Beyond Resilience: Welfare State Changes in Austria, Denmark, New Zealand, and Switzerland

No. 5

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Beyond Resilience: Welfare State Changes in Austria, Denmark, New Zealand and Switzerland

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ABSTRACT
We examine whether a fundamental change in the core dimension of modern 20th century statehood, the welfare state, has become evident in response to changed exogenous and endogenous challenges. By combining quantitative and qualitative approaches we take stock of social policy development in four advanced welfare states - Austria, Denmark, New Zealand and Switzerland - over the last 30 years. Neither spending patterns nor structural changes support the ‘race to the bottom thesis’, according to which the changed environment of welfare state policies has led to a downward spiral in benefit provision. On the contrary, we show that social spending levels have risen mainly due to a catch-up of former welfare state laggards. In structural terms a blurring of welfare regimes can be observed. This twofold process can be described as dual convergence.
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1. INTRODUCTION

The welfare state is intrinsic to statehood in contemporary advanced democracies. However, rising unemployment, increasing public debt, declining economic growth, an ever more competitive economic environment and changing demographics have increased the pressure on advanced welfare states over the last decades. How have welfare states responded to these changing conditions? What patterns of welfare state adaptation can we observe and what are their causes? Does politics still matter for social policy-making or is there a market-driven development towards a residual welfare state model?

These are the key questions to be addressed in this paper. We examine the process of welfare state restructuring in four small open economies (Austria, Denmark, New Zealand and Switzerland) between 1975 and 2004 and compare the outputs of social policy reform over this period to clarify whether a changed international economy and various endogenous pressures have contributed to a transformation of the welfare state. By welfare state transformation we mean major policy changes in generosity and structures of benefit provision, funding principles and patterns of regulation. In addition, we discuss whether such policy changes reflect a more profound transformation of the state’s role in welfare provision characterised by shifts in the division of labour between state, market and family and/or shifts of competencies to lower levels of government or supranational institutions (see Zürn in this volume).

A review of the comparative literature finds at least three seemingly contradictory explanations of how welfare states react to these challenges. These approaches also differ in their assumptions about the role politics can play in a markedly changed international political economy.

A pessimistic line of reasoning (‘race to the bottom thesis’) expects declining social standards and a convergence towards a liberal model of social provision which is framed by a more general transformation of the state towards a competition state. Interestingly, this position is advanced by neo-liberal and Marxist scholars alike (Narr and Schubert 1994; Altvater and Mahnkopf 1999; Tanzi 2002). These scholars contend that governments have lost autonomy in fiscal and monetary policy-making in the course of globalisation and European integration and that globalisation has strengthened the power resources of capital through enhanced exit options. In consequence, the role of politics is increasingly subordinated to unleashed market forces, which are assumed to induce a downward spiral in benefit provision.
A second body of literature (‘resilience thesis’) argues that welfare states are embedded in a markedly changed international economy but have to cope with and react to distinct pressures rooted in different welfare regimes (Esping-Andersen 1999; Scharpf 2000) or varieties of capitalism (Hall and Soskice 2001). Though all nations are facing pressures to restructure social policy, Paul Pierson (2001) argues that the resilience of welfare states is the dominant mode of welfare state adaptation in times of austerity. Welfare state reform resembles more or less a rally around the flag because the exogenous and endogenous pressures to which mature welfare states are exposed have to be politically buffered. Since support for the welfare state is strong and welfare state clientele constitute a substantial share of the electorate, politicians who attempt to scale down the welfare state risk electoral punishment. Instead of radical transformation resulting from exogenous pressures, incremental adaptations of national welfare states are expected which depend on contextual parameters such as political and institutional configurations, policy legacies and the organisational power of beneficiaries (Kitschelt 2001; Swank 2002).

Finally, an optimistic view posits that the negative impact of globalisation on welfare states is strongly exaggerated (Garrett and Mitchell 2001: 145; Wilensky 2002: 247), arguing that the entire globalisation debate is much ado about nothing (‘business as usual thesis’). Some scholars even argue that integration of world markets and generous welfare states are complementary and mutually reinforcing (Rodrik 1997; Rieger and Leibfried 2001). Politics continues to enjoy substantial autonomy in shaping public policy, and leftist governments can still manipulate social policy according to their preferences (Garrett 1998; Boix 1998; Huber and Stephens 2001). In sum, this body of research concludes that the classic middle-range theories concerning the determinants of welfare state development (see Skocpol and Amenta 1986; Schmidt 2001) still have explanatory power. It is thus rather likely that the existing divergence of welfare regimes and the variety in social expenditure levels will persist even in times of austerity and global competition.

The striking diversity of accounts found in the literature is puzzling. Partly it is ideologically motivated, but more important are different angles of analysis employed in terms of the dependent variable and the time span covered by the analysis. Studies focusing on spending levels regularly support the resilience thesis and persuasively reject the race to the bottom hypothesis (Castles 2004), whilst qualitative accounts point to more pronounced social policy changes (Clayton and Pontusson 1998; Clasen and van Oorschot 2002).

By combining quantitative and qualitative approaches we take stock of recent social policy development in four advanced welfare states over the last 30 years and show that the controversy in the literature can be resolved to some extent. Since the impact of globalisation and endogenous challenges are likely to be mediated by national political
and institutional configurations, we argue that the patterns, direction and extent of welfare state transformation are decisively shaped by political institutions, political parties, policy legacies and specific problem pressures of welfare regimes. To examine the impact of politics on the process of welfare state restructuring, countries were selected that evince a substantial variety in their basic political and institutional features. We compare four small open economies – Austria, Denmark, New Zealand and Switzerland – which differ markedly in their number of institutional veto players and partisan complexion of government. If increased exit options for mobile factors threaten mature welfare states, then particularly small nations face strong pressures to redesign their welfare state arrangements. In addition, these countries are classified by Esping-Andersen (1990) as liberal, social democratic and conservative welfare regimes.

Since many retrenchment efforts only take effect in the long run and social policy changes typically occur in an incremental fashion as welfare states behave like ‘elephants on the move’ (Hinrichs 2001; Hinrichs and Kangas 2003), we focus on long-term developments in pension, unemployment, health and family policy over the last 30 years. The next section examines the development of total social expenditure, programme-related spending patterns and funding principles over the period of investigation. The OECD Social Expenditure Database and the OECD Economic Outlook Database provide the necessary time series data. Section 3 analyses national trajectories of welfare state adaptation between 1975 and 2004 in four brief case studies. The final section compares the national adjustment paths and seeks to clarify whether the process of welfare state restructuring in the four countries examined ended up in a transformation of the (welfare) state. In addition, we briefly discuss the role of political variables in explaining policy change.

2. THE MACRO-QUANTITATIVE EVIDENCE: SOCIAL SPENDING DEVELOPMENT

A view on social expenditure trajectories between 1980 and 1998 suggests that the welfare state is not on the retreat. Figure 1 illustrates that social expenditure levels have increased rather than declined in all countries over this period (for a comprehensive analysis see Castles 2004). In addition, welfare state effort, measured as the proportion of social spending to total public spending, has remained constant or even increased. Only in New Zealand did the relative weight of the welfare state decline.

A similar picture emerges if real total expenditure per capita is calculated and total spending is broken down in its programme-related components. Real spending per dependent also reveals a continuous increase in expenditure levels. Figure 2 shows times series for real expenditure on old age cash benefits per person aged 65 and over, family cash benefits and family services per person aged 15 and younger as well as spending on active and passive labour market policy per unemployed. In addition, the
bold line exhibits the development of real total social expenditure per capita. Adjusting expenditure to programme-specific caseloads by and large confirms the general trend that spending either remained constant or even increased. This also holds for health expenditure per capita not reported in figure 2. Again, the only exception is New Zealand where spending on old age pensions has steadily declined over time. Spending efforts on unemployment compensation and activation measures per unemployed show a greater variation in all countries but these fluctuations are mainly driven by the business cycle.

**Figure 1:** Social expenditure as a percentage of GDP (a) and of total public expenditure (b)

![Figure 1](image-url)

Source: OECD 2002

Although disaggregated spending trajectories show a more nuanced picture compared to the development of total social expenditure, we can conclude that the social spending profiles in the four nations under scrutiny are not indicative of a race to the bottom. All the indicators employed rather suggest a remarkable stability of spending efforts.

A different question refers to the driving forces that have impacted the cross-national variation in spending. Ideally, this would require an econometric analysis. However, space limits prohibit such an endeavour but we briefly report some findings of a study by Kittel and Obinger (2003) who have employed the Social Expenditure Database to

1 However, this calculation of pension expenditure per person over 65 overstates the real value for New Zealand for most of the period because, between 1975 and 1992, retirement age was 60, and was then lifted to 65 over a period of nine years.
identify the factors driving social expenditure dynamics in 21 OECD countries between 1980 and 1997. Empirical results derived from panel and cross-sectional analysis suggest that, first and foremost, social expenditure dynamics have been driven by catch-up and by rising dependency ratios as reflected in rising unemployment and population ageing. Political variables contribute little to explain spending dynamics in OECD democracies. Specifically, only a weak and temporally unstable effect of political parties and institutional settings was found. With regard to the impact of globalisation, no robust negative impact of trade openness was detected, though the sign of the coefficient was consistently negative.²

Figure 2: Programme-specific expenditure per dependent in national currencies at constant 1995 prices

² These findings are largely consistent with those derived by Huber and Stephens (2001) and Castles (2004).
The finding of a catch-up effect suggests that convergence has taken place. As figure 3 illustrates, this effect is fairly strong. Growth rates were highest in laggard countries and lowest in those nations which already maintained mature welfare states in 1980. The initial social spending level explains more than 50 per cent of the cross-national variation in social expenditure growth between 1980 and 1998. In addition, this chart illustrates that only Ireland and the Netherlands have reduced social spending over this period. Given this evidence, welfare states have converged towards a national steady state rather than to the bottom (Kittel and Obinger 2003; Castles 2004).

In all four countries, public social spending makes up the bulk of total social expenditure, whereas mandatory private benefits contribute to no more than two per cent of GDP. Similar to spending, the broad patterns of welfare state funding remained largely unchanged. The welfare state in New Zealand and Denmark is still almost entirely tax-financed, while the share of social security contributions as a percentage of GDP has slightly increased in Austria and Switzerland since 1980.

Figure 3: Social expenditure growth 1980-1998
Social expenditure as a percentage of GDP 1980 (ln)

<table>
<thead>
<tr>
<th>Country</th>
<th>USA</th>
<th>UK</th>
<th>SWI</th>
<th>SWE</th>
<th>SPA</th>
<th>P</th>
<th>N</th>
<th>NL</th>
<th>J</th>
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<th>IR</th>
<th>GRE</th>
<th>GER</th>
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<th>DEN</th>
<th>CAN</th>
<th>B</th>
<th>AUS</th>
<th>NZ</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>3.6</td>
<td>3.4</td>
<td>3.2</td>
<td>3.0</td>
<td>2.8</td>
<td>2.6</td>
<td>2.4</td>
<td>2.2</td>
<td>2.0</td>
<td>1.8</td>
<td>1.6</td>
<td>1.4</td>
<td>1.2</td>
<td>1.0</td>
<td>0.8</td>
<td>0.6</td>
<td>0.4</td>
<td>0.2</td>
<td>0.0</td>
<td>-0.2</td>
</tr>
</tbody>
</table>

Source: OECD 2002; Notes: Social expenditure growth is the difference between the natural logarithms of the social spending/GDP ratios in 1998 and 1980. The horizontal axis reflects the natural log of social expenditure as a percentage of GDP in 1980.

Nonetheless, the remarkable stability of spending and funding patterns does not rule out that major policy changes in regulation and benefit provision have occurred over the last 30 years. To address this issue in more detail case studies are needed. The next section provides a scant summary about the adjustment paths in four small open economies.

3. CASE STUDIES

Austria

In the aftermath of the Second World War, a duopoly of pro-welfare state parties, consensus democracy and corporatism, a consequent lack of institutional veto points to reform, together with favourable economic conditions from the 1950s onwards, constituted an environment highly conducive to welfare state expansion. New programmes were established and the existing social insurance benefits dating back to the 1880s and 1920s were not only steadily improved but also extended to new groups such as farmers and the self-employed. Judged by its structural make up, the Austrian welfare state is commonly classified as conservative (Esping-Andersen 1990). The forces underpinning this regime type are strong Christian democratic parties advocating Catholic social doctrines, such as the subsidiarity principle, the male breadwinner model, corporatist conflict resolution, and a legacy of paternalist policies mirrored in occupationally fragmented and mandatory social insurance. Status preservation via earnings-related transfer payments is central to this type. Entitlements are regularly tied to employment status, while benefits are earnings-related and contribution-funded.
Austria’s permissive constitution with the Constitutional Court as the only institutional veto player and the dominant role of political parties go a long way in explaining recent social policy developments. Welfare state retrenchment did not occur before the mid-1980s and was moderate but ever increasing in intensity during the period of the grand coalition governments formed by the Social Democrats (SPÖ) and the People’s Party (ÖVP) which governed from 1986 to 2000. The most substantial benefit cuts were imposed by the centre-right government that took office in 2000. The reform of old age pensions and unemployment insurance are the most prominent examples which illustrate the ever increasing intensity of retrenchment over time.

The Austrian pension system is fragmented along occupational lines and provides benefits for old aged or disabled employees and their survivors. Benefits are funded by earmarked contributions and federal grants. The General Social Insurance Act (GSIA) of 1955 is the legal base of old age, health and accident insurance for blue and white-collar workers. With the GSIA as a model, old age pensions were gradually extended to farmers, entrepreneurs, artists and professional groups such as lawyers and doctors. Civil servants are covered by a special and initially more generous scheme that is also financed through contributions and the public purse.

The politics of labour shedding via early retirement regulations and invalidity pensions in a greying society exposed pension insurance to profound fiscal stress. In 1998, almost 50 per cent of the social budget was devoted to old age pensions and survivors’ benefits, making the Austrian pension system one of the most expensive in the OECD. Moreover, the imperative of budget consolidation in the shadow of the Maastricht Treaty was an impetus to curtail the federal grants delivered to pension insurance.

Increasing both contributions and the ceiling for contributory payments as well as changing the pension formula were repeated exercises to cope with demographic changes and fiscal austerity. The pension reform of 1987 (and that of 1993) extended the calculation base from 10 to 15 years. In addition, contribution-free credits in periods of tertiary education were abolished and eligibility to survivors’ pensions for childless survivors was tightened. Based on a Constitutional Court ruling in 1990, a uniform retirement age for men and women will be imposed until 2033. The pension reform launched in 1993 was more balanced: Benefit adjustment was changed from the dynamics of gross to that of net wages, while child raising periods were credited for benefit calculation up to a maximum of four years per child. The 1997 pension reform aimed at curtailing early retirement and increasing the effective retirement age, while eligibility to invalidity pensions was tightened. In addition, the calculation of pensions for civil servants was partly harmonised with that based on the GSIA.

Retrenchment was further intensified by the centre-right coalition that came to power in 2000. In an effort to bring the actual age of retirement (which was on average 57.6
years in 1999) closer to the threshold of 65 years stipulated by law, early retirement pensions based upon invalidity were abolished and eligibility for early retirement was tightened by imposing benefit deductions. Survivors’ benefits were curtailed, whereas pension contributions for civil servants and pensioners were raised. A further reform followed in 2003. This draft was unprecedented in terms of the intensity of the benefit cuts suggested. The government proposed to calculate pensions on the basis of an employee’s full employment record instead of the best 15 years as under the previous system. This proposal was equivalent to a benefit cut of up to 30 per cent. In addition, the government increased its efforts to contain early retirement by cancelling early retirement pensions for employees with long contribution records and for the long-term unemployed. Given widespread opposition, the reform was slightly watered down but government used its parliamentary majority to pass the bill in June 2003. However, the government also imposed structural reforms that will take full effect in the long-run. A reform of severance payment in 2002 paved the way for a greater role of fully funded private and occupational pensions. Employers are now obliged to deduct 1.53 per cent of an employee’s monthly salary and to transfer this money to an individual account. The accumulated capital may be used in different ways, but converting capital into pension investment funds or occupational pension funds is the most attractive option, since no taxes are levied. In addition, civil servant pensions are to be fully harmonised with the regulations of the GSIA. However, the decision-making process on this issue is still in flux at present.

The main route to cope with rising unemployment was to curtail benefits and to increase contributions. Until the mid-1990s, the latter strategy clearly dominated as contribution rates have been raised from 2.10 per cent in 1980 to 6.00 per cent in 1994. Unemployment insurance reforms combined selective improvements with modest benefit cuts until 1993 (Talos and Wörister 1998). The replacement rate of unemployment assistance, a means tested benefit for the long-term unemployed, was slightly reduced but, following a ruling of the Constitutional Court, unemployment assistance was extended to foreigners. Employment services were decentralised and spun-off from the direct public administration (Hoheitsverwaltung). The mid-1990s witnessed a shift of emphasis in labour market policy. While contribution rates were stabilised at six per cent, the government increasingly relied on benefit cutbacks. Reform of unemployment compensation was characterised by modest cuts in the net replacement rate and stronger sanctions in case of unwillingness to work. There was also a shift towards active labour market policy. Special unemployment allowance for elderly unemployed with long insurance record - a benefit to bridge the time gap until retirement - was abolished in the course of the austerity packages in the mid-1990s. The centre-right coalition reduced family supplements for the unemployed by around a third (with the partner’s income no longer taken into account) and imposed a uniform net
replacement rate of 55 per cent. In addition, the federal grant to unemployment insurance was cancelled.

Cost explosion was a major theme underpinning the reform of health insurance. In contrast to unemployment and pension insurance, this social insurance branch was not subject to fundamental reform. Similar to pension insurance, health insurance is occupationally fragmented and contribution-funded. However, with a coverage of 99 per cent of the resident population it is de facto a universal system. Hospitals are financed through general revenue and health insurance. The main route to cope with increased health expenditure was to extend co-payments beyond farmers, civil servants and the self-employed. In 1988, the government imposed co-payments to cover the so-called hotel costs in case of hospital treatment. As of 1997 patients have to pay a contribution amounting to EUR 3.60 on each health insurance voucher, whereas co-payments for cures were imposed in 1996. The centre-right coalition continued and intensified this policy. User charges for hospital treatment and prescription charges were raised and a new user charge for out-patient treatments in hospitals was established. In addition, free health co-insurance for childless couples was abolished (with the exceptions of recipients of care allowance and carers of disabled relatives).

A further attempt to curb expenditure was to reorganise hospital funding. Hospital funding is characterised by a considerable fragmentation between the federal government and the nine Länder which was seen as contributing to inefficient investment, duplication of effort and over-capacities. In 1997, the federal government and the Länder agreed on a state treaty to reduce the cost explosion in the health sector through improved co-ordination in hospital planning and financing. According to this agreement, each province had to establish a hospital fund financed by the federal government, the Länder, the municipalities and social insurance. The federal government guarantees the Länder additional funds if they agree to the Austria-wide hospital and capital investment plan.

There were, however, areas in which benefits were increased or extended. These involved the coverage of psychotherapeutic treatments by health insurance or the equalisation of sickness cash benefits between blue-collar and white-collar workers. A major breakthrough was the introduction of federal care allowance for the permanent disabled people in 1993. This new programme is entirely tax funded and anchored a structurally unique pillar into the Austrian social security system. The Länder agreed to enhance the provision of social welfare services and to subsidiary care allowances based on the same objectives and principles as the federal legislation for people not classified as in need of care under federal law. Finally, in 1998, compulsory health (and pension) insurance was extended to the so-called new self-employed (Scheinselbständige).

Income support to families is generous compared with other OECD countries. Most cash benefits are funded by the Compensation Fund of Family Expenses which is fed by
employers’ contributions and payments by the federal government and the Länder. These funds are used, for example, for family allowances and free school books. Cash benefits such as family allowances are universal. Retrenchment in this field occurred with two austerity packages launched in the mid-1990s which abolished birth allowances and imposed co-payments for school books.

Recent years have witnessed several efforts to overcome the shortcomings with regard to day-care facilities for children. In the late 1990s, the grand coalition provided special grants to subordinate governments to enhance the number of child care facilities which are the responsibility of the Länder and municipalities. Despite a declining number of children, the number of day-care facilities has increased since the 1980s. However, there is still a substantial mismatch in coverage between rural areas and urban agglomerations (Statistik Austria 2002).

Parental allowance was subject to numerous reforms. Initially, this was an insurance-based lump-sum benefit for mothers paid for 12 months subsequent to maternity allowance that replaced the full salary for eight weeks after birth. The grand coalition extended parental allowance from one to two years in 1991 but reduced it from 24 to 18 months in the mid-1990s. The centre-right government finally replaced this benefit by the universal child care benefit which is granted for a period of up to three years as a non-employment-related lump-sum transfer provided that both parents take care of the children.

In sum, the majority of changes, at least over the last two decades, has been about cutting benefits, reducing entitlements and increasing contributions, though there were also selective benefit enhancements (e.g. care allowances) and an increase in coverage. Overall, the contribution-benefit nexus and the pressure for labour market participation (activation) have been intensified. Unger and Heitzmann (2003: 384) therefore argue that the Austrian welfare state returned to its conservative roots. Although there is no doubt that the insurance principle was strengthened recently, this judgement ignores crucial developments which rather suggest that the Austrian welfare state is less conservative today. Two salient features typical for conservative welfare states are on the retreat, though these developments will take full effect only for the younger cohorts. First, the profession-specific differences between blue-collar and white-collar workers have been levelled-out over time and occupationally fragmented pension systems are to be harmonised in the long-run. Secondly, and more importantly, the principle of status-preservation has been hollowed out. This not only holds true for unemployment compensation, which guarantees comparatively low replacement rates, but also for old age pensions in the wake of the 2003 pension reform. Moreover, care allowances for the disabled have increased service-orientation and child care facilities were enhanced over recent years. Finally, the new child benefit marks a break with the employment-centred
design of the welfare state, because its approach is universal and no longer linked to an earlier employment record.

The Austrian experience also suggests that parties do matter in more subtle ways in times of austerity. The social democrats are by no means pure defenders of the welfare state. Together with their Christian democratic coalition partner they launched two austerity packages in the mid-1990s which imposed substantial cuts in social and public sector spending. But compared with the centre-right coalition that took office in 2000, retrenchment was moderate since the grand coalition governments in Austria were characterised by a greater ideological distance between the incumbent parties than was the case for the succeeding centre-right coalition. Operating under a permissive constitutional setting and by deliberately bypassing the traditional system of social partnership, the latter therefore was able to implement more far-reaching policy changes.

**Denmark**

In the last decade this small country in the North of Europe has gained much attention as role model for successful welfare state restructuring. Well known as a social democratic welfare state (Esping-Andersen 1990), Denmark has offered universal and generous benefits promoting equality and diminishing stigmatisation. Welfare state provision is almost entirely tax-financed and public services play an important role. Today, Denmark continues to be one of the most developed and most comprehensive welfare states in the OECD with social expenditure at approximately 30 per cent of GDP.

The Danish parliament is unicameral. Broad coalition cabinets and minority governments are characteristic. Administrative powers are distributed on state, regional and local levels. Traditionally, the local provision of welfare is important in the structure of the Danish welfare state. Nonetheless, the question of more or less decentralisation is a recurrent topic in welfare state reforms.

With the election of 1973 – the so-called ‘landslide election’ – the typical Nordic five-party system broke up and five new parties moved into parliament. The following two decades are described as a period of political instability (Nielsen 1999): From 1973 to 1993 nine elections took place and eleven governments held office. The social democratic hegemony was broken and from 1982 to 1993 a coalition of Conservatives, Liberals and Christian Democrats controlled cabinet. At the beginning of their term in office “[…] the level of voluntary early retirement, unemployment and sickness

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3 Traditionally the five-party system consisted of a social-democratic party and a socialist/communist party on the one side and the Liberal party, a Farmer’s party and a centrist or Conservative party on the other. After the 1973 election further five parties moved into parliament: the Communist party, the Christian party, the Progressive party, the centrist democrats and the ‘justice’ party.
benefits, was more or less frozen for three years” (Green-Pedersen 1999: 247). Due to high inflation and rising wages this meant a de facto severe cut back (see figure 1). Nevertheless, the principle of universalism, generosity and the state’s role in welfare provision remained unchanged. Rather, “[…] the Danish welfare state was further expanded in a social democratic direction” (Green-Pedersen 1999: 243) during their reign.

In the 1990s, fiscal pressure and high unemployment led to a welfare state crisis. The newly elected social democratic government reacted with several reform packages and successfully reduced public debt as well as unemployment. In their 2001 election campaign, both the liberals and the conservatives refrained from their former neo-liberal rhetoric and promised improvements in maternity and paternity leave as well as in hospital funding. With this centrist turn on welfare state policies and ‘anti-immigration’ demands the liberal-conservative coalition succeeded. For the first time since 1924 the Social Democrats were not the biggest parliamentary group.

The Danish pension system was subject to a number of changes concerning benefit rates and the organisational structure. At first glance, theses changes seem only minor, producing differences in degree, not in kind (Kvist 1999). However, in a long-term perspective these changes can be regarded as path break ing (Goul Andersen/Albrekt Larsen 2002). The ‘Folkepension’, a universal flat-rate pension scheme at age 67, was introduced in 1956. This basic pension scheme still exists today, but step-by-step the labour market related tier of the Danish old age pensions system was further expanded. Already in 1964, ‘supplementary mandatory pension insurance’ was introduced (ATP5). The umbrella organisation of the Danish trade unions (LO) called for further occupational pensions and in 1993 almost all professions represented by the LO were covered by supplementary pension schemes which were financed by employers and by employees. Two further schemes were established: in 1980 ‘Lønmodtagernes Dyrtidsfond’ and a ‘temporary pension savings scheme’ (SP) in 1998. Whereas the former has never played an important role, the latter has been subject to recent reforms and party conflict. In 1999, the social democratic government changed the scheme from an earnings-related to a flat-rate pension saving, but in 2002 the newly elected bourgeois government reversed this, stopping the redistributive effect. Today, the Danish pension system consists of three pillars: a public tax-financed ‘Folkepension’,

4 The retirement age was lowered to 65 in 1999 in order to decrease the number of people on early retirement. The aim was to reduce costs because old age pension benefits are lower than early retirement benefits.
5 The ‘Arbejdsmarkeds Tillægs пенсій’ (ATP), a flat rate benefit, was limited to employees.
6 The ‘Lønmodtagernes Dyrtidsfond’ is phasing out. It is the administration of the cost-of-living adjustment from 1977-79 and will be wound up when in about 30 years the accumulated assets will be paid out.
7 The ‘Særlige Pensionsopsparing’ (SP) was introduced in order to prevent the economy from over-heating. It is a compulsory saving scheme.
several contribution-based occupational schemes and privately organised individual insurance schemes. Consequently, the universal, tax-financed pillar has lost importance and Danish old age pensions have become more dependent on previous labour market participation.

In contrast, the health care system has not seen a major restructuring in the period under investigation (European Observatory on Health Care Systems 2002: 1). Two important changes were already imposed in the early 1970s: Counties and municipalities were made responsible for the health care system and a universal Health Care Reimbursement Scheme replaced the health insurance system. Every Danish inhabitant is entitled to services. General practitioners act as gatekeepers to specialists or hospital treatment. The system is tax-financed with only minor co-payments for medicine and for some forms of special treatment. Pharmaceutical co-payments have risen recently, primarily as a cost-control measure. In March 2001, the social democratic government introduced new rules for co-payments. According to the new system the size of reimbursement depends on the individual’s personal consumption per year. People using a lot of drugs and people in need of long-term medication receive more compensation than the rest. Since the 1980s the total sum spent on health care has risen whereas health care expenditure measured as percentage of GDP dropped from 9.10 per cent in 1980 to 8.30 per cent in 2000. Although no overhaul of the health care system has taken place, a number of regional initiatives altered the way in which health care is delivered. There is a tendency to increase efficiency, reduce waiting periods for hospital beds, and improve quality and patient rights.

Labour market policy in Denmark, especially measures for the unemployed, recently received much attention, because the social democratic government during the 1990s was successful in implementing new and innovative labour market policies (Egger/Sengenberger 2003). The Danish ‘miracle’ (Schwartz 2001) gained prominence as a counter strategy to neo-liberal cut back-rhetoric even though some researchers criticise the reforms’ outcomes (van Oorschot/Abrahamson 2003). Denmark offers on the one hand a flexible labour market with only diminutive regulations and on the other hand high social security. This ‘flexicurity’ (Braun 2003) is accompanied by a still voluntary unemployment insurance, which is organised by 35 state-recognised unemployment insurance funds and administered by the unions.

Up until the 1980s, labour market policies aimed at reducing labour supply, for example through government-financed early retirement schemes. These programmes still continue to exist but there has been an important shift during the 1990s to reintegrate the unemployed in the labour market. Activation has been the guiding principle of the 1990s reforms for the insured as well as for the uninsured. The following descriptions concentrate on measures for the insured unemployed. Along with the reforms of 1994 came a number of new instruments which followed the principle of
entitlement and obligation. The individual recipient has the obligation to participate in training schemes and other measures. And he has the right to choose his ‘individual action plan’. Two issues already on the agenda in the reform era during the 1960s were further pushed forward: decentralisation and bringing administration and recipients closer together. Measures such as closer local cooperation between employers, unemployed and the local employment service should reduce unemployment caused by a labour market mismatch. In order to increase flexibility, the possibility to move between periods of employment, unemployment and periods spent on caring for children or on further training was improved. At the beginning, three leave schemes were introduced: one for childcare, one for further training and one for sabbaticals. The latter two were stopped as soon as the demand for manpower grew in the late 1990s. The first was replaced by new parental leave legislation in 2002 (see below). Duration of unemployment benefit receipt was shortened in the reform era from up to ten years in 1994 to four years in 1999. As outlined in their 2003 action plan “More people in Work”, the liberal-conservative government introduced measures to harmonise and simplify the rules governing municipal action to improve the re-integration of the unemployed into the labour market. With the same argumentation they made social assistance the responsibility of the Ministry of Employment, emphasising the obligation to work. Shortening of benefit duration, rising obligations and work requirements for benefit receipt is the overall trend in labour market policy in the period between 1975 and 2004. However, benefits are still generous in a comparative perspective. State regulation rather increased than diminished although welfare provision was further decentralised.

The Danish welfare state has traditionally been characterised as women and family-friendly (Hernes 1987), providing day-care services for children in order to integrate women into the labour market. Women’s participation in the labour market as well as the proportion of children in public day-care is traditionally high compared to other European countries. Traditionally municipalities have the main role in financing and providing social services. Therefore, the funding of day-care for children lies with the municipalities. So does the administration of the child benefit, which is granted to all families with children under the age of 18. Supplementary cash benefits exist for families in special need. Apart from a short period from 1977 to 1986, the child benefit has always been universal and flat rate since its introduction in 1952. In contrast to the general policy of cut backs, family allowance was increased during the 1990s (Kvist 1999). Since women’s labour market participation is very high, maternity leave and

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8 In order to reduce spending on family allowance the Social Democrats introduced a means test whereas the opposition planned a universal cut back of benefits by ten per cent. In 1986, the centre-right majority in parliament re-introduced universal child allowance (Green-Pedersen 2003).
maternity allowance play an important role. Parental leave has been gradually prolonged. In 1984, the 14 weeks of maternity leave were extended by another 10 weeks that now either mother or father can take. Leave provision was further increased in 1992. In 1999, two extra weeks became available exclusively for men. Another extension in 2002 is now giving both parents together the possibility of up to 52 weeks of paid absence. In accordance with a conservative family ideology, the liberal-conservative government introduced in 2002 the possibility to be granted an allowance if parents choose to opt out of public day-care. These measures were introduced as both a family and a labour market policy instrument in order to reduce labour supply and to cope with the shortage in day-care facilities. Despite a comparatively high labour market participation of women, the reform of 2002 has been criticised for not promoting gender equity.

In general, only minor cut backs in benefits were carried out and Denmark continues to be a comprehensive welfare state. Yet, the welfare state has lost some of its salient regime characteristics. Elements from the liberal welfare state (‘workfare’) were adopted as well as from the conservative regime type (linkage to previous employment in old age pensions, expansion of cash benefits and leave schemes in family policy). In other respects Denmark sticks to the social democratic path. Unemployment insurance has kept its universal and generous character because coverage and replacement rates have remained high although eligibility rules were tightened. The child benefit and the basic old age pension (‘Folkepension’) have remained universal and flat-rate. There is neither a clear shift of competencies to lower levels of governments nor to supranational institutions. The state preserved its dominant role in the provision and funding of welfare programmes. Although the number of institutional veto players is low, fundamental policy change did not occur because of a broad welfare state consensus among the governing parties. In addition, minority governments made political compromises necessary and hindered more radical reforms changing the overall character of the Danish welfare state.

New Zealand

New Zealand’s welfare state has undergone significant change in all of its constituent programmes since 1975. Regarding the welfare state’s structural features, the country has been grouped among the ‘liberal welfare regimes’ (Esping-Andersen 1990). Many of the main programmes were designed according to ‘liberal’ principles, notably means testing. Yet, health care provision, family income transfers and part of the public pension were universal in 1975. Social insurance features have never been strongly promoted in New Zealand, and only one programme – accident compensation – is partly earnings-related and based on insurance principles. In terms of social expenditure, New Zealand has had below-average growth rates during the post-war period. Looking
exclusively at direct provision of transfers and services by the state, however, might not be sufficient. It turned out that, for much of the post-war era, a high degree of ‘social security’ in a wider sense was achieved in New Zealand – and even more so in Australia – through a combination of various policy instruments and favourable economic conditions without relying much on direct social expenditure. On the one hand, both countries had lower demand for social security, by virtue of a high degree of economic development, male full employment, a rather ‘young’ demographic profile and high home ownership rates. On the supply side, on the other hand, trade protectionism and a highly regulated system of wage setting led to high wages – set at a level sufficient to support a wife and family – and to an egalitarian income structure. Consequently, Francis Castles called the Australasian welfare regime the “wage earners’ welfare state” (1985).

In the 1970s, this system of production and protection came under heavy strain, mainly due to shifts in the world economy (Schwartz 2000) and various social changes such as rising female labour participation and family change (Castles 1996). The Labour government of the 1980s (1984-1990) famously responded to the economic problems by what might be the most rapid and radical economic reforms an OECD-country has seen in recent years, thereby accelerating the demise of the ‘wage earners’ welfare state’. Labour’s conservative successors continued the liberalisation and dismantled the system of wage regulation. Reform-minded governments were helped by the extremely permissive institutional environment of New Zealand’s Westminster-style political system, where, prior to the constitutional changes of the 1990s, the Prime Minister and cabinet were usually supported by a single-party majority in parliament and unhindered by institutional veto points such as a second chamber, federalism or a constitutional court. This gave reformers the opportunity to push through legislative changes at a remarkable speed and virtually unhindered by political opponents. In 1993, however, the country changed its electoral system from a single-member plurality system (‘first past the post’) to proportional representation. The new system makes single-party majority governments less likely, and recent experience in New Zealand is a case in point. None of the governments since 1993 has been able to rely on a single-party majority in parliament. For most of this period, minority governments have been in office and coalition governments have been the rule. Arguably, institutional change has made radical short-term policy reversals much more difficult as governments now depend on other parties’ support.9

Today, after the economic reforms, New Zealand no longer has a comprehensive system of ‘social protection by other means’ (Castles 1996). Yet, there is still a ‘core’

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9 See Boston et al. (1996: chapter 9) for a first exploration on the new dynamics of policy-making under proportional representation.
welfare state, i.e. direct cash transfer programmes and social services. In the following, the focus will be above all on changes in this field.

The mid-1970s saw a massive expansion of public involvement in the field of pensions when the conservatives introduced National Superannuation, a generous universal flat-rate pension at age 60. Today, almost 30 years later, New Zealand’s pension system is still universal in principle, albeit at a markedly lower benefit level relative to average wages and with a qualifying age of 65 years. However, it would be wrong to conclude that pension reform in New Zealand was a path-dependent, incremental adjustment process towards a somewhat less generous scheme within a stable institutional framework. Superannuation has in fact been the “supreme political football” (Weaver 2002), subject to almost constant short-term reforms by left and right-wing governments alike. Labour, for instance, introduced a highly unpopular ‘claw back’ tax for better-off pensioners – the ‘Superannuation surcharge’ – in 1986 in an attempt to curb the burgeoning cost of Superannuation. This policy was abandoned in 1998 by a conservative-led coalition. Since 1975, the pension scheme has seen numerous changes of the benefit adjustment mechanism and a rapid increase in the eligibility age from 60 to 65 years between 1992 and 2001 (St. John 1999). Financing the old age pension has been on the agenda throughout the 1990s. The centre-left coalition eventually established a Superannuation Fund in 2001 that aimed at pre-funding part of the future pension expenditure for the baby-boom birth cohorts but without affecting individual pension entitlement. Today, universal Superannuation is still the central instrument of public pension policy. There is still no ‘second tier’ earnings-related scheme and private provision remains completely voluntary and is not subject to special tax incentives (St. John 2001).

New Zealand’s public health sector has been considerably restructured in the 1990s. Established in 1938 along universal lines, the system has remained intact in terms of the overall principles of entitlement but the instruments of service provision have been changed. In 1993, the conservative government introduced a ‘purchaser-provider split’ hoping to increase the system’s efficiency. Four Regional Health Authorities (RHAs) were to act as the main purchasing organisations, each with a single budget to buy primary and secondary health services and disability support on behalf of the population – three areas until then separately financed. In terms of provision, the change was just as radical: The government regrouped public hospitals and community services into 23 profit-oriented Crown Health Enterprises and made them to compete with private

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10 A proposal to replace Superannuation with a compulsory savings scheme based on individual accounts was rejected in 1997 in a binding referendum by an impressive margin of 91.8 per cent (Weaver 2002).

11 From 1938, the government has never been able to fully integrate general practitioners’ services into the scheme but they are partly subsidised. In reality, primary care has always been a state-regulated but nonetheless predominantly private affair (Crampton 2001).
hospitals, general practitioners (GPs) and voluntary organisations in an internal market for contracts with the RHAs (Ashton 1999). It turned out that the new system, if anything, did not increase the efficiency of public health care provision. As a consequence, the right-wing coalition watered down the quasi-market structure as early as in 1997 (Ashton 1999). More importantly, in 2001, the Labour-led government established 21 District Health Boards responsible for both funding and provision of services in their districts, thus abandoning the purchaser-provider split of 1993. To a certain extent, the private sector is still involved in delivery of public services but the reach of the controversial ‘market model’ is now significantly limited (Health Reforms 2001, Research Team 2003). On the level of individual entitlement rules, change has been much scarcer. Hospital care is still universal. At the same time, state subsidies for primary care – which have always covered only part of the usual GP charges – were targeted to low-income groups and the chronically ill. Co-payments for medicine consist of a general prescription charge and, for some drugs, a co-payment, depending on the extent to which certain drugs are subsidised. Since 1997, children under six get GP visits and pharmaceuticals free of charge (Crampton 2001).

Means testing has always been a strong principle in New Zealand’s social welfare history. The major needs-based benefits such as unemployment benefit, sickness benefit or Domestic Purposes Benefit (DPB), which is mainly claimed by lone mothers, have undergone significant changes since 1975. The single most important event was the incoming conservative government’s 1991 budget, with extensive cuts between five and 27 per cent across a range of benefits (St. John and Rankin 2002: 5). The government tightened eligibility criteria, particularly for young and unemployed people. Furthermore, instead of automatic adjustments in line with inflation, benefits are now adjusted annually on a discretionary basis (St. John and Rankin 2002: 13). In addition to lower benefit levels, there has been a marked tendency towards ‘activation’ and ‘workfare’ policies (Higgins 1999). The subsidised employment schemes of the 1970s and early 1980s were scrapped in 1985 on grounds of possible market distorting effects and replaced by a training scheme in 1987 (Higgins 1999: 262-263). Governments of the 1990s – coming from both ends of the political spectrum – put more emphasis on individual obligations in order to end so-called ‘welfare dependency’. Work testing was introduced by conservative governments for most working-age beneficiaries – not just those on unemployment benefits but also many lone mothers and spouses of

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12 Co-payments for public hospital services were introduced in 1992 but had to be stopped after only 13 months following strong criticism and implementation difficulties (Ashton 1999).

13 In housing policy, the early 1990s mark a major turning point, as well. The government withdrew from direct provision of state rentals with reduced rents for low-income households and, instead, tried to intervene solely through income support, with the new Accommodation Supplement. This reform was partially reversed in 2000 (Murphy 2003).
unemployment beneficiaries. Recipients were expected to take up paid work or participate in community works or training schemes and sanctions for non-compliance were tightened. In 2000, the Labour-led coalition reduced some of the work obligations for the sick and for lone mothers but kept the overall strategy. Furthermore, the government is increasingly trying to move beneficiaries into work through intensive case-management combining tight monitoring and a wider range of employment and training opportunities.

Apart from the ‘family wage’, one of the pillars of the ‘wage earners’ welfare state’, post-war income assistance for families in New Zealand was based on the universal Family Benefit. However, governments failed to regularly adjust benefit rates to rising price levels, thus allowing its real value to decline markedly since its introduction (Shirley et al. 1997: 255). The last adjustment before the abolition of the Family Benefit came in 1979. Instead of universal payments, New Zealand governments from the mid-1970s onwards increasingly relied on means tested assistance. First, this was done in form of tax rebates for low-income families, until the introduction of Family Support, a major means tested programme under Labour in 1986. The subsequent National government ended universal assistance altogether in 1991. Beginning in 1986 with the Guaranteed Minimum Family Income, a negative income tax scheme for the working poor, family policy in New Zealand became increasingly dual in character, in the sense that working families can claim additional in-work-benefits whereas families with both parents out of work have to rely exclusively on basic financial assistance. Today, there is the Family Support programme for all low-income families and a number of additional tax credits for working families only (Nolan 2002). Income transfers are accompanied by social services, notably child-care services which have seen a significant expansion since the 1970s (Shirley et al. 1997: 271) and for which low-income families can claim government subsidies (St. John and Rankin 2002). Unpaid parental leave was introduced in New Zealand in the 1980s and only in 2002 did the government finally set up a comprehensive paid parental leave scheme which was enhanced further in 2004 to bring the country in line with current ILO standards (The Jobs Letter 2004). In May 2004, the Labour government announced a huge spending boost for family cash transfers and services, without abolishing means tests. Arguably, this is the most significant welfare state expansion of the last 25 years.

The overall picture of welfare state change in New Zealand is one of significant transformation, with the first government of conservative Prime Minister Bolger (1990-1993) as the major policy turning point of the 1975-2004 period. This is when the deepest benefit cuts and entitlement changes took place and when the health care sector was radically restructured. The impact of this shift is also reflected in the slump in social expenditure at the beginning of the 1990s (see figure 1). Although aggregate social expenditure relative to GDP increased again afterwards and is slightly higher
today than in 1975 (see figure 1), for most of the key programmes, including the old age pension, benefit levels have declined relative to average wages and eligibility has been tightened. In pensions, retrenchment started in 1986 under Labour and, although the conservative National government first accelerated this process, the universal pension was finally restored by a centre-right coalition. In family policy, the shift towards needs-based assistance already started in the 1970s and continues until today, regardless of the parties in office. Partisan differences on the issue of work testing and activation appear rather marginal. Given this record, it would be rather misleading to speak of a clear partisan divide on welfare retrenchment.

In terms of its structural characteristics, the welfare state seems quite resilient in the long run. Pensions and health care are still essentially universal schemes, and – with the longstanding but minor exception of accident compensation – social insurance-based policies are non-existent. Means testing is now even more important than in 1975. Family policy is the only field that has seen an outright shift in principle from universal benefits towards means tested assistance. On the whole – and despite the end of the ‘wage earners’ welfare state’ – income maintenance is still a mix of citizenship-based and needs-based programmes but with a noticeable tilt towards the latter.

**Switzerland**

Switzerland prior to the 1970s has generally been assigned to the liberal world of welfare. Only old age and disability insurance were mandatory for the whole population, and accident insurance for certain groups. Private providers played an important role, especially in health care. Additionally, Switzerland only spent a comparatively low share of GDP on social provision. It also was a laggard with regard to the date when the core programmes of the welfare state were finally introduced.

The impressive increase in social expenditure in Switzerland since the 1970s (see figure 1) raises the question whether the Swiss welfare state has experienced fundamental change over the last three decades.

The Swiss political system is characterised by a strong fragmentation of power and a large number of actors involved in decision-making, rendering lopsided measures unlikely. Federalism is strong, with the main channels of cantonal influence on the federal level being the upper chamber of parliament, the constitutional right to be heard in the pre-parliamentary consultation process and the fact that constitutional change demands the majority of popular votes in a majority of cantons as well as a majority of votes in the whole country. Trade unions and business organisations also have the right to be heard in the pre-parliamentary decision-making process. The Swiss federal government is a collegial body where all major parties are represented with a share
unchanged since 1959. Several instruments of direct democracy enable citizens to overrule any major decision on the federal level: a referendum is compulsory for all amendments to the constitution; through the optional referendum, the people can challenge parliamentary bills or decrees; and with the people’s initiative, citizens may seek a decision on an amendment to the constitution.

The Swiss pension scheme rests on a ‘three pillar model’ which became officially recognised in 1982. The first pillar is a state-run, mandatory old age and survivors’ insurance (AHV), covering the entire resident population and providing minimal financial security for retirement. It is mainly financed on a pay-as-you-go basis through parity contributions of employers and employees and state-subsidies. Since 1965, means tested supplementary benefits exist to support needy recipients. The second pillar consists of fully-funded occupational pensions. It is compulsory for employees above a certain income level and is to guarantee the previous standard of living when combined with AHV. The third pillar is made up of voluntary savings supported by tax relief and has remained largely unchanged during the period under review.

Most changes have occurred in the first pillar. It was mainly the pressures imposed by the economic crisis of the 1970s and growing financial troubles of the AHV compensation fund which caused two reforms. These reforms share several features: They combined cuts with expansion of benefits, and they were challenged by optional referenda or people’s initiatives. However, these reforms were only incremental with the basic programme principles remaining unchanged (Armingeon 2001: 158). The most important modification took place in the 1990s and combined major improvements for women (splitting of pensions for couples and granting credits for care and upbringing) and for low-income groups with restrictive measures (Obinger 1998: 255). Specifically, the retirement age for women was gradually increased, which was strongly contested by the left. Two tax reforms to raise revenues for AHV could not put an end to the financial problems of the first pillar. Therefore, another revision which was rather restrictive with its main focus on cost-containment was accepted by parliament in 2003. The reform went together with an increase of value-added tax on behalf of AHV (and invalidity insurance) to be decided on in a mandatory referendum because it demanded constitutional amendment. While the left attacked pension reform via referendum, bourgeois parties argued against tax increase. Both proposals were rejected by the voters in May 2004. This is the first time that a reform of the first pillar has failed in referendum.

The second pillar has also experienced incremental change. Faced with unfavourable financial and stock market developments, reform seemed inevitable. In 2003, cuts such...
as the increase in retirement age for women and a reduction of the minimum conversion rate\textsuperscript{15} were coupled with a reduction of income limits required for mandatory insurance, resulting in better coverage for part-time and temporary workers. However, pure retrenchment took place when the federal government reduced the guaranteed interest rate for the first time in 2003.

Until the 1990s, health insurance was voluntary\textsuperscript{16}. The federal government subsidised (mostly) private sickness funds which act as carriers of health insurance, and regulated only minimum benefits. Health insurance is financed through non-income related premiums and public subsidies. While the problem of increasing health care costs had put the question of reform on the political agenda already in the mid-1960s, apart from the introduction of a strong component of co-payments in 1964, the Swiss system of health care had remained generally unchanged until the 1990s. Since then, several crucial changes have occurred. Health insurance became mandatory for the entire resident population in 1994. Although nearly the whole population had been covered before, this was a system-shift which entails an enlarged role for the federal state in social policy. The reform was marked by a tendency to combine expansive with restrictive measures. While competition between providers was strongly enhanced, the reform again increased co-payments. The scope of benefits in-kind covered by health insurance was somewhat enlarged and explicit discrimination of women was eliminated with the abolition of gender-related premiums. Similar to New Zealand, state subsidies were targeted to low-income groups and additionally, cantons were empowered to policy implementation. Risk compensation between funds was introduced and in order to contain costs, new forms of insurance like Health Maintenance Organisations (HMOs) were set up.

Because cost-containment achieved by the reform of 1994 was not considered sufficient, further modification of health insurance was on the political agenda. In 2003, the lower chamber of parliament dismissed a minor revision mainly focusing on hospital financing, while the federal government imposed strongly contested retrenchment: Mandatory co-payments were again enhanced and maximum deductions for optional co-payments were reduced. However, the federal government has drafted several more encompassing reform ‘packages’ in 2004.

Federal family policy is the stepchild of social policy in Switzerland. Its development is marked by both sovereign and parliament preventing an enlargement of federal involvement (Herzig 1995: 181). This especially applies to social protection in case of motherhood and harmonising regulations in the field of family allowances\textsuperscript{17}. Here, apart

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\textsuperscript{15} The minimum conversion rate is used to convert individual savings in the second pillar into annual pensions.

\textsuperscript{16} Cantons were allowed to declare it mandatory for sections or the whole cantonal population and also to levy employer’s premiums.

\textsuperscript{17} Until today, three attempts to create a federal maternity insurance have failed in optional referenda, the last one in
from federal benefits for small farmers and agricultural employees, various cantonal allowances exist which differ in type, level and conditions for entitlement.

Since maternity insurance was lacking at the federal level, the canton of Genève created a cantonal insurance in 2000, with other cantons intending to follow. This illustrates how Swiss federalism makes it possible for individual cantons to step in when the decision-making process is blocked on the federal level (Moser 2003). While a tax reform which, amongst other things, aimed at lowering the tax burden of families failed in a referendum in 2004, the people will have to decide on two family policy initiatives soon. A relatively modest maternity insurance proposal was attacked by a referendum from the right-wing Swiss People’s Party. In addition, a harmonising law on family allowances has been proposed by the way of a people’s initiative.

In retrospect, the only real expansion of federal family policy since the 1970s occurred in 2002, when as a result of a social democratic parliamentary initiative, temporarily limited financial support for child-care outside the family was enacted.

In 1975/76, only about 20 per cent of wage earners were covered by voluntary unemployment insurance. Voluntary insurance with federal subsidies to private, public and parity funds was sufficient until the 1970s because economic growth and spectacular low levels of unemployment acted as functional equivalents for social insurance. Unemployment figures could be kept low by regulating labour supply – even in the 1970s. In times of decreasing demand for labour, restrictive work and residency permit regulations were used to make foreigners leave the labour market. Additionally, lacking infrastructure for non-family child care discouraged women from entering the labour market (Wicki 2001: 251). However, the oil crisis showed that voluntary insurance was not able to cope with rising unemployment. Making unemployment insurance mandatory in 1976 was a system-shift which results in a stronger involvement of the federal state in Swiss social policy.

The economic crisis of the 1990s hit Switzerland stronger than every cyclical slump since the 1930s. Unemployment figures rose dramatically and unemployment insurance ran into debts. The traditional way of regulating labour supply had become less effective because of the introduction of mandatory unemployment insurance, the increasing number of foreigners with permanent residency permits and modified employment patterns of women (Schmidt 1995). As a result of these pressures, reform

1999. In the field of family allowances, a harmonising regulation was prevented either in parliament or in the pre-parliamentary process. Here, especially cantonal opposition was crucial.

18 Like in health insurance, cantons were entitled to declare it mandatory for sections or the whole cantonal population and to levy employer’s premiums. Since 1976, employers have to contribute to federal unemployment insurance.

19 This cannot be said when compared with levels of unemployment in other European countries, but for Switzerland, unemployment was ‘a social problem that was virtually unknown […] before the early 1990s’ (Bonoli/Mach 2000: 131).
seemed inevitable. Since the 1990s, mandatory unemployment insurance was subject to several reforms, all of them inducing incremental changes which generally balanced cuts and expansion, while a rather restrictive reform (1997) was prevented by a referendum launched by the political left. Important modifications include the enhancement of activation in labour market policies and the buffering of gender discrimination. Replacements rates were reduced, but now depend on social criteria such as disability. Equally, targeting was strengthened as the duration of benefits was limited but at the same time related to the age of recipients. In the face of declining unemployment figures in 2002, temporary emergency measures imposed in the crisis of the mid-1990s (e.g. higher premiums) were ended. Finally, the qualifying period was doubled and the maximum number of daily allowance was further reduced.

On the whole, all core programmes were subject to major changes since the mid-1970s. This is especially astonishing with regard to Switzerland’s dense political structure, providing reform opponents with many opportunities to block changes. However, the great number of veto players can to a large part explain the dominant pattern of Swiss social policy reform since the 1970s: Especially consensus democracy and direct democracy paved the way for balanced reforms which distribute gains and losses evenly among the electorate.

The impact of parties on social policy is problematic to disentangle in Switzerland’s consensus democracy since the federal government traditionally consisted of the four major parties. However, a clear partisan effect shows up in referenda, with the left generally attacking retrenchment and the bourgeois parties being successful in mobilising against expansive measures.

In the long run, however, the role of the federal state in social policy was expanded by making unemployment and health insurance compulsory. This increase in coverage, programme maturation and low economic growth caused a huge increase of social expenditure during the period under scrutiny. Despite some benefit cuts, replacement rates are comparatively generous. Only family policy is characterised by few results when compared with legislative attempts, which is why the country remains a European laggard in the domain of family policy (Bonoli 1999: 73).

Summing up, Switzerland has come closer to the conservative model of welfare capitalism. Nevertheless, strong liberal traits remain, for example the important role of co-payments and private carriers in health insurance or the substantial element of social control in unemployment insurance.

4. COMPARATIVE PERSPECTIVES

In this paper we have compared social spending efforts and national reform paths in four open economies over the last 30 years. Despite a markedly changed international political economy and significant policy changes we conclude that the role of the state
in social provision is not on retreat. The welfare state is still a bastion of the nation state. Judged by spending efforts, the extent of governmental involvement in social affairs is greater than ever before. Moreover, there was neither a devolution of social responsibilities nor a profound supranational standard setting in social policy that would have affected the major programmes of income support run by the nation state.

Bringing the evidence from aggregate spending patterns and the findings of our brief country reports together, we conclude that the ‘race to the bottom thesis’ advanced by neo-liberals and Marxists is rather misleading. Neither spending patterns nor structural changes support this scenario or a convergence towards a residual welfare state. The ‘resilience thesis’ is much more powerful, at least regarding developments in social spending and welfare state funding.

But underneath this aggregate level, social policy developments in the countries examined are indicative of a creeping transformation of welfare states that becomes apparent in the long-term analysis. This transformation has less to do with a changed role of the state but more with the ways and instruments of social provision as today all countries rely on a welfare mix that is less clear-cut than several decades ago. Admittedly, welfare state development is highly path dependent but incremental policy changes have added up to path departures in some areas of social policy.

We do not share the view of the optimists who simply assume ‘business as usual’ and claim that the traditional partisan and institutional mechanisms shape contemporary social policy-making in the same way as it was the case during the golden age of the welfare state. Our findings rather suggest more subtle partisan effects. Depending on the specific balance of power in reforming countries, both left and right-wing governments started retrenchment and have adopted new views on social policy. In terms of institutional effects, the empirical evidence is more consistent. In the short run, formal political institutions have an influence on the range and speed of single reform measures, as exemplified by the course of social policy in New Zealand. In the long-term, countries with a dense institutional structure (e.g. Switzerland) may be equally capable of achieving extensive policy changes.

The broad developmental trajectories of social policy identified in this paper can be described as a *dual convergence* of welfare states. On the one hand, social spending levels have not only increased in almost all countries but also converged, mainly because of the catch-up of former welfare state laggards. First and foremost, this process is driven by belated programme maturation in these countries. On the other hand, welfare states have also structurally converged in the sense that the regulatory patterns in which states provide benefits are less distinctive compared to the golden age. Hence, welfare states have become more similar as they have lost some of their salient structural characteristics that underpinned Esping-Andersen’s regime typology (Esping-Andersen 1990) resulting in a ‘blurring of regimes’ (Goodin and Rein 2001: 771). The
nations examined have also pursued common policy routes: Activation and workfare in labour market policy, enhanced co-payments in health insurance as well as a shift of emphasis to family policy are cases in point. Both activation and co-payments can be regarded as a reallocation of responsibilities from the state to the individual. However, it would be wrong to conclude that the state’s overall role in welfare provision has declined. In all four countries the state has become more active in family policy, both via increased income support to families and extended social services. These common policy routes contribute to the blurring of regimes which is taking place underneath the surface of welfare state resilience. However, the exact causes underpinning this creeping transformation of welfare states and its implications for the welfare state will be explored in more detail in future research.

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WHO: Copenhagen.


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