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THE STATE OF THE WELFARE STATE

Review of *On Worlds of Welfare: Institutions and their Effects in Eleven Welfare States*, by J. M. Wildeboer Schut, J. C. Vrooman and P. T. de Beer (2001) and *Changing Labour Markets, Welfare Policies and Citizenship*, edited by Jørgen Goul Andersen and Per H. Jensen (2002)

The resilience of the welfare state is impressive. Beset by economic and social pressures, roundly criticized by free marketeers and libertarians, slated by many for drastic pruning, it can well join Mark Twain in his famous remark, "the report of my death was an exaggeration."

The two books reviewed here are part of a torrent of recently published research into the nature, condition and reform of the welfare state. *On Worlds of Welfare* (here, SVdB) issues from an interdepartmental research institute run by the Dutch government. One of its goals is to locate and evaluate the Dutch welfare state in a cross-national perspective. Its wider remit is to validate the mainstream Esping-Andersen categorization of welfare states, and to establish its implications for the traditional goals of income redistribution and poverty reduction. *Changing Labour Markets, Welfare Policies and Citizenship* (here, AJ) is a collection of articles organized loosely around the links between the welfare state and citizenship in the context of economic change—important, even fraught, issues, in an era of concern over welfare rights, welfare dependency, and social exclusion.

Both volumes start more with sociological and political than with economic concerns, but both make contact with economic issues, and *On Worlds of Welfare* tackles them head on. This article starts by reviewing the standard typology of welfare states, which both volumes take as a point of departure and which SVdB examine in detail. That book's contributions and limitations are then related to the wider literature on welfare institutions. The focus shifts subsequently to two issues raised by AJ: citizenship as a welfare-related outcome, and the effects on the welfare state of contemporary trends in the labor market and the family.

Welfare Institutions: Categories and Effects

The mainstream typology of welfare states, as codified by Esping-Andersen (1990, 1999), distinguishes three broad variants: social democratic, corporatist and liberal, as typified respectively by the Northern European, continental Western European, and "Anglo-Saxon" (English speaking) countries. The social democratic welfare state emphasizes universal welfare rights, offering generous benefit entitlements and relying on tax-based finance. The corporatist variant also offers generous benefits but conditions eligibility on labor market status rather than citizenship, through group-specific social insurance contributions and benefits. The liberal one creates only modest and residual welfare rights, relying on means-tested benefits and tax-based finance. According to Esping-Andersen, the three types of welfare state originated from distinct political and social conditions and carry different contemporary implications for employment levels and patterns.

This tripartite classification of welfare states—or, more generally, of welfare regimes, after incorporating labor market and family structures alongside the welfare state proper—has been discussed at great length. Its originality, exhaustiveness (across countries) and completeness (across welfare-related institutions) have all been questioned. As SVdB note, however, only limited attention has been paid, within the research ferment stirred up by Esping-Andersen's 1990 book, to the empirical validation of the taxonomy itself, and—more surprisingly—even less to its implications for redistribution and poverty, as opposed to employment structure.

On Worlds of Welfare tackles both tasks. It first uses data for eleven advanced economies in the early 1990s to validate the three-way typology. It presents a factor analysis of 58 detailed attributes of national welfare systems, ranging from the extent to which cash benefits are means-tested to the coverage of collective bargaining. (Esping-Andersen's original classification had involved non-technical aggregation across a narrower range of attributes.) Five principal components emerge, with the first two dimensions showing sufficient clustering of countries to represent the familiar trinity (SVdB, Figure 2.1). The first dimension captures the difference between the liberal system and the two others; the second, the difference between the social democratic and corporatist systems within the "other" category. The conventional three dimensions are thus boiled down to two.

Differences can also be quantified within each cluster: e.g. the extent to which the U.S. loads more strongly in the liberal direction than do the other three Anglo-Saxon countries (Australia, Canada and the U.K.). The only major taxonomic disturbance proves to be domestic: the Netherlands emerges as a hybrid, lying midway between the social democratic and corporatist clusters. That finding is taken to have resolved the running debate over the difficulty of classifying the country within the conventional trilogy.

The rest of the volume is devoted to investigating whether the different welfare systems—keeping in view intra-group as well as inter-group differences—are associated with differing welfare performances, in terms of income redistribution, income inequality and poverty, using standardized national datasets collected by the Luxembourg Income Study. The results prove broadly as expected: redistribution is more extensive, and income inequality and poverty rates are lower, in the social democratic than in the liberal systems. Corporatist systems prove close on all counts to, and indistinguishable on most from, social democratic ones, despite their use of status rather than citizenship as the basis of benefit eligibility.

The analysis is rounded off with an analysis of overall economic performance, which is treated from a welfare economics standpoint as some combination of average income and income inequality. The sensitivity of national rankings to changes in the importance assigned to efficiency relative to equality is investigated. A Rawlsian and a pseudo-utilitarian ("maximean") social welfare function are taken as the extreme points, with inequality aversion varying continuously between them. Not surprisingly, the U.S. sinks from top to near bottom of the ranking of countries as the importance attached to average living standards relative to inequality falls from infinite to zero. A less obvious finding is the low sensitivity of the economic performance of the corporatist welfare states, notably France and Germany, to changes in the importance assigned to equity relative to efficiency.

Candidates emerge for what might be termed the "unsung hero" and the "over-hyped product" categories of welfare state. The former comprise the Benelux countries, which top the league table on particular criteria: income redistribution for Belgium, and poverty incidence for the Netherlands. Canada also receives a light pat on the back, as distinctively more redistributive and less unequal than its U.S. neighbor within the liberal camp—and as widely appreciated for that by its own citizens.

The over-hyped product turns out to be Sweden, which does come second to Belgium on redistribution and overall inequality, but which ranks low on poverty rates and overall economic performance, whatever the relative importance given to average income and income inequality. (The validity of the finding will be considered below.)

One curious result is a tendency for poverty rates to be higher in liberal than in corporatist than in social democratic welfare states, when using poverty lines based on nationally specific policy norms *as well as* when using the standard OECD relative income criterion. SVdB take this finding as in line with expectation. I found the result surprising: I expected the liberal welfare states to lighten their load and improve their self-reported performance by setting a low poverty line. Only the U.K. conforms to my expectation. It ranks bottom of the table when the poverty line is based on either relative income within the country or internationally standardized real income, but comes third from top when the (much lower) national policy norm is used.

SVdB's findings deepen empirical support for the three-way taxonomy of welfare states and confirm its expected implications for inequality and poverty. They align closely with those of Hicks and Kenworthy (2003), who use similar methods to study similar issues using similar data, but do so for a larger set of eighteen countries. The differences between the two studies' findings are secondary—which increases confidence in the SVdB findings. The more recent study has however the sharper focus. SVdB's effort is impaired by several factors—some idiosyncratic and avoidable, others standard in the literature.

The first difficulty is SVdB's tendency to shoot at everything that moves. Thus when studying the relationship between welfare system and income inequality, before finally analyzing distributions of equivalized ("standardized") income across individuals, SVdB first present analogous results for both unequivalized income and equivalized incomes across households—evidence, that is, of marginal additional interest. Similarly, relative poverty and inequality are analyzed separately and at length. These are not the same concept (Osberg and Xu, 2000) but they are closely related and it is less than surprising that the same country rankings emerge for each. The same applies to their separate analyses of overall income inequality and redistribution. The discussion will as a result appear repetitive to some readers. By contrast, Hicks and Kenworthy get to the point and stick to it, analyzing only redistribution and poverty rates, and doing each once only.

A second problem is simple error, analytical and editorial. SVdB take the effects of direct taxation on efficiency to be a function of the total effect on labor supply rather than of the substitution effect alone (i.e. holding real income constant). The error carries no implications for their results, but getting the concepts right does help. Secondly, when discussing redistribution, they *reverse* the definitions of regressivity and progressivity in tax and benefit systems. They even do so inconsistently—which suggests an editorial rather than an intellectual error, but which does nothing to commend the book.

The third drawback is SVdB's lack of attention to their "sore thumb" findings: i.e. those that differ strikingly from other research results. The outstanding example is the poor comparative performance attributed to Sweden. Other research ranks Sweden high on the same criteria, even within the highly redistributive Nordic category, and even during the turbulence of the early 1990s (Fritzell, 2000; Smeeding, 2000).[1]

If one's research findings diverge so strikingly from others, particularly when the data and the definition of income in use are the same, the difference might at least be noted, and some attempt made to account for the difference. SVdB do neither. Failing that, the anomalous result for Sweden may be explicable in terms of several factors, some of which they recognize in passing.

One possibility is generic to cross-national studies of inequality and poverty: an incomplete measure of income. Almost all of the research that uses the LIS national datasets works with the most comprehensive definition of income for which data is readily across all countries: disposable income, i.e. money income after payment of direct taxes and receipt of cash benefits. The definition excludes the effects of indirect taxes and the "social wage" (benefits in kind, in the shape of subsidized or free services in the areas of education, health, housing, transportation, etc.). Incorporating the distribution of such taxes and benefits, were that possible, produces the distribution of *final* income (monetary + in-kind), which would be a more comprehensive and attractive measure of economic well-being.

Sweden spends an exceptionally high share of GDP on benefits in kind. It also provides a total benefits package that contains an above average share of such benefits. The distribution of in-kind benefits is also moderately progressive in Sweden—though apparently not more so than elsewhere (Smeeding *et al.*, 1993; Bradbury and Jannti, 1999, Figure 4.1). Were all taxes and benefits allowed for in the definition of income, redistribution might therefore prove even greater in Sweden, and overall income inequality sufficiently lower for the country to move up the league table of nations in each dimension.

The issue has been set aside by other researchers, in view of the close association across countries between spending on benefits in kind and on those in cash—

[1]A less dramatic example is the finding that income inequality in the U.K. had by the early 1990s risen to U.S. levels—a change attributed to "the demolition of the welfare state" in the U.K. in the 1980s (p. 88). The explanation is implausible—the U.K.'s welfare state not only survived Mrs Thatcher, it even cushioned considerably the effects of rising market income inequality during the first half of the decade (JRF, 1995). The finding itself is confirmed by other research: inequality in equivalized disposable income in the U.K. did catch up with its U.S. counterpart during 1989–92. It is potentially misleading, however: an acceleration in the U.S. subsequently restored that country's traditional standing as the most unequal of advanced economies, and prevented the U.K. from having to assume it for long (JRF, 1995).

which means that country rankings do not change significantly when the definition of income widens from disposable to final (*op. cit*.). In the context of SVdB's findings, however, the issue must remain open. The progressivity of benefits in kind differs by country and updated data on it are needed. Indirect taxes may also matter. Their share in GDP varies considerably across countries. Their distribution appears to be strongly regressive: incorporating them raises the Gini coefficient for equivalized income in the U.K. from 0.35 to 0.40 (Lakin, 2001, Table A).

A broader definition of income, were suitable data to be collected, would certainly improve LIS-based studies on the measurement of inequality—but it could not explain Sweden's peculiar position in the SVdB results. The absence of benefits in kind and indirect taxes—and, similarly, Sweden's unusual definition of dependent adults living with their parent as constituting separate households—apply also to the other studies that place Sweden higher on the ladder of inequality-related performance. It is regrettable that SVdB have not sought to explain so striking an anomaly—and no promising candidate can be offered here.

Finally, and again largely generic to this type of research, the difficulty of identifying the effects of welfare institutions on inequality and poverty from cross-national evidence is not well appreciated by SVdB. The primary obstacle is the danger of attributing to welfare institutions an influence that properly belongs to other national attributes. As Esping-Andersen (1999, p. 141) remarked, "it may not be deregulation that makes the difference [between the U.S. and continental European welfare regimes] as much as being the USA." (There is also the complication that a country like the U.S. may be particularly likely to adopt deregulation). If uncontrolled national effects *are* important, adopting the experiences of other countries as the counterfactual for the effects of a country's welfare institutions threatens bias in the results.

One response to the problem, assuming that national effects are fixed, is to examine the association across countries and over time between *changes* in welfare institutions and in inequality indicators (Grubb and Ryan, 1999). SVdB do consider changes in inequality, but only over a short period (the early 1990s) and only for some countries, and they largely ignore changes in welfare institutions.

Might panel data offer a solution? Their use thus far has been confined to micro datasets in which incomes are measured over periods longer than a year (e.g. a decade). That permits research into both inequality in multi-year incomes and year to year income mobility. A recent comparative analysis of U.S., German and Dutch panel micro data has also supported the claim to distributional superiority of continental European institutions, whether social democratic or corporatist, over liberal ones—though that conclusion too is weakened by the standard counterfactual problem (Goodin *et al*., 1999).

The scope for using panel data at national level has been improved by the increasing availability of longer runs of comparable data on inequality, covering by now up to two decades for some countries, as the LIS has aged (Smeeding, 2000, Table 3). The problem is the low variability of welfare institutions across time relative to that across countries, as a result of path dependence and inertia in the politics of welfare states (Pierson, 1994). Marked changes do occur across longer periods—as illustrated by the major divergence between British and

Swedish welfare provision, starting from similar positions around 1950. More time will have to elapse and more changes in national welfare institutions to occur, however, before changes across countries over time can differentiate empirically between the attributes of welfare states and nations. In the meantime, the methodological limitations of standard cross-sectional regressions must be kept in mind when interpreting results such as those of SVdB.

Other Objectives

Economic inequality and poverty are not all that welfare states are intended to influence. Another long-standing goal has been the promotion of citizenship. By that is typically meant rights and freedoms, in a positive, enabling ("freedom to") rather than simply a negative ("freedom from") sense. In the ideal envisaged by Marshall (T.H., not Alfred), the income security provided by the welfare state both represents and makes possible universal participation in public life. This agenda animates *Changing Labour Markets . . .* (AJ), whose editors treat citizenship as an encompassing objective, subsuming and transcending standard concerns with employment rates, and even economic and social inequality.

On closer inspection things become less clear cut. Ruth Lister finds citizenship a "slippery" concept, in which the emphasis has shifted over time from rights to responsibilities, and from social and political involvement to economic (labor market) activity. Other contributors note that the links between the welfare state and citizenship are ambiguous. Does a universal income guarantee make citizens free in practice as well as theory, or does it promote welfare dependence, isolation and passivity? Should public encouragement of early retirement be seen as allowing individuals to escape from the burden of wage labor and become more socially and politically active, or as fostering the loss of employment options, with their benefits for social integration? Policy interpretations have moved strongly in the past two decades from the former to the latter view within each of these dichotomies.

A drawback of the AJ collection is a paucity of original research findings, particularly on the links between welfare institutions and citizenship. What is offered on that count actually sits uneasily with any proposition that welfare states, as currently constituted, underpin active citizenship. For example, Hammer finds that the political involvement of young people differs only marginally between Scotland, where benefits are ungenerous, means-testing is widespread and eligibility is restricted, and the Nordic countries, with their universalist and generous welfare arrangements. (The possibility of uncontrolled national effects again clouds interpretation of this pattern: could Scots be culturally more prone to political activism than are Scandinavians?)

Indeed, Bouget's contribution suggests that the association between welfare and citizenship may flow more strongly in the opposite direction, in the shape of benefit recipients who mobilize to improve their lot. Bouget discusses the street protests in favor of increased welfare benefits conducted by the unemployed in France during 1998. The result was the introduction of an ad hoc, one-off programme, *Fonds d'Urgence Sociale*, whose clear objective was simply to do as little as necessary to palliate discontent. The episode points not so much to any purposive contribution of the welfare state to citizenship as to the self-interested influence of citizens on the welfare state itself. An earlier instance of citizen-inspired blockage of welfare reform—the withdrawal following protests in 1995 of reform proposals for employee pensions on the French railways—goes unmentioned.

Another important theme of the volume is the contribution of welfare institutions to gender equality—a late development in both the theory and practice of the welfare state. Esping-Andersen (1999) now treats the family in general, and sexual inequality in particular, as central to his revised typology of "welfare regimes." The theme is picked up separately by Lister and by Pfau-Effinger, with the latter inferring from a comparison of Finnish, German and Dutch experiences that welfare states have responded only slowly, and in the German and Dutch cases only partially, to changes in the social and labor market status of women. The traditionally low compatibility between female emancipation and the corporatist welfare state remains particularly marked in the German welfare state, with its continuing emphasis on female roles in unpaid household production.

The Welfare State in Crisis?

A further issue in *Changing Labour Markets* . . . is the much discussed proposition that the continental European welfare state has become economically dysfunctional: a source of economic rigidity and a handicap on economic performance. Economic variants of the argument, notably the OECD (1994) Jobs Study, see in generous welfare benefits a cause of high joblessness, long welfare rolls, and poor macroeconomic performance—in contrast to the dynamism of the U.S. economy, with its "welfare light" regime. The labor market is typically central to the argument, which contends that trends in labor demand adverse to unskilled workers have been caused by technical change and international trade. In this view, when generous welfare systems combine with institutionalized pay setting to put a high floor under wages, the result is structural unemployment for unskilled workers and inflationary constraints on macroeconomic expansion.

The attention paid to labor market trends in AJ actually proves limited—and what there is, inconsistent. Ploughmann gets things off to a poor start. His rampantly "new economy" interpretation depicts dramatic change in the labor market, using such neon-lit concepts as "industrial Hollywoods," a "new Middle Ages", and "mega metropolises." He even cites the "techno-cultural editor" of *Wired* magazine as favoring the new economy hypothesis. A more thoughtful and useful account comes from Andersen and Halvorsen, who for several reasons doubt the hypothesized incompatibility of the welfare state with labor market change and economic imperatives. Following Atkinson (1999), they note the diversity of the welfare systems with which macroeconomic success has been associated in recent decades. They cite the OECD's own research findings, e.g. that employment protection law appears to affect the composition rather than the level of employment. They point to the economic benefits of political corporatism, with its greater ability to deliver aggregate wage flexibility—which they argue matters more for macroeconomic performance than the relative wage flexibility (e.g. by skill level) that is facilitated by deregulated labor markets and low benefit floors.

Andersen and Halvorsen lean in the right direction, but perhaps too far. For young workers at least, labor market trends have been highly adverse in several advanced economies. The damage has been done to youth employment in Sweden and France, and to youth pay in the U.K. and the U.S., consistent with differences in national institutions of pay setting (Ryan, 2001). The burden of labor market change on overall social welfare has been correspondingly greater in the fiscally burdened Swedish and French systems than in the less stressed U.K. and U.S. ones—increasing the demands on the (parental) family as a source of youth welfare in the former relative to the latter pair of countries.

The labor market has not been the only source of pressure on the welfare state. Another factor has been change in the household and the family, as represented by rising numbers of lone parents, declining fertility and by the rising population share of the retired (Esping-Andersen, 1999).

Such developments receive some attention in AJ. Lister notes the particular relevance to females of the wider shift from rights towards responsibilities in welfare provision—though it must be noted that no European country, including the U.K., has followed the U.S. decision to impose an absolute lifetime time limit on individual welfare entitlements for lone parents. Pfau-Effinger points to the potential of employment for the realization for females as well as males of the ideal of social citizenship, and to the lags and incompleteness that have characterized the adaptation of welfare states to the increasing desire of women for paid work. The key variable again proves to be child care subsidies, which are associated with the marked difference between female participation rates in Finland and Germany. A standpoint different from the author's may however be appropriate. A welfare state's success in encouraging full-time employment for both parents of young children will represent for some readers a weakness rather than a strength, in terms of parental quality of life as well as child development. Moreover, some of the family-level changes that impinge on the welfare state—notably the growth of lone parenthood—are themselves partly its unintended consequences.

A further source of pressure on the welfare state goes largely unrecognized by AJ's contributors: fiscal restriction. A condition of "permanent austerity" has been diagnosed by Pierson (2001) in contemporary public finances. High unemployment and the maturing of generous past commitments to public pensions have been direct causes. Another potential cause is the impact of globalization on public revenues and outlays. In the increasingly integrated international economy, tax competition and social dumping may constrain the ability of nation states to fund redistributive welfare expenditures from progressive taxes, levied on either incomes or wealth in traded goods and services—just as state governments in the U.S. were constrained until the federalization of key welfare responsibilities in the 1930s (Sharpf and Schmidt, 2000). A further—and arguably the most important—source of fiscal pressure has been Baumol's "cost disease." Education, health and other welfare services are technologically capable of only low rates of productivity growth. As the provision and finance of those services remain a mostly public responsibility in Europe, its welfare states must run faster fiscally in order just to stand still—or private funding must replace public finance (Ryan, 1992; Baumol, 1993). The upshot of these fiscal difficulties was a temporary loss of fiscal control in several European economies after 1980, with the share of public expenditure in national income peaking at two-thirds in Sweden in the early 1990s.

These diverse pressures have prompted diverse changes in welfare states. The reforms covered by AJ's contributors start with Andersen's outline for Denmark during the 1990s. The country retained a high minimum income floor but stiffened eligibility requirements and work tests, and abandoned some recently introduced universal rights (e.g. to sabbatical leave). Trommel and de Vroom outline Dutch reforms that have reduced the generosity of injury, disability and sickness benefits. De Vroom and Guillemard discuss policy reversal in the Netherlands and France, from support for early retirement to its discouragement—to some effect in the Dutch case, but to none in the French one.

The themes represented by these instances of welfare reform are varied. The leading one is a shift from rights to receive benefit towards responsibilities to society. The central objective in the Danish case was labor market activation, by way of new obligations on beneficiaries to participate in job search and training programs. Employment was implicitly viewed as desirable, for both the individual and society. The Dutch benefit reforms were intended primarily to increase efficiency and reduce abuse in welfare services. They had an additional dimension: by imposing more responsibility on individuals for their own welfare they implicitly moved from corporatist towards liberal welfare principles. The discouragement of early retirement in France and the Netherlands has been targeted more narrowly on the adverse implications for pension funds of widespread non-participation by males aged 50–65, but it too has been informed by concerns over social exclusion in that group.

The centrality of employment to active citizenship is however also questioned in the volume. Pfau-Effinger, while approving of the high rate of full-time female employment promoted by the Finnish welfare state, views a less unequal division of unpaid household labor as more important for female citizenship than paid employment per se. Andersen, Trommel and de Vroom criticize the Danish and Dutch benefit reforms alike for treating the promotion of paid employment, rather than traditional income security, as the central objective and the key to active citizenship. The impoverished content of many work-based labor market programs aimed at welfare recipients does indeed cast doubt on the contribution of such activation measures to the renewal of citizenship.

One aspect of the citizenship agenda, mentioned in AJ only in passing, may well require more attention in future: the interaction between national welfare arrangements and European (i.e. EU) citizenship. The European Court of Justice is currently hearing claims by citizens of particular EU member countries for the right to receive medical treatment in other ones—claims which, if sustained, would not only relocate that welfare right from national towards EU level but also lead to supra-national pressure on such under-performing welfare institutions as Britain's National Health Service.

Changing Labour Markets . . . cannot be said to span contemporary welfare reforms. There is nothing specifically on such pension reforms as increases in the standard retirement age, lower benefit rates, means-testing and the encouragement of private pensions—with all the problems that the latter has already thrown up in the U.K. The book's restriction of coverage to EU countries means that the Clinton government's restriction of lifetime AFDC-type welfare entitlements to five years remains off-stage, despite its dramatic shift from rights to responsibilities, and its potential implications for child poverty. The fiscal context is also missing. Public spending has fallen from 67 to 52 percent of national income in Sweden during the past decade without radically changing the welfare state, but no information is provided on the associated changes and their implications for citizenship.

Is there, finally, a "bottom line" convergence in welfare institutions and policies? Although readers who live in countries with liberal welfare regimes and who favor welfare cutbacks might prefer to think otherwise, Esping-Andersen's (1999) observation of divergence across welfare regimes apparently remains valid. Political support for redistribution continues to be strong in the social democratic and corporatist regimes, which spread their benefits across middle as well as low income groups, even as it weakens in the already less generous liberal ones, with their increasing emphasis on means-tested benefits, restricted to low income beneficiaries. Differences among welfare states are likely to remain with us for years to come.

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