

# Welfare States in *Transition*

National

Adaptations in

Global Economies

Edited by Gøsta Esping-Andersen

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Global Economies

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# Welfare States in Transition



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# Foreword

The future of the welfare state, the theme of this book, is one of the most important social issues of our times. The publication of this book could not therefore be more timely as social policy everywhere is in a state of flux and is hence a subject of intense and passionate debate. The great virtue of this book is that it looks at the welfare state in a historical and comparative perspective, analysing its recent evolution and likely trends in the light of startling changes in recent years in economic policy, social structures and political configurations. The result is an admirable survey of the key forces shaping the welfare state in different regions of the world and an insightful exploration of alternative responses and options in an increasingly integrated global economy.

The welfare state is the culmination of a centuries-old struggle for social protection and security in the industrialized countries. It may justly be regarded as one of their proudest achievements in the post-war period. It set a model and a standard for aspiration for the newly industrializing and transitional countries as also for the poorer countries. All too often the welfare state is treated as a homogeneous entity and as an economic project. This book brings out clearly the rich diversity of the welfare state not only across different regions of the world but among the advanced industrialized countries themselves.

At the same time the book reveals the multifaceted character of the welfare state. It is at one and the same time a manifestation of a political community, an expression of social solidarity, and an attempt to eliminate destitution, reduce class differences and forge cohesive and stable communities. It has served as a defining element in national identity and citizenship. Now that the welfare state is under threat from powerful forces and interests, it is important to recall its encompassing mission and solid achievements in promoting economic security and well-being, human dignity and social solidarity, political participation and empowerment.

Almost everywhere the welfare state is under siege and is being recast in new directions. A number of forces have come together to question its viability, efficacy and utility. These forces include ageing of the population, changes in family structures, slowdown in economic growth, high levels of unemployment, soaring budget deficits, growing resistance to high taxes, ascendancy of market forces, privatization of economic and social activities, increasing national and international competition, accelerated globalization and technological change. The pressures exerted by these

forces are being reinforced by new ideologies and powerful interests stressing the harmful economic, social and psychological effects of the operation of the welfare state. The result is that an increasing number of countries are dismantling key programmes, reducing the scope and diluting the level and range of benefits.

What can be done in this situation? There appears to be a need for action on several fronts to preserve the major achievements of the welfare state. First, there must be reform of the welfare state to eliminate or reduce its abuses and adverse effects. For instance, if welfare provisions discourage the search for work and the acquisition of skills, or give incentives to unjustified absenteeism, their reform is needed for both efficiency and equity. Efficiency may also be promoted through greater decentralization and community participation in the planning and implementation of social security and welfare. Likewise beyond a certain point, high rates of taxation can exert strong adverse effects on work, investment and risk taking and reward efforts to evade taxes.

Second, policies which promote growth and employment are also likely to be beneficial for preservation and strengthening of the welfare system. By the same token, sustained economic crisis and stagnation are likely to erode the support and viability of comprehensive welfare schemes. Third, a certain measure of coordination of social policy of countries at similar stages of development may be necessary to resist pressures to improve competitive positions through progressive dismantling or dilution of the welfare state. Fourth, efforts must be stepped up at national and international levels to promote growth, employment and provision of a core set of entitlements in poor countries. In the long run, the surest guarantee for the preservation of the welfare state in the advanced countries must lie in a steady reduction of international income inequalities and a gradual extension of social protection and welfare to the disadvantaged population of the world.

Dharam Ghai  
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## Editor's Preface

This book is the result of a study commissioned by UNRISD in preparation for the United Nations World Summit in Copenhagen, March 1995. The idea was to assess the future of the beleaguered welfare states of Western Europe, North America and the Antipodes and, at the same time, the prospects for welfare state construction in the newly democratized nations in East Asia, Latin America, and East-Central Europe. The latter group includes countries with existing, if perhaps rudimentary, social security systems and some, like the ex-communist nations, which once boasted genuine and comprehensive 'Soviet' welfare models, now rapidly being undone. Some Latin American nations, like Argentina and Chile, have a long tradition of social insurance, but now espouse liberalization. The East Asian countries now match Europe in economic development, but their social security systems remain, so far, much less comprehensive.

Trends in the 'new' industrial democracies, in fact, fit badly with conventional modernization theory, which claimed that economic development breeds institutional convergence. Our study will examine one group of countries – led by Chile – which has adopted a neo-liberal course; another, exemplified by Costa Rica, which exhibits embryonic social democratic traits; and a third, more hybrid path, characteristic of the East Asian nations.

It is clearly not the case that all developing nations will follow the Western welfare state trajectory. But then it is now obvious that the advanced Western democracies built highly diverse social security systems. Moreover, their response to the contemporary crisis is as diverse as are social policy developments in the 'new' nations. In brief, the neo-liberal deregulatory thrust is present in advanced welfare states such as the United States, Great Britain and the Antipodes, and also in new industrial democracies. Other new and old industrial democracies pursue radically different approaches. In this regard, our study could not escape the necessity of omission. Within the group of advanced nations, the omission of Britain may seem curious, both because it was a welfare state pioneer, and because it is the only notable case of radical change in Europe so far. We shall discuss this case in passing, but it proved too difficult to include it under any of the region headings. In any case, the literature on the British case is voluminous. Likewise, it proved logistically impossible to include major countries such as India or the People's Republic of China, and the entire African continent.

The study is structured as a double-layered comparison. We compare global 'welfare state regions', and select nations within each region. One criterion for our selection of regions has to do with their respective position in the new global order. Many of the difficulties facing the Western welfare states are linked to the new competition from East Asia, East Europe, and Latin America; in turn, as the latter become successful industrializers, their traditional forms of social protection become untenable if not outright incompatible with sustained growth and democracy. The regions we examine are, additionally, quite distinct in terms of cultural and political legacies, economic development, and shared social policy traditions.

Nonetheless, in each region we discover sharply different and, in most cases, opposite policy choices. The Anglo-Saxon nations have favoured deregulation, but with varying degrees of commitment to equality. Europe is bifurcating into a vaguely distinguishable renovation of the Nordic social democratic welfare state amidst crisis, and essentially 'frozen' continental European welfare states. Likewise, we see the contours of two distinct Latin American and East-Central European trajectories, one with a strong neo-liberal bias, another more 'social democratic'.

Gøsta Esping-Andersen

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# After the Golden Age? Welfare State Dilemmas in a Global Economy

*Gøsta Esping-Andersen*

According to T.H. Marshall (1950), modern citizenship is the fruition of a democratization that spans three centuries. In the eighteenth century the foundations were laid with the principle of legal-civil rights; political rights emerged in the nineteenth century; and, as a preliminary culmination of the democratic ideal, we see the consolidation of social citizenship in the twentieth century.

On the threshold of yet another century, legal and political rights appear firmly entrenched in most parts of the advanced, industrialized world. The same, however, cannot be said for social rights. Many believe that the welfare state has become incompatible with other cherished goals, such as economic development, full employment, and even personal liberties – that it is at odds with the fabric of advanced postindustrial capitalism.

The case for the inevitability of a third historical stage of social citizenship also seems circumspect when we broaden our analysis beyond the old, mature democracies. Despite what modernization theory believed some decades ago, the new emerging industrial democracies do not appear set to converge along the Western welfare state path. Was T.H. Marshall, then, wrong to assume that modern civilization is cumulative and irreversible? Or, put differently, what kind of welfare state is likely to emerge in the future?

The modern welfare state became an intrinsic part of capitalism's postwar 'Golden Age', an era in which prosperity, equality, and full employment seemed in perfect harmony. It cannot be for lack of prosperity that welfare states are in crisis. The dizzying levels of postwar economic growth are long gone, but nevertheless real gross national product in the rich OECD countries has increased by a respectable 45 per cent since the oil crisis in the mid 1970s. Public (and private) social outlays, of course, grew even faster but this trend was generally arrested in the 1980s. It is in the equality/full-employment nexus that the essence of the crisis must be found.

There seem to be as many diagnoses of the welfare state crisis as there are experts. Most can, nonetheless, be conveniently subsumed under three main headings. There is, firstly, the 'market-distortion' view which argues

that the welfare state stifles the market and erodes incentives to work, save and invest. A second popular diagnosis focuses on the cataclysmic long-term effects of population ageing. And a third group of arguments focuses on the consequences of the new global economy, which mercilessly punishes profligate governments and uncompetitive economies.

Our study will not reject these arguments. We basically agree that a new, and quite fundamental, trade-off does exist between egalitarianism and employment; that global competition does narrow the field of domestic policy choice; and that ageing is a problem. At the same time, we feel that these standard accounts are exaggerated and risk being misleading. In part, the diversity of welfare state types speaks against too much generalization. In part, we must be very careful to distinguish what are chiefly exogenous and endogenous sources of the crisis. On the one hand, many of the difficulties that welfare states today face are caused by *market* failure: that is, badly functioning labour markets produce an overload on existing social programmes. Some, of course, insist that this is the fault of the welfare state itself. Thus, on the other hand, there is possibly also *welfare state* failure: that is, the edifice of social protection in many countries is 'frozen' in a past socio-economic order that no longer obtains, rendering it incapable of responding adequately to new risks and needs.

The malaise that now afflicts the advanced welfare states influences also strategic thinking on social security development within the emerging industrial democracies. Most pointedly, there no longer seems to be a Swedish 'middle way'. The neo-liberals suggest that the road to growth and prosperity is paved with flexibility and deregulation. Their recommendation for Latin America and East-Central Europe is therefore to emulate Chilean privatization rather than Swedish welfare statism. Critics hold that such a choice causes too much polarization and needless impoverishment, and that it may prove counter-productive for modernization. Comprehensive social security, they hold, is necessary because traditional familial, communal, or private market welfare arrangements are wholly inadequate. It is also necessary because stable democracy demands a level of social integration that only genuine social citizenship can inculcate.

Indeed, these were the very same issues that dominated in postwar Europe. Then, welfare state construction implied much more than a mere upgrading of existing social policies. In economic terms, the extension of income and employment security as a citizen's right meant a deliberate departure from the orthodoxies of the pure market. In moral terms, the welfare state promised a more universal, classless justice and solidarity of 'the people'; it was presented as a ray of hope to those who were asked to sacrifice for the common good in the war effort. The welfare state was therefore also a political project of nation-building: the affirmation of liberal democracy against the twin perils of fascism and bolshevism. Many countries became self-proclaimed welfare states, not so much to give a label to their social policies as to foster national social integration.

Such issues are of pressing concern in contemporary Asia, South America, and East Europe precisely because economic modernization tears apart the old institutions of social integration. Yet, policy makers in these nations also fear that such moral and political aims might jeopardize their comparative economic advantage (cheaper labour), traditional elite privileges (non-taxation of the rich in Latin America), or social culture (Confucianism in East Asia).

The advanced Western nations' welfare states were built to cater to an economy dominated by industrial mass production. In the era of the 'Keynesian consensus' there was no perceived trade-off between social security and economic growth, between equality and efficiency. This consensus has disappeared because the underlying assumptions no longer obtain. Non-inflationary demand-led growth within one country appears impossible; full employment today must be attained via services, given industrial decline; the conventional male breadwinner family is eroding, fertility is falling, and the life course is increasingly 'non-standard'.

Such structural shifts challenge traditional social policy thinking. In many respects the symptoms of crisis are similar across all nations. In others, there is notable divergence. Europe's single largest problem is chronically high unemployment, while in North America it is rising inequality and poverty. Both symptomize what many believe is a basic trade-off between employment growth and generous egalitarian social protection. Heavy social contributions and taxes, high and rigid wages, and extensive job rights make the hiring of additional workers prohibitively costly and the labour market too inflexible. The case in favour of deregulation seems validated in the North American 'job miracle' of the 1980s even if this occurred against the backdrop of greater inequalities.

Critics insist that the associated social costs of the American route are too high in terms of polarization and poverty. They suggest a 'social investment' strategy as an alternative. Rather than draconian roll-backs, the idea is to redirect social policy from its current bias in favour of passive income maintenance towards active labour market programmes that 'put people back to work', help households harmonize work and family obligations, and train the population in the kinds of skills that postindustrial society demands. The stress on human capital investment has, in the guise of 'productivist social policy', been official dogma in the Swedish model for decades. It is now also a leading theme in the Clinton administration, in the European Community, and also in East Asian countries (see European Community, 1993b; Freeman, 1993).

The debate within the 'emerging' economies is quite parallel. Since their perceived advantage lies in competitive labour costs, there is a natural reluctance to build costly welfare state programmes. Many of these nations – particularly Japan – also face unusually rapid population ageing and the spectre of unpayable future pension burdens. They recognize, however, that as their wage cost advantage evaporates (there is always a cheaper economy waiting on the horizon), they will have to shift towards higher

value-added production: hence, the East Asian governments' phenomenal stress on education.

What, then, are the prospects for the welfare state as we step into the twenty-first century? Will the advanced nations be forced to sacrifice some, or even most, of their welfare state principles? Will the new industrializing nations opt for a model without a welfare state or, alternatively, adopt some variant of Western style welfare states?

Overall trends, alas, give little comfort to those who adhere to the ideals of the welfare state, at least as it was traditionally conceived. The new conflict between equality and employment that the advanced nations confront is increasingly difficult to harmonize. The conditions that made the welfare state an essential part of economic development in the postwar Western nations may not apply to, say, contemporary Argentina, Poland, or South Korea. The causes of such pessimism are to be found in both international and domestic change.

### **The changing international environment**

The harmonious coexistence of full employment and income equalization that defined the postwar epoch appears no longer possible. Many believe that North America's positive employment performance could only be achieved by deregulation and freed markets which, in turn, reward the winners and punish the losers: hence, rising wage and household income inequalities, growing poverty rates, and maybe even the re-emergence of an 'underclass' (Gottschalk, 1993; OECD, 1993; Jencks and Peterson, 1991; Room, 1990). Western Europe, with its much more comprehensive industrial relations systems, welfare states, and also powerful trade unions, has maintained equality and avoided growing poverty, but at the price of heavy (especially youth and long-term) unemployment, and swelling armies of welfare dependants, the combination of which overburdens social security finances. Demand-led, reflationary strategies are no longer an option, partly because unemployment is not merely cyclical, and partly because income growth leaks out of the economy to purchase imported goods.<sup>1</sup>

### **The case for convergence: global integration**

Integration in the world today almost automatically implies open economies. Sweden, Australia and New Zealand, Chile, and the ex-communist countries in Europe, are all shedding the protectionist measures that once upheld their respective welfare state arrangements.

Openness is said to sharply restrict nations' capacity to autonomously design their own political economy. Both Australia and Sweden illustrate the erosion of national options. As Castles shows in Chapter 4, Australia could pursue what he calls the 'wage earners' welfare state' model of job security, full employment and high wages only as long as it adhered to