; Arndt 2013), by singling out specific welfare state programs (such as pensions, e.g., Lynch 2006; Häusermann 2010), by focusing on differences between parties (Seeleib-Kaiser et al. 2008), or by studying the regulation of unemployment in postindustrial labor markets (as in Clasen and Clegg 2011a). Our approach also differs from those studies that are of

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a normative-theoretical nature and do not pay much attention to empirical substantiation (e.g., Olson 2006), or are really more preoccupied with other issues, such as globalization and neoliberalism (e.g., Ellison 2006), than with the politics of welfare state reform per se. By answering our “big” questions, we map and restate what we know from these and like studies about the politics of welfare state reform. We do so by covering the narrower foci, of course in less detail than more specific studies do, and by integrating them into a single coherent approach. We illustrate our approach empirically and offer a framework that researchers can readily apply for more detailed empirical work.

## 1.2. THE STRUCTURE OF THE BOOK

The welfare state embodies a remarkable transformation in how nations deal with the economic and social problems generated by modernization, in particular industrialization and the emergence of capitalist markets, and most recently globalization and postindustrialization. In Chapter 2, we highlight the notion that capitalism is an extremely dynamic system that persistently tends to penetrate noneconomic areas and permanently generates new “facts” (social needs, risks, disruptions, issues, conflicts) to which political actors must react (Streeck 2012). Moreover, capitalism has an inbuilt tendency to economic fluctuation and crises, which constantly produce new challenges to the welfare state’s status quo. The prolonged period of stagflation of the 1970s and 1980s was but one example of this. It inspired many to question whether the welfare state was capable of surviving capitalism’s dynamics and crises. But the welfare state turned out to be politically and institutionally resilient and much more adaptive than expected. Although many studies focused on explaining the absence of change, we argue that political and institutional resilience and stability should not be confused with the absence of change. In fact, the kind of stability that welfare states displayed can only be understood as a result of a substantial amount of reform, very often in response to compelling pressures to adapt social policies to new requirements (i.e., adaptation) so as to maintain the proper functioning of existing arrangements. To capture this, we introduce our open functional approach, which we elaborate in theoretical detail in Chapter 6.

In Chapter 3, we elaborate what welfare states are for by explaining the welfare state’s different rationales or logics. The use of rationales or logics is a methodological and analytical device that allows us to simplify and stylize the complex political interconnections between the motivations of social and political actors (ideas, interests, power, etc.), driving forces (demographics, democratization, globalization, etc.), public policy considerations (security, health, efficiency, affluence, etc.), values (equality, solidarity, freedom, autonomy, etc.), and causal mechanisms (power mobilization, elections, policy learning, etc.), linking functional demands and pressures to reform. This, in turn, enables us to

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understand the broader context of the political opportunities and constraints of welfare state reform. We distinguish four such rationales or logics. First, the logic of socioeconomic development and modernization, which explains why and how the dynamics of capitalist development tend to challenge and break up existing social arrangements and hence generate functional requirements and pressures to adapt and find a new balance for societal integration. Second, the logic of political integration and state-building, which demonstrates that social policy is also a major instrument of social control and political community and identity building in the hands of ruling elites. Third, the logic of need satisfaction and risk reapportioning, which clarifies that welfare state intervention primarily serves the function of pooling and redistributing social risks. Fourth and finally, the logic of class compromises and redistribution, which shows that the power of social classes and their representatives as well as the political coalitions between them influence the degree and shape of welfare state intervention.

In Chapter 4, we turn to the “big” question of why we developed different worlds or regimes of welfare and assess whether we still have them. First, we describe that Esping-Andersen’s (1990) seminal regime approach developed out of the theoretical and empirical literature on welfare state development, particularly the social democratic variant of the power resources model. This explains the centrality in the regime typology of the concept of decommodification that is meant to capture the extent to which the state substitutes for the market in guaranteeing a decent livelihood. Second, we discuss the methodological tool of a typology, clarify the terms of the debate around Esping-Andersen’s three worlds of welfare capitalism, solve some of the controversies that arise as a result of a flawed understanding of what a typology is or should be, and describe the regime types empirically. Third, we show that the regime classification, with some qualifications, still makes sense analytically and empirically. Finally, we argue that the regime classification lacks a proper theoretical foundation that can explain why we have different worlds of welfare. We defend the classification but provide a better theoretical and historical substantiation.

Chapter 5 asks the “big” question of what welfare states actually do. We show empirically that – perhaps to a remarkable degree – most welfare states do surprisingly well in what they set out to do and all of them provide protection against major social risks, fight poverty, and redistribute wealth from the rich to the poor. Still, there are important and systematic differences across the various regimes, which we map empirically.

In Chapter 6, we pick up the theoretical theme from Chapter 2 and present our open functional approach to welfare state reform in more detail. We explain that functional pressures and demands (i.e., requirements) generate a selective context in which some actors, interests, and ideas are more likely to prevail than others. We take issue with that part of the increasingly recognized constructivist literature that starts from the assumption that ideas

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by themselves are capable of provoking welfare state reform and that also holds that economic and social interests have no separate analytical status. We acknowledge that ideas as causal beliefs matter, but we stress that they only do so in a context characterized by functional requirements. In addition, we argue that strategies, which political actors employ to avoid the blame for unpopular reform, at least partly help explain the fate of welfare state reforms in the context of “objective” pressures. Blame avoidance strategies link an idea to a reform.

The next two chapters identify and map the functional pressures for the different types of welfare state reform. Chapter 7 focuses on a largely exogenous pressure, namely, globalization. We discuss the main perspectives on globalization and show that no matter whether one evaluates its impact positively or negatively, it is a crucial functional pressure “from the outside” that any explanation of welfare state reform needs to take into account. We present descriptive data to show that globalization’s pressure has increased over time but that its impact differs between countries and welfare state regimes. Chapter 8 focuses on endogenous pressures, especially the postindustrialization of labor markets and aging populations, which have revolutionized the traditional, postwar underpinning of welfare states. The exogenous and endogenous pressures discussed in these two chapters constitute the functional pressures for reform.

Even if functional pressures have been building up, and even if politicians recognize the need for reform and can overcome the institutional resistance against it, there is still no guarantee that the job will be done. Politicians still face the high political hurdle of having to convince the electorate of the prudence of reform or to find strategies to let policies drift. Welfare state reform is electorally risky business. How do the politicians cope with the pressures if the reforms that are needed contradict their electoral ambitions? In Chapter 9 we explain why different types of electorally risky welfare state reform occur in spite of electoral stumbling blocks. We draw on prospect theory (Kahneman and Tversky 1979, 2000) to argue that governments will only undertake risky reforms if they consider themselves to be in a losses domain, that is, when their current electoral and policy situation is unacceptable. This is the case when governments face socioeconomic losses (such as deteriorating growth rates or increasing levels of unemployment) and/or political losses (like lower approval ratings or vote losses at an election). Only under such losses will governments accept the electoral risk involved in unpopular, risky welfare state reform. In addition, governments use blame avoidance strategies to reframe the voters’ domain from gains into losses so as to change their risk-attitude from risk-averse (i.e., opposed to reform) to risk-accepting (i.e., accepting of reform). If successful, this greatly limits the political risk of implementing the type of drastic welfare state reforms that are functionally required but not guaranteed.

In the final chapter, we bring together the findings of the book, summarize the answers to our “big” questions and ask the final one: can and will the

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welfare state survive the financial, economic, and debt crisis that started in 2008? We apply our open functional approach empirically to assess the impact of the financial, economic, and debt crisis and its aftershocks on six selected welfare states that represent different welfare state regimes (the United States, the United Kingdom, the Netherlands, Sweden, Germany, and Denmark; see Chapter 2). Have the financial crisis and the negative economic repercussions since 2008, the Great Recession (Bermeo and Pontusson 2013), added up to such a force that the welfare state's edifice is undercut? If ever there was a momentum to reform the welfare state radically, it is the (aftermath) of the financial crisis of 2008–9. All existing theoretical perspectives within comparative welfare state research suggest that radical reform is likely under this circumstance. But does it also happen? Countries were facing similar problems, and their initial response to these problems has been similar, too. In line with our open functional approach to welfare state reform and our prospect-theoretical account, yet contrary to extant perspectives' expectations, rather than increased retrenchment we observe a first phase of emergency capital injections in the banking sector and a second period of Keynesian demand management and labor market protection, including the (temporary) expansion of social programs. However, and again in line with our hypotheses, the contours of a third phase have become increasingly apparent, especially once budgetary constraints started to force political actors to make tougher choices and introduce austerity policies. The functional pressures that financial markets and international agreements exert have made themselves felt. Although perhaps not the only game left in town (Armingeon 2013), retrenchment and restructuring have become the dominant themes of welfare state reform.

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## The Welfare State

### *Dynamic Development, Crisis, Resilience, and Change*

#### 2.1. SOCIAL NEEDS, RISKS, AND DISRUPTIONS IN PERMANENTLY MODERNIZING CAPITALIST NATIONS

The history of the welfare state and its reform is a history of political actors struggling to cope with social needs, risks, and disruptions caused by rapid social and economic development. Paying attention to the “objective” problem pressure to which political actors respond is crucial for explaining past and contemporary welfare state reform. History may never repeat itself, but in many ways and irrespective of regime form or level of development, the problems of societal disruption, social needs, and risks that tend to emerge in the wake of what we conveniently call “modernization,” as well as the social and political struggles to deal with them, are strikingly similar across time and space (Wilensky and Lebeaux 1965 [1958]; Flora and Alber 1981; Flora and Heidenheimer 1981b). Take as an illustration the following quotation from a recent study of social policy in China and read it while keeping 19th-century Britain or Germany in mind:

Chinese leaders should ... be ashamed of a high degree of capitalist exploitation and class suppression in the process of economic modernisation. Over the past three decades, China's economic growth has been achieved at the expense of the well-being of hundreds of thousands of members of deprived groups: poor rural residents are always worried about medical care and retirement; urban migrant workers have been excluded from accessing urban public services; many factory workers are working long hours in extremely hazardous work environments; farmers whose land was expropriated have not received proper compensation; and thousands of poor patients are unable to afford treatment. The commonly perceived “gradual economic reforms” have actually brought about tremendous changes in welfare provisions and have rapidly destroyed China's socialist welfare system, leaving millions of poor people unprotected. There is obviously a gap between China's economic development and its social development. (Chan et al. 2008: xiii)

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