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The Welfare State Over the Very Long Run

ZeS-Working Paper No. 02/2011

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We are grateful to the Volkswagen Foundation for its support.

Published by:
Zentrum für Sozialpolitik
Universität Bremen
Postfach 33 04 40
28334 Bremen
Tel.: 0421/218-58500
Fax: 0421/218-58622
e-mail: srose@zes.uni-bremen.de
Editor: Dr. Christian Peters
http://www.zes.uni-bremen.de

Umschlaggestaltung: Wolfgang Zimmermann
ZeS-Arbeitspapiere
ISSN 1436-7203

Summary

Welfare State Reform Over the Very Long Run

New data makes it possible to measure the evolution of social program generosity over the roughly three decades since the affluent democracies entered the “era of austerity.” Compared with plausible expectations derived from power resource theory, as well as prior historical experience, these data reveal a striking level of stability in benefits. This finding has important implications for the study of the welfare state; rather than focusing exclusively on accounting for variation in program outcomes over time and across countries, we need to consider why there is often relatively little variation to explain. At the same time, this relative stability at the level of programs co-exists with dramatic change in social context as well dramatic shifts in other aspects of the post-war social contract. The ramifications of programmatic stability can only be understood by situating it within these broader patterns of social transformation.

Zusammenfassung

Neue Daten ermöglichen uns heute die Messung, wie sich die Generosität von Sozialleistungen in den letzten drei Jahrzehnten entwickelt hat – also in jener Phase, in der die reichen Demokratien in das “Zeitalter der Austerität” eingetreten sind. Im Vergleich zu den Erwartungen der Machtressourcen-Theorie und zu historischen Erfahrungen zeigen die Daten eine bemerkenswerte Stabilität im Hinblick auf die Höhe der Sozialleistungen. Dieser Befund besitzt erhebliche Implikationen für die Sozialstaatsforschung. Diese sollte sich nicht mehr nur auf die Erklärung der Unterschiede von Outcomes im Zeitverlauf und zwischen Ländern beschränken, sondern auch die Frage stellen, weshalb oftmals die zu erklärenden Unterschiede so gering sind. Gleichzeitig geht die Stabilität der Sozialleistungen Hand in Hand mit dramatischen Veränderungen im gesellschaftlichen Umfeld und tiefgreifenden Umwälzungen in der Nachkriegsordnung. Die Konsequenzen dieser Stabilität verstehen wir nur dann, wenn wir sie als Teil einer umfassenden sozialen Transformation begreifen.

Content

"Macrosociology has to be a sociology of the long pull"
Arthur Stinchcombe (1997, p. 406).

The "era of austerity" is now almost four decades old.[1] It has lasted longer than the "golden age" itself. Most citizens have now been living with conditions of austerity or "welfare state maturation" for their entire adult lives. After such a long (and still incomplete) journey through very troubled waters, it is a reasonable time to take stock of the welfare state's status.

For analysts, this offers a double opportunity. Research on the distinctive dynamics of mature welfare states has now had considerable time to develop. As the publication of the *Oxford Handbook of the Welfare State* magnificently demonstrates, the long-term pursuit of an extensive "research program" on the determinants of social policy has yielded a fabulous harvest (Castles et al 2010). Compared to, say, 1981 (when I began my doctoral research at Yale), we know vastly more about the welfare state. We have far, far better cross-national data. Moreover, the data we have are much more closely connected to key concepts. And those concepts have grown more subtle and sophisticated, as fruitful theoretical dialogue has generated more extensive and careful elaboration of the relevant dimensions of the social world. There has also been a huge proliferation of rich qualitative, country-based studies that generate understanding through their greater capacity to study actual processes of social conflict, along with the motivations and behavior of crucial political actors. Anyone who doubts the capacity of social research to accumulate over time need only study this literature (Amenta 2003).

The second opportunity comes from the passage of so much time. I have argued elsewhere that a characteristic blind-spot of modern social science is a tendency to focus exclusively on "snapshots" of a single moment in time (Pierson 2004). We are typically far better at studying social phenomena that emerge quickly and directly than ones that emerge slowly and indirectly. Social outcomes that take decades to emerge often remain invisible, or falsely attributed to short-term factors. Here we have the opportunity to study the *longue durree*, the development of important social phenomena over a period stretching almost four decades.

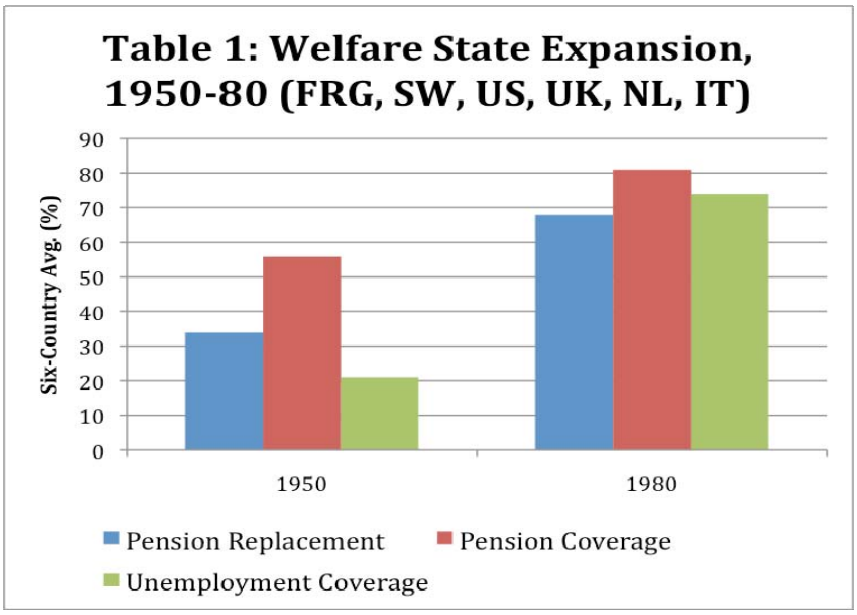
In short, we are now in a good position to take a step back and analyze the "era of austerity" over the very long run.

1 Following most analysts, I date the end of the "golden era" to 1973. This periodization builds on the perceived link between growing economic difficulties and a harsher climate for the welfare state. Higher unemployment and slower growth generate fiscal pressure, and mounting calls for austerity.

Putting FourDecades in Perspective

Before examining what the evidence shows, I want to spend a bit of time thinking through what our *expectations* should be. What should we expect to find when we look at social policy development over such a long and turbulent period? The case I want to make is that there are many reasons we should expect to see *a lot* of change, and mostly in a particular direction.

One way to frame our expectations is to juxtapose the most recent period with the changes that occurred during the period that preceded it – let's say from roughly 1940 to 1975 (although one can argue that an even shorter stretch, from 1945-1973, is the appropriate periodization). If we examine this stretch, of course, what we see are huge changes in social policy on multiple dimensions. In 1940, the welfare states of most industrial democracies looked decidedly modest by modern standards. As Alex Hicks documents, of the fifteen countries he considers only four had reached the basic stage of "consolidation" with "binding and extensive" policies covering the core social insurance programs (Hicks 1999, p. 51).



Source: Hicks 1999.

By the end of the Golden Age, of course, it was a very different story. Excepting the United States, *all* of these welfare states had consolidated. Moreover, all of them, including the United States, had vastly increased both the generosity and coverage of their core social programs. Hicks contrasts 1950 and 1980. Consider some representative examples. In the UK, pension replacement rates jumped from 28% in 1950 to 50% in 1980. In the United States, they jumped from 39% to 67%. In Sweden, from 27% to 89%. In Italy, from 18% to 75%. Countries also greatly expanded their coverage rates, which were in

most cases quite spotty in the 1940s. Some basic summary information is offered in Table 1.

For citizens who had previously grappled with persistent economic insecurity, it marked a stunning transformation. To offer one stark example, in the 1950s, very few in the United States were able to retire voluntarily – over 90% in surveys reported that they had "retired" because of ill health or because they had been laid off. By the 1980s, the overwhelming majority of retirees reported that their separation from work was voluntary (Esping-Andersen 2009, p. 148). What happened to welfare states over the course of this generation was nothing short of revolutionary.

The World Since 1975

A second way to establish expectations about the fate of the welfare state during the era of austerity would be to look sideways, so to speak, rather than backwards. That is, it is useful to remind ourselves of the scale of social change that has occurred in the world of affluent democracies over the past few decades. All long eras are marked by social turbulence, and of course this most recent period is no exception. Limiting ourselves for a moment to some of the dimensions of social life most related to economic and social policy we might note some of the following areas of dramatic shifts in affluent societies. All of this is well known so I will pass over it relatively quickly. Yet this cursory review underscores a critical point: the social world of 2010 is a vastly different place than that of the mid-1970s.

A good place to begin is the fact that forty years ago it was common to say "industrial societies" while now the label "post-industrial" is more likely to be invoked (Daniel Bell's *The Coming of Post-Industrial Society* being published in 1973). One reason 1973 is often treated as a turning point is that the rising unemployment rates of the era were associated with the acceleration of a long-term decline in manufacturing employment throughout the OECD. In the decades that followed, economic structures changed dramatically. Employment shifted from manufacturing to services, a change in many ways as wrenching as the earlier employment shift from agriculture to manufacturing. The shift was associated with wages and job structures that often meshed less than perfectly with existing social program designs. Economies became more open as well, as trade and capital mobility increased rapidly – often causing massive disruption in long-standing social arrangements as they did so.[2]

Changes in family life were equally dramatic. There was a huge influx of women into the paid labor force. Divorce became much more common, as did births outside of marriage

2 For a gripping discussion of one aspect of this "creative destruction" see *The Box*, Mark Levinson's analysis of the causes and consequences of the containerization revolution (Levinson 2006).

in many societies. With these developments came large increases in the prevalence of single-parent households. Nor were these the only demographic changes. Fertility rates fell sharply in most affluent democracies – in the case of Southern Europe, astonishingly, they were cut in *half*. At the other end of the age spectrum came equally astounding increases in longevity. As we all know, the result of these two trends was a slow and steady but ultimately transformative shift in the age profiles of post-industrial societies.

Rising immigration has been another source of dramatic social change. Many ethnically homogeneous societies became much more diverse and were forced to grapple with new social pressures and conflicts. Already diverse societies like the United States became dramatically more so.

Politics, as well, has undergone some fundamental changes. Typically, social researchers treat political institutions as fixed features of the social environment, as they are usually some of the most durable elements of our social arrangements. They do, however, occasionally undergo significant changes, and the consequences of changes in institutional arrangements for social provision may be quite substantial over the long-run.[3]

Here, too, the early 21st century looks very different from the 1970s. Far and away the most important change in institutional arrangements over the past few decades has been the remarkable expansion of the EU. Welfare states have been, and largely remain, national. Now, however, they are embedded in a complex multi-level system of governance.

This is only the most cursory and partial review. It should suffice, however, to drive home the main point. The last generation has witnessed dramatic social, economic and political changes. On multiple dimensions, the affluent democracies of 2010 were quite different societies than the ones of 1970.

Pressures on the Welfare State since the "Golden Age"

I have offered an intentionally broad sketch of long-term social changes, both during the "golden age" and the decades that followed. The sketch is designed to establish a simple idea: over a period of three or four decades societies should be expected to change a lot. Now I want to focus a little bit more on a series of factors that generate particularly acute pressures on the welfare state itself. Perhaps the most publicized is population ageing. In all affluent democracies, social provision (both pensions and health care) is weighted towards the elderly – in many countries dramatically so (Lynch 2006). Thus a consider-

3 Indeed, Iversen and Soskice (2006) have recently argued that institutional arrangements – specifically the choice of majoritarian or proportional representation rules – are the most critical feature in determining long-term patterns of social provision.

able source of pressure on the welfare state has been the shifting demographic profile of affluent democracies, generated by both declining fertility and lengthening life-spans.

In addition, a major strand of recent research on the welfare state, most closely associated with the remarkable work of Gosta Esping-Andersen, has stressed the emergence of "new risks" associated with the changing composition of societies and changing patterns of employment (Esping-Andersen 1999; 2009; Bonoli 2007). Among these new risks are those associated with the increasing prevalence of single-parent households, the long-term economic risks incurred when child-rearing is associated with absence from the labor market, and the increasing prevalence of part-time or precarious employment. They represent challenges that were less significant, or at least less politically salient, during the early development of welfare states.

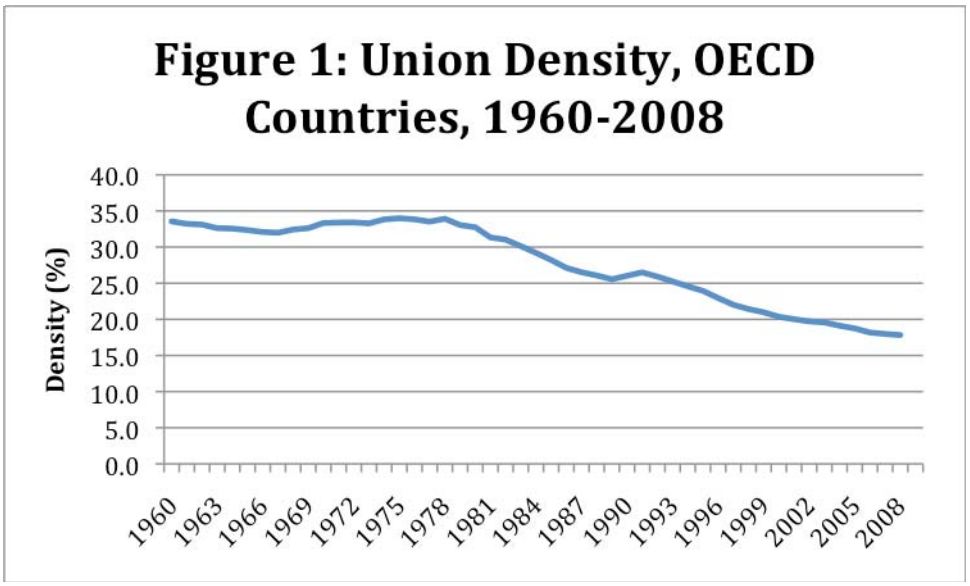
As Esping-Andersen, Bonoli and others have argued, all of these emerging or newly-salient risks create potential demand for public expenditure. They are, in this sense, competitors for scarce resources with already-established social programs. Indeed, a number of prominent recent analyses of social policy have placed special emphasis on this clash between the "old" welfare state (in some cases almost literally a welfare state for the old) and the "new" welfare state seeking room to expand (Lynch 2006; Hausermann 2010). My point is simply that these emergent trends, like population ageing, place pressure on established social programs.

I have left until last what is probably the single most salient transformation of all, which is the substantial shift in "power resources" throughout the OECD from organized labor to employers. A central theme in the literature on the development of the welfare state is the role of the organized political left, including both labor unions and affiliated political parties. This theme has been around for a long time. It has, however, continued to generate a steady stream of research as the scholarly conversation has moved forward in the past few decades. Researchers have sought and found better data, as well as explored the various interconnections between left "power resources" and a host of potentially important variables (e.g. the structure and role of employers and left parties, the role of religious cleavages and confessional parties, and the relevance of political institutional variables such as the structure of veto points, federalism, and electoral rules).

Summarizing such a vast literature is daunting and subject to numerous caveats. Yet it is difficult to read this body of increasingly sophisticated work without coming away convinced that the core propositions of power resources theory have withstood various challenges quite well (Huber and Stephens 2001; Korpi 2006). There have been many valuable extensions, qualifications, or nuances added to the original argument. Christian Democracy has made crucial contributions to welfare state expansion, especially when it has been in competition with strong parties of the left (Van Kersbergen and Manow 2009). Important segments of the business community have found important benefits in systems of social provision, and have often accommodated themselves to expansions of the wel-

fare state -- when they have been forced to do so (Mares 2003; Swenson 2002; cf. Hacker and Pierson 2002 and Korpi 2006). Rules governing political contestation matter, with federalism generally constituting difficult terrain for building extensive and generous welfare states (Obinger, Leibfried and Castles 2005) while voting based on proportional representation has been a favorable condition (Iversen and Soskice 2006).

Nuances and qualifications aside, the central claim – that the organized capacity of unions and parties associated with working and middle income groups has a huge impact on the degree and character of welfare state expansion – is robust. This finding provides a principal catalyst for the current discussion. Indeed, for me a central question has always been: what does the fate of the welfare state in the long era of austerity tells us about the continuing application of this well-established argument? I will have more to say about this later on. At this juncture, I wish only to highlight the implications for our expectations. For the long-term trends related to the capacity of organized labor have clearly been bleak. As Figure 1 indicates, average union density in the OECD nations peaked at 34% in 1975 – a revealing year – and has fallen inexorably since then. By 2008, average density was below 18%, although of course there is enormous variation across countries. This represents a very large shift in the balance of organizational capacity. Arguably, it *understates* the degree of change. Where bargaining power has shifted to employers, unions may hang on organizationally even as they are forced to concede substantive ground on issues.



Source: OECD

What would we expect the effect of such a substantial shift in the balance of power resources to be? Here, the recent comments of Walter Korpi (2006, p. 187), a principal architect of the theory, are explicit:

Major shifts in the relative disadvantage of labor – responding to factors affecting positions of capital as well as of labor – are likely to be reflected in movements on the left-right continuum of the set of feasible alternatives around which political conflict is centered at a particular time.

In other words, the "feasible alternatives" in policy disputes should be moving rightward, towards a rollback of gains achieved when labor was stronger.

So as we prepare to examine the actual empirical record, I want to suggest what our expectations ought to be: we should expect that nearly four decades of social turbulence and growing sources of pressure will have left a deep mark on systems of social provision. There have been dramatic changes in social needs and social structure, unfavorable shifts in the design of political institutions, increasingly intense competition over scarce fiscal resources, and a considerable decline in the political clout of the organizations that have been the welfare state's greatest supporters. Fast-forwarding a generation from the 1970s, armed with this information, would it be a shock to discover (as someone fast-forwarded a generation from 1940 would have) welfare states that were practically unrecognizable? I don't think so.

Retrenchment Revisited

The discussion of what has happened to the welfare state since the end of the Golden Age has been intense, and it has had some peculiar qualities. As I have already suggested, we know a lot more than we used to know. There have been exceptional studies of the experiences of individual countries or particular clusters of countries (Hausermann 2010; Palier 2010). Other scholars have focused fruitfully on the distinctive dynamics associated with particular policy areas, like pensions (Bonoli 2000, Weaver 2010). There have been impressive theoretical works that give us new ways of thinking about long-term social policy development, such as Bruno Palier's analysis of how small scale changes can sometimes give rise to larger ones (Palier 2005) or Jacob Hacker's propositions about how large changes might be occurring in ways that typically escape our notice and highlight distinct political dynamics (Hacker 2004b). At the same time, quantitative analyses have sought to bring the arguments and methodological approaches that have so fruitfully explored the era of expansion to the more recent era of austerity (Huber and Stephens 2001; Korpi and Palme 2003; Allan and Scruggs 2004).

None of these efforts, however, really wrestle effectively with what I would argue is the single most pressing question for those who, as I do, see the emergence of systems of modern social provision as a development of world-historical significance. When we look at the world of established welfare states in affluent democracies, *how much change has there been?* More specifically, given what we might expect under the circumstances outlined earlier in this paper, has there been a substantial curtailment of the efforts intro-

duced over the preceding decades? This was the question that framed my own investigations almost a quarter-century ago. I'm slightly surprised to find that we still don't seem to have especially solid answers.

I would argue that this failure reflects distinctive biases typical in the qualitative and quantitative literatures on welfare state change. In the qualitative literature, the essential problem is a form of selection bias. Scholars don't randomly select their cases of social policy development. Rather, the scholarly incentives promote hunting for social policy change and then explicating it. Uncovering stasis, the equivalent of the statistical finding of no effect, is pretty dull. It is an empirical result that can be enormously revealing, but generally doesn't provide the basis for publishing an article. It becomes even more tedious once someone else has made that basic claim. In short, finding no or limited change is a dog-bites-man story.

This bias, I've already suggested, has generated some great work. It doesn't, however, allow us to answer the central question.

Quantitative research has a different bias. It is most typically preoccupied with the *explanation of whatever variation it finds* across cases – why more change in Country X than Country Y? Or what factors best explain the differences between outcomes at time 1 and time 2? These are important questions, and I'll return to them. But if we are trying to look at the big historical picture, it really should follow a prior question: how much change is there to explain?

The "how much change" question is often dismissed as "merely descriptive." It is indeed descriptive, but not "merely" so, because the answers we give are theoretically telling ones. Although the matter is often left implicit, different theories have, or should have, different expectations about whether we should anticipate large or small effects from particular changes in social circumstances over time.

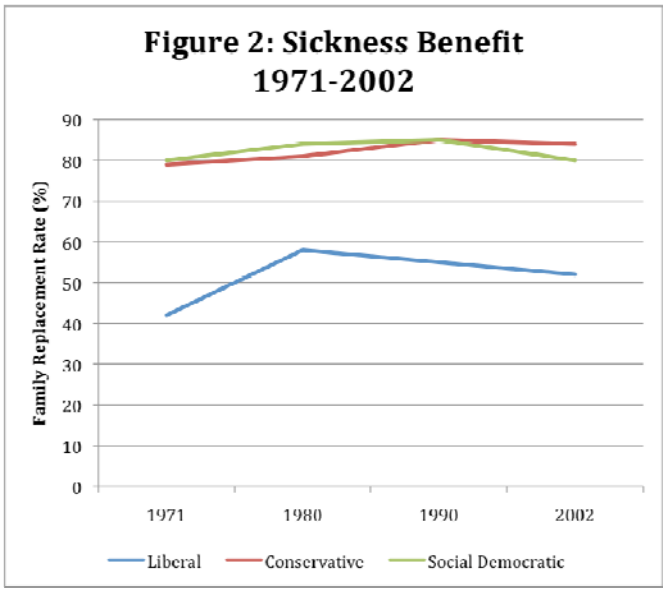
The good news is that we are in a much stronger position to address this "merely descriptive" question than we were a decade ago. The enhanced prospects reflect not only the passage of more time but also the compilation of new, more appropriate data. This development is due to the impressive labor of individual scholars, but it is worth noting that it also reflects the way a vibrant intellectual discussion creates incentives to push the conversation forward.

Almost all analysts of welfare state retrenchment have long agreed that spending is a poor proxy for measuring the generosity of welfare states, typically invoking Esping-Andersen's comment that no one fights over spending *per se*. Spending levels are easy to count and compare, but they are influenced by many factors other than the generosity of programs. What we really want to know – or at least the first thing we want to know – is what is happening to the programs.

Qualitative research on retrenchment has always focused on program outcomes.[4] However, there are of course huge constraints on our ability to draw broad conclusions from the study of a few countries or a limited number of programs. Fortunately, researchers have now pursued extensive projects to develop comparable data on program outcomes – replacement rates and coverage -- over long stretches of time and many countries. Path-breaking in this regard was work on the Social Citizenship Indicators Program directed by Walter Korpi and Joakim Palme. Yet the data associated with this project was until quite recently only available as presented in published papers, limited (again, until recently) to a very partial selection of social programs and only at five-year intervals.

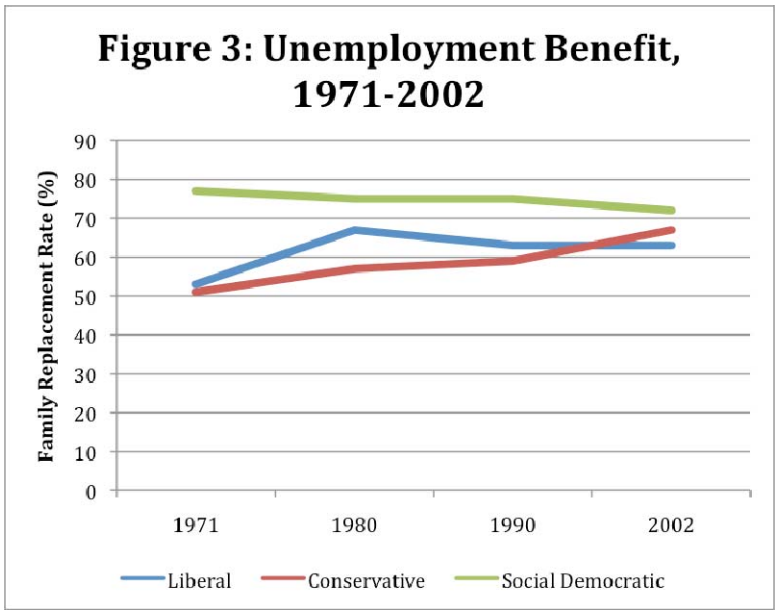
Scruggs (nd), however, has pursued a similar project, developing annual data covering 18 countries from 1971 to 2002. The data cover replacement rates, coverage, and additional features of benefit generosity such as waiting days. The Scruggs data archive, accessible to all researchers, creates an unprecedented capacity for any researcher to track annual program evolution for many countries over long time periods extending into the recent past.

The following three figures summarize important elements of the Scruggs data. They show family or couple replacement rates, for three programs – sickness, unemployment benefit, and pensions. For each program, the figure shows movement in the mean replacement rate over time for each of three clusters of countries: “liberal”, “conservative”, and “social democratic.”

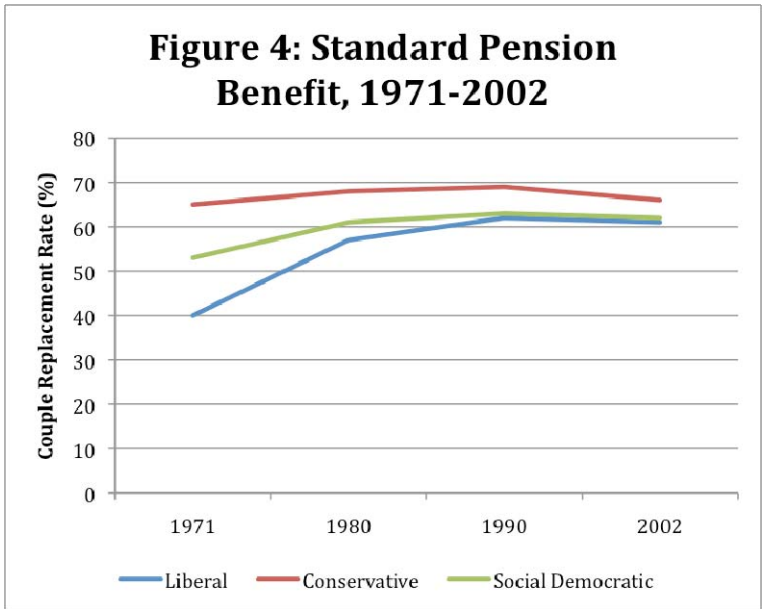


Source: Comparative Welfare State Entitlements Data Set

4 In this respect, Allan and Scrugg’s (2004) criticism of me for relying on spending data in assessing retrenchment is unfair. I discussed the limits of these figures at length, and relied primarily on the evaluation of programmatic outcomes in reaching conclusions regarding the extent of retrenchment. Their critique seems to be based on the assumption that only numbers count as evidence.



Source: Scruggs Data Set



Source: Comparative Welfare State Entitlements Data Set

Having thought about these issues for more than twenty years, I'm fascinated by these figures. The results are striking – even if they have a slightly dog-bites-man quality. Replacement rates typically peak in 1980 or later. Of the nine "cluster means", only one (Social Democratic unemployment) is at its highest in 1971. Three cluster means peak around 1980, three in 1990 and one is at its highest in 2002. In seven of nine cases, cluster means are higher in 2002 than they were in 1971 – often significantly higher. In one case they are tied. Again, only in one case (Social Democratic Unemployment Benefit) is the cluster mean lower than it was towards the end of the "golden age."

Another way to look at this (following the approach of Korpi and Palme) is to focus on the decline from the peak, whenever that peak occurs. This approach, of course creates a frame that provides the greatest likelihood of finding retrenchment. A country that saw steadily higher replacement rates for thirty years, followed by a single year of decline, would be coded as a case of retrenchment. Looked at this way, eight of nine cluster medians have declined from their peak values. Five of them, however, are declines of 3% or less (e.g. the mean pension replacement rate for couples in the conservative cluster falls from its 1990 peak of 69% to 66% in 2002). The single biggest drop among the other three is the fall in sickness benefits in the liberal cluster, where the mean replacement rate declines from its peak of 58% around 1980 to 52% in 2002.

Now, whether that is a big drop or not is to some extent in the eye of the beholder. This is why I began this discussion with an extensive effort to consider what our expectations for change might be. Taking into account what we know about change in social provision during other historical periods, changes over the past generation in other dimensions of the social world, and theoretical arguments about how those changes ought to be related to changes in the welfare state, what should we expect to observe? Given acute demographic and economic pressures over a period of more than three decades, along with a broad decline in the power resources of organized labor, I think most analysts would have expected more cases of big drops.

We need to dig further, however. "Cluster means" of course, can hide important information about particular countries – perhaps the means are staying relatively stable because retrenchment in some cases is being offset by expansions in other countries. If we move to the examination of individual countries, we can see that there is something to this objection. Looking at changes in the eighteen individual countries for the three policy areas gives us 54 trends to examine. What if we ask: in how many cases is there a fall from the peak of 10% or more – e.g., from 50% to 40%?[5] The answer is that we see declines on that scale in thirteen of our fifty-four programs: three pension systems (Belgium, France and Germany); six sickness benefit systems (New Zealand, the UK, Denmark, The Netherlands and Sweden) and five unemployment benefit systems (Denmark, the Netherlands, Ireland, New Zealand, and the UK).

As already noted, the Korpi/Palme test, which takes the highest replacement rate ever registered as a baseline, is highly sensitive to signs of retrenchment – arguably overly so. Consider a case like Irish pensions, where the replacement rate for couples rose from 40% in 1971 to 49% in 1980, to 58% in 1990 before declining to 53% in 2002. Under the Korpi/Palme test this looks like significant retrenchment (though below the 10 point threshold I am using). And yet Irish pension benefits in 2002 were substantially more

5 This cut-off for a "large" retrenchment, like any, could be disputed. It also counts a reduction from 85% to 75% the same as a cut from 20 to 10 – which biases the results to include more cases of programs that start with very high replacement rates.

generous than they were towards the end of the "golden age." An alternative way to look at this would be to ask how many cases there are where programs offer replacement rates 10% below the rates of the early 70s. Under this tougher test, just six out of 54 programs have experienced major retrenchment: one pension system (Germany), two sickness benefit systems (the UK and The Netherlands) and three unemployment benefit systems (the UK, Denmark, and The Netherlands).

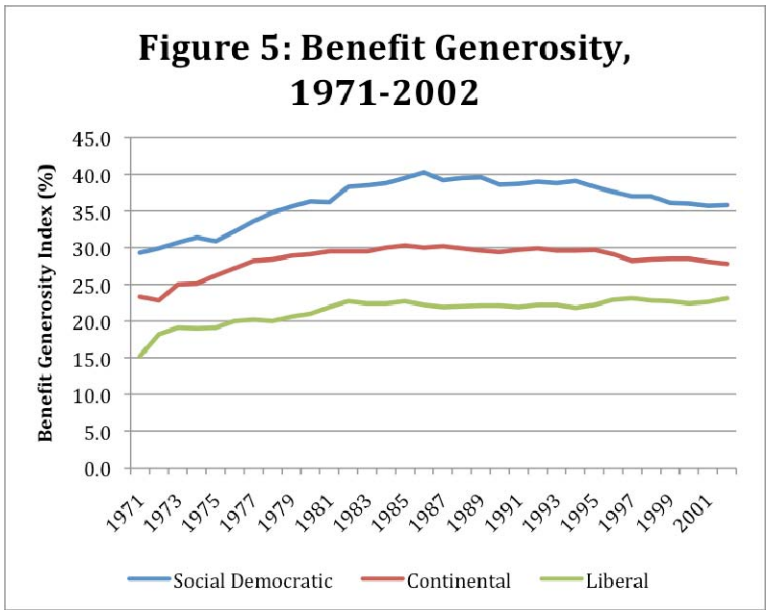
We need to dig a little deeper, putting this evidence concerning replacement rates in broader context. One important parameter to consider is program coverage – if there were significant shifts away from universalism, with access to benefits increasingly restricted, this would obviously constitute an important dimension of retrenchment even if replacement rates were relatively stable. In general, however, the opposite appears to have been the case. As Scruggs (2007, p. 152) summarizes his own evaluation of the data, "[u]nemployment insurance coverage increased considerably during the 1960s and early 1970s in most countries, and has gradually converged towards full coverage over time." Switzerland and Belgium are the only cases of significant decline in sickness benefit coverage. In the case of pensions, Scruggs offers the following summary:

> most of the countries considered here attained something approaching universal take-up, once social pensions, public pensions and civil service pensions are all considered. With a couple of exceptions – e.g. Australia moved towards and then away from making its state pension universal – *pensions are more universal today than they were 30 or 40 years ago* (Scruggs 2007, pp. 153-54, emphasis added).

In short, when one looks at coverage rather than replacement rates the evidence of substantial retrenchment is even weaker.

One way to move towards a general take on this flood of new data on the fate of welfare state programs is to look briefly at Scruggs' important recent effort to summarize the impact of changes in program generosity. Following the basic contours of Esping-Andersen's seminal work on decommodification, Scruggs has assembled a summary measure of program generosity over time in these three programs. His "benefit generosity index" includes not only replacement rates and coverage but also restrictions on program access (such as waiting days for sickness benefits and time limits for unemployment benefits).

The cross-national results, again divided by cluster, are presented in Figure 5. To me they provide a pretty striking story of stability at the level of core programs. There is some erosion after the mid-1980s, but it is very modest. Note also that the three clusters remain very distinct, although there is a slight movement of the Social Democratic cluster back towards the other clusters (a shift that seems to largely reflect reductions in very high replacement rates in unemployment and sickness pay programs).



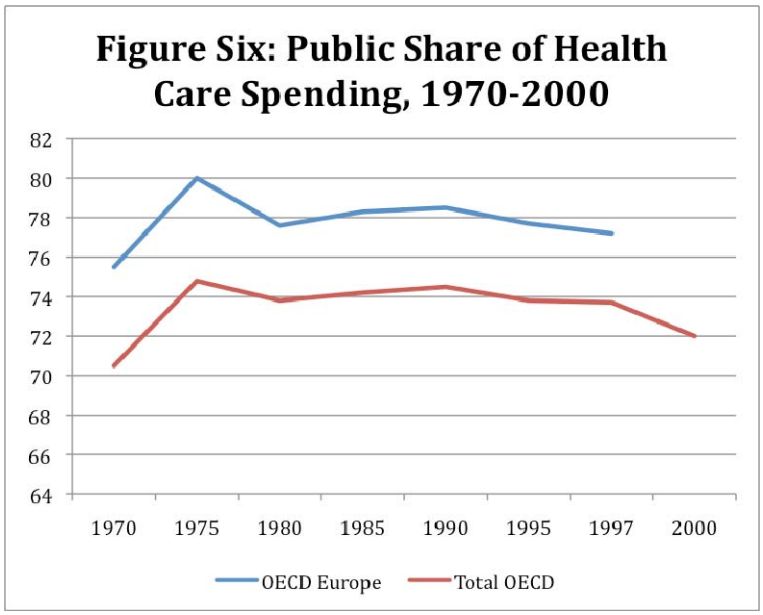
Source: Comparative Welfare State Entitlements Data Set

Before concluding this discussion of programmatic outcomes, I want to add a final dimension, which is health care. Given that health care and pensions are far and away the biggest spending elements of the welfare state, it is a little surprising that much discussion of welfare state retrenchment leaves health care to one side. To some extent this reflects a traditional preoccupation of social policy scholars with income replacement. Yet as health care expenses have skyrocketed everywhere over the long-term, protection against the costs associated with health care has become an increasingly important part of basic economic security. Moreover, health care spending in many systems is extremely redistributive. Assessing what has happened to the welfare state clearly requires us to consider what has happened to health care.

Perhaps another reason health care often gets sidelined is that assessing change in this area is rather tricky, as Richard Freeman and Heinz Rothgang point out in their essay in the *Oxford Handbook* (Freeman and Rothgang 2010). Given inexorable upward pressure on health care prices, tracking outlays provides an even more limited perspective than it does for other social programs. However, several recent studies that try to capture the impact of various reforms on the scale and scope of public health care commitments reach consistent conclusions (Hacker, 2004a, Rothgang): it is difficult to find evidence of a significant rollback of the health care state. Over the long haul, public coverage has generally grown.

In health care, the evidence reveals signs of what Peter Flora long ago called "growth to limits." As Figure 6 shows, as the era of austerity continues, the public share of health care spending first plateaus and then declines, but only very slightly. This suggests that there may be some displacement of further growth in health spending towards the private

sector – but the shifts are small and constitute a tough basis to build a case for major retrenchment around.



How to sum up this initial assessment of what has happened to welfare state programs over the very long run? A judgment of what constitutes "major retrenchment" is in the eye of the beholder. I offer only my assessment, based on the expectations outlined earlier. As they say in American automobile ads, "your mileage may vary."

To me, the evidence suggests a surprising level of stability. Of course, there are significant changes over four decades – how could there not be? Yet based on crucial criteria like coverage and replacement rates, most welfare state programs in most affluent democracies are close to as generous as they have ever been. Despite the dramatic social transformations and acute fiscal pressures of the past generation, the overwhelming majority of major social programs are more generous than they were towards the end of the "Golden Age."

Assessing Variation

Having laid out a lot of evidence about long-term trends, it is finally time to talk about variation.[6] Remember, much of the analysis of retrenchment has focused on variation across programs or countries, but in many ways the central issue is variation over time. I hope I've made a plausible case that, even after almost four decades, the amount of ob-

6 This discussion is limited to variation *across programs*. In further work I will consider variation across countries.

served variation in outcomes over time is relatively small – surprisingly small given what might have been expected.

Still, we can of course learn a lot about what is driving the changes that have occurred by focusing more precisely on where they occur and where they don't. It is, in fact pretty revealing that the change in replacement rates (while still modest in most cases) is greatest in sickness and unemployment benefit. As Korpi and Palme would no doubt emphasize, these are programs that provide benefits to those of working age who would otherwise be expected to be in the labor market. Thus they are arguably the ones that are most likely to erode when the power of unions decline. The particular vulnerability of these programs is consistent with the arguments of "power resource" theorists.

Yet this is also the assessment one would draw from what has come to be called the "new politics" approach, which emphasizes how programs can build their own politically powerful constituencies over time. As I noted long ago, unemployment benefits (as well as sickness benefits) are unlike most social programs in lacking their own built-in constituency. While everyone hopes to retire, most don't hope or necessarily expect to draw unemployment. And unlike pensioners (Campbell 2003), by the time the unemployed receive their benefits they are rarely in a chance to mobilize politically.

The organized base of support for unemployment and sickness benefits rests in unions, rather than beneficiaries per se. Thus the fates of these particular programs and these organizations should be tied, and there is a very plausible link to be drawn between the cross-national decline of unions recounted above and the falling generosity of unemployment and sickness benefits. And indeed, it is the case that generosity has fallen relatively far in some of the liberal welfare states where unions are weakest and getting even weaker.

The case is complicated, however, by the fact that replacement rates have also fallen in some countries where organized labor has been and remains very strong. In these cases, replacement rates remain very high – but not as high as they were before. Reform in these contexts often looks more like a case of what I have called "recalibration" – an effort to adjust and update welfare state programs rather than an exercise in rolling them back (Pierson 2001). In many of these cases, there appears to have been fairly broad consensus that extremely high replacement rates were creating costly inefficiencies, and that an adjustment in incentives, combined with an expansion of active labor market policies, would be beneficial.[7] In these cases, replacement rates have remained very high, but not as high as they once were.

7 As Huber and Stephens (2001) argue, there has always been something misleading in the application of the term "decommodification" to the Social Democratic welfare states, which are characterized by an intense focus on keeping people in work or bringing them into work.

In looking at variation across programs, we need to consider the other side of the coin – something that Korpi and Palme do not do. In particular, we need to look at pensions and health care – the two programs that typically make up roughly 80% of welfare state spending. Here, there is considerably more evidence of policy durability. Despite relentless pressure on the cost side for both programs, and deep concern among policy makers and many powerful actors about fiscal sustainability, health care and pension systems have generally held up surprisingly well.

The reason, I think, is evident: these programs are politically powerful. Politicians fear the repercussions that would follow from serious efforts to scale them back. Indeed, compared with unemployment and sickness benefit, these programs are the polar opposite in terms of their ability to build broad support based on current or potential program receipt.

To be absolutely clear, this does not mean that these programs are not potentially subject to significant change – especially over a period now stretching for nearly four decades. It does mean that patterns of development will be strongly influenced by the emergence of powerful supportive constituencies. The sensitivity of these constituencies to perceived losses of benefits will strongly influence patterns of future development.[8] Rolling back big, popular social programs is not easy, even where unions decline sharply or intense fiscal pressures emerge. In short, both the overall scale of retrenchment and the pattern of variation across programs are consistent with a theoretical perspective that emphasizes how the development of extensive welfare states has generated new constituencies that broaden the base of political support for social programs.

The Scale of Retrenchment: Some Serious Objections

Before getting too sanguine about these results, however, there are several serious objections to be considered, all of which should lead one to be careful in drawing implications about the long-term development of social provision. Together, these objections raise two critical issues: whether we are sufficiently appreciative of low-visibility, "subterranean" shifts in social programs, and whether past trends are a reliable guide to the present and future.

The first objection is that these data on program generosity only include the impact of cuts that have already been implemented. It is now well known that one way to make potentially unpopular cutbacks more tolerable is to delay their implementation or phase them in gradually. Yet the data considered so far do not include cuts that will affect future beneficiaries but not present ones. So, for instance, if many of the current British or French reductions in benefits had been enacted in 2002 they would not show up in the

8 There are, of course, other features that may contribute to the institutionalization of social provision as well.

data just presented, since these cuts are designed not to go into effect for a number of years.

There is little question that this data limitation creates a bias towards understating downward changes in social programs.[9] The problem is probably especially pronounced in pension programs, where not only are there tremendous political incentives to delay implementation but the programmatic capacity to do so is the largest. There is good reason to expect that as we are able to extend these data sets forward in time we will see more evidence of retrenchment, especially in the case of pensions.[10]

At the same time, one of the exciting things of now having three decades of data is precisely the capacity to capture some of these long-term dynamics. The inability to capture lagged cutbacks is a limitation that will pose a real problem for those who want to know the impact of policy reforms enacted since, say, the late 1990s – especially in the case of pensions. It is less of an obstacle for the current goal, which is to capture the long arc of social policy development since the early 1970s.

A second objection concerns the current wave of austerity sweeping across the OECD. Many countries are currently experiencing an assault on the welfare state reminiscent of the experiences thirty decades ago that triggered so much of the initial interest in welfare state retrenchment. Acute financial crises, combined in some cases with the presence of right-of-center governments, are clearly producing intense pressures on social programs and potentially opening political space for substantial rollbacks. Perhaps the story of the three decades from the early 1970s forward, even if accurate, tells us relatively little about what is happening now and what to anticipate in the years ahead. Perhaps the real era of retrenchment begins now.

Rather than prognosticating, I would simply suggest that the evidence considered in this essay helps us place today's headlines in a substantially broader context. The OECD world is experiencing the most acute economic difficulties since at least the mid-1970s – in some countries it is the worst economic climate since the 1930s. Given the structure of social expenditure, high unemployment and low or negative growth put intense fiscal pressure on welfare states. Countries that reject or are unable to pursue Keynesian responses will inevitably look to curb public expenditure. Moreover, the urgency of economic conditions can sometimes facilitate retrenchment and provide protection against blame. As the Iron Lady famously put it, "there is no alternative."

Yet even in this context retrenchment is precarious. Political opponents typically have incentives to suggest that there *are* alternatives, and their arguments often resonate. The

9 It is an important example of a broader problem in this area of research – the incentives politicians face to lower the visibility of unpopular reforms often make their actions more difficult for researchers, as well as voters, to track.

10 Scruggs is currently working on extending his data set through the first decade of the 21st century.

initial round of social policy cuts in France and the UK, where the conflict has been most visible, are revealing. The cuts are serious, but to describe them as frontal assaults on the welfare state seems an exaggeration at best. The French reforms will raise the pension age for public workers to *62*. The British are accelerating, by four years, the implementation of an already scheduled raise in the eligibility age for public pensions to 66. As many analysts have noted, reforms to modestly increase retirement ages still mean that the vast majority of increasing longevity has been added to the period of pension receipt rather than working life. I find it difficult to see the case for considering these reforms a major rollback of social citizenship.

In the United Kingdom, the proposal to implement an incomes test for Child Benefit is, symbolically at least, a bigger shift. The universal status of Child Benefit has long been fiercely guarded. Having survived all through the Thatcher/Major years, its revocation now represents a historically significant departure. If extended further it could represent the kind of "income-testing from the top" strategy that became a distinguishing feature of Canadian social policy in the 1990s (Myles and Pierson 1997). Whether this represents the kind of snowballing policy change Palier has described in his analysis of France is almost impossible to assess *ex ante*. However, it is crucial to put the current events in a broader context, and to recognize that similar suggestions that the end of the welfare state is at hand have been around, consistently, since the mid-to-late 1970s.

The Resilient Welfare State: "Frozen Landscape" or Maginot Line?

There is a third objection to the argument so far, however, that I find more compelling. This is the objection that grants the reality of broad policy stability but questions the implications of that fact. The critics suggest that even surprising policy stability can be consistent with dramatic change in the *role* the welfare state plays in affluent democracies. Indeed, I will argue that this framing gets us closer to thinking clearly about the contemporary challenges facing social provision. It is not, as some critics have argued, that the claims about resilience are inaccurate; it is that what resilience at the level of major programs really *means* only becomes clear when we place it in a broader social and economic context. Here, as in other cases of institutional development, one can see a seeming paradox of simultaneous stability and change (Thelen 2004).

The thrust of this line of argument can be seen in Hacker's important analysis of what he termed "policy drift" (Hacker 2004b).[11] Suggesting that reform of the welfare state had been understated, Hacker noted that the social role of public policies often depends not only on the content of laws but on how those laws interact with changing social and economic conditions. In certain policy contexts, the social role of programs may be undercut,

11 The next section of this paper draws in part on ideas developed in joint work with Jacob Hacker (Hacker and Pierson 2010a, b and c).

even as the rules themselves stay stable, *if* the rules are not updated to take into account changing social and economic realities. The simplest version of this kind of policy drift would be a program that was not indexed to inflation. Even as the legal status of the program stayed unchanged, the true role of the program would deteriorate over time as nominal prices rose. Of course, most social programs are indexed, but other kinds of social change – shifts in patterns of employment, earnings growth, demographic trends – may have similar effects. Where there is "drift", relative stability in social benefit rules may co-exist with dramatic changes in social context -- changes that may undercut or endanger the core logic of the welfare state. To understand what is happening we have to look not just at the stability of program structures, but at the changing interaction between program structures and their social and economic contexts.

There are two ways this focus on the broader context can turn into a serious revision of our understanding of retrenchment might take, what might be called a "soft" version and a "hard" one. The "soft" version is captured in Esping-Andersen's evocative notion of a "frozen" welfare state landscape. In this depiction, "old" risks (say, those built around the male-breadwinner model) crowd out "new" risks (such as those associated with single parenthood or precarious employment). Already occupying scarce fiscal space and protected by powerful networks of beneficiaries, established programs have a tremendous political advantage over potential competitors. In this context, as Esping-Andersen has argued, governments will typically under-invest in combating these new risks. In Esping-Andersen's view the problem is not that existing social programs are too vulnerable to retrenchment. The problem is that they are *too* resilient. The result of the resilience of established social programs is that welfare states are likely to be increasingly maladapted to the contours of gradually changing societies.

There is indeed significant evidence to support this view. Julia Lynch's important study of why some welfare states have a much more pronounced age-bias than others is built largely around this kind of mechanism (Lynch 2006). It is less about states having consciously chosen to set and renew these kinds of priorities than it is about the difficulty of altering broad programmatic commitments once they are established. As Lynch puts it, "[t]he unintended consequences of institutional rigidities undoubtedly play a larger role in structuring welfare state outcomes than much of the previous literature has allowed" (Lynch 2006, p. 193).

Guliano Bonoli (2007) has developed a distinct but related argument. He presents suggestive evidence that the timing of "post-industrial" transitions has had a durable effect on responses to new social risks. Countries that made this post-industrial transition earlier – before core welfare state commitments had fully matured and absorbed available fiscal space – have been more responsive to these new risks. Bonoli argues that the countries that made the transition later have not just been laggards. Rather, they have been durably affected, as the fiscal resources needed to address some of these challenges have been pre-committed to "old" welfare state risks.

These arguments fit well with a lively recent discussion in political science focused on how to study institutional change (Pierson 2004; Thelen 2004; Streeck and Thelen 2005; Mahoney and Thelen 2010). As Kathleen Thelen and I have stressed in different ways, we need to think of stability and change as constituting two sides of the same coin. Understanding the "glue" that holds institutions together helps us to understand the course of institutional change. Thus the fact that there are severe difficulties in rolling back deeply institutionalized social programs should not be taken to imply that "nothing is happening." Rather, the presence of well-established programs creates distinctive opportunity structures and constraints. Extensive patterns of commitments channel social policy development along particular lines. This doesn't mean the absence of change, or even the absence of significant reforms of institutionalized programs. It does mean that those programs themselves *have* become critical features of the political landscape. Reformers do not face a *tabula rasa*.[12]

Esping-Andersen and others have, understandably, viewed this "frozen landscape" dimension of contemporary social policy with considerable frustration. Modern welfare states, even generous ones, abound with inequities related to age, gender and other dimensions, many of them rooted in accidents of timing.[13] There are new challenges, new sources of economic and social deprivation, new obstacles to the welfare state's longstanding ambitions of enhancing the capacity of individuals to live happy and productive lives, freed from intense economic insecurity. Why should some policies and beneficiaries receive priority simply because they got their claims in first? Some of the freshest and most compelling recent work on the welfare state (Bonoli 2007, Hausermann 2010) has explored the implications of this "frozen landscape" for social policy reform. Yet this is the critical point: it is precisely the resilient nature of the welfare state that produces these particular dynamics of reform.

Given the seriousness of potential social "mismatches" between resilient programs and emerging needs, why do I refer to this "frozen landscape" view as the "soft" take on how to situate welfare state resilience within a broader context? Because it looks positively Panglossian compared with a second, "hard" view. This second critical take on welfare state resilience might be called the "Maginot Line" version. It is not just a matter of the welfare state being insufficiently nimble and thus insufficiently responsive to emerging social challenges. Instead, the "Maginot Line" claim would explore a more radical possibility: programmatically-resilient welfare states run the risk not of being over-run by their opponents but of being outflanked. The stability of those social programs, however real,

12 For an innovative discussion of how pension reform efforts can be channeled by program structures see Weaver (2010).

13 As a fairly recent migrant to the state of California I am tempted to call this the "Proposition 13 Effect", since due to the wisdom of California voters a resident's property tax can vary by an order of magnitude based simply of the timing of their home purchase. Long-term residents receive hugely preferential treatment compared with recent arrivals.

is consistent with an account in which opponents of a politics that generates a relatively broad distribution of economic rewards and opportunities for social mobility advance on other fronts. Rather than launching frontal assaults on popular programs, opponents of modern welfare states would go around them.

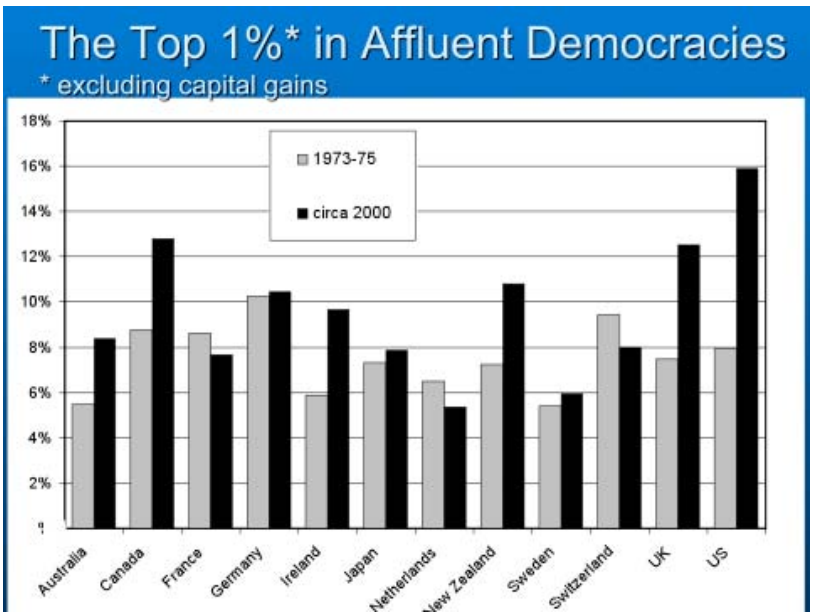
Hacker (2004) applied this argument to the distinctive public/private policy mix in American social policy. The structure of social provision in the United States, which leans heavily on benefits subsidized by public policy but provided voluntarily through employers, is vulnerable (perhaps uniquely so) to processes of policy drift. Changes in employment patterns and employer practices have led to declines in the coverage and generosity of these public/private aspects of social provision, even in the absence of significant reforms in the public rules themselves. Moreover, and crucially, changing policy through drift advantages those with the most resources. Because these changes take place incrementally and in the absence of high profile public conflicts, ordinary citizens are often unaware of the trends or their relationship to the decisions (or non-decisions) of public officials.

Hacker and I have recently applied this argument as part of a much broader effort to understand how the American political economy has been transformed over the past generation to become much more "winner-take-all" (Hacker and Pierson 2010b, 2010c). Over the past thirty years the United States has seen an extraordinary concentration of economic rewards at the top of the income distribution. Fully 40% of income growth has gone to the top 1% of the income distribution, and the majority of that has gone to the top .1%. In short, the United States has become a "winner-take-all" economy.[14]

Many analysts have attributed rising inequality to apolitical processes associated with globalization and technological change. Yet the changes have been much greater in some countries than others, and greater in the United States than just about anywhere else (see Figure 7), and the acute concentration of gains is actually inconsistent with these interpretations. This variation across the world of affluent democracies suggests that a dramatic upward shift in income distribution is not simply the playing out of some sort of "natural" economic process. In the United States, we document the pervasive role of both policy drift and policy enactments in areas as diverse as industrial relations policy, taxation, financial deregulation, and corporate governance.

14 I note in passing that this is a development that raises all sorts of interesting puzzles for students of political economy, since the classic Meltzer/Richards model concerning the reaction of the median voter to rising inequality suggests that what the United States has experienced shouldn't occur. See for instance Torben Iversen's discussion in his contribution to the *Oxford Handbook*.

Figure 7: The Top 1% in Affluent Democracies



Scholars of the welfare state may note an irony in the theoretical analysis we offer. Our argument draws on "institutionalist" traditions in that it emphasizes how the structure of political institutions, along with inherited policy structures, influences the contours of contestation. Yet it explains the broad transformation over time in outcomes through a claim about the sharp shift in organized power resources in American society. The shift to winner-take-all politics reflected a decisive alteration in the conditions of "organized combat" in Washington.

Beginning in the mid-1970s American employers organized much more intensively and effectively. Clinging to an industrial relations system designed in the 1930s and shut out of power in Washington, unions, especially in the private sector, went into near-terminal decline. Just as Korpi would anticipate, this shift in the balance of organized power was in turn "reflected in movements on the left-right continuum of the set of feasible alternatives around which political conflict is centered at a particular time." *Both* major political parties moved to the right on economic issues (although the Republican Party moved much further, so the space between the two parties widened over time). Tailoring tax, financial, industrial relations and corporate governance policies to the needs of the economically privileged, Washington largely abandoned the middle class.

Crucially for the current discussion, *all of this was compatible with remarkable durability of the core programs of the American welfare state*, including Social Security and Medicare. Well-protected and widely popular, the welfare state did not really erode. Business and its conservative allies learned that such frontal assaults were neither wise nor necessary. Stability of (formal) welfare state programs was compatible with massive (substantive) change in the distribution of economic rewards.

As we emphasize, this is a distinctively American story. The extent to which these dynamics are at work in other countries is a crucial research agenda. The point here is that we need to think carefully, and critically, about the true implications of the striking welfare state resilience that I believe characterizes the long era of austerity. Esping-Andersen once said that no one fought over social spending levels *per se*. We need to add: they didn't, and don't, fight over programs *per se*. The true struggle – the one analysts need to keep their eyes on, even as the locations of those struggles shift over time – is over how societies that combine democratic politics and market economies distribute economic and social risks and rewards.

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