



# Enacting Community Economies Within a Welfare State

Teppo Eskelinen,  
Tuuli Hirvilammi &  
Juhana Venäläinen (eds.)

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**Enacting  
Community  
Economies  
Within a  
Welfare State**

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As becomes hopefully evident to the reader, this book is not so much a collection of individually authored articles, but first and foremost an outcome of a collective effort. This effort was not a brief one but involved a seemingly endless sequence of meetings filled with ideas, discussion and collective inspiration. Therefore, it is necessary to mention a missing author of this book: Tuomo Alhojärvi was part of the collective all along. The fact that he eventually withdrew from article writing does not diminish his claim to authorship of this book.

The institutional background of this book was a Kone Foundation-funded project investigating rights, exclusion and social production of value in alternative economies. This not only provided time to focus on research for some of the authors but also a platform in the sense of venues for meeting and planning. Indeed, sometimes the best possible support for research is a possibility to withdraw to a guesthouse in a nature reserve area with one's colleagues.

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# 1

## **Introduction: Community economies and social transformation with, within and beyond the welfare state**

*Teppo Eskelinen, Tuuli Hirvilammi & Juhana Venäläinen*

This book is an exploration of community economies within Nordic welfare states. Even though the upsurge of community economies is typically discussed in the context of countries plagued with economic problems, we currently see active movements building community economies in the wealthy and stable countries of the Nordic region as well. As a countermove to the increasing penetration of capitalist market relations into all spheres of life, including spheres in which public service provision used to be dominant, people in Nordic welfare states are building co-operatives that foster small-scale production, new value-based networks such as timebanks, and various kinds of

local arrangements for creating and sharing resources collectively.

Amidst the threatening ecological crisis, people are seriously looking for economies that will be more sustainable, and ultimately, support a socially more meaningful life. What we indeed need is a different value conception and more localised economy, instead of mere 'redistribution'. Instead of accepting the destructive patterns and hierarchies penetrating the economy as we know it, we are looking for economic forms that are based on horizontal relations and the principle of equity. As concrete alternatives to capitalist forms of production, community economy initiatives represent to many minds a qualitatively better way of seeing and enacting the economy. We see these emerging community economies not as marginal curiosities but as great sources of inspiration on what 'the economy' fundamentally could signify, both in theory and in practice (e.g. Healy 2009).

The agenda for scrutinising the tension between community economies and Nordic welfare states is two-fold. First of all, we need a systemic and case-driven analysis of how community economies emerge on the outskirts of the welfare state model, a model which is in flux. Community economies often emerge by harnessing and repurposing the potent 'surplus' that the public service provision generates, and serendipitously filling the gaps that inadequate provision leaves unserved. Second, we need to see, how community economies directly challenge the ways in which welfare states currently develop, proposing new trajectories of societal change and alternative ways of framing this change. Both aspects relate to the relationship between community economies and welfare state institutions, and inform questions such as: On what terms can community economies and Nordic welfare states co-exist and cooperate? Could a Nordic welfare state be an enabling platform for community economies to diffuse? And, crucially: Could community economies show the welfare state its desirable future model?

### **Community economies and diverse economic relations**

But what exactly do we mean by ‘community economies’? Following J. K. Gibson-Graham, community economies refer to the ongoing democratic co-creation of the diverse ways in which we collectively make our livings, receive our livings from others, and provide for others in turn (e.g. Gibson-Graham and Community Economies Collective 2017). In Gibson-Graham’s vocabulary and within the social movements inspired by them, a community economy does not refer simply to a ‘local business activity’, but to an ‘ongoing negotiation with all life forms’. The approach highlights the process in which socio-economic relations are continuously coproduced (Community Economies 2019). Community economies exist for things (production, organisation) to be done differently. They exist for the sake of self-organisation, non-hierarchical relations and direct interaction. Thus community economies aim to ‘make real the possibility that the economy can be a space of ethical action, not a place of submission to “the bottom line” of the “imperatives of capital” as it is so often portrayed’ (Gibson-Graham and Roelvink 2011, 29). So, while community-based economic forms have existed throughout history, we use the term ‘community economies’ with a more intentional, even political tone. We see community economies exactly as politics in a concrete form.

In addition to monetised market relations, economic relations include alternative market relations and non-market relations, alternative paid labour and unpaid labour. They include exchanges based on socially transformative values. The already existing ‘spaces-beyond-capitalism’ are diverse and relational (S. Wright 2010, 299). According to Ethan Miller (2013), community economies are constructed by three interconnected moments: the ontological, ethical, and political. Within the ontological moment, both the content of ‘the economy’ and ‘the community’ are in still in flux: the economic ‘figures as an ‘open-ended discursive construct’ organising a vast, heterogeneous field of relations’ (Miller 2013,



521). The ethical moment opens a space for negotiating ethics: the questions of livelihood and interdependence' (Gibson-Graham 2006b, x; cited in Miller 2013, 523). Lastly, in the moment of politics, the 'positivity [i.e., a positive, normative understanding of the community's objective] is collectively enacted' (Miller 2013, 525). Our case studies move between the ethical and the political moments: they serve not only the purpose of illustrating the heterogeneity of economic practices in general, but they also open spaces for ethical discussions and develop into collective political projects.

Community economies come in many forms, some primarily institutionalising a new form of currency, others a new form of exchange, yet others a new kind of community. Some might mostly attempt to decommodify a given sphere of life. Examples discussed in this book range from food production and distribution (Chapters 3–5) to harnessing vacant car seats through online mediated ridesharing (Chapter 6), and further to the managing of cultural and community spaces and services (Chapters 2–3). What is common to this wide set of projects and initiatives is that they not only setup institutions, but are also performative examples of economic versatility, manifesting the general notion of diversity of economic systems. Furthermore, while all systems have some articulated purposes, reasons to engage in community economies are versatile. For some people, reasons for participation are very practical: access to otherwise inaccessible goods and services, forming social contacts, and for others even survival. Springing from these motivations arise a diversity of economic relations which we aim to endorse with the concept of community economies. Indeed, the notion of 'diverse economies' is used throughout the book to refer to this general plurality of forms, purposes and motivations.

In any case, the ontological and social basis on which community economies operate can be seen as distinct. Usually, it is referred to as 'the commons' (e.g. De Angelis 2017). Commons systems

comprise not only of collectively managed resources, but also of social subjects or actors that manage them (commoners) and the cultural practices of commoning that sustain the productive cooperation. While the concept of commons is far from restricted to community economies, community economies can be seen exactly as instances of establishing a commons as a sustainable and equitable system, the organisation of which deviates from the logic of the modern state. The notion of commons is helpful for analysing tensions such as inclusion/exclusion and complementariness/co-optation in the process where community economies take functions that have been understood as core welfare state competencies. Commons systems are based on a radical conception of inclusiveness that surpasses the citizenship-based universalism of the welfare state. As Stavros Stavrides (2016, 38–39) argues, commoning only retains its defining dynamics if ‘always expanding beyond the limits of any community that gives it ground and develops it’, a feature that presupposes ‘an ever-expanding community of potential collaborators’.

However, this principle of spontaneous and open-ended collaboration can be a double-edged sword when portrayed as an alternative to public services, rather than as a complement to them. For example, when commons-based peer production steps into the arena of safeguarding minimum subsistence (Chapter 5) or providing minimum transport services throughout the country (Chapter 6), there is a risk of community economies being used as what De Angelis (2013) calls a ‘commons fix’: an arrangement where the existence of grassroots-level mutual aid becomes a justification for the deterioration of the universal provision of public services.

### **Approaching community economies in the context of Nordic welfare states**

So far, the discussions on the diversity of economic systems and on community economies have mostly focused on organising

community economies (e.g. Wright 2010; Seyfang and Smith 2002). The research on diverse economies has less often connected the analysis of the local economic practices to the study of the state and the broader cultural and social structures through which diverse economies are performed (Jonas 2013). However, economic alternatives do not and cannot exist in a social vacuum but interact with their surroundings. To better understand the transformative role of community economies, the task is to see the existing and potential place of such systems beyond their ‘niches’, or ‘protective spaces’ (Smith and Raven 2012), in constant interaction and friction with governance outside them.

Community economies function across a wide range of social systems. Why, then, to focus on their relationship with the Nordic welfare state? This is due to various reasons. First, the welfare state is not just a system of governance but also a kind of ‘real utopia’, clearly being an inspiration especially for the Anglo-American left. Its long history has always included the promise that through state-organised regulation of capitalism, given social rights will be realised and welfare can be guaranteed universally. At least on the level of policy ideas and normative goals, the Nordic welfare states have sought to maximise human well-being within capitalism, or to enable ‘socialism within capitalism’ (Kloo 2015; Iqbal and Todi 2015).

A feature that has made Nordic welfare states special and different from conservative or liberal welfare regimes (Esping-Andersen 1990) is the strong emphasis on universalism: indeed, the very legitimacy of the welfare state is connected with the universal provision of high-quality services. Furthermore, universal public services and a comprehensive social security system have decommodified everyday lives: when the state guarantees a minimum income and social protection, a person becomes less dependent on capitalist relations. Public services such as libraries, education systems or universal health care that are produced by municipalities and financed on tax revenues, can be seen as ‘spaces-

beyond-capitalism’; spaces where all have an equal access regardless of the ability to pay. The welfare state has helped to create various kinds of social commons – or, at least, proto-commons: platforms upon which collective grassroots socio-economic cooperation is possible.

Second, the focus on the current welfare states provides an interesting case to explore the ongoing ‘penetration of capitalist market relations’ to new spheres of life and new policy fields. Despite the inspirational ideas, the contemporary realpolitik of the welfare states sees the idea of decommodification fading away. If the welfare states were always largely capitalocentric in terms of being based on capitalist value creation, its current form is ever more often a state pervasively intertwined with capitalist accumulation and productivist labour markets. Numerous elements of Nordic welfare states have become qualitatively different from the golden era of welfare state expansion in the 1980’s, or early 1990’s in the Nordic countries.

The hegemony has put emphasis on the ‘post-industrial pressures’ to welfare states, including globalisation, decline of manufacturing production, the health and pension costs of ageing populations, and changing household and family structures (e.g. the steady rise of single-person and lone-parent households in all Nordic countries). Marketisation, through which market mechanisms such as competition, economic incentives and private provision, are implemented in the public sector, is increasingly offered as a solution to improve quality and economic efficiency of the welfare states (e.g. Moberg 2017). In addition to concrete actions prioritising private market actors, the marketisation trend has taken more subtle forms in the public discourse when the focus is put on social investments, economic incentives and economic productivity of public services. Consequently, the welfare institutions are geared towards competitiveness and narrow-minded cost containment. As this causes institutional uniformity and lack of political manoeuvring space, one can critically ask if

this context allows any room for economic diversity?

It is hardly an exaggeration to say that the current Nordic welfare states have largely given up on the goal of decommodification. While of course continuously producing services, this production takes increasingly often a market form in its production and organisation (e.g. Moberg 2017). Such services can be useful and necessary, but they do not contest the market imperative. So much of the attempts to recreate community economies can be seen as efforts to create decommodified spheres, in a situation when the state is losing its interest in providing such spheres. As the chapters in this book reveal, the current capitalist welfare states may not always give a warm welcome to the efforts of community economies to provide decommodified spaces.

Furthermore, the current Nordic welfare system emphasises ‘individual responsibility’, which means that cash benefits are less generous, more conditional, and more adjusted towards targeting and means-testing. Nordic welfare states have adopted ‘activation’ policies with entitlements restrictions and activation programmes with sanctions. This has led to the recommodification process in which the income of citizens has become more dependent on the fluctuations of the labour market than it was during the decommodifying expansion phase of the welfare states. (See McCashin 2016; Farrants and Bamba 2018.) Yet these changes have not taken place as abrupt, ‘shock doctrine’ style social engineering, but rather gradually, as a subtle ‘recalibration’ of welfare institutions. Despite this transformation, the welfare state ideology appears to be rather resilient: amidst all the cuts to social protection, retrenchment policies have remained unpopular.

The outcome of all this is an interesting conflict between the ideal or the ethos of the welfare state, and current policies within the welfare states. This distinction and tension between the ethos and the institutionalised form of the welfare state serves as a one starting point for our analysis: what is the role of community economies in reviving the ethos and pushing it further? Looking

from the other side, the literature on community economies has been quite silent on potential similarities with the welfare model on the level of ideas. This nexus clearly calls for scrutiny.

### **Ecological limits**

The focus on community economies in the Nordic welfare states is highly relevant amidst the fundamental transition that is required for creating ecologically sustainable welfare models. The most pressing challenge of all Nordic welfare states is the current situation where high social outcomes have been achieved at the cost of grave overproduction that exceeds biophysical boundaries. For example, carbon emissions, material use and land use per capita overstep the sustainable limits. (Neill et al. 2018.) Mitigating climate change requires urgent action. Overcoming this challenge calls for reconsidering the relationship between welfare states and capitalist economies. Is economic growth an inalienable part of the welfare state? Has the titubant ecological balance proven that the promise of the welfare state is over? The answer appears to depend on how the relation between economic growth and the fundamentals of the welfare state is seen.

Nordic welfare states were developed hand-in-hand with capitalist economies. The golden era of welfare state expansion was also an era of high GDP growth. Therefore, it is possible to argue that welfare systems are instrumental for the growth paradigm and useful catalysts for capitalist reproduction. Even social transfers can be seen to ultimately support the economic growth model and thereby also the ever-increasing consumption possibilities. And in turn, Nordic welfare states depend on economic growth because of the intertwined patterns of productivity, employment, taxation and social spending (Kloo 2015). In this reality, any economic downturn generates social ills.

However, this is not the only possible interpretation. Even if the welfare state as we know it undeniably depends on growth and contributes to increasing (over)production, this dependency

might be undoable. We call for rethinking the growth-dependency of welfare states and draw on degrowth research that has shown how the economy could steadily decline in a controlled fashion without catastrophic outcomes on unemployment and poverty (Victor 2012). This might require the implementation of new welfare institutions like taxation on resources and energy, work time reduction, universal basic income, maximum income and public control over the creation of money (Kallis et al. 2012; D'Alisa et al. 2015). It is possible even to argue that the post-growth reality with the need for new welfare institutions is already here: the high-income welfare states are devoid of new engines of growth, having to learn to live with a stagnant or contracting economy – and make the best out of it in terms of quality of life.

The questions regarding the possibility of a welfare state not based on continuous economic growth remains a debated subject (see e.g. Bailey 2015; Buch-Hansen 2018). Some welfare institutions might indeed be more able to adapt to non-growth conditions, and certainly many welfare functions would remain in a degrowth scenario. Yet this speculation is not our point here. The bottom line is that to comply with the challenges created by the ecological crises, two fundamental changes are in any case needed. First, there will have to be more locally organised, fossil-free economic forms, more commons-based economies, and more small-scale economic systems; second, the welfare state will have to assume forms which foster decommodification. Consequently, the question emerges, how can the relative share of non-growth-dependent activities expand. Community economies thereby fit the picture by creating sustainable economies as well as spaces, platforms and livelihoods that render a life despite growth socially meaningful and materially more possible.

As the welfare state goes through changes, new questions emerge concerning not only scarcity but also abundance. The old welfare states have become abundant with material goods, and as an outcome of this, they produce various kinds of leftovers and

excess. An interesting issue is then, how should this excess be seen? Is the production of excess a sign of success or failure of the welfare state? Two chapters in this book take excess as their specific starting point, with two very different kinds of examples: leftover food (Chapter 5) and vacant car seats (Chapter 6). Harnessing excess for the purposes of community economies might lay the ground for new forms of social interaction.

On the other hand, it might as well be a sign that the universalist ethos of the welfare state is crumbling. In the emerging commons systems or commons-like systems, there is always interaction and metabolism between the commons, state and market systems. The new commons are not entirely self-reliant, but are in many ways dependent on the intentional or arbitrary benevolence of the welfare state: the different forms of state-provided subsistence that can be used for building meaningful community economy activities. At the same time, the newly created community economies – such as the network of ridesharing groups – are always prone to be captured and used as prototypes by the market actors that directly capitalise on social cooperation (such as the commercial platform economy services).

### **Local vs centralised**

To add yet another element to the analysis, despite its ethos of decommodification, the Nordic welfare state is based on strong state governance, and thereby tends to favour hierarchical, top-down approaches. Yet this does not mean that all kinds of local initiatives could not and would not exist within it. The elaboration of the practices and prospects of community economies within the Nordic welfare states can cast some light on the questions of state power and legal governance in relation to small-scale community economies that are often ‘willfully cultivated and fiercely defended’ (Wright 2010, 298).

During the expansion phase of the Nordic welfare states, power has been transferred from local associations and governments



to central government. Nowadays, centralised power and comprehensive state regulation seem to be partly in contradiction with horizontal community economies when the state imposes top-down rules and regulates communities that are trying to increase their autonomy and self-sufficiency. If community economies function on the grassroot level, the state can be understood at a regime level that is mostly geared towards the status quo. In this case, the state-led governance structure and close interdependency between state actors and capitalist market actors express noteworthy difficulties in accommodating community economies in present Nordic countries. The context being this, state actors will assumedly fiercely protect a status quo instead of a transformative process, especially in a situation where the Nordic states are financially and materially so linked with the capitalist economy. In this case, the centralised power can easily end up in the hands of big corporations instead of local communities.

To be clear, the welfare state is not a definite or fixed system but can take various forms. Generally, we understand 'state' not as a monolithic and static entity but as a concept that refers to multi-layered governance with constant political struggles over parliamentary power and decision making. The welfare state is distinct from the welfare society. As Robson (1976, 7) has written, there are two sides of the coin in a welfare state: 'The welfare state is what Parliament has decreed and the Government does. The welfare society is what people do, feel and think about matters which bear on the general welfare.' Even if this rough categorisation fails to acknowledge the variety of institutions, we find it useful to see state actors as different from 'society'; in our case the active people cultivating community economies. The cases described in this book show a clear gap between 'the state' and 'the society' and a high mistrust of public authorities in general. It is therefore worth asking, what is the proper role of the state- and what spheres of communities should stay outside of state regulation? Is there a

risk of ‘state penetration’ of community economies?

Accommodating the goals of community economies within the state apparatus requires a deep process of democratisation at all levels. This is why the community economies have to be the starting point, as a non-hierarchical logic already exists in their operation. How can this non-hierarchical organisational logic and idea of value diffuse to ever new social relations? Could Nordic welfare states be transformative and open to the values of alternative economies?

### **Possible approaches of welfare state institutions**

While we take the perspective of community economy activism rather than governance as the starting point, sketching possible ways how the welfare state can relate to community economies assists in constructing a general framework for the articles. The ways in which governments in general and welfare institutions in particular can relate to community economies, can be categorised as inaction, creating enabling background conditions, and finally, direct assistance and institutional learning.

#### *Inaction*

As community economies often face considerable pressures from the side of government (be it municipal or national), it would be highly tempting to think that government inaction is the preferred response to the ascent of these alternatives. Indeed, actions by government often appear outright interventionist from the perspective of the community economies, so the logical reaction for them is to resort to protective spaces with clear boundaries and distinct operational logics. This is highly understandable in situations in which government intervention threatens the very existence of a community economy. The threat can come for example in the form of a taxation measure disabling the practical functioning, or seizing the space operating as the base for the community economy (e.g. Joutsenvirta 2016).

Yet the operations of community economies do not thrive on the basis of government inaction only. In addition, ostensible inaction can also involve subtle forms of control. Promoting alternative economies can also be used for keeping the unemployed busy or even 'self-employed', when the universalist service provision base has eroded, and an ethos of self-responsibility is enforced. As will be shown in Chapter 3, work practices are more complex than the dichotomic model (activity/inactivity) imposed by governmental social policy allows. There are also ongoing attempts by governments to control community economies through the 'voluntary sector', strategically governed through planning, monitoring, target-setting, financial incentives and other attempts to align the sector with government policies (Eskelinen 2018). This is typical in austerity policies, which are often combined with the active promotion of community development and decentralised governance (Smith 2010; Coote 2011). Especially the selective use of recognition and funding can be used to effectively govern an ostensibly autonomous sphere, particularly when funding comes with strings attached.

### *Creating background conditions*

For the reasons mentioned above, the role of government should perhaps be seen through the perspective of creating (or failing to create) background conditions for community economies to operate. The way in which a government can take a positively enabling role is related, first of all, to the general structure and cultural mood within a society. Often such background factors go without explicit recognition. Because of their very general nature, the interpretation of the mere existence of these conditions can legitimately be seen as inaction; yet these conditions are highly significant for the autonomy of economic alternatives.

This relates particularly to the general societal mood prevalent in fairly equal societies. Several studies have pointed out the strong tendency of welfare state regimes to foster general trust within

society (Larsen 2007; Rothstein 2001). This general trust is clearly a factor that contributes to the creation of alternative economic systems, even to their very autonomy. In an atmosphere of high generalised trust, alternative economic systems can be to a larger degree governed with a collectively designed ethical code and internal conflict resolution procedures, rather than having to rely on formal sanctions. For community economies, high general trust represents an element of independence from the government.

It is also easy to point out a number of policies relevant to the autonomy of alternative economies. Collectivisation of social risks is an important policy measure since it would allow public actors rather than market actors to decide on individual wellbeing (Johnston et al. 2011). To mention another obvious example, policies allowing more autonomy for the unemployed are clearly more enabling than strict labour market conditionalities (see also Chapter 3). Alternative economic projects not only attract unemployed people to provide material and social improvements to their condition, but the very existence of an alternative to capitalist labour contributes to the social space of alternatives. Therefore, proposals such as the universal basic income are also proposals for greater autonomy for alternative economy projects (see e.g. Henderson 2017; Wright 2011 on basic income and autonomy).

Some public services might be directly or indirectly useful for the creation of alternative economies, even though this clearly represents a side-effect rather than the purpose of these services. An important example of this phenomenon is the possibility of digital organising. Organisation on digital platforms greatly contributes to the autonomous space of the practices of alternative economies, as this creates considerable ease in organising and fosters community-building. Yet digital platforms only function in conditions of sufficient and pervasive digital literacy, and high internet access rate. Digital literacy is an outcome of long-term education and public policy, while universal internet access

provision (as enabled in Finland) represents an explicit and simple choice to provide a high-speed internet access to all with a nationwide broadband and to make computers available for example in public libraries. While technically unrelated, these policies significantly contribute to the conditions of constructing alternative economies.

*Direct assistance and institutional learning*

Last, and most importantly, a government could seek to assist community economies and learn from them. The concept of 'the partner state' is sometimes used to describe the ideal of the government which actively supports alternative economies. Partner state is not so much an actual form of government, but rather a cluster of policies and ideas whose mission is to empower and protect direct social-value creation (Bauwens and Kostakis 2014). This is of course more of a vision than an observation, but nothing would prevent governments from making an explicit choice to support alternative economic systems with their existing means. Perhaps this could be seen as one aspect of a rearticulation of the welfare state ethos.

Naturally the extent and form of such support can vary considerably, and the boundary between creating background conditions and direct assistance might be fluid. A typical form of support would be the provision of spaces for free or for a symbolic price, as very often community economy organisations need some kind of spaces for functioning. Space belongs to the kinds of things that are relatively easy for the government, particularly municipal authorities, to provide. This of course holds only on the precondition that such authorities can give up the idea that all spaces should generate monetary profit in accordance with market pricing.

Direct assistance also means that the government provides alternative economy actors avenues for participation with real policy significance. This is vital, as sometimes it is easier for

governments to take a paternalistic ‘do-gooder’ approach than actually listen to and learn from alternative politics. The vocabulary that best describes the community economy logic of operation and valuation can be quite foreign to the mindset of governments. Therefore, positive interaction with public authorities requires processes in which the point of view of the practitioners gets ‘translated’ into public policy. The challenge is that this ought to happen without the hegemonic discourse to co-opt the alternative and radical vocabulary.

A partner state can then be understood as having two functions. First, it is a government which allows experimenting and maintaining ‘protective spaces’ (Smith and Raven 2012). The partner state as an enabler means maintaining spaces for self-organisation rather than incentivising civic activity towards determined ends such as full-time employment. The partner state should be open to transform itself in order to create social space for the community economies as autonomous entities. Secondly, a partner state should also be understood as a government open to learn from the values of community economies and be willing to reconsider its institutions to adjust to their logic, rather than merely allowing them to operate.

All this being said, a critical note should be added: direct support cannot be automatically taken as positive. Sometimes a good-willing government can also be a government operating too close to the community economy. On occasion, supportive government activity can also be government activity which will become institutionalised thereby creating a norm that is restrictive and in rigidity lacks the adaptive flexibility. Benefiting from a government requires not only goodwill from the side of the government, but also an element of autonomy and distance to the government for the community economy.

One challenge concerning both the state and the hegemonic capitalist economy is their narrow understanding of ‘value’. The

value model of community economies is discussed in Chapter 2, with a focus on timebanks. No system of governance could of course choose to shift overnight to an economy informed by another conception of value. However, nothing would prevent public actors from asking themselves, what steps they could take toward the direction of such an alternative value model. Fundamentally, if community economies do embody a qualitatively better conception of ‘the economic’, then wider economic systems should be informed by this conception.

### **Synopsis of the book**

To recap the point so far, we look for strongly sustainable, democratic and horizontal ideas and practices, incarnated in community economies. Furthermore, we are interested in how these initiatives can flourish within welfare states, and also impact their future forms. Therefore we promote the slogan ‘with, within and beyond the welfare state’, and maintain an insistence on the sharp division between the welfare state and welfare ethos, the latter remaining an inspiration for constructing democratic and sustainable societies. Our mission is not to promote the welfare state as it is but rather to save and rearticulate the ethos that facilitated the original construction of the welfare state and articulated it as a utopia. Or, to put a long story short: our aim is to analyse the tension between given community-based utopias and a presupposed state-based utopia. Community economies are a challenge to the welfare state, which we urge it to address.

This serves as the starting point for the remaining six chapters in the book. All approach the tensions discussed above from somewhat different perspectives. The cases discussed and approaches taken very purposefully reflect the versatility of community economies. Yet geographically, the cases are located within Finland. This is not because interesting cases would not exist within other countries with a traditional welfare state identity, but because they were easy to approach, and because the cases in Finland serve as good

examples that can be generalised quite like any others.

In Chapter 2, Teppo Eskelinen explores the notion of ‘social value’. While traditionally economic value has been anchored in either labour or market demand, community economies are unique in insisting on a distinct idea of value. This idea is based on interaction, recognition and community; yet it is ‘economic’ in the sense of facilitating exchange and being embedded in value-storing practices. After trying to state systematically this conception of value, the article moves on to ask, how can a government relate to this conception of value? Can it recognise this kind of value? Can it foster it? Could it, eventually, see itself producing value as understood within current economic alternatives, rather than being stuck with the capitalist conception?

Chapter 3 sees Tuuli Hirvilammi and Maria Joutsenvirta scrutinising the tension between work as understood within diverse economies, and the currently hegemonic ideas and norms of labour and employment. How can people devote their agency and time to constructing alternatives when they also need to survive in a capitalist economy, perhaps being pushed to employment by disciplining authorities? The question is approached by studying individuals who are actively involved in developing alternatives. The chapter takes up two case studies – an art centre and a food cooperative –, through which a repertoire of work practices are analysed. The article asks, what are the practical ramifications of decisions by state actors and welfare institutions on the work practices existing within these alternatives? The findings show how employment policies and social security systems have both enabling and disabling impacts on the possibilities to enact community economies. The chapter then proceeds to discuss, how could the enabling features be strengthened.

Pieta Hyvärinen contributes with an exploration of small-scale food production in Chapter 4. Small-scale food production is a living practice rather than a historical remnant. Furthermore, it should be seen as one of the potential remedies for the threatening



ecological crisis, in contrast to the productivist welfare state, which obscures the material basis of food production and sees the expansion of production as the most viable solution to existing problems. Hyvärinen examines small-scale food production in relation to various tensions which unfold from this setting: how can the welfare state be enabling and disabling; what kinds of relations with other species are in operation in the production practices; how does the capitalocentric worldview manifest itself here and how could diversity be promoted?

In Chapter 5, Anna-Maria Isola and Janne Laiho examine food waste as a specific kind of commons. While leftovers can theoretically be freely claimed by anyone, food waste is both a system of living on the surplus of the welfare state, and a contested terrain because of new 'participatory' systems. Currently, there are new initiatives to organise the unemployed to cook together from leftover food. This system combines control of the unemployed, participatory citizenship, and circular resource-efficient economy – in other words both positive and negative aspects. Through an analysis of such systems, the article analyses the colliding and mutually enforcing aspects of the welfare state and the 'leftover commons'. Is the leftover cooking system a way of the welfare state to enforce traditional productivist control over the workforce, or a way to establish a sphere of commons and support increasing independency from the monetary economy?

In Chapter 6, Juhana Venäläinen analyses the self-organised mobility networks created through online ridesharing groups. These systems challenge the traditional public transport services as well as more commercially oriented platforms of sharing. They can then be seen an institutionalisation of ad hoc 'transport commons', such as hitch-hiking. Yet it is an open question, whether such transport commons can really be an alternative to public/commercial modes of transport, rather than being merely complementary. To what extent do they ultimately depend on the existing transport systems? Could institutionalised transport

systems be formed on the basis of self-organised transport commons? The article discusses these issues by analysing the hybrid and dichotomous qualities of ridesharing systems, which currently enjoy the freedom to design their rules and practices relatively autonomously.

The concluding chapter is a commentary serving as a postface, written by Sanna Ryyänen and Laura Kumpuniemi. The chapter delves into the issue of whether the northern community economies care to learn sufficiently from the rich traditions of alternative economies of the Global South. Drawing from the experiences in Latin America, Ryyänen and Kumpuniemi point out that economic alternatives might look quite different when they are created for purposes of survival; and the reality of government partnering with community economies might create other kinds of outcomes than we would like to hope for.

Together, the chapters aim at entering a kind of implicit dialogue with each other, or at least providing a collection of viewpoints. The relation between community economies and welfare states is not settled, and one can ask, whether it ever will fully be. But different perspectives can shed light on different scenarios, points of friction, hopes and fears.



## 2

# The conception of value in community economies

*Teppo Eskelinen*

Conceptions of value state the purpose of economic practices and ultimately steer economic activity, as any social system has a tendency to generate what is seen as having value. Further, a dominant value conception is both *performative* and *ontological*. Performativity means that the associated ideas not only describe, but also shape social reality. Any given dominant conception of value changes social reality so that more of the valuable will be produced. Further, descriptions of value become treated as really existing aspects of social reality and further the only possible descriptions of value – thus ‘ontologisation’. Alternatives then appear to counter ‘what exists’.

Yet such conceptions are not necessarily conscious but can be implicit. Therefore, an explication of hegemonic value conceptions is needed in order to support alternatives. As stated in the introduction, it is necessary for the purposes of social justice and ecological survival to create more localised, egalitarian and sustainable economic forms. Community economies not only entail non-capitalist *practices*, but also a unique *idea* of what is valuable, and thereby worth doing. Community economies

insist on seeing value in social interaction, community, self-organisation and empowerment. This chapter sets out to describe the dominant capitalist value conception, a community economy alternative, and analyse how the welfare state ethos could move in the direction of the latter.

As discussed in the previous chapter, the welfare state is a fluid concept, which can refer either to an ideal (ethos) or really-existing systems of governance. The existing systems do have patterns deviating from capitalism, yet they are becoming ever more penetrated by the markets. From the viewpoint of the theory of value the main question is, whether the self-perception of the welfare state is to *redistribute* value while accepting the capitalist value conception, or to push a value conception which deviates from the capitalist one. As noted, especially the idea of decommodification has been lately on the losing side. Therefore, at best the community economy conception of value can function as a challenge to the welfare state: it could resume the notion of decommodification, and further assume such community economy virtues as limits to growth and the value of social interaction and care. Indeed, the fluidity of the concept of the welfare state should not be understood as an ambiguity, but as an open arena of political struggle. The welfare state can then assume a narrow capitalist conception of economic value and see itself as redistributing this value, or it can see its very essence as based on a broad value conception.

Yet having noted the variance of welfare states, the same needs to be said about community economies. Indeed, the category refers to a range of initiatives and institutions characterised by mere family resemblance. It is consequently difficult to point out *the* definite value conception of community economies. Therefore, I will focus here on one concrete example: timebanks. Timebanks are community-based economies in which *time* is used to calculate the value of a provided service. This is a way of emphasising equality, as no-one's time has more value than anyone else's. Practically, the

system is based on a centralised system of accounting in which time to provide the services is credited to or debited from the accounts of the provider or recipient, causing the accounting system as a whole to balance at zero. Practically, any timebank member can announce skills or needs on an (often digital) noticeboard and agree on an exchange (either between the parties themselves or mediated by a ‘broker’). In addition to insisting on equality, the system sees enhancing community-building as its mission.<sup>1</sup>

Of course, relying on a single case might seem like a limitation and indeed makes general reference to community economies somewhat tenuous. Yet timebanks can be seen as an archetype of a community economy. Furthermore, while they might not exhibit all aspects of the category, they are very explicit about the advocated conception of value. Further, they aim at transformation both in the realm of market exchange and in the realm of social relations, community and participation. The explicit and the transformative aspects facilitate the analysis of their distinctive value conception.

### **The hegemonic value conception**

The capitalist conception of economic value has gained a hegemonic position. Because the hegemonic conception is rarely articulated and more typically just embedded in practices as a given, a criticism and search for alternatives should begin by making the value conception explicit. While this could be done by analysing the daily functioning of the capitalist society, there is also an explicit value conception available: the one articulated in economics. Contemporary mainstream economics is intimately connected with capitalism. Furthermore, it carries major epistemic power because this economics is the science for both describing and reproducing the capitalist order: it is then a system for reflecting, what capitalism sees as valuable.

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<sup>1</sup> For general introductions to timebanks, see Cahn 2004; Seyfang 2004; Gregory 2015.

The idea of value as it exists in contemporary economics is based on two theories seen as mutually exclusive: the *labour theory of value* and the *subjective theory of value*. More precisely, economics can be seen as being grounded on the demand-based theory of value, so that the justification narrative sees the labour theory of value as the only existing (and conceivable) alternative to it. In other words, the conception of value in contemporary economics is based on these two ideas: first the dominance of the demand-based theory, and second the belief that the theory of value needs to be chosen from these two mutually exclusive alternatives.

Classical political economy, including Ricardo as well as Marx, leaned on the labour theory of value (Theocarakis 2010). The classical economists assumed a theoretical entry point, according to which value refers to the amount of labour embodied in a commodity, including historical labour needed to develop the necessary physical capital. Ricardo formulated the theory as follows: ‘The value of a commodity, or the quantity of any other commodity for which it will exchange, depends on the relative quantity of labour which is necessary for its production, and not on the greater or less compensation which is paid for that labour’ (Ricardo 1817). ‘Labour’ is thus a very general term for categorising human productive activity appearing in several societal and historical contexts (Mandel 1990). Furthermore, it is seen as a commensurable substance, which allows the comparability of completely different kinds of goods.

The labour theory of value has been criticised for being ambiguous about the relation between value and price (generally on the subject, see González 2013), or even as metaphysical (Robinson 1962). Yet the most influential criticism focuses on the tendency of labour theory of value to ignore the subjective valuations of market agents, in other words demand. This criticism gave rise to the marginalist school of thought and the subjective theory of value that forms the basis of neoclassical economics. According to this theory, the economic value of a given good is determined by

the interplay between subjective valuations of goods (expressed through market demand) and the scarcity of these goods. Thus, the value of a given good cannot be objective and constant, like the labour theory of value suggests, but depends on the will of consumers to pay for the good.

The subjective theory of value tends to reduce all theorising on value into market transactions, in which the expressed valuations of atomistic market subjects are decisive. The theory ignores the value of things external to market goods as well as non-commodified goods, as it assumes that valuation has to be expressed within the market, if (economic) value is to exist. Indeed, the social aspect of the economy or value that the theory recognises is the existence of instrumental market relations: people might engage in exchange and contracts as they observe temporary mutual gain. Furthermore, value is seen to be consumed in the instance of transaction: whatever happens to the object after the transaction is a personal issue and beyond the scope of value theory.

On a quick look, the existing value conception, or more precisely the paradigm describing these as mutually exclusive alternatives, might sound sensible. Therefore, a critical look needs to be taken on the particular weaknesses within this conception.

Both labour and subjective theory of value state, that value can be detached from the social basis which enables its production. This has a dual implication: firstly, no social patterns of care, upbringing or such, are recognised as valuable; and secondly, the social process in which economic goods are exchanged, is seen as meaningless from the perspective of determination of value. Moreover, no notion of power is incorporated in the value conception, therefore casting the hierarchies in economic processes or their unmaking as insignificant.

Additionally, the subjective theory of value functions effectively as a justification for capitalist practices, particularly because of what it omits. Two issues in this regard stand out. First off, the subjective theory of value leans on an idea of well-being,



according to which well-being is always enhanced when more market preferences are met, thus forming the basis of seeing the limitless growth of consumption as a well-being endeavor means to improve well-being. Secondly, it sets no limits to how much the perceived value of different inputs can be seen to deviate, thereby giving an excuse to any magnitude of disparities.

All this leads to a need to see beyond these apparently exclusive choices. It is not necessary to base the theory of value on either a mechanical reference to the labour time used to produce the good, nor a narrow theory functioning as an excuse for capitalist practices. A better alternative is to ground economic value on the whole process, including reproduction, social interaction as a basis for well-being, together with a notion of limits to growth and consumption. I will now turn to the community economy conception of value as articulated within timebanks, to see how these theoretical points figure in that context.

### **Characteristics of the community economy conception of value**

Mainstream economics appears locked with the ostensible necessity to choose between the labour theory of value and the subjective theory of value. While within social science there have been some theoretical attempts to surpass this dichotomy<sup>2</sup>, community economies can be seen as highly informative for these attempts, as they not only theorise, but also practice given value forms. Community economies insist in their practice on an idea of value, which would better grasp the social element inherent in economic activity. This social element of value is not reducible to either subjective notions nor mere labour time.

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2 Some theorists refer to 'real value', implying that there is some significant quality which should be attached to the capitalist conception of value (e.g. Kallis 2018). Others have argued that despite being quantifiable and subject to calculation, value is deeply embedded in social relations (e.g. Laamanen 2017, 3), and thereby fundamentally a comparative concept (Graeber 2013, 226).

The task is then to explicate a theory of value from the basis of the conception embodied in practices of community economies. Community economies should be understood as economic in the sense that there is some facilitation of exchange or organisation of resources. Further, there has to be some sufficiently shared value conception. This conception can be implicit as well as explicit, yet it will be enacted in the practices of the system. The unique form of *economic value*, not accepting the mainstream economic way to draw the distinction between economic and non-economic, is one of the key components making community economies stand as a distinct category.

Below, I will sketch the key aspects of an alternative (community economy) conception of value as expressed in timebanking. ‘Alternative’ should be understood here in the sense of deviating from the hegemonic economics narrative, rather than as marginal: the conception can be widely enacted in everyday social life, yet discursively marginalised. The analysis will be based on a reading of key materials introducing timebanking. This comprises of, first, books and reports explaining the concept and ideology. Second, different kinds of booklets, internet publications and info leaflets are used. Third, this body of texts is complemented with interviews of some long-term timebank developers. These interviews are not systematically analysed within this chapter, but rather were used as a basis on which to form a preliminary understanding of the issue<sup>3</sup>.

The purpose of the analysis is then to use existing material to scrutinise a conception of value within practices of alternative economies which could extend to inform the purposes of the welfare state. The conception of value is presented in terms of what is unique in it. Therefore, it includes no separate category for use-value in general: the obvious fact that people seek services because these services are useful for them.

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<sup>3</sup> The interview material is used more systematically in Eskelinen 2018.

*Proper recognition of the core economy*

Timebanks challenge the mainstream conceptions of value by insisting that these conceptions fail to properly recognise the *value of all inputs*. In other words, only inputs which directly turn into a form with market value (commodified) are currently recognised as economically valuable. This leaves unrecognised not only subjectively valued noncommodified things but also the very basis of production and societal continuity. Indeed, a key aspect of the self-understood mission of community economies is to make visible ‘the core economy’, referring to the indispensable but often invisible acts of reproduction: nurturing, daily work around the household and the community. A further implication of the concept is that these activities are an essential part and basis of the economy rather than a set of fringe activities or non-productive activities (Cahn 2009; Stephens et al. 2008; Boyle et al. 2010; Cahn 2009; Coote 2010).

The undervaluation of core economy was particularly accentuated and institutionalised in the traditional gendered division of labour, which assumed females to be responsible for the ‘reproductive’ tasks, while males were expected to assume the ‘productive’ tasks. Within this interdependent division of labour, only men were recognised as producing value – and thereby rewarded with monetary compensation. This disproportionate pressure on women to focus on the ‘reproductive’, and its simultaneous gross undervaluation, has not ceased to exist. The conception of value highlighting the importance of ‘the core economy’ challenges exactly the idea that the ‘reproductive’ and the ‘productive’ could be separated along the lines of what creates and what consumes value. This is in contrast with the hegemonic economic theory which, while accepting that there is a given private sphere, has considerable difficulties in recognising any kind of economic value to be produced by this sphere (family, community). Part of the reorganisation of these categories is to properly recognise the category of community.

The core economy is sometimes metaphorically called the ‘operating system’ of the more visible capitalist economy: one tends to ignore its importance, until it is in disrepair (Cahn 2004, 53–55). This refers both to its importance and universality: indeed the hidden economic activities ‘*everywhere* abound’ (Gibson-Graham 2006b).<sup>4</sup> Yet the core economy is not *only* an ‘operating system’, but it is valuable independently of whatever might ‘operate on it’. Community economies see their task as not only to make the core economy visible, but also to nurture it. Pushing for recognition for the core economy by noting its necessity for other economic functions should not lead to seeing it as only *instrumental* in producing the mainstream economic relations and institutions. It is quite a different matter to say that the core economy is vital for social well-being than to say that it is needed for the mainstream economy to function. Clearly, part of the conception of value indicated by the notion of the core economy is that it comes prior to other forms of economy and is valuable as such.

### *Empowerment*

A major difference between the mainstream conceptions of value and the community economies’ conception is that the latter insists on the *empowering* function of participation in economic exchange. Mainstream economic thought clearly shows no interest in any notion of empowerment, as this kind of ‘psychology’ is beyond its scope. Within this way of thinking, goods (which can be tangibles or services) exist in the market and might be subject to more or less demand, but no attention is paid to people’s self-esteem or the social relations of the producer or to the effects participating in the economic process might have. The value of goods is seen to derive solely from the fact that someone desires them, in other

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4 See also Gibson-Graham (2006b) and Mies and Bennholdt-Thomsen (1999), expressing similar kinds of ideas about the marginalisation of reproductive activities and their value as enabling all other economic activity.

words from the individual preferences.

The community economies' reversal of this approach typically comes in the form of concepts such as 'skill' or 'potential'. Timebankers insist that *nobody* is devoid of valuable skills, as everyone can contribute somehow to the community. These skills just need to be properly identified, and indeed helping others to identify this potential significantly contributes to what makes the economic process valuable. A constantly used formulation is that 'people should be recognised as assets' (Boyle et al. 2010) in contrast to treating them as expenses<sup>5</sup>.

The idea of universal possession of valuable skills (which only sometimes need to be identified as they have become hidden by the functions of capitalist society) has several highly important implications. First, it lays the ground on perhaps the strongest normative stand within these community economies: the insistence on equality. If everyone has valuable skills, it is pointless to emphasise personal differences in quantifiable productivity. Second, it becomes equally pointless to say that some people 'feed' others, in other words produce value that is consumed by others. While any community will need some division of labour, timebanks emphasise that the capacity to contribute to the community excludes no-one, and therefore recognition as equally valuable contributors is in the heart of the practice. Third, this leads further to the empowering role of contribution: the proper identification of skills and ability to contribute can indeed be empowering through enforcing the notions of participation and belonging. While this kind of recognition is typical for social policy or social work, the explicit point in timebanking is that this is also a function of a good economy.

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5 Yet these ideas do have a resemblance to some formulations of the labour theory of value. Especially Marx' notion of 'living labour', which later becomes captured in capitalist labour relations. However, nothing in the concept of living labour points to active empowerment.

### *Co-production*

More generally, the idea of *co-production* is central in community economies. It emphasises the need to do away with a clear distinction between the producer and the recipient: if ‘recipients’ are involved in the production of a service, the service tends to be of better quality. Whereas tangible goods are first produced and then, separately from the production process, merely handed over to the consumer, in co-production, both the ‘producer’ and the ‘recipient’, and the ‘productive process’ and ‘consumption’ are inseparable. The notion that production and use are intertwined, has sometimes been made by using the term ‘produsage’ (Bruns 2007).

Yet co-production is not merely a technical notion on the need to surpass categories, but also a more general notion on the importance of social interaction in producing value. Services should be thought of as means to generate social wellbeing through interaction between human beings. Co-production practices are seen to contribute not only to making use of idle skills but also to rebuilding the social fabric. What makes economic activity valuable is that human beings meet, talk, and use common spaces. Therefore, notions such as ‘community’ should be part and parcel of what the economy is seen to consist of. Indeed, the conception of value which can be derived from timebanking incorporates notions such as combatting the evil of loneliness into the realm of economic value: the economy is fundamentally a process of social interaction, instead of merely mediation. (Seyfang 2004). This social nature of production cannot be grasped by either labour theory nor subjective theory of value, both of which see the lone producer or the lone consumer as a sufficient construction to represent the economic agent.

The production of services should not be seen as only a field for highly specialised professionals. Rather, to some extent, everyone should be recognised as an expert on their own life and surroundings, even if obvious differences between professions

exits. If services are informed by the mainstream value model, it appears rational to organise them in highly specialised large units to benefit from economies of scale. The coproduction model completely reverses this idea, arguing that better services are created out of value produced on the community-level,<sup>6</sup> through the active involvement of the ‘recipient’. This notion is not only a part of the community economy discourse but has revolutionary implications for the production of public services as well (Boyle and Harris 2009; Parks et al. 1981; on the effectiveness of coproduction in healthcare, see Boyle and Bird 2014; Lasker and Collom 2011).

### *Trust*

A theory of value based on social interaction should take the virtues of the community as a starting point. Yet, community economies seek to push this even further. Such economic communities are not just any communities, but they are communities which are formed around a purpose. The embedded understanding of the economic practice is that it ought to create and sustain spaces for deliberation, political processes, and collective learning. Community economies have given shared values and promote social practices on the basis of these values.

This has implications for the given notion of generalised social trust. Based on social interaction, trust is not merely borne out of given transparent ‘rules of the game’. Rather, trust is based on participation and attachment. It is not created by the stability of the system but rather negotiating its future. This is what almost all economic theories are quick to miss. Certainly, all tools and subjects of action are transformed by the very process in which they get involved (Stavrides 2016). This holds true for timebanking too, where the procedures of exchange emerge from the economic process and evolve within it.

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6 On the significance of distance, see Stavrides 2016, 260.

Community economies should be seen therefore as *processes* rather than *institutions*.

Trust-building is fundamentally a function of qualities of social interaction. Upholding a given identity or an expected kind of personality associated with the members of a given community can itself be trust-enhancing. For example, one timebank member argued the benefits of timebank to include, for example, that ‘you tend to feel more secure asking for childcare through the timebank, having a timebank member there, instead of having just anyone’.<sup>7</sup> The sense of community implies a sense of belonging. Typically, belonging to the same scheme creates a psychological bond between people. Community economy schemes are often described as having the feeling of an extended family (North 2007).

The notion of extending mutual trust is well aligned with (or is a way to express) the points on empowerment and interaction mentioned above: trust within a group is generated by creating a sense of belonging. Interestingly, several timebank activists emphasise trust as an ideal, as exemplified by the title of a timebanking blog *Trust is the Only Currency*<sup>8</sup>.

### *Democratic dynamism*

As a last point, the conception of value in community economies resists fixed ideas of value. Therefore, it needs to be emphasised that part of this value conception is a given dynamism: community economies are venues of learning and experimentation, in which the system develops through trial and error, conflict-solving, and other microdemocratic procedures. A central aspect of the idea of value is therefore openness to new value forms. It is naturally a challenge to explicate a value conception while maintaining this openness: as a point of self-criticism, to some extent, the discussion above risks describing the community economy value

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7 Quote from a Helsinki timebank member survey carried out by the author.

8 <http://trustcurrency.blogspot.com/>



form as ontologically fixed.

The difference between processes and institutions also emphasises the contrast between community economies and the capitalist mainstream. Again, trust as participation is different from trust as stability. A similar point can be noted in relation to dynamism. While capitalist dynamism is thought to derive from profit-seeking and competition between individuals, with all implied inequality, the dynamism of the community economies is the quality of systems to be open to democratic change, reaction and reflection, in other words thinking and learning together.

### **Welfare state and value diffusion**

Next, I will turn to questions of how the conception of value in community economies can resonate with the welfare state ethos. As noted in the introduction of this book, this implies two separate questions:

1. How could the welfare state protect the abilities of community economies to operate – in this case, to sustain their value form?; and
2. To what extent can welfare states assume the value conception of community economies?

The distinction between the welfare state ethos and institutions is crucial. The welfare state as an ideal; and as a practice, should be kept clearly separate.

As for the first, a key concept organising the discussion has been ‘the partner state’, as, again, mentioned in the introduction of this book. When it comes to the value form, the partner state assumes a new function: that is to say the state apparatus could aim at protecting community economy ideas and practices from capitalist expansion. As capitalism expands, it transforms ever new aspects of social life into commodities, or functions in assisting

capitalist value creation.

A further step is to ask: What aspects of the welfare state are in line with the value model of community economies described above? And as an accessory question: Could the existing welfare state further assume this value model as part of its functions to produce and deliver services? It is not fully clear, how the welfare state should be interpreted in this context. To some extent, welfare states, as we know them, lean heavily on a ‘commodified sphere’, and even push forward new frontiers of hypercommodification in an attempt to finance the welfare institutions. This function necessarily leans on the mainstream economics conception of value in which the welfare state is seen as merely a vehicle of redistribution. On the other hand, welfare states clearly have a role in maintaining commons through the governance over public goods relevant to the well-being and health of a given population, such as health and education, as long as the governance is sufficiently participatory. Further, welfare state institutions are (at least ideally) human-made and democratically planned structures which uphold a strongly egalitarian and social rights-based conception of the distribution of services.

To some extent the community economies’ value conception is an explicit attempt to rival the welfare capitalist model as we know it, so the two value conceptions can be seen as somewhat conflictual. However, as noted, the welfare state *in itself* is a highly contested terrain. For these reasons it needs to be analysed, what kinds of ideas of values are *inherent* in welfare state institutions, what are *possible*, and what are *impossible*. This will enable analysing how far can welfare states be pushed in the way of the community economies’ value conception.

Yet what needs to be kept in mind as a critical point is, that any activity is potentially vulnerable to commodification. This includes several aspects of the conception of value outlined above. The downside of the fact that ‘the economic’ and ‘the social’ are not ontologically separate is, that many social and emotional

functions can become commodities. Affects, social relations, and generally ‘the social factor’ can be turned into new spheres of capitalist accumulation. So ‘value diffusion’ should be understood as value attached to practices which are distinctly anti-capitalist, and the ideal welfare state as a mechanism protecting diverse value conceptions.

### **Conceptions of value within the welfare state**

I will turn next to debating what ideas and practices associated with the welfare state resonate with the conception of value discussed above. In line with the distinction made in the introductory chapter, my focus here is on the welfare state ethos, rather than the current manifesting forms. It is so that this ethos can be seen to entail ideas resembling the community economy approach more than the currently existing systems of governance.

Firstly, the notion of *trust* is clearly part of the welfare state tradition. Generalised social trust or general trust within a society, which economists prefer to call ‘social capital’ is often used to explain the success of economies with generous welfare systems (Halpern 2010; Whiteley 2000; World Bank 1998). While such findings as clear correlations between trust towards strangers and the economic conditions can indeed be shown, social capital tends to emerge in economics as a category for everything which cannot be explained by the traditional means of economics. This confirms how such economics is devoid of means to develop a theory on trust.

Sometimes the concept of ‘endogenous growth’ is used to refer to the totality including ‘investments’ targeted at the social fabric that reproduces and generates social capital: education being the typical example. Together with low income disparities and the good governance of basic institutions such investments foster a sense of mutual trust and secure social cohesion. It is indeed possible to discern the ‘virtuous circle’ of the welfare state consisting of an entanglement of strictly economic value and social goods as a

single social-economic project (Hagfors et al. 2014).

Secondly, the idea of recognition can be discerned in the welfare state tradition, even if not as an economic quality. It has sometimes appeared in the form of the notion of ‘talent reserve’, which refers to the necessity of egalitarian education to avoid socio-economic disparities leading to wasted talents in the lack of opportunities to develop them. The tradition has also involved some notions of ‘extended community’, such as referring to the welfare state as the ‘people’s home’. Some cash transfer schemes can be seen as mechanisms for recognising everyone’s input and value as human beings. For instance, certain family allowances that allow parents to take care of children at home can be seen to come close to the recognition of the core economy. Future universal recognition might take place through non-conditional transfer schemes in terms of universal basic income. In essence, one argument often made in support for universal basic income is that it would recognise the social contribution of all individuals.

Thirdly, the reproductive is seen to depend on the productive. Currently, this hierarchical order of value creation is quite central to welfare state thought; being inscribed in the very notion of the coexistence of the commodified and de-commodified spheres. While reproduction is to some extent supported, the commodified sphere is seen as ‘buying’ the operational space for the de-commodified sphere. In order to reflect the community economy conception, there would have to be a recognition of the reproductive sphere as equally or more value-creating. Fortunately, the welfare state tradition, using the notion of ‘the virtuous circle’, could accommodate this kind of idea.

It appears that co-production (of public services) can be integrated into the welfare state tradition if there is political will to do so. Evidently, such ideas already exist within the current discussion about organising public services, even if the wider trend is towards the commodification of services and to economies of scale. It is an open question, which also invites legitimate

scepticism: *To what extent will the co-production approach permeate service provision?* The answer requires transcending several binary categorisations, such as producer/recipient, producer/product, or professional/nonprofessional – yet there is nothing inherent in the welfare state tradition, which would form an unsurmountable obstacle to this.

Of course, it is a difficult matter to change welfare state organisations, and to attempt to intermingle public functions with community economies. The major obstacles stem from path dependency and the deeply assumed preference for centralisation, which have long permeated welfare state practices. Ideas like the ‘virtuous circle’ and realising the potential from a talent pool within a community ultimately have leaned on increased production and hierarchical governance, even if this need not necessarily be the case.

Because of these ingrained tendencies, there is a need to find concrete examples of diffusing the alternative economy value conception. One suggestion in this direction was the call to extend the Helsinki timebank’s ‘time tax’ into allowing municipal tax payments. This initiative was put forward when when the Finnish tax administration declared timebanks to be tax liable (Eskelinen et al. 2017). Taxation on a euro equivalent value was strongly opposed, as timebanks see their time-based currency, materialising the ethos of everyone’s time being worth the same, to be not convertible to capitalist money.

The proposal was to use the timebank’s platform to implement municipal taxation in time currency. Already now, in order to maintain its ‘infrastructure’, the timebank collects a small levy (in time) on each transaction. This levy could be used to pay the municipality of Helsinki where the timebank is based, if the municipality would open a timebank account to receive such payments. According to the proposition, the municipal account, in which time taxes accumulate, could be used by community-level municipal service providers (community centres, day care centres,

parks, etc). While in a timebank no-one is obliged to provide a service, this municipal account would practically be used to reward (in time currency) people for volunteering in community-level service provision. A further function of the ‘time tax’ would be to challenge the category of ‘work’ through the official semi-economic recognition of the value of community engagement.

This suggestion serves as an example of recognising the virtues of the welfare state while pushing the community economy conception of value within the municipalities. More generally, the ‘municipal tovi tax’ would imply a) recognising timebanks as contributing to the community; b) diffusing the commons values into the realm of municipal services; and c) recognising the existing internal time tax model as a legitimate system of self-governance.<sup>9</sup>

A further issue is, if in addition to transforming public service provision this value conception could inform relations in the sphere currently referred as to ‘the market’. Part of the community economy value conception is to cast the user-producer instead of the consumer as the protagonist, which opens more diverse economic subjectivities. While the matter is contested, some optimistic theorists do argue that there is a general ‘move towards commons format’ (Bauwens and Ramos 2018) taking place, and that this would eventually define future forms of the economy. An often noted feature of this shift is a move from possession to access, and while the latter does not automatically guarantee community economy virtues to permeate the economy, it would perhaps more easily allow this to take place. Further, some scholars expect to see a turn into ‘ethical values’ in the broader market, as production tends towards the production of social goods instead of tangibles in the current market (Arvidsson and Peitersen 2016).

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<sup>9</sup> For further practical ideas on municipalities and commons, see Ramos 2016.

### **Conclusions: diffusion and its limitations**

The relation between the community economy value conception and the welfare state is by no means stable. This is both because of the potentially evolving nature of community economies and the ongoing political struggles over welfare states. For this reason, the welfare state should be approached both as an ideal ('ethos') and as a really existing system ('institution'). From the institutional perspective, it is possible to consider, how far could the welfare state ideally go in incorporating and assisting the community economy value conception (keeping in mind that inaction from the state will always be the preference of some community economy organisers). On the other hand, the welfare state can be seen as an ideal as well, or as a (constantly evolving) reminder of the social and egalitarian aspects of value.

While it is important to analyse the capacity of welfare states to be informed by the value conception from the community economies, it needs to be noted that to some extent the value form of the community economies is bound to the immediate community. Therefore, at least to some extent it will not be institutionalised outside the community level, even though some commons activists note that commons need to be seen as having a unique form of upscaling (Helfrich 2013, 14–15). 'Scaling up' (Utting 2015) would then potentially imply diminished social value, as systems reach such a large scale that they no longer facilitate community-level interaction where people know each other personally.

For example, a major question is, whether the welfare state is able to recognise the generation of trust as within its mission. Within many social services the generation of trust and sense of participation can be quite explicit goals, yet economically, the capitalist conception of value situates trust as 'exogenous' to the theory of value. It is plausible that the community economy conception of value could demonstrate ideas on what economic value fundamentally consists of to influence welfare state praxis in

the future. Another key issue is, whether trust is seen as primarily generated by quality institutions (see Ingham 2004 on ‘assigned trust’), or by participatory virtues.

Any diffusion of the community economy conception of economic value to the welfare state is unlikely to happen in the form of a sudden transformation of state governance. Rather, this change could most plausibly take place on the operational level of community economies, namely local or municipal levels. A number of services provided by municipalities already operate as forms of commons, and they could be easily reorganised so as to reflect the above-mentioned values of core economy, empowerment, co-production, trust, and democratic dynamism. Yet a further and more complex issue is how to transfer this conception of value to the sphere of the economic from the sphere of non-economic services.

Practically, government policies are substantially informed by some value conception. While a value conception is not explicit or conscious, it largely dictates, what is seen as worth doing. A labour-oriented value conception will lead to attempts to maximise commodified labour and to interpret a high labour force participation rate as the key indicator of success. It will also lead to social policy solutions that consider participation in the labour market as a goal in its own right. Demand-based conception will lead to maximising market spaces and market transactions, creating a thorough marketisation of large spheres of life. In terms of social services, a demand-based value conception sees always more value in services which have been acquired by the means of market choices, rather than for instance political engagement. Thus, the result will easily be a hypercommodified reality.

Based on timebanking, as an illuminating example of the community economy value conception, I have argued that included in this conception are five specific spheres of value in addition to the general use-value of services: recognition of the core economy, empowerment, co-production, trust, and democratic



dynamism. These ideas herald a significant move forward from the ostensibly exhaustive dichotomy in the economic literature, which is comprised of labour and subjective theories of value. The conception of value sketched here is a challenge to economic thought at large, as it grounds value in a way which is incompatible with major economic theories. This conception is particularly important as it insists on value being based on human interaction and recognition. Furthermore, the community economy value concept should be treated as a call to recognise and protect the unique spaces of community economy. As social interaction, culture and care; which are beholden to human interaction, are often threatened with commodification, they are bolstered in the demands to be handled outside the sphere of capitalism by the existence of community economies.

Seeing these value conceptions as mutually exclusive easily leads to the perception that the only future choices for welfare states are productivism or marketisation. Clearly, political manoeuvres dismantling the welfare state are often made in the name of saving it, in reference to the need to increase the general employment level by disciplining the workforce, or to increase economic transactions by privatising public services. That these kinds of policies can be derived from the mainstream value conceptions as pro-welfare state policies, shows the high importance of questioning such value conceptions and suggesting more sustainable alternatives.

The value conception of the community economies should be understood as *reminding* the welfare state of its normative basis, which is not merely about redistributing money and organising services. For instance, public services should always involve an element of local and democratic control. Most aspects of the community economies' conception of value could be accommodated within the welfare state tradition: co-production

and participatory approaches in public services could expand, categories of productive/reproductive and professional/volunteer could be reconsidered, and trust could be seen as a participatory virtue. Finally, the welfare state can also intermingle its functions with community economies, allowing itself to learn from these systems and more deeply incorporate their logic of operation into itself. The key question is then if the welfare state institutions are able to recognise this approach not only as instrumental or complementary to value production, but as the very definition of value. This will not happen without political struggle turning the tide.



# 3

## Diverse work practices and the role of welfare institutions

*Tuuli Hirvilammi & Maria Joutsenvirta*

Cultivating community economies is an enormous endeavour requiring active efforts and the competent employment of committed members. Even though these efforts are not always monetarily rewarded or officially recognised as ‘work’, they are indispensable for building sustainable economies. This typical situation is the starting point of this chapter that focuses on the tension between work, as understood within community economies, and the currently hegemonic ideas and norms of employment. How can people devote their agency and time to constructing community economies, when they should also be able to survive in a capitalist economy, perhaps being pushed to full-time wage labour by disciplining authorities?

Research on community economies emphasises the importance of seeing the variety of conceptualisations of ‘labour’ and ‘work’ and ways to perform it. Besides waged labour, alternative paid and unpaid labour as well as work for welfare (subsidised work or conditional work that is done in order to receive social benefits) play essential roles (Gibson-Graham and Roelvink 2011). However, this variety of work forms is undermined in contemporary

capitalist welfare states as they rely on the idea and norm of full-time waged labour and productivism (e.g. Fitzpatrick and Cahill 2002). Welfare institutions continue to make a clear distinction between unpaid reproductive work and paid productive work and give recognition mainly to the latter, thus failing to adequately value socially and economically essential work done in communities and households. This shortcoming is visible in the strictly conditional social allowances and activation policies in Nordic welfare states (e.g. Johansson 2001). Activation policies and welfare institutions in general largely ignore and discourage unpaid work done in community economies as this form of work does not create monetary economic value. This policy derives from the conventional models of economics and a narrow conception of economically valuable relations and exchanges (Eisler 2007; Gibson-Graham 2008; Halpern 2010; Raworth 2018). We can therefore assume that community economies and the associated diverse work practices that question the premises of welfare institutions can face challenges in current Nordic welfare states.

In this chapter,<sup>10</sup> we will look at the practical ramifications of norms and policies by welfare institutions regarding the work practices within the community economies. As Gritzas and Kavoulakos (2016, 924) have acknowledged, community economic spaces are always constrained by the existing power relations that manifest in concrete places and times. The given constraints and contradictions imply different degrees of alterity and possibility of their achieving post-capitalist futures. To examine the potential of community economies in welfare states and to identify possible institutional challenges, we studied two Finnish community

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<sup>10</sup> The empirical study is part of the research project ECOSOS 'Contribution of Social Work and Systems of Income Security to the Ecosocial Transformation of Society' at the University of Jyväskylä, led by professor Aila-Leena Matthies and funded by the Academy of Finland for the years 2015-2019 (285868). The first author was involved in this research project and acknowledges the financial support of the Academy of Finland.

economies: an organic food cooperative and an autonomous social centre with an art exhibition space. The first author visited these sites, observed their everyday practices, collected documentary material and conducted interviews in 2017. During the interviews, the participants were asked to describe the background of their initiative, typical activities and resources, organisation structures and networks, and personal motivations. Specific questions focused on the relationships with public authorities and possible institutional challenges.

The aim of this chapter is to provide insight on the present tensions between welfare institutions and the diverse work practices of community economies. Moreover, it helps to recognise measures through which welfare institutions might support a broader conception of work. We explore, how people can be active in unpaid alternatives when they should also be able to sustain themselves. We identify a large variety of work forms in these two organisations drawing on the diverse economy framing by Gibson-Graham (2008; see also Introduction) and see how welfare institutions influence organising the work.

We argue that a broader conception of work and enabling welfare institutions could have important roles in supporting and giving value to the full range of economic practices, which include not only monetarily rewarded labour but also alternative paid and unpaid work. The different aims and practices between community economies and activation policies in Nordic welfare states provide a fruitful context for analysing the tension between diverse work within community economies, and the currently hegemonic ideas of ‘work’ and ‘labour’.

### **From a narrow conception of labour to diverse work practices**

Our proposition is that a broad conceptualisation and implementation of work creates possibilities for community economies and less exploitative conditions of employment in both a social and ecological sense. It does so by making visible

and giving value not only to such human agency and occupation that can be more meaningful and fulfilling than conventional salaried labour but also to a wide range of economic relations and exchanges.

One way to expand the understanding of work is the analytical distinction between the concepts of 'labour' and 'work'. In describing the general human conditions, Hannah Arendt (2013, original 1958) distinguishes three forms of practical activities: labour, work and action. For her, labour arises from the necessity of biological survival whereas work is related to our need to construct human settlements, to create culture and to produce artefacts. Action, in turn, takes place in relation to other human beings, in communal and political spheres. All these elements are necessary for a human life and therefore they are the basis for approaching work in community economy building.

In a similar vein and applied in the context of modern welfare states, British economist Guy Standing (2009) has argued that work and labour are not synonymous: 'not all work is labour, while not all labour is productive activity.' (Ibid., 5.) For him, work captures all positive aspects of productive, reproductive and creative activity, which gives room and respect to inaction and contemplation. Labour and salaried employment, in turn, do not leave such space.<sup>11</sup> In performing work, a person has agency and a sense of self-determination. Work raises the idea of occupation, a sense of calling and a lifetime of creative and dignifying work

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<sup>11</sup> The word 'labour' is derived from the Latin *laborem*, implying toil, distress and trouble. *Laborare* meant to do heavy onerous work. The ancient Greek word for labour, *ponos*, signified pain and effort, and has a similar etymological root as the Greek word for poverty, *penia*. So labour meant painful, onerous activity done in conditions of poverty. Labour's function is to produce marketable output or services. Those who control labour usually want to take advantage of others, and often will oppress and exploit those performing labour. Labour is also associated with 'jobs' and the 'jobholder society' as described by Hannah Arendt. In a job, a person performs 'labour'; sometimes identified as alienated activity because it is instrumental and requires the person to carry out a predetermined set of tasks. (Standing 2009, 6.)

around a self-chosen set of activities. For Standing, ‘occupational citizenship’ and ‘occupational community’ contain innate psychic value in the work and the social relations in which it takes place. They also provide a mechanism for social solidarity. An integral part of occupation is the reproductive work not only in terms of nurturing and caring, but also as involving acts of civic friendship that reproduce the community – containing thus the role of action in Arendt’s categorisation. By contrast, a worker required to perform labour often lacks agency, and there is no room for these types of activities and identities. This is especially so when people do labour as alienated employees and primarily for instrumental reasons, under somebody’s control. (Standing 2009, 4–14.)

Since industrialisation, western welfare systems have been influenced heavily by what can be called ‘industrial citizenship’, the essence of which has been the extension of social rights – entitlements and norms associated with industrial wage labour (Standing 2009, 3–5). According to Standing (2009), twentieth-century progressives made a mistake in making labour and employment the focus of social protection, regulation and redistribution. ‘If you laboured for wages, you built up entitlements to sick leave, unemployment benefits, maternity leave, disability benefits and a pension.’ (Standing 2009, 7.) Consequently, unpaid reproductive work had become unproductive and had disappeared altogether from public view, censuses and labour statistics (Standing 2009, 5). The ‘invisible’ work does not then contribute to GDP growth that the welfare institutions depend on (see Chapter 1).

The criticism of capitalist welfare models for their incapacity to recognise necessary reproductive and unpaid work is one of the starting points in the community economy literature. A key premise of this discussion is the need to extend the narrow types of economic relations in which surplus value is produced, appropriated and distributed on the basis of waged labour and production for the market and mainstream market finance modes



(Gibson-Graham 2010; see also Mazzucato 2018). The framing of diverse economies broadens the conception of work and other key aspects of economy. It emphasises the role of different modes of economic organisation and different ways of performing and remunerating labour – not only waged and salaried labour, but also alternatively paid labour and unpaid labour (Gibson-Graham and Roelvink 2011, 29). In any case, non-market transactions and unpaid household work (both by definition non-capitalist) have been estimated to constitute close to or as much as half of economic activity in both rich and poor countries – if approached from the perspective of their potential market value (Ironmonger 1996; Gibson-Graham 2008).

Theorising on diverse forms of work in community economy literature (including and mixing both concepts of ‘labour’ and ‘work’) allows consideration of diverse production spaces and processes that extend our understanding of how and where value is produced (see also Chapter 2). Since J.K. Gibson-Graham view the economy as referring to all practices that allow us to survive and care for each other and the earth, they also endorse diverse forms of work. Diverse economic framing identifies alternative paid labour and unpaid work practices that might be pursued by households, communities and civic institutions to generate well-being for people and the planet. Diverse types of work provide not just necessary material well-being but also social, community, spiritual, physical, and environmental well-being (Gibson-Graham et al. 2017; see also Hirvilammi and Helne 2014). Acknowledging all the positive aspects of work done within community economies requires a broad conceptualisation of work, which is why below we will use the concept of work to cover a whole spectrum of necessary practices to organize, govern and sustain community economies.

### **Activation policies in Nordic welfare states**

Welfare states are characterised by state-funded and state-organised

welfare systems that aim to guarantee social protection for all their citizens. When looking at the concrete forms and legislation of welfare states, full employment and self-support through wage labour have always been seen as the priorities for welfare and as preconditions for maintaining the welfare systems and thereby as important political goals – despite the idealistic prominence on decommodification (e.g. Esping-Andersen 1990.) Consequently, work incentives and work obligations have played significant roles in Nordic welfare states (Johansson 2001). Social benefits are mostly directed at people who are outside the labour market due to illness, unemployment or disability, for example. A high employment rate is seen as necessary, not only for tax revenues, but also for high wellbeing outcomes. The guiding belief in social policy is that it should always be more beneficial to work than to live on benefits.

The incentives and obligations for citizens to be employed have become even stricter since the emergence of the ‘activation paradigm’ in the 1990s. For example, Finland during this era introduced new work incentives in the unemployment insurance and social assistance systems in order to stimulate high labour-market participation (Johansson 2001). Unemployed people became objects of activation measures: they had to report more often to the Public Employment Office, actively seek jobs and accept work offers. Since 2001, the long-term recipients of unemployment benefits have been obliged to have an ‘activation plan’ in which the officers from the ‘Public employment and business service’ and social workers together with the job seeker agree to the most efficient pathways towards employment (Minas et al. 2018).

Due to the activation paradigm, the focus of social policies in Nordic welfare states has shifted from welfare to workfare (e.g. Johansson 2001) – or ‘labourfare’, if the above distinction between work and labour is followed. In practice, welfare systems aim to encourage welfare recipients to seek routes to employment

with the help of various activation programs, such as supported employment, work trials and wage allowances. On other occasions, job seekers must meet the requirements of activation policies by taking part in work trials provided by public, private or third sector actors, for example. When taking part in these programs, the unemployed person is entitled to unemployment benefit and a small daily allowance.

Sanctions and conditionality have become central parts of social security. When unemployed people have to participate in some activation programme to be entitled to unemployment benefit, they are obliged to work in exchange for the social benefit, not in exchange for better income or a decent salary. The possibilities of refusing to participate in a directed programme have been curtailed, and authorities have been granted more sanctioning possibilities. Even though the Finnish constitution guarantees social protection for all, the minimum level, last-resort social assistance has been made more conditional. Since 1996, the Finnish authorities have had the right to reduce the level of social assistance by 20 percent if a recipient refuses to participate in an offered activation measure, and 40 percent on the second refusal. (See Minas et al. 2018; Johansson 2001.)

For the purposes of our study, it is important to note how these activation policies are built on the narrow conception of full-time paid labour. The work done in various types of community economies is not always acknowledged as an activity that should be accounted for by the welfare system. For instance, if unemployment benefits claimants are actively involved in local communities or occupied with taking care of ill family members, both of which are important forms of occupational citizenship (Standing 2009) or caring for each other and the earth (Gibson-Graham et al. 2017), they are not entitled to unemployment benefits. Active volunteering can violate the norm that all registered job seekers have to be available for full-time jobs.

### **Two case studies: Oma Maa and Hirvitalo**

Below, we will describe the analysis of work practices in two established community economies in Finland: the food cooperative Oma Maa and the Pispala Contemporary Art Center informally called Hirvitalo. They are valuable subjects of study active in different fields, food and art, but they share similar ethical guidelines and missions of a more participatively democratic and sustainable society. Thus, they enable an investigation of a variety of practices that grow in the ‘hidden neverland’ (Gritzas and Kavoulakos 2016) of the Finnish welfare state.

The first case, Oma Maa (‘Our soil’/‘Our land’), is an organic food cooperative founded during 2009 in an old farm with a tradition of organic farming, located 30 km outside of Helsinki. Oma Maa assumes a community-supported agriculture approach<sup>12</sup> characterised by short distances between producers and consumers and a focus on community building, thus acting as a counterforce to commercial organic food production. The mission of Oma Maa is to develop food production in which the means of production are commonly owned by its members. The future vision is a completely self-reliant and fossil-free farm. The producer-members of the co-operative produce the food at the farm and deliver it to the consumer-members. At the time of data collection, there were less than 10 producer-members, who were actively taking responsibility for farming, preparation of food products, food delivery and a lunch café. Around 60 consumer-members of the cooperative paid a monthly fee which allows them to collect their weekly food bags directly from the farm, or from the café that the cooperative also runs in Helsinki. The lunch café offers a vegan lunch every weekday in a commercially rented

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12 See e.g. <https://www.ifoam.bio/en/community-supported-agriculture-csa>

space from the private market<sup>13</sup>. The funding of the cooperative is mainly based on membership fees and food bag sales in addition to some occasional agricultural subsidies.

Hirvitalo – Pispala Contemporary Art Center, is located in a lively and artistic neighbourhood Pispala, in Tampere, Finland. Hirvitalo ('Moose house', named after the street it is on Hirvikatu – meaning Moose Street in Finnish) was founded in 2006 by a small group of artists who were looking for a space for art exhibitions and social gatherings. After the small group of culture activists initially discovered the empty old wooden house, they were able to rent the house from the city of Tampere at a very reduced rent (or at peppercorn rent). Nowadays, Hirvitalo is run by the Pispala Culture Association that was founded to stimulate the cultural activities of Hirvitalo and to enrich various kinds of artistic and cultural events in the local community. Hirvitalo is an alternative non-capitalist cultural space that is against a monocultural society. It is open to all and for all. It has space for exhibitions, installations and it hosts many meetings and various cultural projects. The house is open a minimum five days a week, five hours a day. A 'community kitchen' serves vegan food almost every Saturday, a sauna is heated once a week and outdoor events are organised during the summertime. Everybody is welcome to come in and use the carpentry workshop or the band rehearsal space, or to have a cup of coffee and chat with others. Only occasional grants and member fees of the association have been used to fund the costs of Hirvitalo and the events that occurred there<sup>14</sup>.

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13 At the time of the interview, the cooperative ran a lunch café in Helsinki but since then it has finished serving lunch every day. The space is still used for sharing food bags and for organizing events.

14 After the data gathering, the Pispala Culture Association received a 27 000 euro grant for art exhibitions and gallery support from the Kone Foundation (<https://koneensaatio.fi/en/grants/tuetut/2017-2/annual-funding-round-arts-8-dec-2017/>).

### **Diversity in work practices**

In Oma Maa, work tasks derive from the necessities of cultivation and food distribution. It is necessary that land is cultivated, and someone needs to take care of plowing, fertilising, sowing, weeding, harvesting, animal husbandry etc. A large number of working hours are also needed for baking bread for the weekly food bags and for producing other food products like falafel balls and bags of spelt flour. At the time of the interviews, the lunch for the café was produced daily, and someone also had to bake cakes, make coffee and wash the dishes. In addition, some members are responsible for building a new greenhouse and transporting the food bags from the farm to Helsinki. Web pages and social media updates need to be done, as well as the administration of the cooperative, such as invoices, billing, membership fees and the registration of new members. Also, the tasks and division of responsibilities need to be managed and discussed to keep all things running. Since the number of active members is less than ten, the most active producer-members work long days. In addition, some consumer-members take voluntarily part in distributing the food bags and helping in the farm during the high season.

Various efforts in Hirvitalo relate to maintenance and organisational chores of different kinds. First of all, at least one person, a gallerist, is needed to keep the doors open five days a week, to work with visiting artists and look after the art exhibition. Their tasks also include cleaning the house and heating it with wood during the winter months. The community kitchen is organised on Saturdays, only if there is someone to cook the food, and the sauna is heated whenever there is a common sauna evening. Upcoming art exhibitions need to be curated and web pages updated. Someone always has to take care of book keeping and fund raising, as well as other formal and legal responsibilities. In practice, the board members of the association and other active and regular visitors share the tasks. Many of the original members are still involved and visit Hirvitalo on a regular basis. Active

participants are the most important resource of Hirvitalo: it is a space where anything can happen, but nothing happens if people are not inspired to organise the events and be involved.

This all sounds similar to many other small companies or organisations. However, there is one significant feature that makes these diverse work practices different from more mainstream entrepreneurship: all this necessary work is mainly non-salaried and non-monetized. Due to low financial resources of these organisations, members do a large part of the work without monetary rewards. For example, the Oma Maa producer-members work without monetary compensation, except for three farmers who have been paid during the summer months. Since the cooperative is not able to pay more salaries, some active members are officially unemployed and live with the help of unemployment benefits. Because many active members have to do paid work elsewhere to make their ends meet, they cannot devote their working time to the development of the co-op. This is a big challenge for the further development of this alternative form of economy, and one which can lead to a vicious cycle: as long as the members are not able to invest enough time and effort for the organizational development, the organisations cannot grow big enough to survive financially. Only if all the necessary work was done, could they gain a sufficiently stable position. Similar challenges in providing a sufficient living wage, and the demand to navigate diverse economies in order to survive have been experienced by small-scale social enterprises in Finland too (Houtbeckers 2018).

All of the aforementioned activities in Hirvitalo are based on voluntary work or on work done by trainees whose income is covered by the welfare state and its activation policies. Due to its limited financial resources, the Pispala Culture Association has not been able to employ any fulltime workers without state subsidies. Contrary to many more mainstream art initiatives, Hirvitalo has been developed with a very tight budget. The active

members emphasise the roots of Hirvitalo being from a collective inspiration to make art and to have an alternative gallery that should be free from monetary rewards and competition. The lack of financial resources has been partly a deliberate choice. Moreover, the members prefer to be active outside the capitalist monetary economy, and they intentionally seek to oppose existing unequal power structures. The interviewees argued that the combination of large grants and a small number of paid positions could be problematic because it would threaten the equal power structure within the small community in Hirvitalo. For the sake of equality, the board of the association has decided that all activities organised by Hirvitalo will be free (only small fees can be gathered in order to cover the costs). This is important in allowing the space to be really open to everyone regardless of one's ability to pay.

Both Oma Maa and Hirvitalo enact a large variety of work practices. Active members are involved in paid work and work for welfare but also in non-monetised and non-capitalist exchanges. Reciprocal work has been utilised in the form of exchanging services. For example, some farming work at Oma Maa has been done by people from other associations who have, in exchange, been allowed to use the café space. Oma Maa is also a member of the Helsinki Timebank called Stadin Aikapankki (see Joutsenvirta 2016). Over the years of Oma Maa's activity, some members of the time bank have been working in the fields, being compensated through the time currency system. Oma Maa has then 'earned time' by renting the space and through Helsinki Timebank's own internal taxation system (see also Chapter 2). Hirvitalo activists have mutually exchanged services with other local groups without using any currency. For example, they have got help with advertising and could use a van in exchange for some other favours. Also, the practices of in-kind work are seen in exchanging the work with food. For example, the members who work at the lunch café or prepare the meal for the community kitchen can have a lunch for free. Table 1. illustrates these diverse ways of organising work



## Enacting Community Economies Within a Welfare State

in Oma Maa and Hirvitalo inspired by the examples of diverse work practices in the community economy literature (e.g. Gibson-Graham and Roelvink 2011).

	<b>OMA MAA</b>	<b>HIRVITALO</b>
<i>Paid work</i>	Three farmers are paid on summertime	No paid workers
<i>Self-employed</i>	Self-employed positions enable the participants to be engaged in Oma Maa	Self-employed positions and freelance work as an artist enable the participants to be engaged in Hirvitalo
<i>Reciprocal work</i>	Help from the members of other associations as an exchange for the use of the café space, experiments of using community currencies	Exchange of services with other associations (car use, advertising, coproducing events)
<i>In-kind</i>	People get sometimes food products when they work	People can eat for free when they prepare meal for social kitchen
<i>Work for welfare, subsidized work</i>	Some experiences of people sent by unemployment office, unemployed people in work trial	Always one person who is officially unemployed is doing her/his work trial in Hirvitalo, or some other forms of subsidized work is in use
<i>Housework</i>	Cooking, cleaning etc.	Heating the house, cooking, cleaning etc.
<i>Unpaid work</i>	Most of the activities and production are based on unpaid work	Unpaid work is necessary for organizing events
<i>Self-provisioning</i>	Food production	Gardening, growing vegetables

*Table 1. The diverse ways of organizing the work tasks in Oma Maa and Hirvitalo.*

The diversity of work is a creative way to combine the necessary work of community economies with their members' aspirations and lifestyles. Many interviewees are critical towards conventional paid labour and prefer more autonomous and meaningful ways to be occupied. This is in line with the notion that the work in community economies is not a less desirable second choice (White and Williams 2016). Our interviewees see work in their community economy as an important element to moderate the societal focus on full-time paid labour done only for instrumental reasons and under somebody's control. The work in community economy is a transformative, but at the same time very down-to-earth, path towards reduced working time and sustainable lifestyles:

'I do have a very idealistic wish that it might be great if we had less paid jobs and we would have more... Like starting from the farmers that the food comes closer and it would be cheaper and people would work less. Then they would have more time to be involved in these kinds of projects and it would be more ecological. That somehow this society requires us, it forces us to have an eight-hour workday and the salary so that you can survive. But if these kinds of projects grew and people joined, it would be my dream.' (Oma Maa 1)

The reproductive and creative work done in community economies is different from conventional and often monotonous salaried labour. For many interviewees, there seems to be a joy for creating alternative food networks or autonomous spaces outside the monocultural structures of society. Some interviewees who are self-employed in the ICT or marketing sector, for example, do unpaid work in Oma Maa or Hirvitalo to get a better balance between their professional life and transformative values. It seems that the work in Oma Maa and Hirvitalo is closely related to 'a sense of calling' (Standing 2009, 12; see also Domene 2012),

identity and ideological commitments of the active members. They do not always count hours or ask for monetary rewards, but the sense of being part of the community is a key driver for being involved. Especially people who spent days at Hirvitalo or worked in the Oma Maa lunch café saw it as an important common space that can prevent isolation and loneliness of people who are lacking a full-time paid job or a work community:

‘It was maybe some kind of social need, when I moved. I know many people here in Pispala and some of them come here occasionally. So I kind of missed – when I don’t have any job or anything – this kind of social space where you can come so that you don’t have to buy anything, that you can just come. It’s so good that these kind of places do exist.’  
(Hirvitalo 3)

### **The relationship between community economies and the welfare institutions**

Knowing that community economies are constrained by the existing power relations and state structures (Gritzias and Kavoulakos 2016), we will next take a closer look at the role of the state and examine whether welfare institutions are supporting or rather preventing the building of community economies and concomitant meaningful citizen occupation.

The impact of the welfare state, through its social security systems and activation policies, is Janus-faced. Our findings show that various norms, rules and practices have both enabling and limiting impacts on individuals and community economies. The relationship is conflicted, also for the interviewees: they emphasized freedom and autonomy from the official economy, but they were also aware of how dependent they still were on the social security systems and the norms of a labour society.

Unemployment benefits, housing benefits and social assistance can provide a necessary minimum income for those who are

actively involved in communities and occupied in unpaid work. More than half of our interviewees received unemployment benefit as their main source of income. The official target of the Finnish welfare state is that all job seekers participate in formal activation programmes rather than do informal volunteering. However, because officials cannot control all jobseekers, the social security system allows unemployed people to be active in various associations. As our interviews show, unemployment benefit can be used for quite a long time without any disturbance, for developing various skills, for making art or for farming. Due to the very low level of unemployment benefits or minimum social assistance in relation to living costs in present Finnish society, unemployed people must live on a very low monetary income. Many interviewees describe their difficulties in getting by when trying to work hard to cultivate community economies. This sheds light on the paradoxical situation: the activists are fully occupied in meaningful value creating activities, but in the eyes of the welfare institutions, they are categorized as unemployed or marginalized poor people.

In addition to providing social benefits for the cultivators of community economies, some activation programmes can be beneficial for community economy building when enabling various ways for compensating the work. For example, at Hirvitalo, there is always one person in a work trial or with a wage allowance who can keep the gallery open. To be able to work at Hirvitalo, this person needs to be officially unemployed so that they have the right to participate in the activation programme organised by the employment office. During the activation programme period, the worker receives an amount of 9 euro per day over the minimum unemployment benefit. If the Pispala Culture Association meets the official requirements and employment officials have sufficient financial resources, Hirvitalo can be also entitled to a wage allowance measure, in which the state supports the association to employ a worker. The Public Employment Office has to agree

with any work trial and the length of the wage allowance period. With this system, many active members of the association have been able to be employed by Hirvitalo.

However, the increasingly limiting approach of welfare institutions is also experienced by Oma Maa and Hirvitalo. For example, the possibilities for using wage allowance have been recently curtailed. According to the interviewees, the authorities have also restricted the length of work trials:

Interviewee: 'If you try to get here for six months, for example, they would send you a refusal for the other half of the period. At least nowadays.'

Researcher: 'Why, on the basis of what?'

Interviewee: 'They might think that this is somehow a suspicious place for work trials because this is not a proper company that would focus on financial profit. Maybe they are skeptical of the value of this place as something that can give work experience.' (Hirvitalo 5)

This quotation hints at the narrow concept of work and productivity. The authorities do not see work done at Hirvitalo as *real* work because it does not provide a pathway to wage-labour. Even though many activation programmes are currently more related to rehabilitation and meaningful activities especially for long-term unemployed people than to a direct access to real wage-labour, the case of limiting the period of a work trial indicates that the activation policies tend to see wage-labour as a primary goal (see also Johansson 2001, 74). This again gives reason to support the argument that welfare institutions are geared towards 'industrial citizenship', whereby the normative foundation of social protection, regulation and redistribution is wage labour and full-time employment (Standing 2009). With this emphasis, the system

fails to take full advantage of supporting unemployed people to be active in community economies or to encourage them in building sustainable economies and livelihoods. Moreover, if welfare institutions give a preference to accepting work trials in for-profit companies rather than in community economies or other not-for-profit sectors, the system can be (ab)used to provide free labour for maximising private, narrowly understood economic gain, rather than fostering wider societal goals and values, such as building new sustainable economic structures and strengthening social ties.

Another example of the narrow concept of work and difficulties of welfare institutions in dealing with the small-scale community economies is the case of those unemployed people who have to be *passive* in the eyes of authorities in order to get their unemployment benefits. The following quotation from one active member in Oma Maa illustrates this situation well:

Interviewee: ‘No way I would never go and tell in the unemployment office that I do something. If they asked, I would just say that I lay on the couch all day long, it would be a big mistake to tell that you do something.’

Researcher: ‘Why?’

Interviewee: ‘Well, I don’t know. They have not really asked me. It must be something like five or six years ago since I have talked face-to-face with unemployment officers and they have not been interested in my situation. But it is obvious that it would be quite easy for them to see me as an entrepreneur because I am a member of the cooperative and I am sitting on the board etc.’ (Oma Maa 3)

The main fear of this particular interviewee was to be categorised as an entrepreneur by employment authorities because a person who owns a company is not entitled to unemployment benefit

(or at least the authorities will ask for exhaustive reports on the financial situation of the company). This can significantly reduce the incentives to be active in community economies.

Besides describing the challenges, we elaborated what an enabling partner state could look like and how to develop the system so that it would be better in line with the needs of alternative economy building. Firstly, the most reformist suggestion is to simplify the social security system. For example, it should be easier to have a half-time paid job and combine the salary with social benefits. Due to the complexity of the social benefits system, Oma Maa has for example paid full-time salaries to the farmers only for three months so that the people can then apply for unemployment benefit for the rest of the year. Since the cooperative would rather pay part-time salaries during the whole year, this is one example how the social security system influences the decisions made in these cases.

Secondly, many interviewees advocate a universal basic income that would provide necessary financial security:

‘I think that the basic income would be a good idea, because it gives the possibility, that if you wish to live with less money and you have many ideas, you would still have that security.’  
(Oma Maa 4)

Basic income could also encourage people to be involved in small cooperatives and take financial risks. The implementation of basic income could allow many people who are seeking for more sustainable alternatives to reduce the amount of time spent in paid labour and substitute paid labour with other types of meaningful work (e.g. Alexander 2015).

Thirdly, the interviewees want less policies and regulation; *inaction* from the state and municipalities (see Introduction). Oma Maa and Hirvitalo are geared to build autonomous alternatives, spaces free from the capitalocentric economy and outside of state

structures. Active members try to arrange the economy based on commons and commoning. They develop the practices of horizontal decision-making with weekly house meetings to govern the resources and to share power. Oma Maa tries to get rid of external funding systems such as agricultural subsidies. Hirvitalo wishes to have a long-term and cheap rental agreement with the city of Tampere so that they will be allowed to stay and create the space for a do-it-yourself (DIY) culture. Instead of regulation and formal project funding, they only wish to have basic enabling structures, a space for collective actions and the time of active members, and to be able to carry on the cultivation of community economies.

### **Conclusions: making the sustainability transition through diverse work and new time allocation**

The diversity of work practices in the two cases of community economies relate both to the financial limits and to the personal aspirations of the active members. Work in community economies is meaningful and fulfilling to their members in many ways. It also seems to support the transition to sustainability on both the individual and societal levels (see EEA 2018).

Our findings show how employment policies and the social security system can have both enabling and hindering impacts on the possibilities to enact community economies. On the one hand, the welfare system enables by providing social benefits for those actors who are officially unemployed so that they can be active outside paid work. The community economy cases have also found creative ways to benefit from activation programmes. On the other hand, the employment policy regulations and activation policies hinder the development of community economies. This happens through limiting citizens' possibilities to voluntarily reduce one's dependence on full-time paid labour in order to become active in other forms of value creating activities and occupational identities. Because not all activities of unemployed people are acknowledged



as belonging to activation programmes, the welfare system is bound up in a narrow ‘labourfare’ rather than a broader ‘workfare’ that would allow diverse practices of work.

In consumerist and Protestant work ethic-oriented Nordic welfare states peoples’ self-worth is often connected to outdated, industrial-age understandings of a secure livelihood and material elements of good life. Yet at the same time, many full-time paid jobs are experienced as having no meaning and giving no fulfilment to their holders – especially in administrative, managerial and clerical roles (Graeber 2018). Despite the ongoing transition of work-life to more insecure labour positions (e.g. Standing 2009), welfare institutions are still designed on the basis of full-participation in full-time labour. The focus on labour rather than on a broader concept of work contradicts with community economies’ non-monetised and alternatively paid work practices. Fixing this shortcoming is one of the key missions on our way towards institutional learning (see Chapter 1) in which the state authorities would question the overruling position of full-time salaried work and apply a wider understanding of how value is created and distributed in our changing societies.

We can conclude that the present welfare institutions are not fitted to support individually and socially important work done in community economies. Due to activation policies following ‘the dictate of competitiveness’, welfare states lack effective agency to guide towards occupational citizenship and diversified work practices (Standing 2009, 282–285). Current social benefits and employment policies do not sufficiently value the necessary work outside ‘official employment’; the work which would not only enable citizens and households to survive but also benefit other people and the environment (Gibson-Graham et al. 2017).

However, the unpaid and alternatively paid work practices could make important day-to-day progress in supporting lifestyles that depart from the unsustainable consumption and work patterns (Gibson-Graham et al. 2017; Schor 2010; Coote and Franklin

2013). Moreover, they could have a significant role in building bottom-up solutions for meeting the governmental commitments to achieve global sustainable development goals (SDGs) by 2030 (see e.g. Folke et al. 2016). The diverse work practices could also influence the future of work in general by making it more humane, flexible and connected to real human needs rather than a motor that supports unsustainable production and consumption patterns. When ignoring the diversity of work, welfare states are at risk of missing out this transformative potential.

There is an urgent need for both economists and policy makers to seriously address climate change and other sustainability issues and transform the welfare states in an ecological direction through integrative ecosocial policies (e.g. Hirvilammi and Helne 2014; Koch and Mont 2016; Gough 2017). The present emphasis on technology, efficiency and markets keeps the conventional mechanisms for job creation in place, thereby preventing major transformations in how people gain access to work and income. To overcome this problem, the rich North should confront its commitment to economic growth by averting continued increases in the scale of consumption through trading income for time (e.g. Schor 2005; 2013; see Chapter 1) This can be done, for example, by relinquishing our ‘fetish for labour productivity’, i.e. the desire continually to increase the output delivered by each hour of working time (Jackson 2013). However, there are no simple formulas to re-organise work and re-write welfare policies according to what has been discussed. It is complicated by the complex ways in which different policies and habits, roles and responsibilities, and interests and institutions interact (Coote 2013). To address the need for reorganising employment and welfare policies, we propose two concrete policy proposals that might enable the welfare state to better support the broad understanding of work.

First, as an alternative for activation policies and conditional social benefits based on the notion of full-time labour, the universal basic income could provide a more fruitful basis for building

sustainable forms of economies and lifestyles. With a basic income, people could have more time for meaningful work and sustainable value creation in informal economies (e.g. Fitzpatrick 2011). If a universal and unconditional basic income is too utopian a reform, we could imagine a basic income scheme that would allow some form of social contribution in the field of community economies (see Alexander 2015; Gough 2017).

Second, a decrease in overconsumption through reductions in hours in paid employment is a worthy sustainability solution that has not yet been addressed seriously in the global North (Schor 2005; 2010). Juliet Schor has acknowledged that in the present ‘struggling’ economies, the idea of reductions in working hours may be a hard sell since the conventional wisdom is that hard times should lead us to work longer and harder. However, the measures that result in higher hours in labour can be counter-productive by, for example, creating more demand only for a limited number of jobs. (Schor 2013, 6.) We believe that a radical redistribution of paid, alternatively paid and unpaid work can help tackle many welfare state problems simultaneously: overwork, unemployment, overconsumption and lack of meaning in work and everyday life. A recent study (Schiller et al. 2018), for example, found that a worktime reduction of 25% for full-time workers increased the time spent in recovery activities. This gave support to the conclusion that ‘worktime reduction may be beneficial for long-term health and stress’ – (ibid) and for cultivating community economies.

Finally, we see a broader conceptualisation of work as an important route to support community economies, sustainable lifestyles and welfare institutions in the midst of the sustainability transition.

# 4

## **Building upon, extending beyond: Small-scale food production within a Nordic welfare state**

*Pieta Hyvärinen*

**I**t goes without saying that small-scale food production in households and communities predates the formation of the welfare state. What is more intriguing is the persistence of these diverse livelihood practices through industrialisation and the establishment of centralised welfare systems. In contemporary Finland, alongside large-scale industrial agriculture, there is an undergrowth of food that is produced in backyard vegetable plots, allotment gardens and farming communities, or gathered from nature in the form of berries, mushrooms, fish and game. Small-scale food production within welfare states is even taking new forms, such as community-supported agriculture (European CSA Research Group 2016) and green care gardening (Rappe 2005), and is again practiced increasingly in urban environments (see Hagolani-Albov 2017) as well as in schools as part of educational

curricula (Sipari 2013). The food system within Nordic welfare states is not, nor has ever been, a field populated only by industrial producers and individual consumers, but instead, it is characterised by diversity and multiplicity – and perhaps increasingly so, as environmental emergencies force a radical rethinking of how to provide for basic needs.

Despite its historical significance and current popularity, many forms and practices of small-scale food production are not acknowledged as economic activity through which livelihoods are sustained, especially in the context of a Nordic welfare state. Household food production is often seen rather as recreation (e. g. Natural Resources Institute Finland 2016a), or as domestic chores (e. g. Timonen 2005). The economic aspects of small-scale food production aimed at local markets have been studied more often from the point of view of rural entrepreneurship (e. g. Niemi and Pekkanen 2016) or consumer choice (e. g. Autio et al. 2013). Such interpretations can be seen as deriving from a capitalocentric economic discourse, in which non-capitalist economic forms and practices are understood primarily with reference to capitalism (Gibson-Graham 2006a, 6). Small-scale food production is thus seen as located within the feminine sphere of the household, complementary to capitalism, or in countries or areas ‘peripheral’ from the capitalist core, serving the consumerist markets with their products (see *ibid.*, 6–7).

In this chapter, I focus on small-scale food production on a household level, but without making a sharp distinction between market-oriented and subsistence production. Rather, I understand small-scale food production as a spectrum of diverse economic practices within which the needs of producer/s are fulfilled and surplus if produced, being exchanged and invested in various ways, monetary as well as non-monetary. I explore small-scale food production as a landscape of economic difference rather than dominance, comprising of various interconnected capitalist and noncapitalist practices (see Gibson-Graham 2006b, 54; Harris

2009) and resisting the social construction of economy as singular and self-evident totality (see Mitchell 2007, 450–451).

For the purposes of examining the transformative potential of small-scale food production, I will use Ethan Miller's (2013) reading of community economies as refracted into three constituent elements: ontology, ethics and politics (see also Chapter 1). In the ontological moment, experimental ontology of radical economic difference, as described above, is combined with an anti-essentialist ontology of community by Jean-Luc Nancy (2000), in which community as *being-in-common* is understood as a condition of being itself, prior to all articulations of individual being (Miller 2013, 521). The ethical moment is described as an exposure of interdependencies for negotiation or contestation (ibid., 523). Ethical is therefore not understood as loaded with normative content, but rather as an open space for recognising and negotiating interdependencies (Gibson-Graham 2006b, x). Third element, the moment of politics, is that of collectively enacting 'positivity' with specific contents and outlines, grounded in place (Miller 2013, 525–526). Below I will further divide the moment of politics into three forms of economic possibility, inspired by feminist political imaginaries: politics of language, politics of the subject and politics of collective action (Gibson-Graham 2006b, xxxiii-xxxvii).

Based on the typology described above, I propose three interconnected perspectives to the transformative potential of small-scale food production within a Nordic welfare state for rearticulating and expanding the 'real utopia' of welfare states and the welfare ethos (see Chapter 1; Wright 2013). The arguments following are informed and inspired by ethnographic data collected in two case studies on community-based agriculture and urban beekeeping, conducted in southern Finland from 2015 to 2018. Firstly, I will discuss the scope of household food production and small-scale beekeeping in Finland, followed by a description of the entanglement of urban beekeeping and welfare state policies,

in order to bring forth the radical heterogeneity and complex interconnections of sustenance practices within a welfare state. Secondly, I will examine the possibilities and tensions in widening the space for ethical economic negotiations already established within a welfare state towards non-human others through small-scale food production practices. Thirdly, I will explore small-scale food production as politics, possibly engendering new economic conceptualisations, subjectivities and bases for collective action. After examining these categories of transformative potential, I will conclude with critical remarks on some of the challenges posed by the possible increase of small-scale food production. The transformative potential of small-scale food production can be accompanied by serious pitfalls, and therefore its entanglements with the current and future manifestations of the Nordic welfare state should be scrutinised in detail to find out how to advance small-scale food production in a responsible manner.

### **Necessary transformation of food systems and welfare states**

Before going into detail with small-scale food production, I will clarify two overlapping socio-ecological contexts: food systems and welfare states. I contextualise both from the perspective of necessary transformation, by which I refer to the ubiquity and indispensability of change. Neither food systems nor welfare states are stable entities but constantly in a state of flux, shifting from one regime to another (for changes in food systems, see Robinson 2004; for welfare states see Ellison 2005). Moreover, and in line with the diverse economies approach, enactments of both food systems and welfare states are always more complex than how they are portrayed in regime typologies, and they derive from a diversity of material, social, and cultural struggles and political imaginaries (cf. Gibson-Graham 2006b). The current manifestations of food systems and welfare states, often characterised by productivism and neoliberalisation respectively, should therefore not be seen as inevitable or 'natural' outcomes of any technological, social or

institutional development but rather as situated congealments of power relations and thus open to change through transformative politics (see Laclau and Mouffe 1985).

In the current era of widespread anthropogenic environmental turmoil, and especially given the pressing urgency of mitigating global warming, the need for transformations of food systems and welfare states is evident. Food production is a remarkable source of greenhouse gas emissions and other environmental damage (Norse 2003; Vermeulen et al. 2012), and it is in turn heavily affected by environmental changes and instabilities: for instance, climate change has various adverse effects on food production around the world (Hoegh-Guldberg et al. 2018). Particularly due to climate change, the number of undernourished people has been on the rise since 2014, reaching an estimated 821 million in 2017 (FAO et al. 2018). Additionally, malnutrition – lack of nutrients, proteins and vitamins due to poor food quality– is even more widespread, affecting over 2 billion people (Development Initiatives 2017). The productivist solution to the hunger problem is simply to increase production. Increasing production as business as usual, however, ignores the fact that calorie-wise, there is already enough food for all: along with hunger, the contemporary food system is also characterised by overproduction (see Chapter 5). Increasing the volume of food production alone will not solve the hunger problem, as problematic relations of production and unequal distribution of food are embedded in the very structure of the global food system (see Blay-Palmer 2010). Moreover, increase in food production without dramatically changing methods and techniques could on the contrary cause further instabilities in food security due to changing environmental conditions (see World Resources Institute 2018).

Nordic welfare states are closely connected to the abovementioned socio-environmental dilemmas of the global food system. Currently, Finland leans significantly on imported food products as well as production inputs such as agrochemicals and seeds (Knuutila and



Vatanen 2015). Furthermore, all industrialised countries continue to consume planetary resources disproportionately, eroding the basis of present and future conditions needed for survival and wellbeing globally (see Dittrich et al. 2012). This unjust and unsustainable consumption is currently embedded in the very foundations of welfare state economies: welfare states, as we know them, are dependent on economic growth as measured by GDP (Bailey 2015; see also Chapter 1). Such extensive growth has been attested to not only as ultimately environmentally destructive, but also as long-term impossible given the finite resources of the earth. The promises of ‘green growth’ have repeatedly been debunked (e. g. Schandl et al. 2016; UNEP 2017), highlighting the necessity of decoupling the financial structures of welfare states from economic growth. The most recent IPCC report on climate change further underlines the urgency of halting the excessive use of fossil fuel derived energy and other resources, setting the limit of bearable global warming to 1.5°C (IPCC 2018). If that limit is exceeded, as will happen if current economic politics and policies are continued, welfare on a global scale, the least affected North included, will decline – especially given the accelerating pace of other forms of anthropogenic environmental destruction such as loss of biodiversity, degradation of fertile land and shortages of clean water.

A shift towards small-scale, low-input, agro-ecological and organic farming has been suggested as a viable way to tackle the complex socio-ecological issues around food production (McIntyre et al. 2009). Historically, small-scale food production has served as a base for most if not all civilizations before industrial agriculture, and still today small producers remain the backbone of food security at the global scale, producing 80% of the global food supply (FAO 2014). Given the efficiency of small-scale food production in terms of lower fossil energy and resource input (e. g. Markussen et al. 2014, Moore 2010), small-scale practices could help in limiting greenhouse gas emissions and even increasing

carbon sequestration in soil (see Lal 2004). In addition to ecological benefits, small-scale farmers have also been recognised as the key players in combatting both hunger and poverty in the so-called Global South, not only contributing to household food security, but generating jobs and creating income for the wider community as well (FAO 2014). While challenges faced within welfare states are typically distinct from undernourishment and extreme poverty, increasing small-scale food production could have similarly far-reaching impacts. However, the hegemonic status occupied by productivism and growth-dependency as ways of enacting the food system and the welfare state prevents recognising, scrutinising, and realising the transformative potential of small-scale food production. Therefore, I will next focus on small-scale food producers as active participants in the rearticulation and restructuring of both food systems and welfare states.

### **Diverse practices of earthly survival**

The significance and potential of small-scale food production within a Nordic welfare state can be illustrated by examples drawn from household food production and urban beekeeping in Finland. They offer a glimpse into the diversity of sustenance practices within welfare states, which, when scrutinised and contextualised as economic, could help to ontologically ‘dis-order the capitalist economic landscape, to queer it and thereby dislocate capitalocentrism’s hegemony’ (Gibson-Graham 2006b, 77). Not only is food production within welfare states more diverse than often recognised, but practices of small-scale food production are also in many ways entangled with welfare state policies. The significance of non-salaried, feminised domestic and care work within welfare states has received attention (e. g. Hochschild 1989; Boje and Leira 2000), but the implications of small-scale food production for the functioning of welfare states is yet to be carefully studied.

Household food production is a common practice in Finland. In 2017, 29% of the adult population gardened edible plants (OSF 2018a), and in 2010, 58% of the population picked forest berries and 40% picked mushrooms for their own consumption (Finnish Forest Research Institute 2012). Non-commercial fishing is also popular, practiced by 40% of men and 20% of women (Natural Resources Institute Finland 2016b), and six percent of the population hold a hunting license (OSF 2018b). There are significant regional differences in household food production: for example, the average amount of forest berries picked by a household ranges from less than 10 litres in the southernmost regions to 40 litres in the North. 93% of all forest berries consumed by Finnish households are either self-picked or received as gifts or in barter. Household food production is, obviously, more prominent in rural than in urban households, as exemplified by potato production. In rural areas, households produce on average of almost half (46 kgs) of their annual consumption. In urban areas, the share of household production of consumed potatoes is seven kgs, around 11% of the annual consumption of 62 kgs. (Ylitalo 2008.)

If converted into market prices, the share of self-provisioned food items of household food consumption is relatively small, just over 2% in producer prices<sup>15</sup> (Ylitalo 2008). However, this does not necessarily implicate an insignificance of household food production for individual households from a sustenance perspective, not to mention other motivations and meanings of producing one's own food. In a study conducted among household food producers in Finland, more affordable food was stated to be a significant motivation factor by around 40% of the respondents (Koivusilta et al. 2018, 28). In another, European-

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15 The data is not available in consumer prices, in which the percentage would be significantly higher: for example, the producer price for potato is less than €0.20/kg (OSF 2018c), whereas the consumer price is around €0.90/kg (OSF 2018d).

wide survey, around 5% of Western European households reported producing over 50% of their food consumption (Alber and Kohler 2008, 117). Household food production can indeed be understood as contributing to household food security within welfare states as well, even if not in such a drastic sense as is often the case in the absence of institutional welfare systems (see FAO 2014). This is further underlined by the fact that the affordability of food was more significant a motivator for people with a lower socio-economic status and hence, presumably, lower income (Koivusilta et al 2018, 31).

However, as highlighted by Jehlicka et al. in the context of post-soviet Czechia (2013), household food production is more than a coping strategy for the poor. There is a variety of motivations for household food production in Finland as well, ranging from access to more healthy food, meaningful use of time, to environmental and animal welfare concerns (Koivusilta et al. 2018, 27–30). Therefore, household food production can be seen as not only complementary to welfare state food security measures, but also as an active contribution to human and non-human wellbeing (ibid., 12–13). In addition to experiencing *more* wellbeing, wellbeing experienced in or pursued by small-scale food production might differ qualitatively from wellbeing measured in GDP. This diversification of the understandings of wellbeing can be understood as a necessary step in transforming welfare systems in accordance with the radical reductions in production and consumption of energy and use of natural resources (see also Hirvilammi and Helne 2014; Smith 2018).

In addition to berries and potatoes, some special food products are extensively produced by small-scale producers: it is estimated that two thirds of Finnish honey is produced by amateur or part-time beekeepers with less than 100 colonies (E.-L. Korpela, personal communication, October 2, 2018). Even though small producers often sell at least part of their honey on the market, small-scale beekeeping is not organised solely according to

the logic of profit making, and therefore it can also be seen as disrupting the capitalocentric understanding of food systems. In my ethnographic study, high honey yields and sales were among a variety of motivations for beekeeping, including pollination of garden plants, social relations, interest in nature, sustaining mental vigour and increasing overall wellbeing. Unprofitability of small-scale beekeeping in conventional economic terms was widely recognised: earnings from honey typically cover production costs – equipment, feeding, packaging, new queens – but compensation for work is not usually counted in at all, or only partially. Measured in conventional economic terms, the wage in professional beekeeping can be as low as 6.50 euros per hour (Natural Resources Institute Finland 2015), and as small-scale beekeeping practices are typically even more time-consuming, the hourly income, if calculated, would be even lower.

Given the significance of honeybees as pollinators (Kleijn et al. 2015), it is safe to assume that small-scale beekeeping contributes remarkably to both industrial and informal food production in Finland. Therefore, it can be argued, that the most fundamental material base of welfare states is partly sustained by informal work in beekeeping, in a similar way as institutional social protection is complemented and supported by household food production as described above. This is, however, only one aspect in the complex relationship between welfare states and small-scale food production practices. Welfare policies and services in turn enable and even support small scale food production. For instance, beekeepers' high average age of 57 (FBA 2015), means many of them enjoy old age pensions, and also the need for (public) health care services increases in old age. Additionally, especially in urban beekeeping, the material infrastructure provided and maintained by the still relatively well-funded public sector plays a significant role, at times even directly supporting beekeepers by allowing the use of wastelands for apiaries and even premises such as sheds for storage. Furthermore, the high level of trust and stability in welfare

states might allow beekeepers to operate without being excessively concerned with urban beehives being harassed or stolen. In this way, small-scale food production can be both seen as filling the social and ecological gaps that public services leave and harnessing the surplus of welfare states (see Chapter 1).

However, welfare state policies can also cause tensions in small-scale food production. The pressure to participate in the formal labour markets is increasing as welfare is being transformed with the activation paradigm (see Chapter 3), and time available for food production can become scarce. This can lead to difficult choices in time-consuming and laborious practices such as beekeeping. In my research data, one former beekeeper couple had chosen to invite other beekeepers to take over their home yard apiary, as they preferred to have bees nearby despite giving up beekeeping due to lack of time. Another urban beekeeper ceased keeping bees after a few hard and honey-poor years when time-limited due to starting her own business. Several have reduced the number of colonies due to lack of time, but also due to preferring close engagement with the bees and honey over production-centred practices.

Small-scale food production vividly illustrates the opening of yet unthought possibilities of communities and economies. Coexisting (peacefully or not) with the sustenance policies of the welfare state, there are diverse practices of ‘earthly survival’ (see Haraway 2016) which are viable, life-sustaining and purposefully pursued. Embodied in the entanglements of welfare state policies and small-scale food production practices there are also various ways on economic *being-in-common* based on interdependencies, whether recognised and acted upon or not (Gibson-Graham 2006b, 84, 88). Next, I proceed to examine negotiations over some of the most essential interdependencies in food production.

### **Negotiating multispecies interdependencies**

Nordic welfare states are characterised by a high level of universalism, within which people are attributed rights by virtue of

membership in a particular community (Kildal and Kuhnle 2005). Given that these rights address questions of survival and wellbeing in particular, the welfare state can be understood as a sort of an institutionalised communal space akin to community economies ‘in which individual and collective subjects negotiate questions of livelihood and interdependence and (re)construct themselves in the process’ (Gibson-Graham 2006b, x; see also Chapter 1). Even though these negotiations often take place far from the individual subjects and their livelihoods, they are usually located within democratic structures and institutions, which at least in principle enable citizen participation. However, the recognition of socio-ecological interdependencies is severely limited, as shown by the continuing contribution of welfare states to global environmental destruction (see Hirvilammi and Helne 2014). Production and consumption of food and other commodities in welfare states affect livelihoods beyond national borders and species boundaries, but the economic negotiations within welfare state universalism do not, by definition, consider the needs of other than a particular group of people.

Practices of small-scale food production enable recognising and negotiating interdependencies in ways which might extend beyond the current limitations of welfare state universalism at least in terms of interspecies relations. I will next focus on the possibilities of small-scale food production to challenge the ways in which non-human nature is positioned as the inferior counterpart in a hierarchical dualism as is symptomatic to the Western philosophical tradition (e.g. Plumwood 1993). I argue that situated knowledge production and affective engagements constitute the key elements in enacting interspecies relations differently within small-scale food production, opening up ethical space for negotiating interdependencies, which are rendered invisible in industrial food production and capitalist food markets. To ground my arguments, I will first introduce the companion species approach by Donna Haraway (2008), which helps to

conceptualise the extension of the ethical moment of community economies construction towards the non-human world.

The companion species approach means understanding humans as always already entangled with the non-human nature in mutually constitutive networks. Haraway questions the individuality of a human (or a member of any species), as well as dualist categorisations such as nature/culture and human/animal. According to Haraway, '[t]o be one is always to *become with* many' (2008, 4, emphasis in the original). For Haraway, non-human others are active participants in the making of culture and society, and, one could add, economy in companion species networks. In these networks 'being' is continuous *becoming with*, and is devoid of any predefined purpose (Haraway 2008). This notion bears resemblance to the understanding of community as *being-in-common* in the community economies approach (see Gibson-Graham 2006b, Nancy 2000).

Food and its production exemplify the mutual constitutiveness of companion species networks: food *is* non-human others, made edible by cultivating, selective breeding and preparation in complex multispecies constellations. However, these networks are often not visible in the contemporary food systems (see e.g. Franklin 1999; Tsing 2015). Capitalist production and markets tend to efface the specificities of any relations and connections beyond the immediate transactions (Gibson-Graham 2006b, 83; see also Callon 1998; Polanyi 2001, original 1944), concealing the companion species networks in which eating takes place. The ethical tensions in food production are not only based on the inevitable consumption of other species for bodily reproduction, but are rather political in nature, deriving from different material, cultural and social arrangements of food systems. Therefore, recognising and acting upon the 'differential relationalities' of eating is essential 'if response and regard are to have any meaning personally and politically' (Haraway 2008, 295).

Small-scale food production includes and encourages



interspecies relations that are distinct from the commodified and market-mediated relations enacted in industrial food systems. Koivusilta et al. (2018, 39–40) highlight this from the point of view of domestic animals: improving animal welfare is a significant motivation for keeping animals for food production. Accordingly, in small-scale beekeeping courses, participants are guided to recognise multispecies interdependencies – or, following Haraway, companion species networks – and to engage responsively with non-human others, in addition to humans: primarily with the bees but also with other animals and even inanimate objects such as bee products and hive materials.

Reformulating interspecies relations in small-scale food production is not necessarily limited to domestic animals. In a case study on community-based agriculture, I analysed manual weeding practices as situated multispecies knowledge production, in which the needs of non-human others are intertwined within communal decision-making on future agricultural measures (Hyvärinen 2017; see also Roelvink 2015). Manual weed management is typical in small-scale gardening and agriculture, organised often as alternatively paid or unpaid work, but rarely practiced in industrial farming in welfare states due to high labour expenses. In the farming communities the slow, bodily practices of weeding appeared as a constant, multisensory observation in which the various non-human others of the field became noticed: one could not ignore how the different plants were growing, and what was the condition of the living soil. Observations were shared with other field workers during breaks or after work and combined with experiences and existing knowledge or even information looked up on the internet. This kind of situated knowledge production (Haraway 1988) responds to the particular questions at hand instead of aiming at universality, and it also recognises the ‘object’ of inquiry – here the agricultural ecosystem – as an active part of the process. In the process of situated knowledge production, companion species networks are knit

more closely together, in relation to the communities' livelihoods: In the farming communities, situated knowledge produced through weeding guided short- as well as long-term farming practices, which aimed at providing for survival and wellbeing for the community. Weeding made companion species networks of food production visible and part of negotiations over livelihoods, widening the scope of ethical economic negotiations towards non-human others (Hyvärinen 2017; see also Gibson-Graham 2006b, 81).

Another aspect in reformulating the space for ethical negotiations in small-scale food production are the affective engagements formed in everyday food production practices. Beekeeping serves as a case in point with its intimate but troubled relationship between humans and bees. Affective engagement in urban beekeeping is eloquently described by Mary Moore and Lisa Jean Kosut (2013):

‘Beekeepers feel a buzz, a slight intoxication, enthusiasm, and exhilaration in the presence of these insects. This feeling is what we term the affective buzz, a transformation through bonding with the bees. [--] Like some form of insect drug, bees have physiological effect on the body, affecting the way we think, act, and move.’ (Moore and Kosut 2013, 56–57)

The affective buzz that the authors describe can also be noticed in an explicit manifestation of *becoming with* in companion species networks: the urban beekeepers' altered perception or experience of their surroundings. Even when the bees are not present, beekeepers may perceive the weather and the plants from the perspective of the bees: how the flowers are blooming, what is the weather like for the bees to fly or, during the winter, to survive – as if they could share the lifeworld of a bee colony (see also Maderson and Wynne-Jones 2016, 93).

Interestingly, affective engagements in beekeeping are not

based on the experienced sameness or relatability. Rather, it is the overwhelming otherness of these insects that seems to be a central factor in the fascination and joy that humans experience in their proximity (see also Moore and Kosut 2013, 55). Hugh Raffles (2011, 44) describes insect-human relations as ‘a deep, dead space without reciprocity, recognition or redemption.’ Bees, like any insects, are ultimately unintelligible from the human perspective, but the human-bee cooperation in beekeeping, however ambiguous, seems to bridge this deep (in)difference enough to display bees’ otherness as something to embrace rather than something to turn away from. This can be understood as a transformative act from the perspective of ethical economic negotiations, extending their scope far beyond welfare state universalism that is based on shared citizenship or residency – and, first of all, on membership of the human species.

Unlearning the commodification of non-humans and respectively learning to be affected by these ‘earth others’ (Roelvink 2015) is an onto-epistemologically crucial process in building more liveable futures (see Haraway 2016). Small-scale food production has the potential to alter the relations between humans and non-human others by pointing out vital interdependencies in the processes of situated knowledge production and by enabling practices in which humans are literally affectively touched by other species (see also Puig de la Bellacasa 2017). The processes of becoming *with* take tangible forms in small-scale food production through weeds, bees and multiple others with whom the necessities of life and diverse forms of wellbeing are produced.

Nevertheless, from an ethical perspective small-scale food production is not devoid of problems: in Haraway’s words, ‘there is no way to eat and not to kill’ (2008, 295), as the interspecies relations in food production are more often *indigestive* than symbiotic (ibid., 287, 300). Sentient beings are slaughtered and consumed in animal production regardless of its scale. Also beekeeping and even vegetable production have adverse or contradictory effects on

non-human others, however considerably practiced. Nevertheless, as mentioned, the ethical moment in constructing community economies does not imply any universal, definitive answers to how or with what normative content the negotiations over interdependencies are to be accomplished (Miller 2013, 523). The radical critique towards capitalism lies in the situated and particular recognition and the acting upon interdependencies in contrast to obscuring or denying them (Miller 2013; Gibson-Graham 2006b, 84). In small-scale food production the non-human others are not concealed in long chains of market transactions, but rather relating with them acts as a starting point to re-imagine and remake future practices of survival and wellbeing (cf. Gibson-Graham 2006b, 98, 194). Recognising non-human agencies, consciousness, and even personalities, and simultaneously acknowledging the inescapable necessity of consuming other species, makes small-scale food production a praxis of ‘staying with the trouble’ (Haraway 2016), thereby keeping the ethical space open to constant negotiations over multispecies interdependencies.

### **Counterhegemonies in action**

The politics of possibility in community economies framework leans on the feminist movement, more precisely ‘the complex intermixing of alternative discourses, shared language, embodied practices, self-cultivation, emplaced actions, and global transformation associated with second-wave feminism’ (Gibson-Graham 2006b, xxiv). The transformative power of feminism is ubiquitous and uncoordinated but at the same time firmly grounded in subjectivities and places, which are, however, always unfixed and incomplete: sites of becoming and openings for politics (ibid., xxxiii). Politics of economic possibility operates on the grounds of these open ‘negativities’, aiming at creating novel economic ‘positivities’ through the politics of language, politics of the subject, and collective action (ibid., xxxiv–xxxvii; Miller 2013, 525–526). Traces of all three can be located in the field of

small-scale food production, possibly offering alternatives to the hegemonic arrangements of food systems and welfare states.

First, dislodging capitalocentric conceptualisations and diversifying the understandings of economic practices and relations could contribute to widening the discursive space in which other economies become possible. Small-scale food production is based on such economic practices which hardly fit the narrow capitalocentric conceptualisations of the economy (Gibson-Graham 2006a; Cameron and Gordon 2010). Work in small-scale food production is not organised only as wage labour, but also as various forms of alternatively paid or non-paid labour (Hyvärinen 2017; see Gibson-Graham 2006b, 71). Sometimes the practices are not even considered as work by the small producers themselves, despite being burdensome and time-consuming. This reflects the common understanding of work as including wage labour only. Often, however, urban beekeepers and members of the farming communities reach far beyond conventional capitalocentric views in their deliberations: work is considered as a community-building activity, as mental and spiritual as well as physical activity, and as activity performed by non-humans as well as by humans (see also Chapter 3).

Accordingly, practices and relations of exchange appear as diverse in small-scale food production. Even though market relations exist within the small-scale food production sector, operations in the sector are not primarily defined by competitiveness as is the case of mainstream market economy. Rather, diverse forms of value are at play when defining the terms of exchange, often based on interaction between people (see Chapter 2) or even species. This is illustrated, for example, by the complex and often contested process of defining a suitable price for home produced honey in urban beekeeping. In my data, the price was not only defined by the production costs, whether or not it included compensation for labour, but it was also affected by the regular customers' willingness or ability to pay. In addition, other beekeepers'

subsistence needs were taken into account by avoiding dumping prices, and sometimes even the hard work done by the bees was recognised as valuable. Moreover, small-scale food production can be considered as questioning the preferability of mainstream (food) markets: household food producers are motivated by the access to pure and healthy food, the origins of which they know (Koivusilta et al. 2018, 28), implying a perceived untrustworthiness of the mainstream food markets and possibly opening up space for alternatives (see also Forssell 2017).

For Gibson-Graham (2006b, xxxvi), politics of the subject include ‘mobilization and transformation of desires, cultivation of capacities, and the making of new identifications’ – constructing of new economic subjects which relate to each other in interdependent ways (ibid., 81). Small-scale food production offers subject positions and identifications which deviate from those based on wage labour, and competitive markets relations (see Trauger and Passidomo 2012). The study by Koivusilta et al. (2018, 27–30) suggests that household food production could enable identification with a variety of positive characteristics, such as meaningfulness, skillfulness, eagerness to learn, close connection to nature in general and domestic animals in particular, environmental responsibility and a healthy lifestyle. Small-scale food production practices can be a source of joy and pride, often manifested through food products, as attested by, for example, beekeepers’ descriptions of their own home-produced honey.

Due to its potentiality in modifying social identities and self-perception in a positive way, small-scale food production and especially gardening has been used in mental health, elderly and disabled care historically and increasingly also today, nowadays termed as ‘green care’ (see Rappe 2005; Sempik et al. 2010). From the perspective of subject formation, the concept can be understood as carrying a double meaning: who or what is caring for and whom or what is taken care of? Positioning oneself as caring for other beings by cultivating and maintaining them or, when

it comes to human others, by feeding them with self-produced food can enable re-evaluation of self-centered subject positions (see Puig de la Bellacasa 2017). In relation to the increasingly precarious working life, small-scale food production can also help in distancing oneself from unreachable career pursuits and work ethics driven by consumerism and redirect competence building (see Chapter 3). There is expertise to be gained and identities to be constructed in a variety of food production areas, as exemplified by the urban beekeepers and vegetable farmers, but also by mushroom foragers, fishers, orchardists, brewers, fermenters, and so on.

In such a diverse field of food production activities and actors, there is no singular collective to be formed as a base for collective action. Collectives are always situated and grounded in a particular place and time – but, significantly, potentially in *any* context (Gibson-Graham 2006b, xxxvii–xxxviii). The place-bound small-scale food production can therefore serve as a ground for collective action especially in relation to political struggles over a specific geographical area, as for example analysed in urban settings by Koopmans et al. (2017) as processes of place-making. However, the political aims of food-production-based collective organising are not necessarily limited to the specificities of a particular place, as exemplified by the above mentioned farming communities which aimed to achieve ecological sustainability and social justice through non-conventional, collective farming practices. Small-scale food producers can also form political collectives together with larger-scale producers, like urban beekeepers taking part in the Finnish Beekeepers' Association or farming communities participating in the Finnish Organic Association which brings together organic farmers of all scales of operation.

Politics of collective action can be examined not only in their present form, but tentatively as possible means of increasing small-scale food production within a welfare state. Hindrances for increasing household food production include experienced lack of

time and storage space, but also lack of land, money, possibilities for animal husbandry and knowledge (Koivusilta et al. 2018, 35). Collective action, aiming at transforming specific welfare state policies or targeted at particular institutions could be used to overcome such deficiencies. Lack of time could be resolved by restricting working hours in wage labour by legislation, of which there are numerous examples in the history of welfare states. Lack of storage and arable land could be tackled by designating more space for agricultural activities and products by creating new building regulations and by using already existing spatial planning measures. Public social investments could be used for financing the development of communal food production facilities, and the existing educational infrastructure in turn for increasing knowledge on food production techniques and skills, in addition to the already existing knowledge commons in public libraries and available through universal internet access. If small-scale food production would be politicised through conscious collective action efforts, the existing welfare state institutions could be harnessed to promote and facilitate these practices, turning them from the state of inaction to purposefully creating favourable conditions for small-scale food production or even directly assisting its expansion (see Chapter 1).

### **Conclusions**

Instead of a peripheral or anachronistic activity, as suggested by a capitalocentric understanding of the economic, small-scale food production is a widespread and manifold phenomenon with capacities to transform future food systems and welfare. However, there are no guarantees of how an increase in small-scale food production would change societies or even the environmental impact of food production. There are fossil fuel-powered or otherwise environmentally detrimental practices in small-scale food production as well, as many of them have been formed during the era of cheap fossil energy and require transformation



to fit into the post-fossil future. However, many practices predate the abundance of affordable fossil fuels or have more recently been intentionally shaped to avoid excessive use of energy and other resources. In industrial agriculture a shift from fossil fuel dependency to less energy intensive production methods and renewable resources can be considerably more challenging (see Günther 2001).

Socially and politically as well, small-scale food production enables multiple readings, of which I have above focused on the ones that build upon and extend beyond welfare state policies. However, increase in small-scale food production can also be construed as fundamentally incompatible with financing welfare services: increasing self-sufficiency could result in reduced revenues from income and value-added taxation. Moreover, it could be used as a justification for growing individual and gendered<sup>16</sup> responsibilities of basic survival needs and further cuts on social benefits, exacerbating social inequalities. In accordance with neoliberal austerity it is easy to imagine a moralising public discussion about the ‘lazy grasshoppers’ who failed to gather enough provisions for the winter and have to be then fed from the common pool. Increasing importance of small-scale food production has also the potential for fuelling nationalist tendencies built upon a mythical, naturalised connection between a homogenous population and the natural resources in a particular area, protected by strict border control.

When pursuing an equitable post-growth future, increasing small-scale food production should not be understood as a replacement of welfare services and policies as a sort of a ‘commons fix’ (see Chapter 1). Physically arduous labour is not feasible for all

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16 As small-scale food production includes everyday household work practices which have traditionally been strictly gender segregated (or at least depicted as such) in the Nordic societies (see Peltonen 1999), it is possible that such segregation continues and is strengthened despite currently successful gender equality policies within the Nordic welfare states.

and also access to land and other resources, knowledge and time are all unevenly distributed. Should small-scale food production increase, welfare state-like policies would still be needed to ensure equal access to food regardless of one's individual capacities and resources. Comprehensive welfare would also help to maintain social stability and mutual trust in a situation where in the absence of widely available fossil energy the fundamental precariousness of life – human vulnerability to the unstable processes of air, land and water – is revealed (see Tsing 2015). From the diverse economies perspective, small-scale food production, even with a significant increase in volume, would be only one of many forms and aspects of the future food and welfare systems.

Welfare states as institutional and political enactments of a particular ethos of universality and equality can serve as a platform for increasing small-scale food production without overemphasising individual responsibility. Despite the challenges the welfare ethos and ideal are currently encountering, ideologically the platform is still relatively well-founded, as collectively financed welfare policies continue to enjoy high public support (Svallfors 2012, 5–6). Strengthening and expanding this solidarity, currently enacted within national and species boundaries, is a process in which the transformative ontological, ethical and political potential of community economies can prove useful, as illustrated above in terms of food production.

The increase in the scope or significance of small-scale food production does not involve any inevitable outcomes. Therefore, no scenario described above should be deemed as adequate grounds to refrain from nor to uncritically embrace small-scale food production as present and future livelihood practice. Outlining different prospects and possibilities aims at highlighting the political character of such transitions and reminding us of the need for ethical consideration in relation to them. Transforming welfare states does not happen only by increasing small-scale food production, but on many fronts simultaneously. Together with,

for instance, social welfare innovations like universal basic income or new forms of markets often termed as the ‘sharing economy’, small-scale food production might contribute to sustaining and developing welfare responsively.

Given the persistent hegemonies of productivism and growth-dependency, radical institutional and ideological reforms in food systems and welfare states might seem unlikely or even impossible to achieve. However, compared with the massive challenges in developing or even sustaining food security and welfare services in the long run if the 1.5 °C target in global warming is exceeded, the challenges related to restructuring the economic politics, practices and discourses of food and welfare systems are, after all, manageable. Examining small-scale food production as construction of community economies could enable engaging academically as well as politically with such an extensive and unpredictable, but also situated transformation – enacting food politics of becoming in place (see Gibson-Graham 2006b, xxiv).

# 5

## Commoning surplus food in Finland – actors and tensions

*Anna-Maria Isola and Janne Laiho*

Unsalable food has considerable market value, yet it is possessed by no-one. It is a resource that basically no one owns, but which factually exists. In this chapter, we examine surplus food as a commons, a decommodified good. Surplus food attracts various regulative actors and functions. It is a social node that gathers institutions, activists and lay people together.

Surplus food does not create a permanent community economy in the sense that Gibson-Graham (2008) understands it. However, it creates economic activity in the overlap of market economy, social security and self-sufficiency. It may for instance supplement inadequate income, improve purchasing power or make it possible for one to not participate in the market economy. Surplus food is shared in foodbanks where people create temporary community economies. Surplus also may create new small-scale community economies, such as community fridges.

There is a variety of ontological premises associated with surplus food of which one gets clues by looking at related terms. One talks about food aid, another refers to food waste and leftovers, while yet others emphasize the problem of overproduction typical of

the market economy and climatic effects associated with it. What abovementioned different contexts have in common is that they are different modulations of the phenomenon, in which unsalable yet edible food is recognised as a resource. While surplus food is a positive commons, resource, it is also an environmental problem, this is, a commons in a negative sense. Due to the climate issue, the impetus to control surplus belongs to all: locally, regionally, nationally and globally.

Three different interests and tensions are examined in this chapter. Firstly, food surplus is an environmental problem. Secondly, surplus food is currently governed by sharing it with poor people. Thirdly, sharing surplus to poor people through foodbanks does alleviate poverty, but it is puzzling in terms of universal rights and sufficient minimum income supposedly provided by the welfare state.

Food surplus as a commons organizes social life locally, particularly in local foodbanks, but in the long run it also may re-organize the principles of the welfare state. The multilateral connections and collaboration between the actors – local communities, retailers, charity organisations, public sector actors and food surplus activists – are viewed as social nodes. This chapter is based on the extended case study method to explore both the repertoire of the meanings and processes of negotiations concerning food surplus (see Burawoy 1989, 3, 16–24). The data gathering included ethnography at a food surplus terminal, nine excursions to food surplus distribution points, eight interviews, and surplus food related documents. It involved also taking part in two communal dinners, visiting a waste food restaurant, a food waste shop, and a non-profit open ‘community fridge’.

### **The most common contexts of food surplus**

It was understood already several decades ago that persistent overproduction can be regarded as a failure of agricultural policy (European Community 1986; Buttel 2003; FAO 2011) and the

market economy. Producers of goods and services will keep producing and supplying the market as long as the marginal profits from production are higher than is an alternative course of action. The globalized agro-food system maintains unsustainable overproduction, but the problem of surplus could however be solved, little by little, through supporting and making consumer choices favouring small scale or local co-operatives, or community economies in general.

However, commercial capital creates downward price pressures on farmers who work within the state–capital nexus that institutionalizes overproduction (Snyder 2015). Commercial capital then destroys the seeds of other kind of systems by putting more competitive pressure on small-scale producers and alternative food systems. There are fundamental incompatibilities between the food regime governed by the logic of commercial capital and alternative systems, democratically designed to develop sustainable food culture and human capacities (see Chapters 3–4; Nousiainen et al. 2009).

Producers might not always be able to meet demand. However, as potential profit exists in such a case, it is likely that supply and/or market prices will increase until a new equilibrium is reached. In the case of insufficient supply, the only change required to reach equilibrium is a change in output and/or prices, with no action to be taken with regards to inventory already produced. In contrast, in the case of excess production, there is no mechanism to cancel production that has already taken place. Producers of goods will need to resort to measures such as price differentiation in order to get rid of excess production.

Overproduction is more likely than underproduction, as long as the expected cost of the former does not exceed the expected profit loss associated with the latter, *ceteris paribus*. In the Western world and in the case of foodstuffs, this seems to be the typical case: it is very rare that a given food product is not available on a given day at a grocery store due to insufficient supply.

If the surplus food is not drawn back into the market or distributed as food aid, it becomes waste. Food waste is recognized as a growing environmental problem all over the First World. In Finland, 23 kilograms of food per person is being disposed of annually. The monetary value of household food waste has been illustrated by comparing it with a spa vacation for the whole family and with eight annual visits to a movie theatre. The combined food waste of households, industry, trade and restaurant services amounts to approximately 335-460 million kilograms annually, with a value of 500 million euro. The climate impact of the entire life cycle of materials and products have in turn been compared with the combined carbon dioxide emissions of 100 000 average cars. (Silvennoinen et. al 2013)

Bradshaw (2018, 12, 327–330; see also Evans and Nagele 2018) states that categorizing food as waste is a consequence of political and value-laden practices, which completely neglect the aim of preventing foodstuff from becoming waste. In 2013, the Finnish Food Safety Authority (Evira) introduced guidelines on how to utilise 'food waste' and prevent it from getting into landfill. According to the guidelines, primary producers, breeders, storages, wholesalers, grocery stores, mass caterers and restaurants are allowed to deliver unsalable but edible food to consumers, either directly or through charity organisations. (Evira 2017.) Re-commodification of surplus food is allowed to take place through grocery stores specializing in food waste, waste food restaurants, and other commercial operators within a circular economy. Private households are not officially allowed to redistribute their leftovers. In addition to official actors, climate activists operate in the area of food waste by raising discussions on how much carbon dioxide is emitted as a result of surplus food that ends up as food waste.

Surplus food has been abundantly examined from the point of view of food aid thus far. Food aid is a common way to distribute surplus food through foodbanks to those of little income. Foodbanks have existed in Finland for several decades,

but they became a permanent phenomenon during the depression of the 1990's, when the level of social security was also lowered (Kuivalainen and Nelson 2013). During that same period, food aid became an established phenomenon across the first world. (Silvasti and Karjalainen 2014, 73–76; de Armiño 2014; Dowler 2014; Silvasti 2015, 474.) Foodbanks have been left to grow with little attention before they recently re-emerged in public discourse.

Whereas a few decades ago, foodbanks were mostly frequented by the homeless and substance abusers, the clientele has since become more diverse in its composition. They have brought people of low income, pensioners, low-income families with children and single mothers out onto the streets, into public view. (Laihiala 2018, 5–6.) It is known that the economic vulnerability of those standing in breadlines is manifested as difficulties in dealing with debt and well as not being able to make ends meet. Multifaceted disadvantage has also accumulated among them: every third person experienced resorting to food aid as shameful, women considered it more socially stigmatizing than men did. Lining-up is a social activity, foodbanks are a place for giving and receiving peer support. (Ohisalo et al. 2015, 443; Salonen et al. 2018; Laihiala 2018.)

Food aid appears to be a more integrally institutionalized part of the Finnish society. This has to do with the fact that in the Nordic welfare state on one hand the goal of decommodification has a less important role, and on the other hand, individual responsibility has been given more emphasis (see Chapter 1). Current plans for organizing food aid institutionally include merging the Fund for European Aid to the Most Deprived, the EU Programme for Employment and Social Innovation, the EU Health Programme, and the European Social Fund (European Social Fund Plus 2018; Chambon 2011). It is notable that the new European Social Fund Plus focuses on food aid in particular and does not promote a higher basic economic security. These plans have affected Finnish social policy too, as Finnish authorities had to take a stance on



public food aid. In December 2017, The Ministry of Social Affairs and Health issued a bulletin taking an indirect stance towards EU plans. In the bulletin, food aid was discussed as a part of civil society, therefore not part of the Finnish social security system.

‘Instead of handing out food aid, it is important to reach for overall and long-term improvement and support for people’s everyday life. This can be accomplished through good social policy, the legislation of which falls under the responsibility of the Ministry. In everyday work, social services meeting with the needs of the customers, and organizational work that supports the work of civil servants, are in a key position.’ (MoSAaH 2017, translation by the authors).

The distribution of surplus as food aid threatens the foundations of the welfare state, at least to some extent. Charitable food is not an answer to hunger, while a decent minimum income is (Silvasti and Riches 2014, 192; Silvasti 2015, 476). However, the redistribution of surplus food through charity organizations has become an institutionalised practice that reproduces income inequality and legitimatizes personal generosity as the response to a structural problem (Poppendieck 1999; Silvasti and Riches 2014, 207–208). The growth of kindness and injustice, and charity and poverty, are intertwined. Based on a large ethnographic research, Janet Poppendieck (1999, 5) found that flourishing charity is both a symptom and a cause of society’s failure to deal with increasing inequality and income poverty. Charity indeed treats the wounds of inequality, but simultaneously it also relieves pressure from redressing income inequality on a large scale. As a consequence, more fundamental social policy measurements can be brushed aside when foodbanks are called out to for help. Food aid even de-politicizes hunger and draws media attention away from governmental welfare schemes. (Poppendieck 1999; Silvasti and Riches 2014.)

Charity organisations benefit from institutionalized food charity (Silvasti and Riches, 2014, 196–197). Religious or charity organisations are able to take roles as middlemen in making surplus production more acceptable and transforming it into a virtue (Salonen 2016; 2017). Also retailers benefit, as their waste disposal costs are lowered, and they appear to take more responsibility in society (see Silvasti and Riches 2014, 195–196; Calvo-Porrall et al. 2016). Food aid thus offers a platform for charity work and for building a brand that benefits corporations and charity organizations. A harmful side effect is that the institutionalized distribution of food waste produces mechanisms through which the role of welfare states in guaranteeing a decent life to their citizens, based on the principle of universalism, is hindered (see Bradshaw 2018; Silvasti and Riches 2014).

As noted in Chapter 1, in the Nordic welfare states, power has been transferred from local associations and governments to central governments. Its financial and material linkage with capitalist economy is so strong that the centralized power might be in risk of being occupied by big corporations. From this point of view, surplus food is interesting: on one hand, sharing it through foodbanks promotes the gradual move into principles of residual distribution of well-being, as opposed to universalism that has long been emphasized by the welfare state. On the other hand, surplus as a commons may generate the effect of returning power from the state and corporations to local economies, where the rules over a commons can be negotiated independently of the market and the state.

### **Commons as a method of organisation**

A commons is a pool of material or immaterial resources that are managed by communities or groups for collective and individual purposes. Material commons, such as drinking water, air, seeds, minerals, the ozone layer, and forests, often go over- or misused. Other kinds of common resources such as creative resources,

common knowledge, social values and rules, emerge as commons through communication (Nelson 2016, 3–4).

Capitalism, the market economy, the welfare state, and a commons, are all social systems of organisation. A commons is formed from and organized through resources that are not simply economic. These resources need to be activated through *commoning*: social practices used by commoners (De Angelis 2007; 2013; Nelson 2016). In this kind of social system, not only resources are shared and managed in everyday practices, but also communities and life itself are reproduced in non-commodified ways.

Managing a resource as a commons decentralizes power and invites people's participation. Commoning incorporates open-ended value-negotiating processes. The commons and commoning are means for democratic processes to function, from negotiating freedoms and responsibilities to influencing modes of (re)production (Nelson 2016, 6; De Angelis 2013, 606; Linebaugh 2008). The democratic power of the commons is rooted in routines and daily practices that are tied to culture and history.

Commoning allows deliberative democracy to develop, specifically due to face-to face communication. However, as with any social system, commoning is a system of exclusion. Constructing a commons implies creating rules on participation and exclusion from it (Nelson 2016, 7). Likewise, different actors want to attach community-originated rules to food surplus on who is entitled to it, and whether it will be distributed for no charge, or perhaps in exchange for labour.

Commons might also be needed and utilised by capitalism. From the point of view of capital, the need for a 'commons fix' (see Introduction) is twofold. On the one hand, capital needs new strategies to maintain growth and accumulation. And on the other, capital needs a commons to fix the devastation it creates for social relations and the environment. It follows that a commons may be integrated into capital or it may reconstruct new social terrain. By

the same token, a commons may result in either emancipation or oppression.

Massimo De Angelis (2013) notes that a commons is a social force that is able to create systems independent from capital, alternative ways of social production, and it could even entail solutions to social and ecological injustice. No one knows in advance the outcome of the process of commons being born and them becoming governed, as it depends on the fluid process of a commons democracy.

### **Civil society and the welfare state as a new social node in the field of food surplus**

The 1980s saw the emergence of new actors in the field of food surplus, while earlier it was only charities and retailers working together. These new actors demanded changes to food aid practices. The church social work organisations in one large Finnish city decided that breadlines must be gotten rid of: not because of a will to end food aid, but because queuing outside was seen as humiliating. Gradually the civil society groups, city government and church organisation within this city took it as a common objective. Changing established practices was heavy work, and it was not before the 2000s when these actors were able to take decisive steps from talk to action.

‘Our starting point has been that we want to get rid of breadlines entirely. And it is just terribly slow work, it sure isn’t something which happens in a moment, it demands networking skills and discussion, and we have very small teams and no levers for controlling the activities of associations that distribute food aid.’ (A church social worker)

In addition to handing out the usual food bags, these organisations began offering donated food in the form of communal meals. Retailers, NGOs and city representatives got

together to decide on the rules for distributing surplus food. The attempt then was to combine food distribution with community-promoting activities. It was thought that organising communal meals would promote the activeness of those resorting to food aid.

‘For us, waste food is a tool, a product to be put to beneficial use by increasing a sense of community. And so, together with the network we were part of, we thought what kind of actions would promote this; how this food waste could be used to increase communal activities.’ (A co-operative manager between the city and civil society)

Even though in this context one cannot talk about community economy, church social work had anyway an ambition to build the local community. This was exceptional in the sense that previously, food waste had only ever been aid for low income households, organised as a unidirectional act of handing it over to the poor by retailers and charities (Silvasti and Riches 2014). Yet from the early 2000s onwards, civic values began to be integrated with it. It was thought that surplus food could be used to promote a sense of community and participation amongst people in difficult situations. In this way, efforts were made to find a tolerable way to alleviate problems caused by poverty and loneliness in the spirit of social work, using an empowering social-pedagogical approach. Yet this new form of food aid activity was led mainly by professionals, without the powerful initiative of the beneficiaries.

‘Our starting point for developing civic activities was that they should be empowering and involve doing things together. So this approach could mean, for example, that young men come here because they didn’t get that job which they wanted, but they still want to be somehow really involved in things and learn new stuff, not just lie around at home or go to the gym. It somehow seems that they come here to argue

with us. So this is pretty difficult work, it tests what you can cope with.’ (A church social worker)

When the new, communally-focused approach had been functioning for several years and information about it started to enter the wider social discussion, social sector developers discovered the use of food aid as a platform. Of course, social workers in the more pioneering municipalities had already started earlier on to work with those in the breadlines.

Up to that point, the welfare state had quietly accepted food aid: while social workers directed income support recipients towards foodbanks, albeit against the official instructions given by welfare state institutions, the state did not want to recognise foodbanks as a welfare state institution. When food aid as a platform was discovered, concerns were expressed about the underprivileged and disadvantaged people being out of reach of public services. Free food was believed to attract such people to join communal meals, then further guidance could be given to many of them to access services they had need of, such as mental health care or detoxification. In 2018, food aid actually made it into political documents. A report on inequality expressed the matter in the following way:

‘Food aid activities will be reformed so as to target those in particular need of support. The goal of the participatory-communities-based model is to reach the most vulnerable, assess their income transfers and services, and promote participation by offering opportunities for activities that maintain their ability to function.’ (Prime Minister’s Office Finland 2018, 61)

Along the way, the discourse shifted from community to participation. The word ‘participation’ provoked discussion in which it was interpreted as referring to conditional food aid, so

that no food aid would be obtained without participation in a communal meal. This was passionately opposed by the recipients of food aid and by traditional charities arranging food aid. The opposition seemed to be stronger in the political left than the political right. At the same time, state and municipal representatives denied having had aims of making food aid conditional. Instead, they stated that the aim was to both reduce the stigma associated with food aid and to make services more accessible.

When civil society groups invented new and original activities around food aid, the welfare state began to want to incorporate these activities into its permanent mode of operation. This can be seen as the original activities of a civic society being institutionalized – hijacked as part of the system – and losing their commons-like and original nature. Communal meals can be interpreted as a commons fix – a promising practice which covers up the deficiencies of the welfare state.

### **Food aid recipients taking a more active role**

The general and implicit norm is that food surplus belongs to low-income individuals and to the underprivileged. Help can be obtained from foodbanks through which, for example, severely indebted people who are trying to maintain their creditworthiness can keep hunger at bay: income allowance is not provided for these kinds of situations. The food bank thus offers material support when the bureaucracy is unable to do it.

A ‘need’ or ‘low income’ as principles for distributing resources are ambiguous categories. How does one define need or low income? Opinions on this matter are divided. One food aid recipient would exclude those who own their apartment outside of deserving food aid. Another pondered that the surrounding society is wealthier than ever before, and reasonable minimum living standards are constantly discussed. Low-income individuals should be able to afford traveling abroad or eating in restaurants, like the majority of members of the society do. Resorting to food

aid as a way of saving money is criticised, whereas others consider it to be an acceptable practice:

‘I live on a low income. By visiting the foodbanks, I can save enough so that I can go on holiday, for example. Or to a restaurant. Who says that someone on income allowance shouldn’t go on holiday or eat out? It can easily be €30 or €40 that is needed to eat in a restaurant. If you go to an alright restaurant. And so, because I have the time, I go to the breadline. There you can get the basic foodstuffs so that you only need to buy some extra stuff from the shop. And then you can do something fun with the money saved.’ (A food aid recipient)

Other conditions for receiving food aid can be observed. They may turn food aid from aid to a part of the market economy. First, some religious communities may require participation in a communal prayer. This is not, however, a stringent condition. One organisation attempted to show cultural sensitivity by excluding people in Islamic clothing from the requirement to participate in prayer, even though non-religious people were expected to participate.

Further, intoxicated people can be turned away from foodbanks. Them not being accepted is argued on moral grounds, or by appealing to safety reasons. There is fear towards the intoxicated, and they are even believed to be a concrete danger. Not everyone in breadlines agrees on this. One food aid recipient wondered that if the purpose is to distribute food to those who need it the most: why are the most needy excluded?

Surplus food has primarily alleviated income problems that are due to insufficient government support. Charities have stepped in as a partial replacement of social security. Only recently the welfare state institutions were given a stronger role than before, due to the realization that food aid could be used as a platform



for bringing the underprivileged and disadvantaged together (see Prime Minister's Office Finland 2018, 61). This was interpreted as aims at activation.

Flirtations with activation measures made by public sector actors put a whole range of other actors, particularly food aid recipients, on edge. It begins to threaten both the autonomy of low-income individuals – in this case specifically their freedom to seek food aid – and also the place of charities in the overall food distribution system.

Food aid is not primarily regulated by legislation, but instead the rules associated with it are formed through daily practices, as is normally the case with commons. Foodbanks form *ad hoc* associative relationships (see Reimer 2004) and temporary community economies. People in breadlines know each other's motives for coming there, yet they often remain strangers to each other. However, when it was proposed, that foodbanks would be replaced at least partially with communal meals, the breadline community came together to defend their unconditional and free access to surplus.

This process exploded particularly in poverty-related social media groups in the internet. People resorting to food aid managed to argue why communal meals would be a worse alternative than getting a food bag, for example to those with families or those with fear of social situations. Resorting to food aid in itself meant the diminishing of individual freedom, because poor people are not free to choose what they have for food. Communal meals would diminish freedom even more, as the poor person could no longer even choose where they feed themselves.

Soon after this, the city of Helsinki gathered views from the breadline community. The concern over abolishing foodbanks and the demand to maintain them was repeatedly observed. The message of the food aid recipients was: 'It is not inhumane to stand in line.' The report explains:

‘The observations of a social worker with over six years’ experience of breadlines, customer discussions, and the now completed customer interviews reinforce the view that the demand to abolish traditional breadlines has not been borne out of customers’ needs nor is it their will – on the contrary. The message from the people in breadlines is strong and undisputed: foodbanks need to be maintained. Certainly it is possible and there is reason to develop other ways to help as well, but there is a desire that food aid remains as is.’ (Tanska 2018, 5.)

The discussion was so heated that those suggesting communal meals changed their minds or qualified already given statements.

All in all, surplus food activated people and created a commons, though not in the way that the public sector actors would have imagined. Instead, food aid beneficiaries took for themselves the space and authority to define who surplus food belongs to. This activeness was generated by the recipients of food aid from their own interests and was awakened once other actors threatened the practices which favoured the recipients, namely the unregulated food aid.

Yet, interestingly, people in breadlines suggested rules that would generate hierarchies in presenting that families with children, pensioners, students and disabled people should have separate times for distributing food to them. When food aid recipients were asked, they had the idea that alcoholics and homeless people would benefit from communal dining. (Tanska 2018, 6, 18.)

Food aid is often regarded as necessary because the welfare state has failed to sufficiently equalise incomes (see Silvasti and Riches 2014, 196). However, this statement is no longer without its cracks. Not even all food aid recipients subscribe to that statement. One social worker gave the following reflection:

‘I don’t really believe in it. That is, it rather bothers me

sometimes that it is used more as a political drum to beat, by saying something along the lines that food aid is a sign of the deterioration of the welfare state – because there are foodbanks, and they will never disappear, and poverty itself has become something permanent. Okay, that is probably part of it, but I don't really believe it. Even if the basic level of support was raised, then where does the line go? So that no one would need to go to the breadline or food bank. Because if we assume, as is now the case, that it's pretty uncontrolled, then anyone can go there, and I myself believe that people would then continue to go there.' (A social worker)

As long as there is surplus inherent in a market economy, it will be distributed, one way or another. In the following section we show that in addition to retailers, charities, welfare state institutions, and food aid beneficiaries, surplus food has activated citizens that are not dependent on food aid, and who by using all means necessary want to get rid of the stigma associated with receiving food surplus.

### **Food surplus activists as entrants in the field of surplus food**

The more groups operate in the area of surplus food as a commons, each with their own starting points, the more complicated the practices become. The latest entrants into this arena have been climate activists, who have set themselves the objective of breaking up the traditional alliances of charities and markets.

In 2017, a group of individual citizens established a so-called community fridge with the motive of using surplus food to mitigate climate change by increasing appreciation for food and changing consumption habits. The fridge is like a community member that gathers people around it, like an activist described the idea of the community fridge. The group of activists have agreements to collect surplus food from their collaborators on a regular basis. Food from the fridge is open to anyone who is

willing to take and eat. Volunteers take care of cleaning the fridge regularly.

These newcomer actors – commoners in the sense that they aim to create spaces and activities beyond capitalism – refuse to talk about food aid. Instead, they prefer to talk about ‘inclusive food’, which is what they would like surplus food to be. Through this conceptual choice, they hope to influence the unwritten vernacular rules according to which surplus exclusively belongs to the poor. Inclusive surplus food, in turn, would not involve any indication of status, nor would it be socially stigmatising. The founder of the communal fridge describes it as follows:

‘Food aid speaks so strongly of social inequality – it is profiled as something which is done for the poor. For the less-well-off. And that’s why we want to be open to everyone, because here the point is that if we profile this...that’s why we also want to show that this isn’t some dingy cupboard in a corner somewhere but something that looks clean and tidy. Precisely so that others, that everyone would dare to come along and that it wouldn’t be something scary. Because if we talk about dumpster diving for example, then that is something which is really scary to the average person. Eating food from a rubbish bin? Hell no.’ (A surplus food activist)

New commoners have introduced a new agenda of negotiating, for whom surplus belongs to. They also emphasize the communal fridge as an actor in itself, bringing together residents in a particular area and connecting them with each other. Activists told that the surplus fridge binds together different social relationships, forming a common goal which people from different cultures and value systems commit to.

Behind the agenda of inclusive food is the idea that, from the climate perspective, waste food should not be considered as any less a valuable form of food. The community fridge organisers

explicate that managing surplus food cannot be simply left as the responsibility of low-income individuals and food aid. Making food surplus initiatives inclusive would involve different kinds of people, increase awareness about surplus food and climate change in a positive way, would make unsustainable consumption habits visible, and create a sense of togetherness.

‘It would be great if high income earners would also get involved, people that have jobs. And then that social label, that unpleasant stigma attached to these activities would disappear altogether.’ (An inclusive food activist)

However, the emergence of these new commoners, who emphasize inclusive surplus food, has caused confusion. Both the recipients and providers of food aid are afraid that surplus food will run out and not be available for poor people any more. Food surplus activists deny these kinds of accusations, and emphasize that they are primarily aiming at raising the value of food, irrespective of the person who uses it:

‘Is one person’s mouth better than another’s? What I mean is, who do we consider to be better? Because we are perhaps so fixated on that idea. We want to raise the value of food. We don’t want our shelves to just get filled up with some empty cardboard boxes that look untidy. When it looks clean and tidy, then the fears associated with surplus food decrease.’ (A surplus food activist)

There are signals that raising the value of food surplus seems to work as expected. For instance, some low-income individuals have embraced an eco-friendly identity, even if this actually was a *de facto* situation rather than a freedom of choice on their part. Commons and being a commoner may mitigate the social and psychic burden resulting from financial scarcity. This kind of

‘involuntary eco-friendly behaviour’ – which includes making use of second-hand clothing and surplus food – provides an opportunity to shift from the underprivileged margin into the sphere of recognized citizens.

### **Conclusions**

Various actors are involved in defining the practices around food surplus as a commons and negotiating the rule of using it and the role of the different users. These actors include retailers, food aid recipients, the civil society, churches, charity organisations, the public sector actors, and climate activists.

The transformation of a good or service that is produced within a market economy into a common, brings with it challenges that need to be addressed. Food surplus, albeit unsalable in some circumstances, has use value. Charity has hijacked surplus for a good cause, when handing out food to the poor. Charity organisations are controlling both a tangible asset (the food) and an intangible asset (the right to distribute it). They are also given a monopolistic or rather restrictive trade practice by the state. This is in the case of Finland as the Churches are largely given this privilege and private people are not. Charity rarely is altruistic. Together with retailers, it creates a social node through which they both can build a brand that symbiotically benefits them both. For poor people, in turn, surplus food is a commons governed by charities. It increases one’s individual well-being when the market economy and the welfare state fail to provide it. Even though foodbanks do not create a permanent community economy, they nevertheless create temporary economies, spaces for exchanging peer support, knowledge and tips. In this way, they function as a communal platform. Surplus is also more and more utilised as a resource for increasing climate awareness, as food surplus activists make visible the unsustainability of consumerism and overproduction. Tensions arise when these kinds of movements threaten the position of others.

The first chapter of this book presented three alternative attitudes a welfare state can take towards community economies. We can apply these alternatives – inaction, direct assistance and institutional learning, and creating enabling background conditions – to surplus as a commons.

It is evident that if there is a desire to secure the principles of the Nordic welfare state, pure inaction is out of the question, as the market threatens the principles of the Nordic welfare state. As a consequence of indifference, an increased emphasis on individual responsibility and the break-up of state-commons can be expected.

However, the welfare state institutions can learn from civil society actors. The Finnish welfare state has already learned how to utilise surplus food as an incentive that brings together people who are in a vulnerable position. It is acknowledged that charity organisations and civil society movements operate at the grassroot level, which makes them more capable of reaching people with difficulties. In this sense, surplus food serves as ‘a complementary welfare service’ at the intersections of civil society, charity and the public sector. However, the alliance of the welfare state, market economy and charity appears to be complicated. It may accelerate the processes deteriorating the universalistic basis of the welfare state. What would be compatible with the universalistic ethos of the Nordic welfare state is that economic activity having to do with all sorts of surplus would build community economies, where people regardless of social class would join and generate social value. Food surplus as a commons has the potential to transform from poverty-targeted foodbanks into more permanent community economies and commoning. This way food surplus as a commons may work as a platform for community democracy development and have an empowering function. Participating in managing the commons – e.g. through deliberative negotiations about who is included or excluded from surplus food as a resource – may direct agency towards activities with aims to change the state of affairs.

Although Finnish welfare state institutions and climate activists have not yet come closely together as actors, they would have opportunities to create a sort of ‘commons fix’ that benefits all people. If it were to become more widespread, community activities around surplus food is a mode of operation that has the potential to challenge the unsustainable market economy. There are traits attached to the activity of food surplus and climate change that indicate the possibilities for emerging community economies where new social values, such as the sense of meaningfulness and worth, are created in collaboration with local residents. Food aid indeed makes the everyday life of people of low income easier, but in addition to this, in some circumstances it seems to attract activity that unites people of different socio-economic groups locally. Instead of using food surplus only as a means of guiding the underprivileged to services that they are paternalistically evaluated to be in need of, the welfare institutions could create enabling conditions for local cohesion to develop through community economies too.

When it comes to surplus as a commons, a strict division, which separates the welfare state as the public arena, the market and charity as the private arena and the civil society somewhere in between as the third sector, is not necessarily sound. This type of strict division would easily lead to antiquated ways to examine the surplus, for instance, as either waste or food aid. If the climate issue that is a shared problem across the world is not taken into consideration, no new views for solutions are opened. Surplus food is very much a common issue, where its control and negotiations having to do with controlling it belong to all. In other words, surplus food is a commons within the common – and it may be a force that arranges being and acting locally, nationally and globally. It may play a role as a challenger that forces the welfare state and the market economy to reform.

Once having emerged, no one can know for sure the role that the commons will end up taking – whether they will become



servants of the dominant economic system or band aids to patch up the deficiencies of the welfare state (see De Angelis 2013). They can become something used for unduly maintaining the triad of the welfare state, charities, and capitalism. They can form a symbiotic relationship with some or all of these three. Or they can form a system that acts as an agent of change.

# 6

## Self-organised online ridesharing as a 'transport commons'

*Juhana Venäläinen*

During the last five years, Facebook-based ridesharing has gained popularity as a way of coordinating shared car trips from one city to another. Amid the widespread hype and political expectations around 'the sharing economy' (e.g. Sundararajan 2016; John 2017) and 'the platform economy' (e.g. Parker et al. 2016), this model of shared mobility stands out as strikingly homespun. While commercial services such as Uber are slowly gaining ground as an alternative for short-distance trips, there are few commercial services to date in Finland for individuals wishing to share a car for a longer journey. Thus, the self-made alternative that utilises Facebook as a noticeboard poses an attractive alternative for passengers seeking the cheapest way of getting around within the country, or for drivers seeking persons to split their fuel costs. On top of the economic benefits, ridesharing offers the possibility to meet interesting people, have someone to chat with, and to promote ecological values.

Ridesharing has also become topical because of the rising awareness of the drastic changes needed to tackle climate change in the transport sector in wealthy welfare states. In governmental

reports, ridesharing is mentioned as an example of the emerging ‘sustainable travel services’ that are expected to provide alternatives to owning and driving a private car (e.g. MoTC 2018b). In this respect, the case for self-organised ridesharing is interesting not only because of its current and potential role in the travel system, but also as a broader *cultural form* that enacts ideas about reconfiguring the relation between individually and collectively oriented mobility practices. While being a more social way of travel than driving alone, ridesharing bears an ethos of individualism and self-reliance, which sets it far apart from the ‘traditional’ modes of public transportation.

In this chapter, I will analyse whether, in which sense, under what conditions and to what extent the formation of self-organised ridesharing could be understood as a *transport commons* that challenges and transforms the former role of the welfare state in coordinating and overseeing public transport. I understand the transport commons not as a mere pool of ‘resources’, but an assemblage of social practices, common objectives, culturally shared values and material constituents required for pursuing a particular task: in this case, the task of getting from one place to another. As David Bollier (2011) writes, ‘a commons arises whenever a given community decides that it wishes to manage a resource in a collective manner, with a special regard for equitable access, use and sustainability’. While online self-organised ridesharing, in some senses, is a very illustrative example of a commons, it also has characteristics that do not easily fit into Bollier’s definition and could even lead to questioning whether it makes sense to use the term or not. For example: Is there a ‘community’ that has intentionally ‘decided’ something? Or, how ‘collective’ or ‘collectively managed’ are the privately-owned cars used in the practice? And, last but not least, how important are ‘equitable access’ or ‘sustainability’ as values motivating the practice?

Commons-based peer production (Benkler 2006; Papadimitropoulos 2018) has been proposed as a way to transcend

the dichotomy between the market and the state in providing essential services (e.g. Bollier and Helfrich 2013). Building upon the overarching topic of this volume, here I examine how the model of self-organised ridesharing systemically relates to the roles of the state and commercial entities in providing transport options. In the analysis, I will highlight the conditions, potentials and tensions of ridesharing vis-à-vis the responsibilities of the welfare state in providing a sort of ‘backstop’ of mobility services that ought to be equally accessible to everyone throughout the country. I will also debate the ambivalent ecological implications of ridesharing. The analysis is informed by ongoing research on the Finnish ridesharing system as an ‘interface’ to the debates about the sharing economy and its political connotations. The research utilises both qualitative and quantitative data, including statistical data about the ridesharing groups, individual conversation threads, and an online survey.<sup>17</sup>

### **The emergence of self-organised ridesharing in Finland**

Ridesharing is a phenomenon with multiple social and cultural histories. From the perspective of transport alone, it is a contemporary variation of the age-old practice of travelling together. A different view is that ridesharing in its current online-mediated form is a relatively recent and a qualitatively distinct phenomenon that was only rendered possible after the breakthrough of digital technology, global communications networks, social media, and the online peer-to-peer marketplaces as a socio-cultural form.

In the course of history, different political contexts as well as different technological innovations have given shape to ridesharing (Chan and Shaheen 2012). Even in a particular moment, there are myriad reasons and forms of the practice. For example, taking

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17 The research was carried out as part of the project ‘Rights, excludability and the social production of value in the models of the new economy’, funded by the Kone Foundation 2016–2018.

a neighbour's kid to a hobby is a common type of *informal ridesharing*. Commuting rideshares, for their part, are typically based on continuous, contractual arrangements. The subset of ridesharing analysed in this chapter is slightly different: the trips are occasional, and the most common purpose is to visit a friend or a relative who lives in another city.

In Finland, the history of online ridesharing dates back to the early 2000s, when the first website for ridesharing was established by an individual who wanted to find people to share driving expenses (Helsingin Uutiset 2010). Two decades later, Facebook has become the leading platform for organising long-distance peer-to-peer ridesharing in Finland, with about 160 independent ridesharing groups and an estimated total member count around 100,000 (ca. 2% of the Finnish population).<sup>18</sup> The reason for the popularity of Facebook as a noticeboard for ridesharing is obvious: with the massive user base and the fact that many people have learned to organise various aspects of their social lives through social media, it is much easier to find one's way to ridesharing there rather than by browsing on a separate website.

An essential contextual factor for understanding long-distance ridesharing in Finland is that the distances between major cities in Finland are rather long. For example, the distance between Oulu (the fifth largest city) and Helsinki (the capital) is about 600 kilometres, which means an approximately seven-hour drive. Journeys of this scale, with the associated fuel costs, offer a tempting

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18 The cumulative member count for all the groups analysed was 250,000, but clearly, there is a substantial overlap between the groups, i.e. that one person belonging to more than one group. In the survey conducted, respondents reported being a member of 2.5 groups on average. Thus, using this figure would lead to the estimate of 100,000 unique members, but as the survey was self-selected, it is likely that the survey sample represents the more-than-averagely active users who would also belong to more groups than an average user. Another point to consider is that only a relatively small part of the membership is active in the sense of posting ride announcements. In a sample of 7,281 posts analysed from a medium-large group, only 26% of the members had posted something within the last year.

incentive to split travel costs through ridesharing. Typically, a ridentaker pays a small fee, from 5 to 20 euros. While not a pure gift, the arrangement is still a win-win situation: the passenger gets an affordable ride, and the driver gets an opportunity to reduce their driving expenses.

Whereas the main routes like Helsinki–Oulu are also well served by trains, buses and flights, ridesharing serves a slightly different purpose in routes where public transport options are limited – for example in the ‘transverse’ itineraries from eastern to western parts of the country, or the routes in the sparsely populated areas in northern Finland. There, the role of ridesharing is not so much to compete on price but to offer a complementary travel option to driving one’s own car for the ones who do not have a car, and for routes where there are few public transport options available.

Globally, the ‘secondary market’ (Benkler 2004) of ridesharing has invited so-called sharing economy businesses to create commercial platforms to facilitate the exchange. Mobile app based BlaBlaCar, for example, operates in 22 countries and has more than 35 million members, and has turned ridesharing into a ‘multi-million-euro business’, charging a service fee between 10–34% of the price of the ride (Cowan 2015). So far, BlaBlaCar or other major ridesharing services have not begun to operate in Finland, which has left room for the self-organised alternatives.

In contrast to commercial ridesharing services, the Facebook-based ridesharing groups have been established and are maintained by voluntary moderators who do not seek financial gain. A ridesharing group for a particular route or area is born when someone feels the urge for such a forum to exist and is motivated enough to establish one. Those groups that reach the critical mass to become a feasible noticeboard grow into much more than the personal projects of their establishers: they become institutions and *de facto* monopolies for coordinating the rides for a specific geographical location.

The spontaneously born quality of the groups is reflected in their

geographically dispersed structure. Although there is also a relatively large nation-wide ridesharing group (ca. 50,000 members), it is often more convenient and effective to post an announcement to a local group instead. This dispersed group structure contributes to the organisational resilience of the system: even if one group closed down, this would not threaten the ridesharing system as a whole, as there would be an opportunity for another group to occupy its role.

### **Ridesharing as a commons?**

When the ridesharing groups are conceived as a whole, they can be depicted as a system where the individual and relatively autonomous groups together constitute a whole ‘transport commons’. A *commons system* is a social arrangement where resources (here, the car seats) are pooled and redistributed in a self-organising process. Analytically, the notion of a commons system brings together material assets (cars, roads, means of communication), people (the ones offering rides and the ones looking for them) and the particular practices of *commoning* ‘through which commonwealth and the community of commoners are (re)produced together with the (re)production of stuff, social relations, affects, decisions, cultures’ (De Angelis 2017, 119).

There are, however, several aspects which quite fundamentally question the status of ridesharing as a form of ‘commoning’. First of all, if commons are understood in terms of *decommodification*, it is disturbing to observe how prominent a role money plays in the practice: for a large majority of the rides, at least something is expected to be paid; and for a large majority of the people involved, paying for a ride is self-evident.<sup>19</sup> The idea of paying for

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19 In the survey data, only 8% reported that they did not pay anything for the last ride; 42% paid 10 euros (n=271). When asking explicitly about the understandings of a just price, only 8% selected the option ridesharing is about helping others out – money is secondary, whereas the 92% chose options suggesting that at least something should be paid for a ride (n=370).

a journey is not surprising if ridesharing is compared to taking a bus or a train, but if it is compared to hitch-hiking or other more informal types of shared mobility, it might actually appear as commodifying the conventions of mutual aid rather than enlarging the non-commodified space.

Secondly, the deep reliance on a commercial platform – Facebook – makes ridesharing vulnerable in many ways. It is uncertain whether the platform will retain its popularity and whether it will have similar functions in the future to support self-organised exchange. On the other hand, depending on a platform whose profit logic is based on capitalizing social exchange through targeted advertising (Fuchs 2012) does not fit easily to the notion of building collective practices outside of the capitalist market.

Thirdly, the communal aspect of ridesharing – the *sense of community*, but also the concrete social practices related to commoning – is somewhat thin and tends to be a form of a dyadic, contractual relationship between the ‘buyer’ and the ‘seller’. This is reflected, for example, in the widespread understanding that negotiating a fair price for a ride is a ‘private affair’ between the two counterparts,<sup>20</sup> and also in the explicit and implicit codes of conduct in the groups that strongly discourage any ‘political’ debates about pricing. Evidently, also the fact that the ridesharing system is completely dependent on *private* cars owned and managed by *individuals* renders it dubious from the perspectives of equity and inclusiveness, as there are no effective means for the ‘community’ to collectively decide about the use of resources.

Fourthly, the conditions of reproduction and resilience of this system are precarious and devoid of planned safeguarding mechanisms. To be sure, the dispersed group structure is an advantage from the viewpoint of resilience, but still, the system

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20 ‘What is your opinion about these arguments related to the price of a shared ride: Negotiating about the price is a private affair between the ridegiver and the ridetaker: 58% completely agree, 31% somewhat agree.’



as a whole could be easily disrupted by even a minor change in the terms and conditions of the platform or the regulative environment, not to mention the possibility of a commercial ridesharing operator conquering the field. The lack of common commitment or a well-articulated common objective – which in a way is a natural consequence of the much underlined ‘practical’ and individualistic character of the practice – leaves the system vulnerable to various kinds of internal and external perturbations. Further, from the perspective of ecological reproduction, the strong reliance on private cars, mostly fossil fuel-powered, is a short-sighted solution, as tackling climate change would require a rapid transition towards net emissions-free traffic modes.

In the discussions about the commons, there is sometimes a tendency to idealise their self-governance and, vice-versa, to downplay the ways in which they depend on and interact with the ‘non-common’ social systems (see Lund and Venäläinen 2016). The commons of ridesharing, while being spontaneously born, self-organised and self-managed, are far from being completely *autonomous*. Rather, they rely in manifold ways on the resources of the state, market, and household actors (Figure 1). However, ridesharing can still challenge the formal transport system, or at least the ways how we *think* about transport, by introducing an alternative organisational logic and incubating alternative notions of ‘value’ (see Chapter 2).

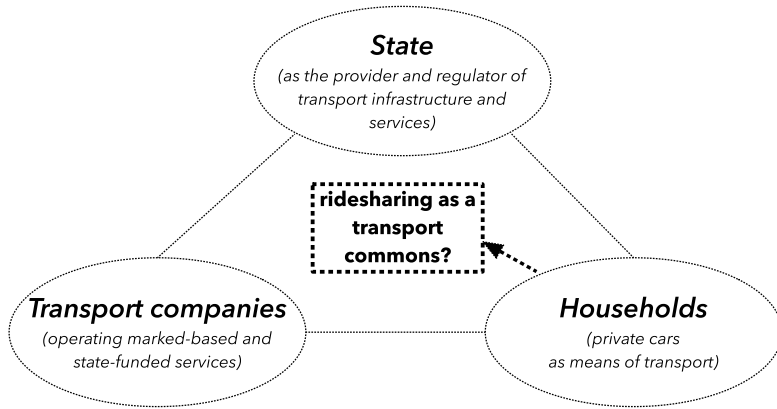


Figure 1. The operating space for ridesharing as a commons.

## The tendency of commodification

‘After begging, hitching is the most elementary point of contact between those who have and those who have not. It is a basic exchange between need and ability to provide.’ (Perkins 2016)

In a column for *The Guardian*, journalist Anne Perkins laments the decline of hitch-hiking as a ‘modern tragedy’. Hitching depended, she writes, ‘on a sense of solidarity, and the sense of trust and mutuality’, but also on serendipity, ‘the happy accident of the unexpected place or person’, which in the current form of ridesharing has been reduced into dull predictability. (Perkins 2016.) These affective encounters – the ‘happy accidents’, unexpectedness, and the senses of togetherness – at least partly explain why hitch-hiking once was popular even in a welfare state like Finland. In hitch-hiking, there is an ‘excess of exchange’

(Eskelinen and Venäläinen forthcoming) that goes far beyond the bare calculative rationality of measuring euros against the distance travelled.

Hitch-hiking and ridesharing bear some interesting similarities and differences. Exactly like hitching, ridesharing fosters non-market practices for fulfilling elementary mobility needs but – in contrast to some other forms of community economies – mostly without an explicit ethical or political agenda. Instead, sharing is motivated and explicated by the notion that it is simply ‘reasonable’ to harness the surplus capacity of cars. This sort of ‘reasonableness’, which seems to counterpoint the spontaneous and unpredictable character of hitching, may be seen as a step towards the commodification of mutual aid into ‘services’ that need to be compensated by paying the price.

While the informal ridesharing practices such as hitch-hiking, travelling with a family member or taking a neighbour’s kid to football training are typically based on the logic of a unilateral gift (see Mikołajewska-Zajac 2016), ridesharing and even its self-organised subtype leans heavily towards the logic of the market: selling and buying, asking for a price, negotiating about the price, and finally making a monetary transaction or withdrawing from it. What this kind of commodification implies is that a person who is not able or willing to pay the price would be excluded from this commons.

Anthropologist David Graeber (2014) argues that even the notion of the gift conceals three ‘fundamentally different moral logics’ or ‘categories of economic transaction’ that can be found in every society, including the one in a welfare state: hierarchy, communism, and exchange. These logics operate closely together, and even in a single occasion of economic reasoning, people might resort to multiple (and potentially conflicting) combinations.

Hierarchy and communism are both based on the notion of giving a gift without expecting anything specific in return. The difference between the two is that hierarchy, such as a charity

donation, assumes and establishes an unequal and asymmetric relation between those helping and those receiving help. In contrast, communism subscribes to a strong understanding of mutuality: a sort of permanent ‘indebtedness’ of everyone to everyone.

The logic of exchange differs from hierarchy and communism in its pertinent strive for commensurability and equivalence. Within the logic of exchange, a gift should be always counterbalanced by an equally valuable counter-gift now or later. Consequently, there can be no real gifts, since they only appear as transitory moments in the endless cycle of credit and debit.

Graeber’s analysis shows that the introduction of money as such does not determine how ‘commercial’ or ‘non-commercial’ a practice is. Giving money to someone implies different things in different contexts: not all economic forms involving money are commodified, nor do all commodified activities involve the use of currency as a medium. Thus, it is important to examine how the economic activity is discursively framed both in the self-understandings of the participants and in the socio-technical structures and cultural forms sustaining the cooperation, but also how the price as a barrier of entry to the service includes some persons and excludes others from using the commons.

Yochai Benkler (2004) notes that ‘social systems of sharing’ are categorically different from ‘secondary markets’. While secondary markets rely mostly on the price mechanism in redistributing the surplus capacity of a system, sharing systems are more deeply intertwined with the ‘tacit, learned, and culturally reproduced capacities to read and interpret social settings’ (ibid., 304). In commons-based sharing, price may play some role, but it typically is not a factor that dominates the practices of exchange or determines the access to resources. Ridesharing, in the context of this dichotomy, has properties from both worlds: it is not *only* an ordinary marketplace, as the conceptions of about the role of money are more varying and complex than in an ordinary market

transaction, but it is *also* an ordinary marketplace, and ever more often so, which is exemplified by that fact that many groups today allow selling and buying train and bus tickets as well as organising shared rides, thus positing ridesharing as a just another marketised travel mode among others.

### **A commons system or a ‘commons fix’?**

Ridesharing, as well as any other form of commoning in a welfare state context, is at a continuous risk of becoming a commons fix: a source of ideological justification for the privatisation of public services. Throughout Europe, public services that were once established as part of the welfare state regime are first being pushed into the logic of new public management, and then gradually privatised or semi-privatised (see Introduction). This transformation comes along with a discourse that stresses factors such as ‘diversity of producers’ and the role of the third sector.

The discourse of ‘freedom of choice’ has populated the political spectrum in many sectors from health care to family policy. The implicit criticism embedded in this discourse is that in providing public services, the welfare state has been too paternalistic and rigid, imposing a top-down view on what its citizens need instead of actually listening to their varied wishes. The concrete conclusion for implementing this ‘freedom of choice’ is then to increase the role of businesses and other private entities in service provision by outsourcing tasks and opening markets. This process of ‘diversifying’ service production might entail quite different outcomes in different regions. In the context of transport, those living in bigger cities and densely populated areas already have more ‘freedom of choice’ between the different ways to travel, whereas the ones living in more sparsely populated areas tend to feel that they have no choice to having and driving a car.

Examining ridesharing in the context of a welfare state might easily bring about a tacit assumption that the role of ridesharing in relation to the state and market would be uniform throughout

the country. However, both the survey data and the quantitative analysis of the group structure lead to a conclusion that from a functional perspective, there is not a single system of online ridesharing in Finland, but actually two slightly different constellations that reflect the different economic-geographical circumstances in different parts of the country (see Figure 2). Roughly put, the ridesharing groups in the sparsely populated areas of eastern and northern Finland seem to be born out of a very practical necessity – as a way of *getting around* and *getting by* in the first place –, whereas the groups serving the southern routes are more directly competing with the existing public transport options.

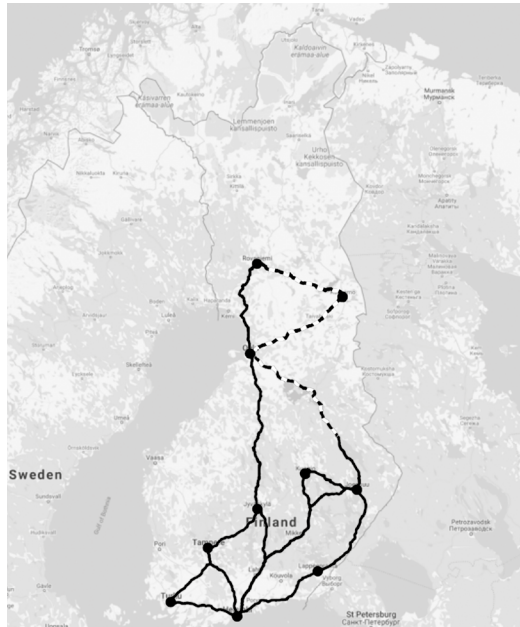


Figure 2. Estimate of the ten most popular ridesharing routes based on the groups' member counts. Dashed line routes are scarcely served by public transport. Base map: Google Maps.

In northern and eastern Finland, the distances between major cities are typically in the range of hundreds of kilometres. While there typically are a couple of bus connections per day between most cities, the offerings can be quite limited, lengthy in terms of travel time, and even relatively expensive in comparison to driving a car. These circumstances have been fruitful for the emergence of ridesharing groups: of the 20 largest ridesharing groups, 7 are situated in these sparsely inhabited regions.

In the more densely populated southern Finland, many of the popular ridesharing groups target the same high-traffic main routes that are also operated by bus companies, some routes also having frequent train connections. In those situations, the function of ridesharing is very different in comparison to the northern/eastern context: it might either push down the price even further than the low-cost bus lines, or it might partly attract people who prefer the experience of ridesharing in comparison to riding a bus.

Neither of the constellations gives the impression of ridesharing functioning solely as a 'commons fix' that would justify the under-supply of public transport or legitimise the withdrawal of the welfare state from safeguarding essential mobility services. In the northern/eastern context, a flexible transport system such as ridesharing may actually be a relatively efficient and convenient solution in comparison to the scarce supply and fixed schedules of the public transport options, whereas in the south the flows of traffic are so high that it is unlikely for a distributed practice like ridesharing to actually compete with the public transport to any significant extent. However, between the two polarities there is a large area of borderline cases: for example, routes and places where a functional public transport would be realistic to provide but lacks operators, funding, and political support, and also routes where the public transport options are already reasonably good, yet where sharing a car is still *conceived* to be more affordable, convenient or otherwise desirable than travelling by bus or a train.

The systemic risk of commons-based ridesharing compensating

for insufficient public transport infrastructure is problematic not only in terms of regional policy but also in terms of constitutional rights. The ‘right to choose one’s place of residence’ as defined in the Finnish constitution is not only a negative right (i.e., that the government should not restrict a person’s choice of place of residence) but also implies that public authorities should ‘implement positive measures through which the choice actually becomes possible’ (Government proposal to the Parliament on the amend the Fundamental Rights Regulation of the Constitution, HE 309/1993 vp., 51, translated here).

The constitutional rights’ perspective exemplifies the stark contrast between the logic of public service provision and the one of peer-to-peer provision: in the latter, there is no way to require nor a reason to expect any specific service form to prosper, as the arrangement is based on spontaneous voluntarily cooperation, the longevity of which rests on multiple precarious factors: the personal motivation of the providers, the social dynamics of the sharing community, the conditions imposed by the platform(s), along with other technological necessities, the regulative framework imposed by the governmental, transnational and local actors, etc. A service functioning well today can break down tomorrow, or gradually decline without anyone taking responsibility for the change of course.

In addition to doubts over longevity, another aspect that sets the public services apart from peer provision is their universalism: the premise of offering a service to everyone entitled to it. Public service provision is based on the requirement to serve all customers, so no discrimination between difficult and easy customers can be made, whereas the peer-to-peer model exemplified by ridesharing relies on the ability of the counterparts to reach an agreement, as well as having an adequate social ranking and reputation within the platform (see Hearn 2010). It is indeed a strange paradox that the peer economies are so often portrayed as embracing ‘communal values’, while in fact they may promote



an extremely individualistic and excluding political ontology: a survival of the fittest (or popular) where the different forms of structural discrimination are being swept under the rug of 'personal preference'. This stems from the notion that sharing a personal space – such as one's car – still leaves all control to its owner rather than the ones who participate in other roles. Even if the person seeking a ride is excluded for racial or socioeconomic discrimination, there is no way to appeal against it.

### **The ecological implications of carsharing**

From the perspective of resource use, private car traffic is a hugely wasteful system. In Finland, the average rate of occupancy in cars is 1.7 persons, which means that only one-third of the registered seating capacity (5.1 seats per car on average) is utilised (National Travel Survey 2012; Trafi 2017). This equation sets the theoretical upper limit to how much the carbon footprint of private car traffic could be decreased by sharing: if the same amount of passengers would be transported with one third of the number of cars, as is technically possible, the greenhouse gas emissions from private car traffic would decrease from 5.9 million tons to under 2.0 million CO<sup>2</sup>-eqv tons, a reduction of about 7% in Finland's annual greenhouse gas emissions (based on LIPASTO 2018 and Statistics Finland 2018a; calculated from 2017 figures).

Having all cars full of passengers is obviously impossible, but even a slight increase in the occupancy rate would have a notable impact on the national carbon footprint. According to the survey conducted by the author in Finnish ridesharing groups, the average distance of a ridesharing trip was 290 km, and the occupancy rate 3.1 persons per car. These figures suffice to show that ridesharing as a mobility practice could have a significant impact on reducing the overall carbon spend of the transport sector: it could supplement the decarbonisation of transport in reducing overall CO<sup>2</sup> emissions, if it would be upscaled to broaden the user base. This potential is tacitly expressed in a report from

the Ministry of Communications and Transport that describes MaaS (Mobility as a Service), including ‘shared trips’, as one of the three possible pathways to a carbon-free transport system for Finland by 2045 (the other two being the use of biofuels and the shift to ‘alternative driving power’ such as electricity and biogas) (MoTC 2018a). However, the report also notes uncertainty over the extent, to which the novel mobility solutions will decrease car traffic, and the extent that they will compete with public transport (ibid., 43). This reservation is very important in the context of ridesharing. In effect, only 11% of the respondents in the ridesharing survey conducted for this study reported driving a car as the alternative option for their last trip if they would not have found a shared ride – whereas 52% would have taken the bus and 30% the train. A large majority of ridesharing today does not seem to substitute car driving, but rather it substitutes the (potential) use of ecologically more efficient modes of public transport. Thus, the overall ecological impacts of ridesharing are ambivalent: while ridesharing evidently increases the eco-efficiency of a single ride, it might also have contrary effects at the level of the transport *system* if it decreases the demand for public transport and increases private car traffic.

Despite the public image of ridesharing as an especially environmentally conscious form of travel, ecological motivations were not very pronounced in the survey data. In the survey, only 24% of those who had offered rides considered *environmental friendliness* as ‘very significant’ or ‘moderately significant’ factor in their decision to offer a shared ride. The share was higher amongst those who had participated in ridesharing as a passenger, yet far behind the more ‘practical’ motivational factors (*low price* 88%, *flexible schedules* 73%, *shorter travel time* 56%, *lack of public transport* 56%). The same pattern can be seen in the description texts of the ridesharing groups, of which only one in seven mentions environmental motivations, usually combining them with the economic ones: *Let’s travel together – saving money and*

*nature!*' (For similar results, see Hamari et al. 2015.)

The attitudes of the people involved in ridesharing do not determine the environmental footprint of the practice, but the ideas and opinions of the ridesharers can still be considered as proxies in trying to understand the dynamics of how the travel mode is chosen. If the price of travel is at least *somewhat* important for more than 95% of the ridesharers, as suggested by the survey, then the popularity of ridesharing is extremely dependent on factors external to the ridesharing community: namely, the price of the alternative transport options and the participants' ability to pay for them. Some respondents of the survey mentioned that the increased supply of affordable bus tickets (and to a lesser extent, train tickets) had decreased the use of ridesharing, either in their own choices or in their observations more generally.

In debates about the sharing economy, it has occasionally been argued that services like Uber are sabotaging or at least disrupting the public transport system by outcompeting it with a less eco-friendly alternative (Light and Miskelly 2015; Lindsay 2017). With the current level of competition in the low-cost coach supply for the high-volume routes in Finland, this trajectory is mostly hypothetical. What is more contestable is the medium-term ecological impact of ridesharing in areas where 'there is no alternative' to owning a car: would a too strong ridesharing arrangement signal that developing public transport is not needed, as people can already cope with sharing their cars? Or would a government-issued financial incentive to promote ridesharing encourage people to shift from buses to cars rather than from solo rides to shared rides? From the perspective of a sustainable and climate-conscious welfare state, it is crucial to thoroughly assess this kind of environmental dilemma, related to alternative economic practices, and take them properly into account when devising strategies of regulation.

The insights from the ridesharing practices are useful in putting into context the prospects as to how large an extent technological

change, especially the development of autonomous vehicles, help to tackle climate change. It is too often taken for granted that the domain of mobility-as-a-service will automatically decrease the environmental footprint of driving because it becomes *technically* easier to share cars, borrow them for short periods and to combine them with other modes of transport. However, these technical possibilities alone, without well-targeted incentives and regulation, do not have a strong influence on travel preferences. With the automation of car traffic, we might actually see a growing number of cars driving a growing number of kilometres: Trommer et al. (2016) estimate that the introduction of autonomous vehicles will result in a 3–9% increase in vehicle-kilometres travelled by 2035.

### **Decommodifying public transport**

Self-organised online ridesharing can be seen as a form of peer production that challenges the traditional public transport services typical in developed welfare states as well as the more commercially oriented platforms of sharing. For ridesharing to function as a transport commons that would help to decommodify the domain of public transport, three major caveats have to be addressed. Firstly, there is a risk of ‘commodification from within’, it is, the users gradually assuming more and more instrumental values regarding the meanings of ridesharing, it thereby becoming just another (niche) product in the transport market. Secondly, there is the risk of ridesharing functioning as a ‘commons fix’ to legitimate the deterioration of state-supported mass public transport solutions that would be more equitable and environmentally-friendly than sharing a private car. Thirdly, the relevance of ridesharing as a commons system is radically limited by the ways through which it depends on ‘non-common’ systems (such as private cars and a corporate platform). These three aspects will be discussed in the following section.

The ubiquitous and largely unquestioned role of money in ridesharing gives an impression that even without the pressure

from commercial ridesharing platforms, the model of ridesharing is already relatively commodified. The social context of operating in ‘buying and selling groups’<sup>21</sup> creates a tacit expectation that a ride not only *may* have a price but also *should* have a price. A free ride might raise doubts in any case – like a free lunch –, but with the user interface now explicitly querying for the price tag, the user is strongly encouraged to ask for at least a few euros. Certainly, promoting a critical discourse of ‘surplus resources’ (such as underutilised car seats) and creating marketplaces for trading those is preferable from the perspective of resource efficiency. But while the practices of commoning might often be resource efficient, *all ‘resource efficiency’ is not commoning*, but even on the contrary. As commoning attempts to find ways out from the hegemonies of market valuation *and* state control, the process of creating markets for previously non-commodified things under the rubric of being ‘smart’ or ‘resource-wise’ could be even seen as enclosing the commons – limiting the access to the previously uncommodified surplus (as it still was understood in the golden era of hitch-hiking, i.e. 1960s and 1970s, see Stewart 2011). The institutionalisation of ridesharing as a ‘service’, however peer-produced it be, renders the practice more permeable by the conventional market logics and downplays its potential as an alternative to market-based valuation or the universalistic ethos of the welfare state. Already accepting money as an unproblematic medium to organise social relations implies that the current ‘commons’ or ‘semicommons’ of ridesharing would be difficult to defend against deepening commodification if a commercial platform with reasonable pricing and convenient user interface would enter the field.

In relation to the state-level transport politics, self-organised ridesharing poses an alternative and a challenge to established

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21 In 2015, Facebook introduced a ‘buy and sell group’ feature that allows structured data such as the price asked for a product to be written in a separate field (to be presented to the user in a different colour) for group posts. Many, if not most, of the ridesharing groups adopted this new feature almost immediately.

forms of transport, and especially to public transport. It operates in the grey area and at a blind spot of the state bureaucracy, where the transactions are small enough not to arouse interest among the tax officials (cf. the case of timebanks in Chapter 2). While highlighting the potential of ridesharing, it is also crucial to pay attention to the systemic limits in the peer provision of transport services: what they can do and what they should do, but also on what they cannot do and what functions they should not take. If we take seriously the idea that ridesharing could be ‘scaled up’ (Utting 2015) into a significant mode of travel in some routes, there is a risk that it would render the situation of mass public transport even more difficult and contribute to a vicious circle (fewer passengers, decreasing profitability, decreasing service level, fewer passengers...). In the current scale of ridesharing, this payoff is marginal or almost invisible, but if aiming to understand the *systemic* relations of ridesharing to other social systems, its effects have to be examined from the perspective of its potential rather than its current popularity.

As a socio-material assemblage, ridesharing is dependent on three foundational infrastructures that are not available ‘in common’ but are predominantly organised within the economic domains of household, state and market (Table 2). Firstly, there is the pool of private cars – about 2.7 million units in use (Statistics Finland 2018b) – and their owners who decide in the first place whether they allow them for shared use, and under which conditions. Secondly, ridesharing depends on the state-regulated traffic infrastructure with the monopoly of maintaining a public road network, mandating traffic regulations and devising different tax schemes and incentives for different modes of transport. Thirdly, online ridesharing currently depends largely on the social and technological infrastructure provided by Facebook, which again is dependent on the global internet infrastructure, and all the computers and smartphones used for accessing the ridesharing groups. Ultimately, all the three infrastructures rely on the supply

of ecological resources: oil, precious metals and different sources of energy. While Massimo De Angelis (2017, 122) maintains that commoning is ‘an activity that develops relations preoccupied by their reproduction and [...] the ‘sustainability’ of the commons’, it seems that the capability of the ridesharing system to reproduce itself is limited. Thus, even though the organisational model of online ridesharing boasts features like self-governance and the lack of hierarchies, its autonomy is of a very relative kind: in effect, it is in relation to the surplus or the ‘waste’ that the contemporary way of life – and driving cars as a part of it – produces (cf. Chapter 5).

## 6 – Self-organised online ridesharing as a ‘transport commons’

	PRIVATE CARS	ROAD NETWORK	FACEBOOK
<b>Economic domain</b>	individual household	the state, municipalities, road communities	the (global) market
<b>Type of infrastructure</b>	stock of tools / ‘means of production’	material infrastructure, repairing machines	social infrastructure
<b>Material basis</b>	metals, glass, rubber, synthetic fibres, electricity (for assembly)	asphalt concrete from petroleum and mineral aggregates, concrete, steel, paint	telecommunications network, data centres, electricity, users’ laptops, tablets and smartphones
<b>Scale</b>	Finland: ca. 2.7 million cars in traffic use (2018) [1]	Finland: ca. 100 000 km of public roads (2017) [2]	Finland: ca. 2.8 million monthly active users (2018, forecast) [3]
<b>Market value</b>	ca. €18 bn [4]	ca. €15 bn [5]	ca. \$400 bn (= €350 bn) [6]
<b>Expense structure</b>	capital costs, repairs, taxes, fuel, cleaning, vehicle fluids, insurance	maintenance and construction, ca. €0.8 bn per year (2017) [5]	maintenance and development, ca. \$20 bn (€17.5 bn) per year (2017) [7]
<b>Primary funding source(s)</b>	personal income, savings or credit	tax revenue	targeted advertising
<b>Profit-seeking?</b>	mostly not	no	yes
<b>Who can enter</b>	owner decides	anyone (for driving a car, a person with a valid driving license)	(almost) anyone over 13 years old and registered to the service
<b>Access fee</b>	owner decides	free of charge (except for road tax, driving license, etc.)	free of charge
<b>Conditions of use</b>	owner decides	traffic regulations as specified in the Road Traffic Decree	defined in Terms of Service and several other policies

Table 2. Underlying infrastructures of ridesharing. Sources: [1] Statistics Finland 2018b. [2] FTA 2017. [3] Statista 2018. [4] Estimated calculated from FICoAS 2018a; FICoAS 2018b and Autotalli.com 2018. [5] FTA 2018. [6] YCharts 2018. [7] Macrotrends 2018.



### **Towards a public–commons partnership for promoting ridesharing**

While ridesharing has several issues that severely question its eligibility to be considered as a commons system, it still has traces and ‘germs’ (Merten and Meretz 2008) of ‘non-market’ or ‘alternative market’ economic principles such as subsistence, care, conviviality, and the redistribution of surplus. Ridesharing not only pushes towards the commodification of mutual aid, but also towards the *commonification* of the basic services provision; and to the practical experimentation of trying to rethink, reframe and re-experience ‘the economy’. For the welfare state, then, the crucial question is: How to coordinate peer production fruitfully with the public, universal service provision? Answering to this involves stepping into a logic that Michel Bauwens (2012) calls the one of a *partner state* (see Chapter 1), which would appreciate the self-determination of the ridesharers, but simultaneously fine-tune the regulation so that the peer-produced services would in the best possible way support the state’s broader objectives within a specific policy sector. In transport, the objective would be to harness the massive fleet of private cars to extend the notion and the capability of public transport as much as possible without competing with the existing services.

For supporting ridesharing, it seems unlikely that the state could provide a platform that could become as popular as the self-organised but Facebook-dependent version is today. However, there are other options – from the small and immediate to the broader and strategic – as to how the public sector could form fruitful alliances with the ridesharing community and with the different schemes of peer production more generally. This would, however, require a fundamental change in the discourse that currently approaches the phenomena of sharing/platform/gig economy from a relatively instrumental perspective of ‘providing business opportunities’.

A partner state would respond to the emergence of non-profit-

seeking economic practices at least as actively and positively as it does to the commercial entities of the platform economy. This would imply breaking away from the narrow understandings of ‘economic activity’ (as something indicated by the GDP) and ‘employment’ (as either wage labour or high-growth entrepreneurship) in order to build the understanding about how the self-organised economies in tandem and in a strategic coordination with the welfare state policies could contribute to the overall well-being and sustainability of a society (see Chapters 1 and 3). As Ann Light and Clodaugh Miskelly (2015) argue, the sharing economy is after all not so much about ‘the economy’ in the sense of making profit, but about enabling co-operation in a variety of new cultural forms

A partner state could support self-organised ridesharing both through ‘positive’ and ‘negative’ routes. ‘Negative’ support would imply a deliberate choice to prevent overregulation (the ‘Inaction’ path in Chapter 1), since it easily damages self-organised economic communities by interpreting them as conventional economic actors and by imposing requirements that were crafted with a completely different context in mind. A more *positive* approach would imply recognising how various forms of the sharing economy promote social well-being and ecological sustainability and providing incentives that actually encourage the expanding the scope of such activities (the ‘Creating background conditions’ path in Chapter 1). Naturally, taking one or both of these routes would require a deeper understanding of the different forms and functions of ‘sharing’ (Schor 2014; Martin 2016; Kennedy 2016), articulating the need to draw boundaries between the ones that should be *supported*, the ones that should be *opposed*, and the ones that are *neutral* or *ambivalent* in their likely social and ecological outcomes.

Ridesharing has the potential to upscale old practices of *ad hoc* mutual aid to a level where they might have significant impacts in reorganising transport and reducing its carbon footprint. This

extent of upscaling, and especially the wish that ridesharing would attract new users from car drivers instead of public transport passengers, is unlikely to occur spontaneously but would require government intervention to discourage the habit of driving alone. An example of incentivising ridesharing would be a taxation scheme where driving a car would be taxed with a different per kilometre price depending on the rate of occupancy: ridesharing would then provide the possibility to share not only the direct expenses of driving (the cost of electricity or gasoline) but also its emissions footprint expressed in the driving tax. Without strategic intervention, and without a more conscious objective setting from within the ridesharing community itself, the more probable path is that self-organised ridesharing becomes challenged or even outcompeted by commercial mobility-as-a-service operators.

# 7

## Epilogue: On the possibilities to learn from the Global South

*Laura Kumpuniemi & Sanna Ryyänen*

The articles in this book have theorised different types of community economies and their relations to the Nordic welfare state. One of the cross-cutting themes has related to the need for redefinitions and reconceptualisations of concepts such as wellbeing, value, employment and economic activity, as they are approached from the perspective of community economies instead of the prevailing model of the welfare state. Moreover, the need to develop the existing system and the informative role of community economies in this development has been highlighted.

In this short commentary, we turn our attention towards southern societal contexts in order to ask what could northern community economies learn from the rich traditions and experiences of alternative economies in the Global South. Due to the focus of our research and other related activities, we concentrate on the experiences in South America, and more specifically, in Bolivia and Brazil. Our notions should therefore be taken as exemplifying rather than anything covering the heterogeneity of the Global South. Also, we do not aim to present ourselves here as ‘voices from the South’ but to recognise our position as northern researchers learning from and with the South.

### **Different contexts create different alternatives**

For the sake of contextualisation, the specificity of the Nordic welfare state model and its key differences with the South (American) context should be noted. These different social and economic contexts in the South and North also have an impact in what type of community economy and self-organised economic activities are encouraged. To start with, the sense of security or vulnerability differ rather drastically between North and South. The central idea of the Nordic welfare state is to secure social assistance in order to prevent full exclusion of vulnerable people, such as the sick or unemployed. In the Global South, in most cases the state is not the key player safeguarding people, which leads to the necessity of relying on personal social networks for care and safety. Working conditions further contribute to this precarity, as the working population is often employed in self-created informal sector jobs and has to rely on several sources of income. Moreover, the notion of trust differentiates rather remarkably the northern and southern contexts. In the Nordic welfare states, the level of trust towards other people and the government is the highest in the world with over 60 percent of the population trusting other people, whereas in the Global South the level of trust tends to be notoriously low. This is further highlighted in countries like Brazil, Ecuador and Peru, where less than 10 percent of the population express trust towards other people. (Inglehart et al. 2014.)

This superficial comparison suffices to make the point that the function of community economies is potentially rather different in these different contexts. In the North, the activists of community economies might enjoy relatively good economic support either in the form of employment or benefits, and choices to turn to alternative economies might be more pronouncedly ideological. In the Global South, reducing vulnerability through offering possibilities for employment is often highlighted as the key role of alternative economies. Community economies and solidarity initiatives are often seen as a way to fill in the gaps in official social

security systems (Hillenkamp et al. 2013). However, these activities have other dimensions. These alternative means of subsistence follow a different logic than that of the capitalist economy, and they put this logic concretely into action through practices of reciprocity and cooperation (Carneiro 2011, 85–86). When economic activity is directed to community and cooperation rather than to individual gains and competition, it offers valuable spaces for building trust, among other things. Community economy initiatives can also be instrumental in building capabilities for cooperation, as well as to strengthen social networks in order to create democratic processes within communities. Sometimes they also enhance possibilities for local political control by encouraging and advocating for workers' participation in local decision-making. (Hillenkamp et al. 2013, 12.) Especially the solidarity economy, a prominent strand of community economies in Latin America, offers a newly politicised perspective for approaching the mainstream economy while securing livelihoods for many through its various forms. Ethan Miller (2004) describes solidarity economy as a form of economic organising that can reinforce new kinds of economic relations in communities and build spaces based on non-capitalist values like solidarity, democratisation, cooperation, and mutual support. It is essentially not an economic model but rather supports the idea of recognising diverse practices and respecting difference. Awareness of existing practices also helps to expand the ways that economy is understood and to realise that economic practices outside of capitalism already exist. (Miller 2004.)

### **Intermediating layers and pedagogies**

In Brazil, the manifestation of the solidarity economy can be portrayed as being comprised of three different 'layers', forming an architecture of a country-wide movement that stretches from local activists to government initiatives. As such, it presents a different model of organising alternative economy than the more or less self-organised community economy initiatives presented

in this volume. Firstly, there is a grassroots level of community economy initiatives and enterprises, that is, collectives based on self-management and cooperation (cooperatives, exchange circles, associations, etc.) aimed at production of goods, service provision, recycling, finance, solidarity consumption, etc. The number of identified solidarity economy initiatives in 2013 was over 30 000 (SIES 2013). Secondly, there are different types of civil support entities, such as university ‘incubators’, NGOs, trade unions, and microfinanciers that aim at encouraging as well as channelling solidarity economy needs by offering training, research, advisory, microcredits, and legal consultancy. Third, there are policy-makers and local as well as national public policies that aim at formulation, coordination, and implementation of solidarity economy policies and initiation of public funding programmes. One example at the public policy level was the National Secretary of Solidarity Economy (SENAES) that was established within the Brazilian Ministry of Labour in 2002, during the government of president Lula. However, it should be noted that SENAES was considerably downgraded during the government of the former president Michel Temer in 2016 and abolished in its initial form by the government of the current president Jair Bolsonaro in January 2019.

When attention is directed towards possibilities to learn from and within Brazilian experiences, the second ‘layer’ of so-called civil support entities is of specific interest. In Brazil, the solidarity economy is often seen not only as a question of economic organizing but also of pedagogics (e.g. Gadotti 2009; Jaramillo and Carreon 2014). From this perspective, solidarity economy is not only a way of organising economic activities, but also a process of collaborative learning and problem-solving, rooted in concrete life situations. The pedagogical nature of the solidarity economy also implies that the concept and the related values are systematically promoted. One concrete example of this are the

solidarity economy incubators found in more than one hundred Brazilian public universities. The incubators are one example of the so-called university extension practices, where universities work in close collaboration with the surrounding communities. In regard to solidarity economy incubators, this means promoting the solidarity economy through action research processes where all involved parties both learn and pass on their own accumulated knowledge, be it academic or practical.

The pedagogical institutional support of the conditions for the solidarity economy creates an increasing amount of knowledge on the solidarity economy and its practices. Yet it should also be understood as a promotion of practices that aim to appreciate the value and dignity of all people, reinforcing solidarity, and increasing cooperation and reciprocity. (See Gadotti 2009; Lopes et al. 2005.) This is something that should be taken into account in the North as well.

### **Another story of ‘the partner state’**

Both in Brazil and Bolivia, the state and other public entities have (had) an important role in supporting community economies. This kind of model exemplifies one type of ‘partner state’ (see Chapter 6) where the state has provided incentives for expanding the scope of community economy activities. However, whereas the welfare state model poses the question of disciplining authorities in relation to the community economies (Chapter 3), the model that leans more towards a ‘partner state’ has raised questions about control as well as processes of domestication. For instance, the idea of a plural economy that includes the notion of community-focused economic practices, which is something that the Bolivian government during president Evo Morales' era (2006-19) embraced, was a disappointment. Although legislation now recognizes community and solidarity economy, the implementation of the laws is non-existent and the government's focus has been more in the state-led economy and an increase



in extractivist economy. Meanwhile, the initiatives promoting community economy have become more fragmented and more dependent on the government. (Wanderley et al. 2015.) Moreover, the plural economy agenda has not been put into practice hand in hand with fundamental plans for democratisation, so the anti-democratic tendencies in Bolivia have also undermined the progressive intentions to change the basis for economy and wellbeing.

In Bolivia, there have been attempts to apply the idea of alternative economic models through the notion of *vivir bien* and placing emphasis on the values of the Mother Earth at the state level. The concept of *vivir bien* is based on the Ecuadorian and Bolivian indigenous people's concept of good life, emphasising harmony with nature and other people. It is also presented as an alternative to capitalist development and commodification and, thereby, as an example of decolonial efforts. (Gudynas 2011.) However, *vivir bien* has not changed governmental practices as radically as was hoped. Neoliberal practices at the state level have been continued, and although institutionalisation of social movements has enhanced their participation in decision-making processes, it has also resulted in disciplining and controlling them. (Ranta 2014, 222.) In Brazil during the government of the Workers' Party, there were policy programmes supporting solidarity economy actors, but no law on solidarity economy was passed (Esteves 2014, 85). Also, the politics of the Brazil's current right-wing president Jair Bolsonaro do not portray a very promising future for the rather radical interpretations of solidarity economy that characterised the work of the National Secretary of Solidarity Economy.

The experiences from Bolivia and Brazil can be used for learning purposes to see what kind of developments follow the attempts of upscaling community economies to the state level. They show that the notion of the partner state might also be a problematic approach to the building of community economies. Coraggio

(2011, 44) suggests that the state as a structure should be overcome altogether because the representative system leads to promoting the interests of central economic groups making the unjust and socially inefficient system governable. Community economies, and solidarity economy especially, advocate for democratisation that could rather refer to the enforcing of local communities and the grassroots level self-organisation independent from the state, that is, participatory democracy instead of representative one. According to Ana Margarida Esteves (2014, 76), not only policies and regulation are needed for ensuring the expansion of non-capitalist production, commercialisation and finance, but also strong structures that guarantee a process of thorough democratisation by distributing power and ensuring direct participation.

The partner state discussed by Venäläinen (Chapter 6) and Eskelinen (Chapter 2) in this book has, therefore, to be thought of with care, as state involvement might take away a lot of the self-organising elements of grassroots actors. It could also make the structures that were originally thriving for non-hierarchical models rather hierarchical in the end, and even allow them to be hijacked by bureaucracy, as for example has been the case in Bolivia. However, the partner state idea can be seen in a quite different light in different parts of the world, as there are differences between the political stability in the South and the North. There have been changes towards more instability in the North, but nevertheless the politics have tended to be more unstable in the South where there can be a regime change that diverts the politics almost overnight into a totally opposite direction. Although there are signs of changes, policy-formation in welfare states in the long term has taken place through a moderately strong consensus between political parties, which has secured a decent level of political stability.

## **Conclusions**

All in all, in the South there are experiences, knowledges and ongoing processes in the area of community economy building that actors in the North should take notice of if there are aspirations to develop a more comprehensive community economy practice and a movement. The examples in this book show that there are already many existing practices that follow a rationale differing from the capitalist logic. The strengthening of community-based alternatives needs to be based on processes that count on learning and reciprocity on local and global levels. The practices are not directly applicable from one context to another, but where there is a common value base and similar ambitions, there is great opportunity for cross-continent learning. This does also not mean idealising the experiences of the South but rather the relationships between the North and the South in this sense should be directed to learning from both successes and failures.

One concrete example of learning possibilities are the solidarity economy incubators in Brazil and the active role the universities have taken in promoting the solidarity economy. In addition to the incubators, some of the universities have constructed counter-hegemonic economic understanding by providing courses on solidarity and community economies. When the economic and environmental crises intertwine into a destructive spiral, 'it is useless to use all our energies in verbal attacks against capitalism,' as Gadotti (2009, 123) states. Alternatives should not only be made at the grassroots level, but also actively promoted. One possibility for that could be universities and other educational institutions in the North taking inspiration from the Brazilian incubators in order to encourage the growth of community economies.

## 7 – On the possibilities to learn from the Global South

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The Nordic welfare states, despite their history of successful welfare generation, have recently experienced a penetration of capitalist market relations to ever new spheres of life. Also their failure to create ecologically sustainable welfare models has been undeniable.

Simultaneously, community economies have emerged as a source of ideas and practices on what 'the economy' fundamentally could signify. In their multiple manifestations, community economies are about enacting the economy differently, on a grassroots level.

Yet community economies have typically not been analysed as inspirations and challenges to the future of the welfare state. This is despite that, to some extent, they share the same ethos with Nordic welfare states, based on the values of universalism and decommodification.

This book presents a number of empirical case studies of community economies in the context of a Nordic welfare state to better understand the potential of community economies and the interaction and friction with state governance, and more generally the conditions in which community economies and Nordic welfare states can co-exist and cooperate.

Could a Nordic welfare state be an enabling platform for community economies to diffuse? And could community economies show the welfare states a future based on decommodification and respect of the ecological limits?

The authors of the book are Finnish academics with an activist leaning, representing a number of different academic disciplines.

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# **The Transformation of Welfare States?**

**Nick Ellison**



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**For Sarah and Hannah**



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## Preface

For well over a decade now, a good deal of scholarly attention has been paid to welfare state ‘crisis’ in the ‘advanced’ capitalist democracies. Much of this intellectual effort has been fruitful – at least in the sense that possible causes of welfare state ‘retrenchment’ have been thoroughly discussed and awareness of the challenges that face mature welfare systems has consequently increased. Understandably, however, in view of the complexities involved, there is little consensus either about the root causes of welfare state change, or the extent of change itself. Disagreements can be quite fundamental. Few concessions are given, for example, by those who believe that ‘globalization’ lies at the root of the problems that so many welfare systems are encountering, or by their critics, who are equally convinced that global pressures exercise relatively little influence over welfare state change. Whether economic ‘globalization’ encourages a ‘race to the bottom’ as national governments cut social spending and liberalize their welfare arrangements in an effort to attract inward investment remains a serious point of contention. Nevertheless, there is a sense in which the ‘great globalization debate’ has moved on from the height of its influence in the early-to-mid 1990s. What has been rather mischievously referred to as ‘business school globalization’ appears to be on the wane – outside business schools at least – and, increasingly, attention is being given to other factors not *directly* associated with this phenomenon – rapid population ageing or changing patterns of employment, for instance. More recently, interest has focused on the ability of welfare regimes to resist – or, better, to ‘adjust’ to – the pressures that confront them in ways that preserve their key characteristics. Here the capacity of the institutional structures and assumptions that became so deeply, if differentially, embedded within postwar welfare regimes becomes the focus of interest, the ‘institutionalist’ argument being that they ‘set limits’ to global economic pressures.

These issues and debates are the main theoretical concern of this book. To address them adequately ‘globalization’ is ‘brought back in’ as a major phenomenon, the potential influence of which remains of great significance to welfare regime change. But the role of institutions is held to be equally important – the interrelationship between these two poles in different welfare regimes being the main point of attention. This is not purely a book concerned with theoretical accounts of welfare regime change, however. Just as important is the manner in

which social policies in particular welfare systems are changing and what can be said about the causal roles of global, institutional and ‘contingent’ factors as processes of change unfold. To this end, the greater part of this volume takes the form of an extended assessment of social policy change in nine welfare regimes, the focus being on the core areas of labour market policy and old age pensions. Combining conclusions from the theoretical discussion with insights gained from the analysis of contemporary change in different welfare regimes, one contention here is that ‘globalization’ plays a significant, if largely indirect, role in welfare reform – global economic pressures being influenced or conditioned by institutional and other factors. Such a verdict is hardly new, of course: a good deal of the recent literature on welfare state change comes to a similar conclusion. The real issue, however, is that ‘change’ is an ongoing process and, while the pace may be slow, the direction of change appears broadly to favour market solutions. Obviously, such a statement needs to be justified, particularly as it is not suggested here that regimes that are embracing market-oriented change are necessarily doing so with enthusiasm, let alone that the much-heralded ‘race to the bottom’ is ever likely to become a reality. The analysis of theoretical approaches to welfare regime change, which stresses the importance of a ‘weak globalization’ perspective, together with the examination of policy developments and institutional change in the nine case studies provides sufficient evidence to substantiate this claim.

In terms of structure, Chapter One sets the scene with an introductory discussion which outlines the main parameters of the debate between globalization enthusiasts and institutionalists, before moving on to examine the concept of ‘welfare regime’ in some detail. Justifications for the choice of countries and welfare areas are provided towards the end of this chapter. Chapter Two examines the globalization thesis more closely, concentrating primarily on the economic dimension, before considering the issue of whether or not global economic pressures are undermining the core institutions of the nation-state. These themes are continued into Chapter Three, but with the focus shifting to debates about the specific impact of globalization on welfare regimes. This chapter also provides introductory snapshots of the nine case studies, through an initial assessment of their recent political and economic fortunes, including a brief consideration of the interrelationship between global, institutional and ‘contingent’ factors as changes in welfare provision unfold. Thereafter the following four chapters examine contemporary developments in labour market and pensions policies. In each case, the prevailing policy context is considered before the discussion moves to an assessment of policy shifts in the nine countries.

Many people have helped in the preparation of this book – some of whom are quite unaware of the uses to which their advice and information have been put. Thanks must go to my colleagues in the School of Applied Social Sciences in Durham for allowing me two periods of research leave to get to grips with what, for me, is a new area of research. Thanks, too, to the Department of Sociology and Anthropology at Simon Fraser University, Vancouver, for giving me the space, time and library facilities needed to begin this study. More specifically, Dan Finn, Karl Hinrichs, Jon Kvist, Einar Overbye, Nils Ploug and Barbara Sianesi answered

my emailed questions fully and with speed, as did Tito Boeri and Maurizio Franzini. Hermann Schwartz not only replied to my enquiries but told me that the area of welfare state change is a ‘conceptual nightmare’ – he’s right. Chris Pierson read some of the typescript and Richard Parry all of it. Their advice was much appreciated and thanks are due to both for their interest and help. Taking the time to read lengthy typescripts is a mark of generosity in what are inevitably busy academic lives. As to the final result, errors of fact and interpretation are, of course, my responsibility alone.



# 1 ‘Globalization’, institutions and welfare regimes

This book takes as axiomatic the fact that welfare states in the ‘mature democracies’ are changing. According to many observers, ‘globalization’ is somehow responsible for the development of different social policy alternatives in contemporary welfare systems and it is primarily this issue that will be considered in detail throughout this volume. However, the apparently simple relationship between ‘globalization’ and welfare regime change is of course nothing of the sort. For one thing, the nature and extent of global challenges are hotly contested and it is not clear that the – primarily economic – pressures involved have had the impact on welfare policies that globalization enthusiasts claim. Certainly, the argument here does *not* hold that welfare systems in the OECD are embarked upon an inexorable ‘race to the bottom’ in which rampant globalization forces once-autonomous nation-states to outdo one another in their efforts to cut social spending, maintain low interest and tax rates, and thus remain economically attractive for inward investment – a sort of economic beauty contest in which multinational corporations sit as judge and jury. Arguments of this nature will be examined in the course of this volume but, on the whole, they will be rejected in favour of an analysis that presents a more complex and mixed picture of the fortunes of contemporary welfare regimes.

Such an analysis certainly recognizes that globalization has influenced welfare policies in different welfare systems – indeed a key argument of this book is that ‘neoliberal drift’ is an important phenomenon from which few regimes are entirely immune. The difficulty, though, is how best to understand the pressures and counterpressures to which national governments are increasingly subject while bearing in mind that their welfare systems, which have become deeply embedded over time, are unlikely simply to ‘collapse’ in the face of new challenges. As an initially schematic starting-point, two significant dimensions of discussion need some elaboration before being explored more fully in Chapters Two and Three. First, the economic dimension is important in its own right and ‘globalization’, however contentious the term appears to be, is an immensely significant issue. Some observers, for example (see Giddens, 1990, 2000), argue that the increasing power of global capital constitutes by far the most serious difficulty for national governments struggling to manage welfare systems in increasingly open economies. Others appear equally convinced that the pressures confronting contemporary welfare systems are more attributable to endogenous economic difficulties, particularly

## 2 'Globalization', institutions and welfare regimes

the domestic roots of deindustrialization and the turn towards the service economy. An alternative perspective would play down the causal significance of economic factors to suggest that institutional infrastructures can prevent, or at least mitigate, pressures in ways that preserve the core characteristics of national welfare systems as these developed over the second half of the last century. Whether or not these 'institutionalist' arguments are accepted, they have come to influence perceptions of contemporary welfare state politics in some quarters in recent years, acting as a significant counterpoint to those who believe that economic pressures – 'global' or 'domestic' – can directly account for welfare regime change.

But to conceive change in terms of these stark binaries is itself problematic as the discussion below suggests. If these key perspectives broadly frame the main concerns examined in this book, it is important to understand not only how they might 'condition' one another – the *interrelationship* between economic and institutional factors being of central significance – but also how this 'economic-institutional nexus' organizes other factors which also play a major role. Here shifting demographic patterns are amongst the most important new challenges facing national welfare systems, the contention being that these do not somehow lie outside the nexus but are very much a part of it – as the discussion of the changes currently being made to pensions systems demonstrates (see Chapters Six and Seven).

In essence, the argument here is that national welfare systems are changing as new economic pressures interact with existing institutional arrangements – political, social and cultural – in ways that render the latter less stable. This embryonic instability means that welfare systems are becoming more vulnerable to other challenges that confront them – less able, for example, to rely on the 'traditional' policy solutions and institutional configurations that characterized welfare politics throughout the postwar period. Clearly the nature of change will depend on the particular welfare system in question – and a short discussion about the nature of 'welfare regimes' will be conducted below. Before getting to this, however, a brief assessment of the key themes of 'institutionalism' and 'globalization' is required.

### **Institutions, 'globalization' and retrenchment politics**

As March and Olsen (1998: 948) state, institutionalization refers to processes that involve 'the development of practices and rules in the context of using them [that have] earned a variety of labels ... which refer to the development of codes of meaning, ways of reasoning, and accounts in the context of acting on them'. So far as welfare is concerned, the main contention behind the institutionalist position is that the embedded organizational structures on which particular policies rest, together with the assumptions and expectations about the nature of 'welfare' that develop over time among interested parties, conspire to make radical reform difficult. Paul Pierson (1996: 152) notes, for instance, that 'relatively stable, routinized arrangements structure political behavior'. Depending to a degree on regime type, those who are critical of the extensive state-based welfare systems which developed among the advanced democracies, mainly in the postwar period, can find it difficult to formulate policy alternatives acceptable to a range of interests

which have come to depend – socially, economically, culturally – on specific forms of welfare provision. There are a number of reasons why this may be the case, the precise argument varying according to different interpretations of the institutionalist position. Rational choice institutionalists, for instance, contend that ‘actors follow a logic of expected consequences within institutional constraints’ (Beyeler 2003: 154), the suggestion being that change will only occur ‘because of shifts in the actors’ opportunity structure’. In short, the core focus is on ‘how individuals build and modify their institutions to achieve their interests’ (Campbell, 2004: 15). A second, more ‘sociological’ variant of institutionalist thinking argues that social actors ‘behave according to a logic of appropriateness within their institutionally defined roles’ (Beyeler, 2003: 154). Behaviour here is less ‘rational’ and more likely to be generated through the sense of identity that institutions can create in both individual and collective actors. Importantly, according to Beyeler (2003: 157), in the sociological institutionalist view ‘the autonomy of actors is based on rather than restricted by institutions’ with the result that ‘institutions are changed if the underlying values are eroding and identities with the previous institution get weaker’.

These differing approaches are best understood as ideal types within the institutionalist paradigm. In effect they form the two ends of a continuum of potential behavioural responses to pressures for change with the pure ‘rational actor’ model at one end and the more sociological, identity-driven model of institutional attachment and belonging at the other. Significantly for the discussion here, Beyeler (2003: 158) notes that the further that strict rationality arguments are relaxed the easier it becomes to understand that ‘policy-making can clearly not be conceived as a simple functional reaction to changes in the environment’. Struggles and power conflicts will emerge in key areas of institutional change with different actors adopting different positions and strategies depending on their particular interests and location within the prevailing institutional structure – that is to say, their ‘location’ within the sets of ‘rules, norms, institutions and identities that drive human action’ (see March and Olsen, 1998: 958) in particular ways and specific contexts.

That individuals act in a more complex and bounded manner than would be dictated by pure ‘rational’ self-interest opens up important dimensions of debate about the nature of path-dependent change and institutional stickiness. These include the need to consider both the ‘formal’ and ‘informal’ factors that may conspire to reduce the potential for radical change while permitting ‘adjustments’ to existing policies and practices. At the formal level of the nation state, for example, ‘veto points’ may be expressly written into constitutional design in order to guard against the prospect of damaging changes driven through by unrepresentative or overpowerful interests. Reinforced majorities may be required for major reforms, while in consociational systems minorities have a constitutional right to block certain types of reform proposal. In federal and/or bicameral political systems there are formal mechanisms for controlling over-enthusiastic governmental executives either through countervailing power from devolved legislatures or the capacity of second, or upper, assemblies to block or delay proposed legislation. Constitutional arrangements such as these can become an entrenched part of political culture



and national identity with the result that they are likely to prove 'sticky' when confronted by pressures for change. Less formally – and irrespective of constitutional considerations – the 'embeddedness' of policies within both the state and civil society can be highly significant, with 'policy legacies' or 'feedback' exercising powerful sway over attempts to change existing forms of provision, delivery mechanisms and, indeed, the historically induced, cultural assumptions that citizens themselves hold about the role and purposes of (in this case) welfare. The 'increasing returns' generated as a result mean that decisions taken at earlier points of policy history can become self-reinforcing or 'path-dependent'. In this way, as Pierson (2000a: 491 original emphasis) notes, 'it is not just that institutional arrangements make reversal of course *difficult*. Individual and organizational adaptations to previous arrangements may also make reversal *unattractive*'. Core elements of welfare systems offer particularly clear examples of the issues at stake here. Pierson (1998: 552) notes that 'huge segments of the electorates of advanced industrial societies rely on the welfare state for a large share of their income' and, further, that 'deeply institutionalized programs like health care and pensions [mean that] social actors are likely to place high value on predictability and continuity in policy' (Pierson, 1998: 555). In consequence, it is hardly surprising if proposals for social reform are often closely contested by different interests and that political outcomes tend to favour evolutionary adjustment and the status quo (Ingram and Clay, 2000) over radical change where assumptions about the nature and role of central services – and the identities that are therefore bound into them – encounter external challenges. In this way, such external pressures are socially, politically and culturally 'mediated', the argument being that the relationship between these pressures and the attempts by governments and other actors to manage them will be both complex and non-linear.

Conducted at this level of generalization, it seems sensible to suggest that the inclusion of 'complexity' – to employ a useful shorthand – in the discussion appears to justify the institutionalist viewpoint over those who argue that global economic pressures can have a direct 'hypodermic' effect on national governments and their populations. However, there are a number of weaknesses associated with the institutionalist position that need to be taken into account which undermine its potential influence. It is clear from recent work by Campbell (2004) that institutionalists tend to operate with ill-defined notions of change and loose conceptions of 'institutions' with the result that it is not always clear which types of change, levels of institutional analysis, time frames and so on are being examined. This lack of specificity obviously affects efforts to track and explain patterns of institutional change. Going further, Campbell (2004: 66) also points out that the processes or 'mechanisms' to which institutionalists refer when analysing the underlying reasons for the prevalence of incremental or evolutionary change are often poorly specified. 'Path-dependence' tends to be intuitively associated with incremental shifts but, despite Pierson's (2000b) efforts to furnish the idea with the additional notions of feedback mechanisms and increasing returns, Campbell believes these processes need to be better articulated.

These points are not trivial, for how core variables and processes are defined

and understood influences and conditions perceptions of the consequences of change. For example, an analysis of the development of 'privatization' and devolution policies in the welfare arena across the majority of OECD countries could lead to different understandings of welfare state change depending on preconceptions about the role of the state, the history of welfare state development in particular countries and the responses of the institutional actors involved. The 'typical' institutionalist response would argue that privatization has become a particular technology of the state, which has been appropriated in ways that enable the latter to continue to play a central role in the development and delivery of social policies. In this way, Smith (2002: 82–3 my emphasis) can argue that although

government social policy increasingly relies upon a mixed public/private delivery system characterized by extensive contracting between government and nonprofit and for-profit service providers [and] tax credits for private organizations to pursue specific public policy goals ... and allowances and vouchers for housing, childcare and other services ... the rise of these new tools *has offered government new opportunities to regulate private social and health organizations.*

However, others could argue with equal justification that this shift towards a regulatory state constitutes more than merely an incremental adjustment of existing practices. On this view, the explanations associated with theories of evolutionary change – path-dependence, increasing returns, 'lock-in' effects and so on – cannot account alone for the emergence of new policies, or the reconfiguration of old ones, on the scale experienced in many of the mature democracies in recent years.

It may be that it is not possible to resolve differences of perception of this kind. Institutionalist conceptions of change and the pressures that drive it may simply be too elastic to permit anything more than a broad account of the possible forces at work and factors involved. To take one further example, it has been suggested by Rothstein (1998) that core institutional components of welfare are likely to persist, *even as changes occur*, owing to the influence of historically and culturally embedded assumptions (and it could be added 'identities') about the role of welfare in any particular polity. So Rothstein (1998: 214) can argue with reference to Sweden that citizens' demands for 'freedom of choice and self-determination by no means spell the end of the universal welfare policy'. This conviction is based on the view that 'how extensive the public commitment to the well-being of citizens should be is an altogether distinct question from whether or not the services following on this commitment should be produced by organizations which are publicly owned' (Rothstein, 1998: 215). The statement is significant because it appears to suggest that the institutional and cultural parameters of Swedish welfare universalism persist even as the state's role and indeed *citizens' behaviour*, change. Of course, Rothstein may be correct to argue that there is a distinction between a public commitment to the universal welfare state and the delivery mechanisms required to sustain it. Even so, if the Swedish welfare regime does indeed remain formally attached to its universalist principles, could changing citizen perceptions together with the

persistent policy changes of the kind implemented in recent years hollow out these principles in a way that ultimately forces a transformation of the role and purposes of welfare? If such a shift was to occur, how sure could institutionalists be of identifying the precise point at which the cumulative impact of change pushed institutionalized practices, norms and values beyond what could be anticipated from persistent incremental adjustment?

In view of these considerations, institutionalist arguments seem to be important for two reasons. First, they act as reminders of the complexities of embedded social, political and cultural arrangements in national welfare regimes, the existence of which reduce the likelihood of external pressures exerting a direct or linear transformative influence on national institutions. Second, however, because the institutionalist perspective is vulnerable to the criticism that it lacks conceptual rigour, it acts as reminder of the necessity not only to be as clear as possible about the definition of key concepts – ‘change’, timescale and even the notion of ‘institution’ itself – but also of the need to recognize that the identification of ‘complexity’ as a core issue is no substitute for the careful consideration of the mechanisms and processes which mediate external pressures. It would be dangerous to assume that, because the impact of external pressures may be non-linear, they are somehow not important or do not exercise much influence over institutional change. And it is for this reason that it is important to conceptualize the relationship between exogenous pressures and welfare institutions (in the broadest sense) in terms of an economic-institutional nexus within which the balance of influence will shift according to regime type and depending on the mix of factors involved. While it may be correct, for instance, to argue that ‘globalization’ is unlikely to undermine existing arrangements entirely – and to produce statistical evidence to support such a conclusion (see Castles, 2001, 2004; Swank, 2002) – the manner in which global economic pressures (GEPs) impact on different welfare regime types will vary. For those better disposed towards the globalization thesis than institutionalists tend to be, the point is not always to endorse the thesis wholesale but to investigate the extent to which GEPs influence the institutional character of different regimes and vice versa as governments attempt to deal with both global pressures and a range of contingent factors, some of which will be ‘domestic’ in origin. Within the global-institutional nexus, GEPs may corrode existing practices and identities in certain cases or reinforce particular tendencies and arrangements in others. Conversely these pressures themselves can be accommodated, increased or reduced depending on prevailing institutional arrangements and predispositions.

Certainly for Gilbert (2002) and others like Jessop (1994, 2002), welfare states have changed dramatically as part of a broader transformation of the state itself and GEPs are held to play a significant part in this process. Gilbert (2002: 15) suggests, for example, that ‘the evidence indicates that a basic shift has occurred in the institutional framework for social protection ... most prominently in the United States and England, with other advanced industrialized nations moving steadily in the same direction’. This shift takes the form of a move from the ‘welfare state’ of the postwar world to the ‘enabling state’ of the late twentieth–early twenty-first

centuries and is being driven by a combination of factors, of which 'the globalization of the economy' (Gilbert, 2002: 37) is amongst the most prominent.

Jessop regards the changing nature of welfare as part of a wider global transition from Fordist to post-Fordist modes of capitalist accumulation. In relation to welfare states, the move is conceptualized as a transition from the 'Keynesian Welfare National State' to the 'Schumpeterian Competition State'. The processes associated with this Schumpeterian turn are at their most visible in the 'Atlantic economies' of the USA, the UK and (because they increasingly became part of this economic bloc owing to their relationship with the UK and military connections with the USA) Australia and New Zealand – although they are also beginning to emerge elsewhere. For the traditional welfare state, the hallmarks of change are the use of social policy to 'enhance the flexibility of labour markets and to create flexible, enterprising workers [as well as to] put downward pressure on the social wage' (Jessop, 2002: 168) in order that states remain competitive in the global marketplace. Importantly, however, Jessop does not argue that these changes in accumulation regimes fundamentally undermine all forms of domestic welfare provision. He acknowledges that different systems will exhibit path-dependent variations in their developing welfare mixes – so institutional structures count – the implication being that nation-states, particularly those outside the liberal economies, may be able to redesign forms of collective partnership and 'recalibrate existing institutions to deal with new problems' (Jessop, 2002: 171). In short, politics still matters, although 'context' is important. This latter dimension is particularly significant because, as Jessop is concerned to point out, in a prevailing environment where the 'national spatial scale' has lost the 'taken-for-granted primacy it held in postwar Atlantic Fordist regimes, no other scale of economic and political organization ... has yet acquired a similar primacy in the current phase of the after-Fordist period' (Jessop, 2002: 179). Even so, the 'global', for Jessop, constitutes an alternative spatial scale, albeit one that exists *alongside* national, regional and local spaces around and within which competitive economic activities take place, rather than dominating them.

There is a tension here between the 'global' and the 'national' or 'local' that needs to be examined in more detail. According to Jessop (2002: 181),

whereas the capitalist law of value increasingly operates globally, subjecting all economic and economically relevant activities to the audit of the world market, the pursuit of place-specific competitive advantages by firms, states and other actors is still rooted in local, regional or national specificities.

Now, as they become more fluid and loosen from their postwar moorings, welfare systems are emerging as a major example of a 'place-specific advantage'. Because they remain almost by definition national/local, welfare systems can be routed into governmental efforts to (re)construct economies in ways that contribute to their capacity to perform in the global marketplace. These efforts do not mean that welfare *per se* is neglected – but existing arrangements will come under scrutiny in ways that are likely to threaten the interests of those who have come to depend on them. In this sense, welfare systems stand on shaky ground – are 'unsettled' as

John Clarke (2004) would say – and this verdict can be extended past Jessop's Atlantic Fordist regimes to other OECD states as subsequent chapters of this book demonstrate. It is in this indirect manner that 'globalization' can be said to have a hand in conditioning welfare state change.

But what hand? These observations say little or nothing about the direction of causation or the relative strength of global influence. 'Globalization' is likely to be implicated in the loosening of postwar welfare structures in the advanced economies but, as intimated above, to acknowledge that GEPs can act as conditioning factors is not to suggest that the causal sequence of changes among different welfare systems necessarily begins with them, let alone that they are solely responsible for the strains that many systems are experiencing. Indeed this is the difficulty with the many efforts that have been made to establish a linear relationship between particular pressures, for example the increasing 'openness' of trade which is frequently taken as a measure of 'globalization', and welfare state change (see Chapter Two and, for instance, Garrett, 1998; Castles, 2001). The discussion above outlined the contention, discussed in depth elsewhere, that economic and social policies are more closely intertwined than is often supposed – the point being that causality can flow in both directions, with socio-political influences capable of influencing economic outcomes as well as vice versa. Rieger and Leibfried (2003: 14) are surely right, for example, to point out that 'the *raison d'être* of the welfare state is its use of political power to supplant, complement or modify operations of the market system in order to achieve discrete results which the market would not achieve on its own'. This formulation is widely accepted, particularly where the historical development of welfare states is concerned (Polanyi, 1957). However, a slightly different point made by these commentators may be equally valid. Rieger and Leibfried contend that the re-emergence of market influence in many mature welfare regimes in the past twenty years has as much to do with 'politics' as 'economics'. *Pace* institutionalism, Rieger and Leibfried (2003: 29–30) argue that, over the past twenty years or so, voters have come to see that in the postwar political currency of social spending 'government and politics have reached the limits of what they had promised to provide' and voted for governments that have advocated reductions in public spending and the increased influence of markets. The upshot of this 'growth to limits' argument is that

the conditions that are currently described as globalization were created and advanced both in terms of their institutional foundations and their dynamic by parliamentary, democratically legitimated decisions [and]... Globalization was and is subject to an ongoing plebiscite of consumers and voters and is shaped by this perpetual *plebiscitum*.

(Rieger and Leibfried, 2003: 31)

There is at least some truth in these statements, although the particular construction of voter rationality as an acknowledgement that welfare has grown to limits, as opposed to merely being an expression of a short-term desire for tax cuts and other immediate individual benefits, may be open to doubt. The main point here, though, is the idea that the economic and the political spheres are permeable,

'related' and fluid, each conditioning and influencing the other. As Clarke (2004: 76) notes, 'the state has secured the conditions of capital accumulation. It has institutionalized and legitimated the core interests and orientations of capital (not least in legal forms). It has attempted to create the social (and economic) peace advantageous to continued profitability'. And yet, it seems equally valid to suggest that the ways in which the state works to secure conditions for capital accumulation have been disrupted by significant changes in the concentration and behaviour of capital, particularly at the global level. While such a judgement does not deny the continued significance of state efforts to support capital, GEPs, at least as presently configured, are also capable of challenging and conditioning political responses (the nature and extent of this conditioning naturally being influenced by local context and regime type).

On this view, the existence of *both* economic constraints on political demands for particular welfare solutions *and* political limits on the impact of economic pressures needs to be acknowledged. In other words, the economic and political spheres are simultaneously interrelated and in tension: 'economics' can escape 'politics' and vice versa even as both spheres remain interdependent. This uneasy relationship is almost necessarily the case because, as Rieger and Leibfried (2003: 51) note, 'the parameters of welfare state intervention – the widespread experience of social insecurity and economic scarcity – have not disappeared in the new international economic world'. There is a continued need to pursue what the old British socialists called 'social amelioration' in all regime types – and all the more so because governments in all welfare regimes are having to deal with a range of new social risks (Taylor-Gooby, 2004). A key factor here is how different regimes organize such provision in the increasingly fast moving, competitive global economic environment.

Before moving on to a brief consideration of the nature of welfare regimes, one final issue concerning the broad nature of 'globalization' needs some attention. Whatever its precise nature and impact, the above discussion treats 'globalization' (or GEPs as the preferred term) as potentially having a significant material influence on sovereign nation-states and their welfare systems. While, as Chapters One and Two suggest, some observers believe that the extent of this influence is exaggerated, they nevertheless treat GEPs as 'real'. An alternative view, however, understands 'globalization' as a 'myth', constructed by politicians and others keen to retrench on domestic social spending in favour of 'capital friendly' economic policies and the prospect of a global free market. The concern is that the myth of the omnipotence of global markets and their capacity to reduce the economic sovereignty of nation-states will escape the 'natural' confines of neoliberal party politics and infect social democratic politicians in particular and left-inclined regimes more generally. Hay (2000: 151), for example, has suggested that social democratic systems, historically characterized by their adherence to centralized structures of economic and industrial relations as well as welfare provision, may actually be under less threat from globalizing processes *per se* than from infection by 'ideas about globalization ... [which] continue to be internalized as common sense among politicians of the nominal left'. If he is correct, the risk is that left-of-centre political parties and governments could drop their resistance to *laissez-faire* economic

strategies, and accept the neo-liberal baggage of dual-labour markets, tax cuts and welfare retrenchment, on the basis of rhetorical appeals grounded in particular discourses of globalization (Hay and Rosamund, 2002) rather than observed or 'established' evidence of the impact of external economic constraints. The 'logic of no alternative' would prevail.

There is something to recommend this position because it can account for why certain social democratic parties – New Labour in the UK being a foremost example – have adjusted their social policies so markedly in a neoliberal direction in recent years. Again, it is unlikely that the precise nature of the constraints imposed by GEPs can ever be accurately quantified in economic or political terms, so there will always be a space in which rhetoric and myth will operate, particularly in the political realm. As Hay and Rosamund (2002: 148) note, 'it is the ideas that actors hold about the context in which they find themselves rather than the context itself which informs the way in which actors behave'. However, to leave the issue at this point is hardly sufficient because 'context', though discursively 'informed' is rarely *only* discursively constructed. Of course, even if context was all, a rather cheap shot at the myth thesis would argue that GEPs appear to impact on the social policies of different welfare regimes in one way or other and, to this extent, 'globalization' matters irrespective of its status. GEPs, in other words, are 'real' if they are 'real in their effects'. More substantively, though, the interrelated nature of the economic and political spheres referred to here, and particularly the argument that capital and the state condition and legitimate one another, suggests that there is more than just political rhetoric at work. The presence of a discursive dimension – including the tendency of politicians and policy-makers to deploy certain rhetorics in particular contexts as a means of justifying unpopular policies – is beyond doubt but it is equally likely that political argument about the role of the state and its relation to capital cannot simply be reduced to 'discourse'. It is far from clear that politicians and policy-makers are capable of developing, let alone sustaining, sophisticated discourses and their accompanying rhetorics in the absence of at least a degree of 'hard evidence', although this evidence will inevitably be open to interpretation and tailored to context. The further point made by Hay and Rosamund (2002: 163), of course, is that 'the deployment as political rhetoric of discourses of globalization ... is both strategic and by no means homogeneous, varying significantly from national context to national context and, indeed, from political party to political party'. Absolutely – but it is likely that there is more than discursive tactics at work here. Any attempt to explain the diversity of responses must take account of the prevailing nature of entrenched political/institutional/cultural arrangements across different regimes in the OECD and the manner in which they interact with global economic challenges. As the discussion in the next section makes clear, welfare regimes differ widely in character so it is hardly surprising that their relationship with the global economy is far from uniform.

### **Understanding welfare regimes**

To this point the discussion has proceeded with a deliberately loose understanding of the terms 'welfare state' and 'welfare regime'. However, an assessment of the



impact of GEPs on welfare arrangements in the advanced societies needs to be preceded by a brief consideration of how the concept of a 'welfare regime' is used here.

There have been many attempts to 'classify' welfare systems over the past forty years or more beginning with the basic assumption that levels of social spending in any particular state equate with its commitment to welfare. Differences in spending levels were thought to be attributable to phenomena such as the extent of industrialization (Cutright, 1965) or the ability of key social groups to mobilize successfully in favour of particular forms of welfare provision (Korpi, 1983). More recent work on comparative welfare systems has acknowledged that, taken alone, social spending levels provide an inaccurate measure of welfare effort unless the nature of the recipients and the spending objectives are made clear. High social spending is not necessarily commensurate with the redistribution of income and wealth towards the worst off, for example, or even with a commitment to social inclusion – and here attempts to contextualize spending data by analysing the institutional features of particular welfare systems add a good deal to understandings of how and why different systems are organized as they are. This information can in turn be employed to advance comparative research by grouping together systems with similar characteristics to produce a limited number of ideal types. Richard Titmuss (1963) was one of the first to attempt to classify welfare systems in this way. His distinction between 'residual' and 'institutional' systems indicated a difference between those states that regarded the market and/or the family as the main providers of social goods and services, only protecting individuals from the consequences of market failure through the provision of minimal public services, and others where the commitment to welfare was a matter of citizenship, with universal, comprehensive protection against core risks being provided as of right.

This initial attempt to distinguish among differently constituted types of welfare system was radically improved upon by Gøsta Esping-Andersen (1990). His concept of a 'welfare regime' is now commonly used to signal the interrelationship between the nature of social goods and forms of welfare delivery, on the one hand, and the historical development and configuration of certain economic, social and political institutions that make up the wider system of governance in which these arrangements are located, on the other. In the same way as a 'production regime' refers to an extensive array of institutions, activities and interrelationships which comprise particular 'varieties of capitalism' (Soskice, 1999) or 'economic governance', a welfare regime refers to the key practices and institutional characteristics that together make up a system of 'social governance'.

In Esping-Andersen's (1999) opinion, welfare regimes in developed economies are shaped by three broad institutional dimensions which combine the core elements of a production regime with particular forms of social provision. First the labour market – the nature of work itself, the gender composition of the workforce and the structure of industrial relations – contributes towards patterns of equality and inequality, partly because the availability of employment will set limits to the ability of individuals and families to resource their own welfare provision, and partly also because general arrangements for insurance against risks largely depend on the tax and insurance contributions of a pool of fully employed individuals. Second,



the family is a major institution because forms of public welfare provision vary according to the extent to which families, and particularly women, are expected to cushion the effects of a number of 'risks' such as ill health and old age by providing unpaid care and support for their members. Finally, of course, the state, including the system of party competition, is deeply embedded in welfare provision because state-organized welfare development was a significant feature of nation (re)building in the postwar era (Esping-Andersen, 1996a: 2), and also because, during this period, state institutions were thought to guarantee higher levels of social, political and economic stability than potential counterparts in the private and voluntary sectors. To this end, as Marxists frequently used to point out (Gough, 1979; Offe, 1984), states in the developed world subsidized welfare capitalism by providing educational and training support, health care and other benefits which removed much of the burden of maintaining a healthy and educated workforce from employers.

As Esping-Andersen (1999: 5) has written, 'the sum total of societal welfare derives from how inputs from these three institutions are combined', with different combinations being associated with different types of welfare regime. When considering how regime types may be defined and categorized, it has become almost traditional to commence with Esping-Andersen's (1990) original attempt to categorize welfare regimes according to an index of 'decommodification'. This measure refers to the extent to which the different systems of social protection which developed across the advanced economies during the first two-thirds of the twentieth century relied on the market as the prime mechanism for dealing with key individual risks – unemployment, sickness and old age being the obvious examples. The model identified three clusters of welfare regimes which reflect the institutional arrangements, the associated political infrastructures and the patterns of stratification associated with these distinct forms of social governance. Briefly, Esping-Andersen (1990: 52) distinguished three regime types. Liberal regimes – broadly the Anglo-Saxon countries – individualize risk and expect labour market participation to form the prime source of protection. These regimes have relatively ungenerous, means-tested benefit systems or social insurance programmes and high levels of social inequality. Moreover, social goods and services may be delivered by voluntary or private agencies at one remove from the state. Clarke's (2001: 32) view that the terms 'welfare' and 'state' can no longer always be juxtaposed as easily as they tended to be throughout the postwar period is particularly apposite when applied to liberal regimes; as he comments (Clarke, 2001: 30), the place and role of the state varies 'in different "welfare mixes" or "mixed economies of welfare"'. Second, the 'conservative corporatist', social insurance regimes of Northern and Western Europe tend to 'collectivize' risk where income security for labour market participants is concerned, relying on employer and employee contributions to provide generous replacement rates for certain groups, mainly male breadwinners. However, these regimes are less generous when it comes to the provision of social services – in the majority of cases the family (and particularly women) is regarded as the main source of social care, supported by voluntary and private service providers. Finally, the universalist, social democratic systems of the

Nordic countries tend to be the most highly decommodified with risk being collectivized in the form of generous 'citizen benefits' across all aspects of income security as well as universal access to social services.

How accurate does Esping-Andersen's model remain fifteen years or so after it was first developed? For all its undoubted influence, the model has never been regarded as entirely uncontentious (see for example Bambra, 2004). Criticisms are broadly of three closely related kinds. First, there are those who argue that 'three worlds' of welfare capitalism are insufficient to capture the nature of existing regime types and that, depending on the particular perspective employed, the model needs to be complemented by a 'fourth world' of one kind or other. Second, there are extensive debates about Esping-Andersen's assignation of particular countries to particular categories, with a number of attempts being made to reposition them. Third, these criticisms often lead to attempts to develop alternative classificatory systems which are held to be better able to account for the anomalous cases within Esping-Andersen's system while simultaneously accommodating fourth world regime types.

On the first count, convincing cases have been made for adding a number of fourth worlds. Huber and Stephens (2001), for example, follow Castles (1996) in querying the inclusion of Australia and New Zealand as liberal regimes, preferring to regard these Antipodean states as a fourth 'wage-earner' category, at least until the 1980s when first New Zealand and later Australia began to pursue explicitly neoliberal welfare policies. Other fourth categories have also been proposed – Goodman and Peng (1996: 194) refer to 'Japan-focused East Asian welfare regimes', while Leibfried (1993), Ferrera (1996) and Bonoli (1997a) suggest that Southern European states comprise a separate 'Latin Rim' or 'Mediterranean' model owing to their tendency to have more particularistic and fragmented forms of social insurance and less robust systems of social assistance in the context of a greater reliance on the family as the major source of social care.

On the second count, the 'correct' allocation of countries to the various categories has been the subject of much scholarly debate. Van Kersbergen (1995), among others (see also Daly, 2000; Sainsbury, 1996), has questioned whether Esping-Andersen's assignation of the Netherlands to the social democratic category accurately depicts the Dutch approach to welfare, which has many 'continental' elements, while Robert Goodin (2001) has argued that contemporary Dutch attitudes to employment are indicative of the Netherlands' recent turn towards 'post-productivism'. For their part, Arts and Gelissen (2002: 151) argue that 'the Netherlands is ... more a hybrid case than a prototype of a specific ideal-type', the point being that 'if one attaches more importance to certain attributes than to others ... then it is easy to arrive at different classifications'. The Dutch case is by no means the only awkward example when it comes to classifying regime types. Austria, too, is problematic, being amongst the most egalitarian regimes, owing to the strength of the Austrian labour movement, while also exhibiting distinctly 'continental' characteristics by virtue of its conservative/Catholic legacy. Again, the United Kingdom has not been universally regarded as a typical liberal or Anglo-Saxon regime – or at least not until recently. Esping-Andersen (1990) places

the UK as the least commodified of the 'liberal' group of nations but, in view of the nature and direction of developments in UK social policy, commencing in the early 1980s (Ellison and Pierson, 1998; 2003) there is good reason to regard the UK as a fully paid-up member of this group in the wake of eighteen years of Conservative rule.

Third, alternative forms of categorization have been suggested by a number of commentators with feminist writers leading the charge. A key issue here is the view that Esping-Andersen is too preoccupied with the state-market dimension as the primary source of variation among regime types to the exclusion of alternative dimensions of welfare which could produce different kinds of clusters. Of course, Esping-Andersen's original *raison d'être* was precisely his conviction that the 'power-resources' approach to welfare regime development could explain much of the variation in the ways in which different regimes have become institutionalized. 'Decommodification', in his view, lies at the heart of struggles over the nature and delivery of social goods and services, its nature in any individual case being determined primarily by 'the nature of class mobilization (especially the working class); class-political coalition structures; and the historical legacy of regime institutionalization' (Esping-Andersen, 1990: 29). Nevertheless, alternative methods of classifying welfare systems have proved influential. O'Connor (1996: 60) has noted, for example, that the privileging of decommodification elevates 'the class-citizenship aspect of social rights and stratification with fairly minimal attention to other bases of stratification'. Social rights and entitlements, irrespective of gender, are certainly important but, as O'Connor (1993: 513) points out elsewhere, 'before decommodification becomes an issue for individuals a crucial first step is access to the labour market' because 'limitation of access ... may be the result of systemic discrimination or inequality of condition, such as that associated with caring responsibilities'. On this basis, the categorization of welfare systems according to their approximation to the 'male breadwinner model' (Lewis, 1992) produced a typology of regimes that cut across Esping-Andersen's three worlds.

Other approaches also produce configurations of welfare regimes that differ from those proposed by Esping-Andersen. Daly and Lewis (2000) have suggested that 'social care' – the manner in which different regimes organize the care of children and older people – constitutes one such example. According to Orloff (1993: 312), care services among the Nordic countries are not particularly similar with day care provision in Norway being 'much less developed' than in Sweden, while in the 'conservative-corporatist' countries, France provides many services for working mothers, while 'Germany promotes housewifery by offering few services'. Recent work on the provision of social care by Daly and Rake reinforces this view that the nature and extent of provision appears to be at variance with the 'three worlds' model. As they (Daly and Rake, 2003: 69) state, countries such as Germany, the Netherlands and the UK have 'relatively meagre' provision, with caring bearing much more heavily on women than is the case in Sweden or France. Italy and the USA, on the other hand, 'defy a conventional explanatory framework' because, in the former case, women's employment is fairly constrained and, in the latter, public care provision for children and older people is limited, although women have greater access to the labour market.

From a perspective that wants to ensure that significant dimensions of the welfare mix are not ignored, these criticisms are important. In response, Esping-Andersen (1999: 61) has recently attempted to capture women's position in, and the relative contribution of the family to, welfare systems in different countries through the concept of 'de-familialization' (see Lister, 1994 in Baldwin and Falkingham). He argues that some countries – essentially the Nordic ones – do not treat the family as 'the primary locus of welfare' because state-provided social care and child allowances are available to all as a citizen right, thereby affording women the opportunity of much greater access to the labour market. Elsewhere, liberal and conservative corporatist nations continue to exhibit high degrees of familialization, albeit in different ways and for different reasons. Liberal states 'view servicing as a natural market activity, as an individual responsibility; conservatives insist that it be the prerogative of families' (Esping-Andersen, 1999: 76). Where liberal regimes are concerned, however, better off groups can 'de-familialize' because they can afford private care services, but this market-led approach only has a marginal public dimension and consequently accentuates both gender and class inequalities. Many conservative states, on the other hand, are characterized by a lack of generosity with regard to social assistance and, even with the numbers of women entering paid employment rising rapidly, certain nations, such as Germany and Japan, continue to demonstrate gendered assumptions about the role of the male breadwinner and, by extension, the expected role of women as unpaid carers and houseworkers.

The key feature of the concept of de-familialization is whether or not it can satisfactorily integrate the ways in which women and families are positioned in relation to welfare provision in different countries into the 'three worlds' model. In this regard, Paul Pierson (2000c: 801) points out that the concept closely parallels that of decommodification with 'a focus on gender issues [reinforcing] rather than [challenging] the now standard trichotomy of liberal, conservative and social democratic welfare states' – a view which accords with Lister's (1994) contention that both decommodification and defamilialization are important criteria for evaluating social rights. Bamba's (2004: 207–8) study bears out Pierson's conclusion, arguing that 'there are striking similarities between arrangements of countries in Esping-Andersen's decommodification regimes and the defamilialisation (sic) groups [of countries] ... [and that] the "three worlds of welfare" typology is not altered in any significant way by the addition of a more overtly gendered approach'. So, according to these observers, and including family policies as a core dimension of the welfare mix, the three worlds approach remains plausible – although anomalies are inevitable. Taking labour market regulation, welfare state organization and families as key organizing features, Esping-Andersen (1999: 85–6) presents the following clustering of regimes that *broadly* accords with his original classification:

- *Labour markets* are less regulated in the liberal countries (but including Denmark) and strongly regulated in the conservative corporatist states, with the remaining Nordic countries together with Japan, the Netherlands and Ireland constituting a 'medium regulation' group.

- *Welfare state organization* can be categorized in terms of a residual group (again the Anglo-Saxon countries make up the membership of this cluster), a universalist group, which comprises the Nordic countries and the Netherlands, and a social insurance group comprised of the conservative Continental European countries and Japan.
- *Family policies* can initially be divided between the 'familialist' nations – essentially the Continental conservative regimes including the Netherlands – and 'non-familialist' nations. However, this latter category falls into two types: the liberal states (which can only be categorized as 'familialist' if the fact that the bulk of care arrangements are privately organized is disregarded), and the Nordic states, some of which are extensively de-familialized.

'Fourth worlds' are rejected for a number of reasons not the least of which is the pragmatic need for analytical 'parsimony' – the contention being that ever greater refinement of categories risks compromising the attempt to classify regime types by effectively returning analysis to individual case studies. That said, Esping-Andersen is prepared to recognize that certain elements of fourth world regimes should be accommodated within his schema. For example, he broadly accepts Castles' view that the strength of early labour movements in New Zealand and Australia led to the development of wage-earner regimes in these countries. Even so, Esping-Andersen argues that the move towards neoliberal solutions in New Zealand, which began in the 1980s, and a similar move in Australia in the later 1990s, make this regime type a largely historical phenomenon. Where the Mediterranean countries are concerned, the arguments of Leibfried, Ferrera and others are rejected on the grounds that they concentrate on only one dimension of welfare governance (social assistance in Leibfried's case). Although the classification of welfare systems according to individual policy areas or particular social divisions may be an entirely valid exercise in so far as a comparative understanding of particular 'policy configurations' is important, Esping-Andersen claims that his conception of a welfare *regime* entails a broad aggregation of similarities (and differences) across a number of different areas of governance. He notes (Esping-Andersen, 1999: 73), therefore, that 'some criticisms of "the three worlds" are, in a sense, irrelevant because they are not addressing welfare regimes but individual programmes... a welfare regime typology does not stand or fall solely on one policy dimension'. What is important is to 'weigh the importance of different, possibly conflicting attributes' bearing in mind that '*one* programme does not define a regime' (Esping-Andersen, 1999: 88).

### **Utilizing welfare regime analysis**

This book is not 'about' the classification of welfare regimes. However, in order to see how different welfare systems have reacted in response to economic and political pressures over the past thirty years or so, it is important to establish a common baseline for discussion. In terms of regime types, Esping-Andersen's model continues to provide a convenient means of grouping different welfare systems as

a foundation for further analysis. Of course, as Goodin *et al.* (2001: 13) make clear, while it is 'useful to try to put particular countries' welfare arrangements in some more general perspective' it is equally the case that 'no single country ... can truly be taken as representative of a regime type as a whole'. In other words, anomalies will continue to exist and differences *within* regimes types as well as among them are to be expected. Although, for some commentators (see Kasza, 2002), this innate diversity is sufficient to undermine the entire regimes concept, this is not the view adopted here. Treating the different regime types as broad, ideal-typical systems of welfare governance allows a sufficiently accurate initial grouping of general institutional characteristics to be able to see how countries within the different clusters behave in the paradigmatic space carved out by global economic and institutional forces discussed above. It is important to note, too, that a further advantage of the Esping-Andersen model lies in its capacity to incorporate 'production regime' characteristics as constitutive underpinnings of countries' welfare arrangements, the close connection between structures of economic production and welfare being particularly significant in relation to the impact, or otherwise, of economic globalization. However, before proceeding, one terminological modification needs to be considered and it is also necessary to incorporate 'generosity' in terms of social spending levels within the three worlds model – a theme which has become marginalized in recent debates.

The terminological modification refers to Esping-Andersen's 'conservative corporatist' group of regimes. 'Continental' is the preferred term here for two reasons. First, this label 'gets away from the misleading implication of Esping-Andersen's work that the "conservative" welfare states of Continental Europe reinforce inequalities created in the market and thus preserve the stratification system' (Huber and Stephens, 2001: 87). Although, the nineteenth century origins of these 'Bismarckian' systems lie precisely in attempts to preserve status hierarchies, status differences in relation to employment have been progressively removed over the past fifty years. It is true, of course, that continental regimes remained attached to male breadwinner models of welfare over the postwar period, with the accompanying gender inequalities that this model implies. Even here, however, inequalities of this kind are not evident to the same degree in all countries in this cluster and, anyway, recent rises in the numbers of women in (largely part-time) employment have reduced the salience of this feature (Lewis, 2001; Pascall and Lewis, 2004). Particular care has to be taken when discussing continental regimes because there is a greater degree of institutional diversity here than elsewhere. As Daly (2000) and Hemerijck *et al.* (2000) recognize, although they have certain key features of welfare provision in common (most obviously extensive social insurance systems), other arrangements such as structures of industrial relations, the role played by the central state, and the degree of familialism vary considerably.

Concerning the 'generosity' dimension, in the eyes of some observers, Esping-Andersen's concept of decommodification fails to take sufficient account of the different levels of coverage (the 'how much' of welfare regime activity) among different regime types. Whereas the concept can distinguish successfully among different delivery systems (the 'how' of welfare provision) by separating

'Bismarckian' social insurance systems from those which are mainly tax financed in one way or other (frequently, and inaccurately, referred to as 'Beveridgean'), decommodification does not fully capture differences in social spending levels – the original litmus test of welfare effort that now needs to be reintroduced in rather different fashion. This issue is addressed by Bonoli (1997a) who categorizes European welfare systems on two axes: levels of social spending expressed as a percentage of GDP and the percentage of social expenditure financed through social insurance contributions. The result is a typology that broadly corresponds to Esping-Andersen's categories. As expected, the Nordic states appear as the most generous spenders, with universal coverage financed mainly through general taxation; the continental, social insurance states of Northern Europe are high spenders but coverage is not universal while their Southern European counterparts rely on similar delivery mechanisms but generally spend less; finally, the commodified liberal states in Europe – to which may be added other liberal regimes such as the USA, Canada, Australia and New Zealand – finance welfare effort from general taxation but spend less (and means test more) than other regime types.

Bonoli's typology is a useful additional means of understanding these specific features of welfare effort. If the drawback is that his model lacks a clear developmental or historical dimension – and only implicitly recognizes the importance of stratification on class and gender lines – it nevertheless provides a greater degree of clarity about the nature and organization of income security and a considerably clearer understanding of relative spending levels.

Integrating the concepts of commodification/decommodification, familialization/defamilialization and generosity/ungenerosity leads to a grouping of regime types that accords fairly well with Esping-Andersen's original model, the point, as suggested, being to use it as a baseline from which to discuss the nature and dynamics of subsequent policy changes in welfare regimes. There are, needless to say, exceptions and difficult cases within each of the categories.

- High decommodification, high-spending (general taxation), high coverage, defamilialized: the Nordic countries.
- Low decommodification, high-spending (social insurance), medium coverage, familialized: the continental countries including the Netherlands.
- Commodified, low-spending (usually from general taxation), high coverage, non-familialized (because 'de-familialization' relies on access to private services based on ability to pay): Anglo-Saxon countries including the erstwhile 'wage-earner' states of the Antipodes.

Turning briefly to the particular regimes chosen for discussion in this volume, it is important to include those that best typified the above regime types according to data produced at the beginning of the 1980s. The accompanying Tables 1.1 and 1.2 provide data relating to welfare and production characteristics for the three core welfare regime clusters in the economically developed democracies *circa* 1980. As to the countries themselves, Sweden and Denmark have been chosen from the social democratic group because, though different in certain respects, they exhibit



Table 1.1 Welfare regime indicators (1980)

	1	2	3	4	5	6	7	8	9
	<i>Left cabinet years</i>	<i>Continental cabinet years</i>	<i>Social Security expenditure</i>	<i>Transfer payments</i>	<i>Total taxes</i>	<i>Pension expenditure % of public</i>	<i>Spending on non-aged</i>	<i>Decommodification index</i>	<i>Support for mothers' employment</i>
Sweden	30	0	31	18	56	86	12.7	39	62
Norway	28	1	20	14	53	82	8.5	38	43
Denmark	25	0	26	17	52	71	11.5	38	64
Finland	14	0	17	9	36	69	10.5	29	66
mean	24.3	0.3	23.6	14.5	49.4	77.0	10.8	36.2	58.8
Austria	20	15	21	19	46	68	4.1	31	
Belgium	14	19	21	21	43	60	10.2	32	59
Netherlands	8	22	27	26	53	69	12.6	32	34
Germany	11	16	23	17	45	70	8.0	28	36
France	3	4	25	19	45	68	7.5	28	53
Italy	3	30	20	14	33	72	3.4	24	36
mean	9.8	17.6	22.8	19.3	45.8	67.8	7.6	29.1	43.6
Canada	0	0	13	10	36	58	5.7	22	35
Ireland	3	0	19	13	39	55	6.8	23	
UK	16	0	17	12	40	67	9.2	23	22
USA	0	0	12	11	31	61	4.5	14	14
mean	4.7	0.0	15.2	11.5	36.5	60.3	6.6	20.6	23.7
Australia	7	0	11	8	31	59	2.8	13	22
New Zealand	10	0	16	10		88	3.1	17	
mean	8.5	-	13.5	9		73.5	2.6	15	

Data source: adapted from Huber and Stephens, 2001: 88-9.

Notes

1. Left Cabinet: scored 1 each for each year when left is in government alone; scored as fraction of the left's seats in parliament of all governing parties' seats for coalition governments.
2. Continental cabinet: religious parties' government share, coded as for left cabinet.
3. Social Security benefit expenditure as a percentage of GDP.
4. Social security transfers as % of GDP.
5. Pension spending as percentage of GDP divided by proportion of the population over 65 years of age.



Table 1.2 Production regimes: labour market indicators (1980)

	1	2	3	4	5	6	7
	<i>Union density</i>	<i>Union coverage</i>	<i>Corporatism</i>	<i>Bargaining</i>	<i>Wage</i>	<i>Active labour market</i>	<i>Female labour force</i>
	<i>%</i>	<i>%</i>	<i>index</i>	<i>centralization</i>	<i>dispersion</i>	<i>policy effort</i>	<i>participation</i>
Sweden	81	83	4	.58	2.0	75	74
Norway	54	75	4	.63	2.0	26	62
Denmark	67		3	.59	2.1	20	71
Finland	67	95	3	.45	2.5	18	70
mean	67	84	3.5	.56	2.2	35	69
Austria	53	71	4	.44	3.5	8	49
Belgium	57	90	3	.27	2.4	10	47
Netherlands	32	60	3	.35	2.5	10	35
Germany	35	76	3	.34	2.7	10	51
France	15	92		.10	3.3	7	54
Italy	38	—	2	.22	2.6	4	39
mean	38.3	77.8	3	.28	2.8	8.1	45.8
Canada	29	38	1	.07	4.0	6	57
Ireland	44		3			9	36
UK	48	47	2	.27	2.8	6	58
USA	21	18	1	.07	4.8	4	60
mean	36	34	1.8	.14	3.9	6	53
Australia	44	80	1	.57	2.8	5	53
New Zealand	40	67	1		2.9	20	45
mean	42	735	1		2.85	12.5	49

Data Source: adapted from Huber and Stephens, 2001: 96–.

Notes

1. Union density: union membership as a % of total wage and salary earners. 2. Union contract coverage as % of total wage and salary earners. 3. Huber and Stephens take this index from Lembruch's work on corporatism. 4. Huber and Stephens take these figures from Iversen's work on centralized bargaining. 5. 90–10 ratio, the wages of a full-time employee at the 90th<sup>th</sup> percentile of the wage distribution as a multiple of one at the 10th percentile. 6. Active labour market spending as a percentage of GDP divided by the % of the labour force unemployed. 7. Percentage of women age 15–64 in the labour force.

the core features both of the universalist welfare regime and the social democratic production regime. Moreover, unlike oil-rich Norway these countries were not economically advantaged during the difficult period of the 1990s and unlike Finland they were not especially *disadvantaged* by virtue of earlier inclusion in the old Soviet sphere of influence.

The Netherlands, Germany, France and Italy make up the continental contingent – a more disparate group but one which includes mainstream examples (Germany and France) alongside the more problematic cases of the Netherlands and Italy. An advantage of choosing these countries – as opposed to say, Ireland or Spain – is that each has an extended and continuous history of welfare development on corporatist lines, dating to the aftermath of the Second World War (and in some instances to the early years of the twentieth century). In the Irish case, for example, the transition from the British ‘adversarial system’ of social and industrial bargaining to a more continental set of arrangements has only been made over the last ten years (Rhodes, 2001: 184). Where Spain is concerned, the structure of welfare and associated institutions is not entirely consistent with continental norms – and, of course, Spain’s history of dictatorship between 1939 and 1975 means that the Spanish welfare regime has a very different historico-institutional legacy (Moreno, 2001). Looking elsewhere, Switzerland, though an interesting case because of its complex political system, which tends to facilitate institutional ‘stickiness’ at a time when radical adjustments appear necessary, is a hard country to classify. It has been more of a welfare state ‘laggard’ than the majority of continental regimes (Bonoli, 2001), while not conforming particularly closely to alternative regime types (the liberal model perhaps being the closest). Switzerland, too, is not part of the European Union, which sets Swiss governments apart from each of their continental neighbours, who have to conform, *inter alia*, to economic and budgetary constraints imposed by membership of European Monetary Union (EMU).

Finally, the USA, UK and Canada make up the liberal group – but with the important addition of the erstwhile wage-earner states of Australia and New Zealand. Space does not permit coverage of each of these regimes in detail so subsequent discussion will focus on the USA as perhaps *the* quintessential example of a ‘liberal’ regime, together with the UK as a leading instance of contemporary market-oriented welfare state transformation, and Australia as a further and rather different example of welfare state liberalization from ‘wage-earner’ origins. The significant point about the choice of these three countries is that, among them, they cover the key factors and issues currently confronting liberal regimes, each embracing the logic of change, though in different ways.

Two major areas will be used to chart policy changes: labour market policies and old age pensions. These areas tend to be the ‘traditional’ subjects of much comparative welfare analysis, to be sure, but as indicators of welfare regime change, they have three distinct advantages. First, irrespective of regime type, and however differently organized, ‘full employment’ and security in old age have been central components of welfare *state* effort during the postwar era. In this way, these examples provide an indication both of ‘how’ and ‘how much’ national governments were committed to ensuring protection against core risks throughout the life cycle.

Second, the centrality of these policy areas means that they provide a clear focus for establishing the nature and direction of change. While change varies among (as well as within) different regime types as each confronts global economic, social and demographic challenges to its original postwar welfare mix, labour market and pensions policies are so intricately involved in these processes that they effectively encapsulate many of the key issues currently being faced by each of the regime categories in the developed economies. Third, both policy areas elide easily with the wider institutional basis of welfare regimes because they are deeply implicated not just in social but also in economic governance. Employers and trade unions as well as governments have always been closely concerned with the institutional construction (and now reconstruction) of labour markets and 'full employment', in addition, of course, to the issue of 'retirement' and the related question of security in old age. Again, the changing position of women in contemporary welfare regimes can also be addressed by reference to labour markets and pensions (although women's welfare clearly cannot be reduced to these areas alone). The quality and quantity of work available to women has become an immensely significant issue for governments, employers and trade unions alike – in addition, obviously, to women themselves – while the changing nature of many pensions systems clearly affects women in relation to the question of retirement age, the value of their pension entitlements and, for older married women in the breadwinner states, the value of entitlements delivered through husbands' earnings.

## **2 The challenge of globalization**

This chapter examines contemporary debates about the nature of ‘globalization’ in a fairly wide-ranging manner. Of key importance here is the contemporary position of the nation-state and particularly the current challenges facing national governments as they attempt to formulate domestic economic and social policies in what is – arguably – an increasingly global environment. GEPs – particularly those arising from changes in international trade and finance – are perceived by globalization enthusiasts as challenging the capacity of national governments to control their economic and social policies, and undermining their ability to opt for ‘generous’ welfare solutions. Before examining the specific impact that these pressures might have on welfare, it is important to understand the economic aspects of the globalization debate in some detail. Thereafter, the focus will shift to an assessment of arguments for and against the view that national governments now have little control over domestic economic management. Again, without a clear understanding of this issue, which goes some way beyond social policy, narrowly conceived, it is not possible to judge how ‘economics’ and ‘politics’ interact in the welfare arena.

### **Understanding globalization**

As a term used in both popular and academic parlance, ‘globalization’ seems to have become ubiquitous. Unfortunately there is little agreement about its meaning – or meanings. Part of the difficulty is that the term does not describe a discrete process, or even a series of relatively discrete processes. Instead, it is used to refer to a wide range of different social, political, cultural and economic phenomena the connections amongst which are often opaque. As Kellner (1998: 27) has noted, globalization can be used ‘as a codeword that stands for a tremendous diversity of issues and problems, and that serves as a front for a variety of theoretical and political positions’. Debates about its nature – and even existence – cross disciplinary boundaries and involve very different sets of concerns. At the highest level of abstraction the word has been used by some commentators to denote a particular phase of modernity (Giddens, 1990); while for others it is employed as evidence of the beginning of a new ‘global age’ (Albrow, 1996) or a ‘postmodern turn’ (Best and Kellner, 1997). In other ways, ‘globalization’ is applied to specific areas of

society, economy or polity to provide a rationale for certain shifts and changes in particular activities. These may refer, for example, to changes in the nature of employment and production through to the impact of technological innovation on the culture industries. Again, 'globalization' has also been used to underpin explanations for the emergence of new forms of political identity and difference in the context of a perceived move away from 'formal' partisan politics to a less formal politics based upon a plural, fragmented approach to political activity symbolized by the new social movements – including, ironically, the *anti-globalization* protests recently witnessed in Prague, Seattle and Genoa.

Despite the futility of trying to arrive at an agreed definition of 'globalization', it is worth considering some core assumptions that underpin the majority of usages of the term. There are certain 'common denominators' which inform the majority of attempts to discuss the nature of contemporary global changes whether these are culturally, politically or economically focused. An examination of these overarching dimensions will not bring closer a single, coherent understanding of 'globalization', but it will provide a general point of entry to the complexity and detail with which debates about the term are suffused.

However variegated its meanings, a notion of greater spatial and temporal 'connectedness' lies at the core of the 'globalization' thesis. This idea is linked to the need to move beyond limiting ideas of "society" where this means a bounded system ... [to] a starting-point that concentrates upon analysing how social life is ordered across time and space – the problematic of 'time-space distancing' (Giddens (1990: 64). The erosion of fixed boundaries, whether these are territorial or socio-cultural suggests an increasing degree of 'interaction across distance' – a process facilitated by dramatic advances in transport and communication technologies. While this form of interaction does not necessarily reduce the salience of local or regional relationships, there is nonetheless a sense in which 'the local' becomes networked into socio-cultural and economic contexts across the globe. For Giddens (1990: 64), then, 'globalization can ... be defined as the intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa'. In this way it becomes possible to talk, as Held *et al.* (1999: 2) do, about an enormous variety of global interconnections: computer programmers in India, for example, now able to 'deliver services in real time to their employers in Europe and the USA'; or the linking of 'the cultivation of poppies in Burma ... to drug abuse in Berlin or Belfast' – the point being that 'contemporary globalization connects communities in one region of the world to developments in another continent.'

In different, though related, vein Castells' conception of the 'network society' also implies an intensified connectedness. For him, as for many others, information – 'the technology of knowledge generation, information processing and symbol communication' (Castells, 1996: 17) – facilitates the increasingly global reach of social and economic networks. Indeed, the 'new information technologies are integrating the world in global networks of instrumentality' (Castells, 1996: 22). Of course, since 1996 the technologies themselves, as well as conceptualizations of their significance and impact have become evermore sophisticated. Mitchell (2004: 207) writes, for example, that,

Subjects, extended bodies, settlements, economies and cultures can no longer effectively be separated by skins, walls, and frontiers. They have all become inextricably embedded in dense, large-scale webs of interdependence. The child in Boston is socially and culturally linked to his grandmother in Melbourne, the server farm in Palo Alto is economically coupled to the cubicle farm in Bangalore, the cave in Afghanistan threatens the skyscraper in New York.

And yet, for all the apparent seamlessness of these connections, a further – paradoxical – observation frequently made about ‘globalization’ is not just that global processes contribute to greater global organization, but simultaneously to increased *disorganization* – at a variety of levels. Observers have commented on the disorganization, or fragmentation, of individual identities (Giddens, 1991; Bauman, 2001), as well as of cities (Amin and Thrift, 2002; Graham and Marvin, 2001) and entire socio-economic systems (Castells, 1998; Sklair, 2002). The effects of disorganization are by no means all negative, but it is important to be aware of the potentially deleterious consequences of global interconnections for ‘the local’, whether this term refers to countries, regions, localities or individuals. In this regard, writers like Castells and Urry have noted the upsurge in regional, cultural and religious differences in many parts of the globe. Castells (1996: 24–5) comments on the apparent capacity of globalizing processes to marginalize and exclude and points to the significance of the contemporary spread of fundamentalism ‘throughout the world at the historical moment when global networks of wealth and power connect nodal points and valued individuals throughout the planet, while disconnecting, and excluding large segments of societies, regions and even entire countries’. Urry (2003: 89) argues, conversely, that ‘local’ reactions to marginalization in an era of ‘global complexity’ are now being seen in ‘the power of the powerless to inflict the utmost harm upon the institutions of imperial power’

This understanding of globalization as the increase in the incidence, rapidity, differential ‘networkability’ and increased complexity of social relations provides an initial starting-point for, but hardly exhausts, efforts to arrive at a clearer understanding of the idea. As already suggested, the reason for this is that globalization is a contested concept capable of incorporating a number of possible meanings. It is contested because, as Albrow (1996: 91) has argued, it is inherently ambiguous. For one thing the ‘process’ of globalization, if such it be, lacks ‘a determinate end-point’, hence it is impossible to arrive ‘at a complete enumeration of its impact’. Even if the common assumptions about interconnection and time-space distanciation are accepted, it is not hard to see that these create as many problems as they solve. For one thing, the nature of the ‘interconnectedness’ produced by time-space distanciation is hard to pin down. Is it the case that the variegated processes involved in, for example, ‘diasporic communities, just-in-time production and negotiated gender identity are necessarily linked to the same comprehensive and relentless process’ (Albrow, 1996: 94) – let alone the ‘electronomadic spatial practices’ and extreme cybernetics discussed by Mitchell (2004) and others? Because mapping the causal pathways among such connections is a daunting task it is not surprising that detailed analyses of globalization tend to

fall into disciplinary or sub-disciplinary categories. This tendency is an implicit acknowledgement of enduring ambiguity and the unlikelihood of ever reaching beyond anodyne understandings of the global turn at supra-disciplinary levels. After all, globalizing processes in, say, the cultural sphere are likely to be of a different quality and have different effects, than those in the economic or political arenas. Moreover, even if ‘effects’ in a particular area do indeed have repercussions across a number of others, methodological differences within and amongst social science disciplines make the prospect of consensus about their nature difficult to establish. A further problem, of course, is that many of those involved in debates about globalization are highly sceptical about the capacity of the idea to make any significant contribution at all to an understanding of the contemporary world, the result being that debates are not only permeated by theoretical and methodological differences amongst disciplinary perspectives, but are also riven with fundamental disagreements about any potential explanatory value.

The consequences of the revolution in information and communication technologies offers an example of some of these difficulties. Although there is little disagreement about the *fact* of the increased speed and potential ‘coverage’ of information, its *cultural* impact is disputed. So, although Held *et al.* (1999: 343) can argue without fear of contradiction that ‘in terms of the numbers of channels and their geographical reach, there has undoubtedly been a globalization of the telecommunications infrastructure in the postwar era’, the point is to discover whether or not this process has led to greater cultural homogenization or, conversely, a degree of cultural ‘hybridization’. Taking the former view, Schiller (1991) maintains that US cultural domination has been enhanced by the capacity of cable and satellite technologies to bombard others with ever-increasing amounts of US/Western cultural imagery particularly through television and film. The result, it is argued, has been a growing degree of cultural imperialism as – quite literally – the American ‘view’ of the world is exported across the globe. Others see this process of homogenization reflected in other areas of the cultural sphere (Ritzer, 1993).

On the other hand, Featherstone (1995), Sinclair *et al.* (2000) and others (see Pieterse, 2004) argue that US or Western enculturation is countered in many areas of the globe by alternative cultural images, affiliations and lifestyles that act as reminders that globalization should not be understood simply as a unidirectional, and uniform, phenomenon, even when the undoubted inequities of power, knowledge and wealth both within and among nation-states and regions are taken into account. Increased global connections are *interconnections* with the sense of reciprocity that this word conveys. Cultural theory is relevant to the present discussion in this regard because it acts as a reminder of what Amin (1997: 131) calls ‘multiplexity’ – an understanding of the effects of globalization that stresses the ‘intermingling of “in here-out there” processes, resulting in heterogeneity, shifting identities and multipolarity’. As Chapter One suggested, little is gained if ‘globalization’ is conceived as a phenomenon ‘out there’ creating difficulties for ‘in here’. Rather global activities come together with ‘local’ (national, regional, municipal) processes in ways which involve change and adjustment but not necessarily the destruction of existing structures and institutions.

This brief excursus into the cultural arena suggests that, here at least, globalization is regarded as a significant phenomenon. But, for present purposes, it is the range and possible impact of the economic dimension that is important. Whether the issue is the increase in transatlantic and transpacific voice paths or the latest gigabit technologies, the new communications industries have provided both the hardware and software that have expanded the data-processing capacity necessary to enable transnational corporations, particularly financial institutions, to handle vast quantities of information at high speed. Without these facilities it is hard to see how the extraordinary rise in global financial flows and the equally significant growth in global trade, discussed below, could have developed and been sustained. However, there is a good deal of disagreement about whether the rise in trade and financial flows really amounts to a 'globalized' economy of sufficient scope and power to influence national economies and the institutional structures and assumptions associated with them, not least because attitudes here are associated with broader social and political beliefs about the viability of social democratic political and welfare solutions. At the risk of some generalization, those on the political left tend to reject the idea that GEPs are actively dissolving national sovereignties, arguing instead that national governments continue to have the capacity to control their economic, and therefore social and political, destinies. In this way, social democratic political alternatives can be expected to survive because their institutional foundations are not perceived to be under terminal threat. Others of a neoliberal persuasion, however, are equally convinced that market-led economic change has compromised the social democratic vision of state-based social protection to the point where traditional conceptions of collectivist welfare no longer apply, thus ensuring the triumph of the free market.

### **Economic globalization**

This basic cleavage, at its most stark between extreme sceptics and 'hyper-globalizers', is played out at different levels of analysis. Some of the arguments are conducted in very general terms, merely referring to key factors, the impact of which are considered to be self-evident; others, conversely, contain extremely detailed discussions which employ a range of qualitative and quantitative methodologies to examine the relationships among a number of variables considered to bear directly on the nature and extent of economic globalization. In assessing these positions, the 'weak globalization' perspective adopted here rejects the more outlandish claims of the hyperglobalizers while also acknowledging that a too-ready defence of traditional social democratic economic and welfare solutions can lead to the significance of changes in the global economic order being seriously played down. A middle way between these opposing extremes accepts evidence which indicates that certain important and far-reaching changes in the capitalist economic system have taken place, while also recognizing that their impact has been far from uniform and has, to date, involved 'adjustment' rather than social and political 'transformation' in the great majority of cases. To reprise the main argument set out in the previous chapter, what is currently being witnessed is not the victory of a rampant global capitalism which has successfully eroded the political



and social institutions of nation-states from ‘out there’, but a partial *reorganization* of national state structures and institutions better to accommodate the new challenges and pressures which are undoubtedly arising from specific changes in the global economy. It is the nature of the relationship and mutual conditioning between global economic and national institutions that is at issue, the balance clearly differing among different types of regime. One element here, as Yeates (2001: 27) points out is that ‘states [can] “deploy” social policy as part of a broader strategy of economic and industrial development’, using ‘the strategic importance of social policy in facilitating (or impeding) globalizing strategies’. This issue will be explored in more detail in Chapter Three.

Turning to the hyperglobalization thesis first, as evidence for their views that globalizing forces have once and forever altered the parameters of the postwar economic settlement, commentators like Ohmae (1995) point to general phenomena such as the information and communications revolution already mentioned, as well as to significant economic changes which have, in their view, created a ‘borderless world’. These involve changing levels of trade as well as changes in the nature of the goods and services that are traded. In this respect, Giddens (1998: 27) has argued that ‘the level of world trade today is much higher than it ever was before and involves a much wider range of goods and services’. Perhaps most important of all are changes in the behaviour of finance capital. In common with other hyperglobalizers, Giddens (1998: 27) believes that levels of finance capital and capital flows are unparalleled and the new communications technologies mean that ‘fund managers, banks, corporations, as well as millions of individual investors, can transfer vast amounts of capital from one side of the world to another at the click of a mouse’. His point is that these movements can ‘destabilise what might have seemed rock-solid economies – as happened in the events in Asia’.

This image of contemporary globalization is at once beguiling and threatening. A world of ‘flows’, capable of making and remaking entire economies and polities, can be depicted as an increasingly pluralized space (or set of spaces) in which institutions, forms of social and political belonging, even individual identities, are continually in motion, with the increased sense of ‘possibility’, on the one hand, or destruction of the familiar, on the other, that such a vision implies. Perceptions of this kind, however, are too often couched in general terms with only passing reference to greater detail and this can lead to the reduction of what are substantive debates about core issues concerning the nature of globalization to matters of ideology.

One difficulty is that, in the absence of such detail, debates cohere around rather loose images of economic interconnectedness which, as Lane (2000: 208) argues, *assume* ‘the passive exposure of domestic institutional actors to influences of events happening elsewhere in the world’. Globalization in this ‘passive’ sense can appear important because, in a world of constrained budgets and tax regimes, it can seem as though changes in the global economy make it impossible for nation-states and their associated institutions to control their economic destinies in the way they used to do, at least during the postwar period, and that political and corporate leaderships act on this reasoning. However, it is important to be specific where possible, particularly when attempting to understand just how GEPs might

affect national economies and, to this end, Lane's 'tight definition' of globalization, by which she means the 'active' or dynamic processes associated with degrees of trade and financial liberalization, offers a better approach to this issue.

'Trade openness', or the extent of international integration of markets in traded goods and services, as well as capital, is regarded by political economists as a key indicator of economic globalization. Although there is some agreement about the direction of integration, there is far less about either its causes or impact – the latter being of prime concern here. Of course, there are variations among the three categories in terms of both scope (the countries or regions involved in trade flows) and types of goods involved. Manufactured commodities differ from traded services and both differ from the ever-increasing range of financial goods and services traded in capital markets. The differences are significant partly because they relate to different aspects of economic governance and partly because the extent of integration varies among the categories. With regard to governance, manufactured goods are clearly more vulnerable to controls than are many services or finance for the simple reason that they continue to need to be moved physically across territorial space. Although transport costs have fallen due to cheaper fuel, containerization and other factors, national governments are still able to levy tariffs on, or more frequently create non-tariff barriers for, imported goods. The control of capital is a much more complex problem. 'Integration' raises difficulties of both extensity and measurement. The term should not be taken to imply simple 'convergence' particularly in traded goods sectors, where variations among different economies can be marked. As McKeown (1999) has pointed out, similar countries may converge as trading systems open, but convergence is less likely to take place between developed and less developed economies. Again, where capital market integration is concerned, the extent of convergence can be measured in different ways, which lead to differing interpretations of its impact on national governments. It is also worth remembering that 'capital markets' include a number of sub-categories, the distinction between foreign direct investment and the various forms of portfolio investment being particularly significant.

### ***Trade openness and global markets***

If there is a modicum of agreement between sceptics and hyperglobalizers it lies in the fact that both recognize that international economic activity has grown enormously over the past thirty years. In some ways the 'facts' are not in doubt. Trade in manufactured goods has expanded in both extensity and intensity during the postwar period, increasing tenfold since the General Agreement on Tariffs and Trade (GATT) was created in 1947, and becoming ever more rapid since the early 1970s. The ratio of total exports and imports to world GDP, or exports and imports as a percentage of national GDP provide a simple way to chart trade liberalization in relation to manufactured products (see Table 2.1). As Garrett (2000: 946) has remarked, 'in 1970 exports plus imports constituted roughly one quarter of worldwide gross domestic product (GDP). By 1997, the figure had almost doubled to over 45%'. However, before accepting that the world economy has effectively become globalized, the evidence needs to be examined further. Two

Table 2.1 Exports and imports as percentage of GDP

	1970	1989	1994	1999	2002
Australia	13.7	15.8	18.5	19.9	20.0
Canada	22.6	25.9	34.5	43.7	–
Denmark	27.2	35.1	35.5	36.9	45.0
Finland	24.5	23.6	35.1	37.5	38.0
France	15.1	21.7	21.5	26.1	27.0
Germany	20.4	30.5	23.6	29.4	35.0
Italy	16.2	19.7	23.9	25.5	27.0
Japan	10.8	10.6	9.3	10.4	11.0
Netherlands	47.3	59.9	55.5	60.6	62.0
New Zealand	22.6	27.1	31.4	31.9	33.0
Spain	12.5	17.1	21.0	27.3	28.0
Sweden	24.0	32.2	36.5	43.7	43.0
UK	22.3	23.7	26.4	25.8	26.0
USA	5.8	9.4	10.4	10.7	10.0

Sources: compiled from OECD 2001a and World Bank 2004.

key indicators of globalization need to be considered. First, it is important to be clear about the ‘convergence’ issue: are patterns of economic integration genuinely ‘global’, or are they primarily regional? Second, to what extent, and in what manner, does closer economic integration affect the economic sovereignty of nation-states? If markets are expanding at the same time that rates of activity are increasing then national economic autonomy could be under threat, bringing Ohmae’s ‘borderless world’ within reach.

There is little doubt that the extensity of trade has increased markedly since the 1970s. For much of the postwar period, the expansion of trade was facilitated by GATT which, though weak in some ways, nevertheless provided a forum for negotiations about tariff reductions, with most nations taking part by the late 1980s. Tariffs were indeed reduced in successive rounds of talks and GATT’s successor, the World Trade Organization (WTO), founded in 1995, is a more powerful body which initially was expected to make greater headway than its predecessor in the reduction of non-tariff barriers. Partly because of GATT/WTO and partly, too, because of the demands from other international agencies like the World Bank and the International Monetary Fund (IMF), developing countries have been encouraged to open their markets to the point where Held *et al.* (1999: 165) refer to ‘a sea change among developing countries, with widespread reductions in trade barriers’. It is certainly the case that the share of world exports taken by developing nations has risen over the last thirty years as Table 2.2 indicates.

But these data have to be treated with caution. Although it is clear that, both amongst developing countries and between those countries and the developed

Table 2.2 Growth of manufacturing production and exports in newly industrializing economies

	Share of world exports %		Average annual % change			Manufactures as % of total exports	
	1963	2000	1970/80	1980/90	1990/99	1980	1998
S. Korea	0.01	2.7	22.7	12.0	15.6	89	91
Taiwan	0.2	2.3	16.5	NA	NA	88	94
Hong Kong	0.8	3.2	9.9	14.4	8.4	88	95
Singapore	0.4	2.2	NA	NA	NA	43	86
Malaysia	0.1	1.5	3.3	10.9	11.0	19	79
Thailand	NA	1.1	8.9	14.1	9.4	25	74
Indonesia	NA	1.0	6.5	2.9	9.2	2	45
Philippines	NA	0.6	NA	3.5	9.6	NA	90
China	NA	3.9	8.7	19.3	13.0	48	87
India	0.8	0.7	5.9	5.9	11.3	51	74
Brazil	0.1	0.9	8.6	7.5	4.9	37	55
Argentina	NA	0.4	8.9	3.9	8.7	23	35
Mexico	0.2	2.6	5.5	7.0	14.3	10	85

Source: Dicken 2003: 48. Reprinted by permission of Sage Publications Ltd from Peter Dicken, *Global Shift*, 4th edition (© Peter Dicken 2003).

economies, trade flows have increased, it is equally clear that there is a long way to go before it would be possible to talk about a fully integrated global economy. A wealth of literature exists on this issue, and it is not necessary to rely on convinced sceptics like Hirst and Thompson (1999) to perceive the difficulties with the strong globalization thesis. For one thing, the WTO's progress in reducing trade barriers and advancing free trade principles generally appears to be limited. As Yeates (2001: 103–4) comments,

in principle international trade law requires countries to make local markets accessible to foreign investors on equal terms as domestic ones, but in practice, demands by the South that the profitable Northern markets be opened up to them were met by the exclusion by the North of certain industries from trade negotiations. To the extent that trade agreements institutionalize the exclusion of the South from Northern markets they are directly implicated in sustaining geo-economic inequalities.

This observation is endorsed by Schaeffer (2003: 243–4) who argues that large export-oriented and service industries in the northern hemisphere have benefited from the WTO 'largely because they have been able to capture markets from businesses that had long been protected by governments in Africa, Asia, Eastern Europe, Latin America and the Soviet Union'. He (Schaeffer, 2003: 244–5) goes on to note that,

WTO rules have made it more difficult, even illegal, for raw material producers in the South to cooperate, organize cartels, restrict supplies, or raise prices. Meanwhile, the reduction of tariff barriers has exposed domestic manufacturing industries to withering competition from TNCs based in the North.

Taking account of the above, it is not surprising that in asking how far we currently are from 'a world in which markets for goods, services and factors of production are perfectly integrated', Dani Rodrik's (2000: 178) answer is that 'we are quite far'. In his view, 'contrary to conventional wisdom ... international economic integration remains remarkably limited', not least because even porous national borders, such as the US-Canadian one, 'seem to have a significantly depressing effect on commerce, even in the absence of serious formal tariff or non-tariff barriers, linguistic or cultural differences, exchange rate uncertainty, and other economic obstacles'.

Bearing in mind the misgivings voiced by Yeates and Schaeffer about the activities of the WTO, and including Rodrik's recognition that 'exchanges that cross national jurisdictions are subject to a wide array of transaction costs introduced by discontinuities in political and legal systems' (Rodrik, 2000: 179), there is good reason to be sceptical about the globalization thesis as this relates to trade integration. However, one further dimension needs to be taken into account that 'rebalances' the argument somewhat. There is evidence of increasing concentrations of economic activity in certain parts of the world, specifically among the developed economies, which may be encouraging higher levels of regional market integration. Held *et al.* (1999: 167), for example, point out that 'extensive as they are, trade networks still appear to be concentrated within certain geographical areas, crudely Europe, the Americas and Asia-Pacific, three trade blocs with some economic coherence and including most of the industrialized economies'. The European Union is the clearest example of a regional bloc trading arrangement, by virtue of the fact that it is an *economic union*, and this stands in contrast to NAFTA, which as its name suggests, is a 'free trade area', lacking the internal organization and regulatory economic regime of the EU. Asia-Pacific lags behind these blocs because 'regional arrangements ... are much looser, less formalized and more open than in the other two triad regions' (Dicken, 2003: 156). Nevertheless it is the case that intra-regional trading is growing in the Asia-Pacific area, with exports among East Asian nations becoming a greater proportion of their total exports (Park, 1994).

Disagreement about the nature these emerging regional configurations of trading arrangements lies not so much in disputes about their existence as in different understandings of the direction of future development. Commentators broadly agree that the basic triadic structure is supplemented by developing economic relationships between the dominant economies within each bloc and other smaller economies which are 'regionally specific and adjacent to one or other of the Triad members' (Hirst and Thompson, 1999: 121). Thus the USA has developed a closer trading relationship with Asian-Pacific countries like the Philippines, India and Pakistan, while the EU has created trading links with ex-Communist European

nations (many of which have recently joined the EU), as well as with a number of African countries. Finally, Japan has close ties not only with the large regional economies of Singapore, Hong Kong and Taiwan, but also with smaller countries such as Sri Lanka and Fiji. But the issue, however, is whether the growing links within these regionally based economies point to a *lack* of globalization, as Hirst and Thompson (1999) believe, or whether the increasing intensity of flows, and relative lack of protectionism, among Triad members indicate a trend towards integrated markets even where these are mediated by dominant regional economies and characterized by ‘non-convergent’, unequal patterns of trade (Garrett, 2000; see also Ohmae, 1995).

Much depends on the angle of vision here. As Dicken (2003: 73–4) argues, if a macro-view is adopted, the global Triad ‘is, in effect, sucking in more and more of the world’s production, trade and direct investment [and] appears to sit astride the global economy like a modern three-legged Colossus’. However, he points out that a micro- or meso-perspective would indicate rather different levels of interconnectedness and disconnectedness, the meso-scale in particular yielding different patterns of economic activity and developing growth axes, either within nation-states or among territorially proximate economic spaces. At global level, then, it would not be inaccurate to suggest that the Triad acts a force for integration, particularly perhaps as the emergence (and recovery following the crisis of 1997) of Asia-Pacific, now with the increasing influence of China, has boosted the economic power of that region to the point where Republicans in the US Senate are demanding that the Chinese government take measures to correct its large trade surplus with the USA (Wood, 2005: 1). Even so, taking world trade as a whole, unevenness abounds, with many developing economies excluded from these globalizing processes and others remaining marginal to regional, let alone global, economic life.

### ***Capital movements and global finance***

To separate trade and capital flows from one another entirely is something of an artificial exercise. Trade openness, for instance, has been one reason for the steep rise in foreign direct investment (FDI), particularly among OECD economies. As Garrett notes, where international financial activities are concerned, developing countries remain marginal and the extensity of capital movements is not as great as it is for traded goods. Examining market integration in countries at different levels of development during the 1990s, Garrett (2000: 951) states that comparing means for the OECD countries with those of the lowest income nations ‘provides stark evidence that there are ins and outs in the purportedly global economy’. With the exception of trade flows, which are roughly comparable in volumes if not composition, he argues that the ‘high- and low-income groups differed dramatically ... on every other dimension of market integration’. The key elements of Garrett’s table are reproduced as Table 2.3 and it is clear that, during the 1990s, FDI flows were more than twice as large, and portfolio investment 25 times as large, in the OECD in comparison with the group of low-income nations. But

the *intensity* of capital flows among the developed economies has increased dramatically and it is this feature which is particularly important for the present discussion. FDI flows provide the most common measure of capital mobility and Tables 2.4 and 2.5 provide figures for outward and inward flows of FDI for selected OECD countries, these showing marked growth, particularly after 1980.

Inward flows of FDI among OECD countries rose noticeably after 1985, although patterns are uneven. Japan, for example, has been a leading source of outward FDI yet inward flows have not grown appreciably. Again, the USA, a leading source of outward FDI in the 1970s, while remaining the largest overseas investor nevertheless saw its global share of FDI fall in the 1980s in response to rising current-account deficits, while, conversely, by the end of 2002, China had overtaken the US in FDI inflows, 'becoming the most attractive FDI destinations in the world and received \$52.7 billion in FDI' (Xiao, 2005: 3; see also Sklair, 2002: 249).

In general, the highly industrialized European countries became net exporters of FDI during the 1980s as 'virtually all restrictions on the outward movement of FDI [were] removed ... and inward investments [faced] only sectoral restrictions ...' (Simmons, 1999: 49). The driving forces behind this form of capital market liberalization are the multinational companies (MNCs). Over the past thirty years or so, the revolutions in information and communications and in transport have allowed MNCs to decentralize managerial control to affiliates in other countries and so to develop networks characterized by devolved production processes able to respond swiftly and efficiently to technological innovation and market change (Castells, 1996). Held *et al.* (1999: 256) also note that MNCs have increasingly contracted out business to small and medium-size enterprises (SMEs) which have lower costs and are more flexible, the consequence being that MNCs can pass on the costs of (perpetual) adjustment to changing market conditions to relatively autonomous units. It is partly for this reason that over the past twenty years MNCs have concentrated on increasing their competitive advantage not so much as direct producers but as 'processors of market information and organizers of markets'. Simmons (1999: 49) observes, for example, that new forms of direct investment have emerged over the past decade and comments that 'traditional investments in raw materials and manufacturing are an ever smaller portion of the share of FDI in the OECD'. The rise in mergers, acquisitions and strategic alliances are indicative of this trend because 'relatively fewer foreign investors are willing to start from scratch ... as firms seek to penetrate markets and tap new sources of technology cheaply and quickly' (Simmons, 1999: 49–50).

Whether or not this depiction of increasing capital movements through the medium of FDI represents an argument in favour of globalization is a moot point, however. Disagreement turns on perceptions of the relative importance of MNCs 'home' operations in relation to their overseas activities and also on attitudes to the influence of national business systems. On the first issue, Hirst and Thompson (1999: 79) argue that FDI flows tend to capture 'only what companies are "lending" to their affiliates abroad, not what they are at the same time investing in their home country or territory', the result being that the overseas orientation of the

Table 2.3 Cross-national variation in globalization (Garrett, 2000: 950)

	<i>Trade/GDP %</i>	<i>FDI/GDP %</i>	<i>International portfolio investment/GDP %</i>
High income OECD			
M	67	3.3	7.2
SD	37	2.1	6.9
Low income			
M	66	1.4	0.3
SD	34	1.4	0.4

Source: adapted from Garrett 2000: 950.

Table 2.4 Stocks of outward FDI by major investing economies, 1960–94 (US \$bn, % in brackets)

	<i>1960</i>	<i>1975</i>	<i>1980</i>	<i>1985</i>	<i>1994</i>
USA	31.9 (47.1)	124.2 (44.0)	220.2 (42.9)	251.0 (36.6)	610.1 (25.3)
France	4.1 (6.1)	10.6 (3.8)	23.6 (4.6)	37.1 (5.4)	183.3 (7.6)
Germany	0.8 (1.2)	18.4 (6.5)	43.1 (8.4)	59.9 (8.7)	199.7 (8.3)
Netherlands	7.0 (10.3)	19.9 (7.1)	42.1 (8.2)	47.8 (7.0)	146.2 (6.1)
Sweden	0.4 (0.6)	4.7 (1.7)	5.6 (1.1)	12.4 (1.8)	51.2 (2.1)
UK	12.4 (18.3)	37.0 (13.1)	80.4 (15.7)	100.3 (14.6)	281.2 (11.7)
Japan	0.5 (0.7)	15.9 (5.7)	18.8 (3.7)	44.3 (6.5)	284.3 (11.8)

Source: Held *et al.* 1999: 247. Table 2.4: Stocks of outward FDI by major investing economies, 1960–94 (US \$bn, % in brackets). (Reprinted by permission of Polity Press.)

Table 2.5 Stocks of inward FDI by host economies, 1960–94 (US \$bn, % in brackets)

	<i>1960</i>	<i>1973</i>	<i>1980</i>	<i>1985</i>	<i>1994</i>
USA	7.6 (13.9)	17.3 (10.4)	83.0 (17.2)	184.6 (25.1)	504.4 (21.5)
France		22.6 (4.7)	33.4 (4.5)	142.3 (6.1)	
Germany		36.6 (7.6)	36.9 (5.0)	125.0 (5.3)	
Sweden		3.6 (0.7)	5.1 (0.7)	19.1 (0.8)	
UK	5.0 (9.2)	14.8 (8.9)	63.0 (13.1)	64.0 (8.7)	214.2 (9.1)
Japan	0.1 (0.2)	1.3 (0.8)	3.3 (0.7)	4.7 (0.6)	17.8 (0.8)

Source: Held *et al.* 1999: 249. (Reprinted by permission of Polity Press.)

company is exaggerated. Their own data based on the sales, assets, profits and subsidiaries and affiliates of a large number of MNCs in core OECD countries takes account of home territory activities in addition to overseas activities. Looking at the ‘ex-post economic activity engendered’ rather than at the magnitude of cross-border flows themselves, Hirst and Thompson (1999: 84) conclude, *inter alia*, that ‘the “home-oriented” nature of MNC activity along all the dimensions looked



at remains significant [and thus] ... MNCs still rely on their “home base” as the centre for their economic activities, despite all the speculation about globalization’.

Support for the home-based orientation of MNCs also comes from work by Doremus *et al.* (1998: 9), who, while recognizing that ‘the scope for corporate interdependence across national markets has unquestionably expanded in recent decades’, argue that ‘history and culture continue to shape both the internal structures of MNCs and the core strategies articulated through them’. These authors (Doremus *et al.*, 1998: 23) perceive systematic differences among US, German and Japanese MNCs across a range of criteria – for instance, the priorities assigned to shareholders, the centrality of banking relationships and the nature and accountability of their managers – each of which can be related to institutionalized features of their respective economies. Moreover, volumes of FDI flows among these states also vary ‘in ways that tend to reflect different national approaches to inward investment’ (Doremus, *et al.*, 1998: 116). The kind of differences noted refer to variations in the composition and the direction of FDI flows among the three countries. Thus the more protected, stakeholder-driven Japanese system has higher rates of outward than inward investment, with FDI flows to the US concentrated in the wholesale trade sector. Japanese MNC behaviour is also characterized by high degrees of intra-firm trading (IFT). US MNCs, conversely, reflect the short-term, shareholder-driven concerns with immediate returns typical of Anglo-American capitalism and consequently FDI flows are concentrated mainly in finance sectors and foreign manufacturing. As could be expected, US MNCs display only moderate levels of IFT. Evidence of the influence of national business systems can also be found in MNC attitudes to research and development (Pauly and Reich, 1997: 14–15; Hirst and Thompson, 1999: 91).

These key arguments from globalization sceptics counter-balance the wilder prognostications of the hyperglobalization lobby (Ohmae, 1990; Reich, 1991; Giddens, 1998), but they tend to underplay the increasing importance of capital market movements for corporate strategies. It may well be the case that MNCs remain closely associated with ‘their’ national business systems – but as observers have pointed out (Held *et al.*, 1999; Dicken, 2003;) corporations have to take increasing account of the global economic environment if they are to retain or gain competitive advantage. As Held *et al.* (1999: 262) note, MNCs ‘ability to produce in a range of countries and to realize competitive advantages generated in different locations gives them a global vision and a global competitive advantage’. According to Lane (2000: 214), for example, ‘recent transformations in the global economic and technological environment have induced a number of large German firms to expand their foreign investment and co-operations and to change their internationalization strategies’. German chemical corporations were involved ‘in huge cross-border mergers and joint ventures’ during the 1990s, while the German car industry ‘changed from multinational companies, with a clear core in Germany and more peripheral affiliates in foreign locations, to transnational companies with globally differentiated production networks’ (Lane, 2000: 215). Again, the Japanese car industry shifted away from the home-based, export-driven focus of the 1970s to a global approach in the 1980s, with production located primarily in the

European and American markets. Japanese electronics corporations also increased FDI to Europe and America, as well as to East Asia, during this period. Now, it may well be that, in Germany for instance, the Rhenish culture (see Albert, 1992) of 'long-termism is still the predominant influence on managerial orientations and practices' (Lane, 2000: 219) and this is supported by the system of industrial relations, company law and so on (Soskice, 1997). However, as many commentators point out (see Cerny, 2000: 131), it is becoming less feasible for companies to compete purely from their home bases and, to this extent at least, it is possible to argue that the contemporary international economy has a 'global' dimension. Certainly, MNCs 'are locked into external networks of relationships with a myriad of other firms: transnational and domestic, large and small, public and private', the argument being that 'such interrelationships between firms of different sizes and types increasingly span national boundaries to create a set of *geographically nested relationships from local to global scales*' (Dicken, 2003: 253, original emphasis). For Dicken (2003: 12), then, in contrast to the 'shallow integration' of the global economy in the pre-1914 period, 'today, we live in a world in which *deep integration* organized primarily within the production networks of transnational corporations ... is becoming increasingly pervasive' (original emphasis).

A consideration of current patterns of FDI goes only some way towards providing a greater understanding of the increasing importance of global capital movements. The general picture is enhanced by an examination of the changing nature and rising incidence of portfolio investment over the past twenty years. This type of activity refers to stocks, bonds and bank loans all of which tend to be more liquid, and therefore more volatile, than FDI. The rise in this form of investment results from the combination of the progressive removal of capital controls in OECD countries between the late 1970s and late 1980s, and the subsequent desire on the part of institutional investors to reduce exposure to risk in the prevailing post-Bretton Woods environment of floating interest and exchange rates. As a number of commentators have pointed out (Cerny, 1993; Simmons, 1999; Watson, 1999), the changing composition of portfolio investment is just as significant as the increase in this form of financial activity itself. Convertibles, options, swaps and futures (Walter, 1991) have added to the volume of portfolio borrowing, Watson noting, particularly in the case of the latter, that they operate as hedging activities to reduce the potential financial impact of often volatile foreign exchange markets. Indeed, Watson (1999: 6) appears to attribute the rise (and rise) of futures markets to risk-averse behaviour, arguing that 'floating exchange rates create exactly the sort of market tensions – those associated with excessive price volatility – which futures trading thrives on'.

Of course, in the same way that rising FDI can be interpreted differentially, depending upon perceptions of the wider economic context in which changes take place, increasing portfolio investment needs to be similarly contextualized. To what extent do increases in these forms of investment indicate a move towards an integrated global financial market? Once again, the issue is a complex one and the evidence is far from conclusive when attention is paid to two common indicators of capital mobility. One indicator is the relationship between national savings and

Table 2.6 Gross capital inflows (US \$bn)

		1991	1993	1995	1996	1997
World	Portfolio investments	466.4	754.4	595.1	919.2	1,002.2
	Direct investments	154.4	218.6	329.2	334.0	418.1
	Other investments	104.4	438.7	775.2	831.9	1,276.9
	Total	725.2	1,411.7	1,699.5	2,085.1	2,697.1
Industrialized countries	Portfolio investments	418.3	620.7	538.4	785.2	847.9
	Direct investments	113.7	143.3	207.4	191.5	235.9
	Other investments	36.7	359.0	568.0	694.5	1,154.1
Developing countries	Portfolio investments	31.0	117.1	47.2	122.0	126.6
	Direct investments	40.7	75.3	121.8	142.5	182.2
	Other investments	64.1	74.8	165.3	113.3	91.0

Source: Siebert, 1999: 62

investment, the assumption being that, in an environment of perfect capital mobility shortfalls in national savings can be made up by borrowing on world capital markets at the prevailing world interest rate thereby removing the need either to drive up the domestic interest rate or, alternatively, to reduce levels of domestic investment. An influential study by Feldstein and Horioka (1980) found no evidence for this assumption, finding that changes in countries' rates of saving appeared to have a direct impact on national investment rates, leading to the conclusion that capital mobility remained low. These findings have been confirmed by many other studies over the past twenty years (see Tesar, 1991; Obstfeld, 1995). A further commonly used indicator of financial integration is the extent of interest rate convergence across markets, the assumption being that 'if capital is highly mobile internationally, then interest rates should be determined in world markets... [with] very little room for divergence across countries' (Simmons, 1999: 57). As many sceptics are quick to point out, however, evidence of convergence is hard to find. Hirst and Thompson (1999: 36) state that interest parity appears to 'hold in the Eurocurrency markets', but that deeper forms of integration, signalled 'by first uncovered interest rate parity and then real interest rate parity between deposits in different currencies' were hard to detect in the mid-1990s – although the authors acknowledge that the tests to measure the presence of forms of integration are complex and controversial. Watson (1999) concurs with this view, arguing that the lack of evidence is unsurprising in view of the increasing prominence of derivatives' markets – and particularly futures trading. On his reckoning, the emergence of these new

instruments indicates a recognition on the part of investors of the need to hedge against risks associated with exchange and interest rate *volatility*, the very presence of these activities indicating low capital market integration.

Despite these arguments, those more sympathetic to the globalization thesis are not easily deflected by the apparent lack of convincing evidence about financial integration. Where the balance between savings and investment is concerned, Frankel (1991) has shown that in the USA this relationship is now less stable than it once was, concluding in a subsequent study (Frankel, 1992: 201) that ‘the United States in the 1980s began to borrow on such a massive scale internationally that the traditional “Feldstein–Horioka” finding of a near-unit correlation between national savings and investment has broken down’. In support of this finding, Sinn’s study of 23 OECD countries demonstrated that ‘the long-term average of the relationship between the national rates of savings and investment has declined considerably, especially since 1973’ (see Siebert, 1999: 63). Furthermore, the explanatory value of the indicator itself has been challenged. Krol (1996: 467) has suggested that the Feldstein–Horioka methodology, which involves regressing savings and investment for a cross-section of OECD countries and then averaging the data ‘in order to remove the influence of the business cycle’, is flawed. Because countries cannot maintain either surpluses or deficits on current accounts indefinitely, governments will always attempt to balance their current accounts with the result that ‘country-level observations based on averages of annual data will obscure surpluses and deficits over time’ the consequence being that ‘savings and investment will appear more similar than they really are’ (Krol, 1996: 468). Finally, in a challenging critique of the Feldstein–Horioka position, Frankel (1992) pointed out that a high savings–investment correlation is only one possible indicator of capital mobility and requires other conditions, such as real interest rate parity, to hold before it can be used to gauge the extent of capital mobility. Without these other factors, a high correlation between national savings and investment may simply be a function of currency-related factors such as exchange rate volatility.

Turning to interest rates, evidence for the presence or absence of real interest rate parity is both complex and contested, as Hirst and Thompson imply. Although there is widespread acceptance of the fact that *covered* interest rate differentials have decreased among OECD countries since the mid-1970s (Garrett and Mitchell, 2001), the existence of currency premiums ‘consisting of an exchange risk premium plus expected real currency depreciation’ (Frankel in Fuji and Chinn, 2001: 289) means that, even where covered interest rates are equalized, large differentials continue to be displayed in uncovered and real interest rates. A key issue here, however, is whether it is reasonable to assume that uncovered interest rates really provide an accurate picture of the extent of financial integration. This measure refers to situations where interest rates are equalized on assets denominated in different currencies without ‘selling forward’. Where currencies can be sold forward (as they are in conditions in which covered interest rate parity holds) any differences between interest rates can be offset by the ability on the part of investors to guarantee the return in their own currency by selling the yield in advance to a forward exchange dealer at the forward exchange rate – a rate that should ensure that

‘returns on domestic currency assets are equal to the returns on foreign currency assets of equivalent risk and maturity’ (see Held *et al.*, 1999: 217). In conditions in which exchange rates do not move to offset differences in interest rates (basically where returns are not expressed in a common currency such as Eurodollars), returns are not equalized so uncovered interest rate parity does not hold – this failure to move being taken as a sign of the inability of markets to assess future shifts in exchange rates due to high levels of volatility. However, the fact that exchange rates are clearly sensitive to various forms of turbulence – capital flows, speculative bubbles and political and economic policy changes, for instance – is not taken by all commentators as an indication of an underlying lack of financial market integration. One reason for this is that the methods used to forecast exchange rates by market operators are hardly an exact science, the range of opinions among traders creating conditions ‘for high volumes of trading and possibilities for speculation’ and introducing a short-term focus which ‘can drive the exchange rate away from its equilibrium value’ (Held *et al.*, 1999: 218). Nevertheless, despite this volatility, over the *longer* term there seems to be at least some evidence of interest rate parity, a recent study of the G7 countries concluding that ‘by the end of the last century, real interest rates of return were virtually equalized among the key industrialized economies’ (Fuji and Chinn, 2001: 306).

If such a verdict needs to be treated cautiously in view of the highly complex methodological issues involved, there is nevertheless reason to suppose that, *at least among the advanced economies*, an integrated capital market is gradually evolving (Walter, 1991: 209). This is not to say that such a market is either fully integrated or stable – indeed interest rate differentials persist, particularly in the short-term, and the prevailing economic environment remains highly volatile because of sensitivity to shifts in expectations about interest and exchange rate levels, and the desire to hedge against risks. Nevertheless, *pace* Watson, it may not necessarily be the case that continuing capital market volatility is associated with the absence of a global capital market. The above discussion suggests that the trend towards real interest rate convergence can underlie extreme short-term volatility. Moreover, in the context of twenty-four hour global stock market activity and in an environment in which major investors, including the large pension funds, now hold assets overseas, it is unlikely that decisions about capital allocation could be taken without reference to, or extensive knowledge about, global economic conditions (see Reich, 2002). To this extent it is possible to talk in terms of increasing ‘enmeshment’ among the metropolitan countries, if not full capital market integration, and this constitutes a factor – or rather a range of factors – which national governments need to take into account in economic and social policy formulation.

### **Globalization and the nation-state**

The discussion so far has skirted around the question of the extent of nation-state autonomy in order to focus on some of the key economic issues relating to the nature of globalization. But no consideration of globalization, particularly one that seeks better to understand the possible connections between GEPs and welfare

regime change, would be complete without an examination of its relationship with, and potential impact upon, the political dimension. Where an awareness of the significance of this dimension is lacking, conceptions of globalization swiftly fall prey to economic determinism, the tendency being to assume a direct causal connection between economic change at the global level and political change within nation-states (Frieden and Rogowski, 1996). As Garrett and Lange (1995: 628) have pointed out, the assumption is that

internationally generated changes in the constellation of domestic economic preferences will be quickly and faithfully reflected in changes in policies and institutional arrangements within countries. If one understands which economic interests have gained economic strength, one knows which have gained political power, and in turn how policy is likely to change.

In actuality, as intimated in Chapter One, the chain of causality is not uni-directional and it is doubtful whether changes at the political level can be ‘read off’ from changing economic conditions in this way.

The temptation to over-determine economic explanations is partly due to a failure to distinguish clearly between the two dimensions of globalization discussed earlier in this chapter. There is a need to separate globalization as time-space distanciation, along with its politico-cultural effects, from economic liberalization. As Helleiner (2001: 243) has pointed out, the shrinkage of time and space *per se* – the fact that ‘actions and decisions in one part of the world [now] have greater impact on other parts of humanity and do so with greater speed’ – does not logically imply the compulsory acceptance of neo-liberal economic determinism. Helleiner (2001: 244) notes, for example, that ‘while globalization in the first meaning is a fact, and it may constrain some choices, it does not totally foreclose them in the way that many imply’. His main point, however, is that ‘to equate [the first aspect of] globalization with external liberalization and full reliance on “marketplace magic” ... is logical confusion and quite misleading’. This argument is particularly prescient when considering the current fortunes of nation-states because it reminds us that the unquestionable increase in the range and scope of global connectedness does not necessarily imply that they are the passive victims of changing economic circumstances occurring (to echo Amin again) ‘out there’. As the following discussion will suggest, although it may be that nation-states are caught between GEPs, which require endogenous policy changes, and internal institutional pressures to maintain existing policies and systemic arrangements, the resulting tension may be manageable so long as governments are prepared to adjust core economic and welfare policies.

Bearing these issues in mind it is important to consider views about the potential impact of global economic change on nation-states in some detail. Much depends, of course, on how perceptions of the relative balance between global economic and national political forces are conceived and a vast array of literature now exists which attempts to explore this relationship. To take an initial example, Michael Mann (1997: 479), like many commentators, does not dispute that fact that ‘capitalist

commodity exchange now dominates' the global economy, partly at least because, with the demise of the socialist economies, there no longer appears to be an alternative. However, although he concedes that this 'victory' is 'obviously a major transformation', Mann argues that its impact may nevertheless be more limited than many globalization enthusiasts believe. For one thing, the *fact* of increased capital mobility – the key factor identified by the enthusiasts as sapping national economic autonomy – in his opinion, says little about actual power relations. With financial goods being traded many times over in a single day, this form of economic power is widely diffused and potentially fickle. So, it is plausible to suggest that flows of manufactured goods and raw materials, though smaller in volume, might nevertheless contribute to higher degrees of national autonomy purely because they have a 'much greater fixity of location' (Mann, 1997: 482) – and this in spite of increased outward investment by MNCs. On this reading, although according to Mann (1997: 489),

the capitalist economy is now significantly global, its globalism is 'impure', a combination of both the transnational and the inter-national. The potential universalism of the former is undercut by the particularisms of nation-states – and indeed also by the particularisms of human social practices at large.

So, in common with the position taken here, Mann sees a need to balance economic against politico-social factors when attempting to assess the influence of the global economy on nation-states. The implication is that nation-states possess distinctive social and political structures that can influence the manner in which transnational pressures are perceived, transmitted and managed. Indeed, Rieger and Leibfried (2003: 239, my emphasis) go as far as to claim that 'governments can, *but are not obliged to*, obey the price signals of the global economy for their labour and social policy'. Situated in a context of democratic politics and possessing social policies that almost by definition are designed 'to achieve outcomes that the market itself, left to its own devices, would not have produced', they are sceptical about the capacity of GEPs to displace these processes entirely and argue that 'the probability of democratic reform policy leading ... to precisely those outcomes that some consider under conditions of globalization to be clearly compelled by economic reason is very low' (Rieger and Leibfried, 2003: 239).

Precisely how these structures interact with global forces is an area of enquiry that institutionalist theorists have been attempting to develop. As Chapter One indicated, institutionalists argue that national (or sub-national) institutions are 'sticky' or 'path-dependent' and so are able to 'mediate in the relationship between internationally induced changes in the policy preferences of domestic actors, on the one hand, and political outcomes (both policy and institutional change), on the other' (Garrett and Lange, 1995: 628). Although, what 'mediation' means in this instance and precisely how path-dependent behaviour operates is not always made clear by institutionalists, it is important to examine their ideas more closely in order to judge the potential relative strength of institutional forces to offset global economic challenges.



As to the nature of ‘institutions’ themselves, Chapter One briefly indicated the conceptual and definitional difficulties associated with this term. For present purposes, it is important to cut through some of the more esoteric issues involved in order to concentrate on those key elements of national economic, political and social governance that not only give regimes their particular character but that also figure prominently in the complex relationships that make up the global-institutional nexus. To this end, it is worth engaging with the literature that examines ‘varieties of capitalism’ through the concept of the ‘production regime’ (Soskice, 1999). The underlying assumption of this approach is that groups of economically advanced nation-states can be identified which share a number of core institutional characteristics, and which, in one way or other, ‘mediate’ exogenous economic pressures.

Soskice’s (1999: 101) conception of a ‘production regime’ refers to the organization of production through markets and is used to analyse

the ways in which the microagents of capitalist systems – companies, customers, employees, owners of capital – organize and structure their interrelationships, within a framework of incentives and constraints or “rules of the game” set by a range of market-related institutions within which the microagents are embedded.

The main institutional supports for a production regime are the financial system, the industrial relations system, the educational and training system and the intercompany system – and these tend to be organized at the level of the nation-state, although there are also likely to be ‘regional, sectoral and other variations’. Soskice (1999: 103–4) discusses two basic types of production regime, each characterized primarily by the ‘underlying and generally long-standing differences in the nature of coordination between companies’. The uncoordinated liberal market economies (LME) of the Anglo-Saxon nations are defined by the effective absence of nonmarket coordination among companies and also a minimum of state intervention. Conversely, the coordinated market economies (CME) of Germany, Sweden, Switzerland and, rather differently, Japan, display high degrees of ‘non-market coordination’ among companies, with the state normally playing a frame-setting role. These regime-types can be sub-divided. Soskice distinguishes between CMEs that are coordinated at industry or sub-industry level (northwestern European countries) and those that are group-coordinated along *keiretsu* lines (Japan, South Korea) – both systems being differentiated from LMEs. Rather differently, but of more relevance for present purposes, Kitschelt (1999: 429) categorizes CMEs – essentially Esping-Andersen’s social and Continental welfare regimes – into states which display either ‘national concertation’ or ‘sectoral coordination’ of businesses, the former referring to the centralized Scandinavian countries and the latter to the Rhenish capitalism of Germany and other northern European states, with the partial exception of France.

How robust are national-institutional architectures of this kind likely to be in the face of the kind of external economic challenges discussed in this chapter?



Here opinions differ. Some commentators argue that the most tightly coupled regimes – the CMEs – are increasingly falling subject to global economic pressures which threaten key elements of their production systems. An extreme version of this thesis is advanced by Crouch and Streeck (1997: 6) who argue that these societies have come under increasing pressure from an array of globalizing processes, including ‘accelerated technological change, renewed price competition and the globalization of financial markets’. Specifically, ‘the demise of national state capacity under globalization is likely ... to destroy a range of governance mechanisms in institutional economies whose performance depends indirectly on the support of a strong state’ (Crouch and Streeck, 1997: 12–13). Centralized bargaining mechanisms in some of the Scandinavian states, which incorporate trade unions and employers, are clearly one example, and the withdrawal of state support for meso-corporatist arrangements in Japan is another. According to these authors, this erosion of state capacity is likely to move CME economies closer towards the model of the liberal production regime with its weak, decentralized trade unionism and lower levels of business coordination and state intervention. In consequence, Crouch and Streeck (1997: 13) expect to see a ‘convergence of capitalist economies on an institutional monoculture of deregulated markets and hierarchies’.

To assume this degree of convergence around one model is to oversimplify the effects of global economic pressures, however. There is no need to accept the full logic of institutionalist thinking – which at its most extreme can appear too functionalist – to see that the position adopted by Crouch and Streeck comes near to the economic determinism criticized above. A rather less dramatic view, which leaves potential space for political choice, is contained in Cerny’s (1990) notion of the ‘competition state’. Cerny clearly accepts many of the arguments of the globalization thesis and his position challenges institutionalist thinking on the grounds that it underestimates the true effects of (particularly) financial globalization on other sectors of state activity. He argues (Cerny: 1997: 607) that a third industrial revolution ‘characterized by the intensive application of information technology, flexible production systems and organizational structures, market segmentation and globalization’ has entailed, among other things, a fragmentation of ‘institutional capacities for political control, stabilization, regulation, promotion, and facilitation of economic activities’, and that this revolution has altered the institutional framework of the Keynesian-industrial state. Indeed, because in his opinion nation-states are no longer able to control capital mobility, the tendency over the past twenty years has been for them to conspire willingly in the erosion of their own regulatory powers (Cerny, 1997 and see also Sbragia, 2000). However, for Cerny, this process has not resulted in the *decline* of the nation-state *per se* but in its reorganization, the tendency being to enhance supply-side activities at the expense of once-influential demand-side functions, thus effectively reconfiguring its institutional foundations. There is more than a hint of ‘convergence’ in this formulation, but much depends on perceptions of the stability and power of existing institutions. Cerny (2000: 122–3) plainly believes that the competition state pursues ‘increased marketization in order to make economic activities located within the national

territory ... more competitive in international or transnational terms' and that these goals have been actively pursued through reduced public spending, as well as the control of inflation and the 'promotion of enterprise, innovation and profitability in both private and public sectors'. Scharpf (1994), too, views the process as a form of convergence, characterizing the change as a shift from the various forms of 'positive integration', which typified the postwar CME economies, to the 'negative integration' associated with the autonomously functioning regulatory governmental structures more typical of the LMEs.

There is a need for caution, however, because both Crouch and Streeck, and Cerny, accept a view of globalization more radical than the one proposed here. If, as suggested, nation-states are confronted by an ongoing *process* in which GEPs and institutional forces are bound into relationships of mutual adjustment, as opposed to the more extreme 'end-state' version proposed by the hyper-globalization lobby, it is unlikely that the nature of the challenge will be such as to undermine existing institutions entirely. Instead, it is more likely that they will have to face the threat of constant attrition, which can 'corrode' hitherto accepted political, social and cultural assumptions, as opposed to the radical transformation of existing patterns of sovereignty and institutional organization. On this reading, *pace* Cerny and others, there is no reason to assume that state reorganization entails strict convergence around the neo-liberal model, although it is likely to entail 'drift' in this direction. Describing state reorganization as a 'refashioning of the modalities of governance', Jayasuriya (2001: 110) argues, for example, that 'just as there have been a variety of capitalisms embedded within very different systems of bargaining and compromise, it is clear that the emerging systems of negative coordination will also embody different values and principles'. However, these systems will have to 'configure with existing systems of political bargaining and compromise' (Jayasuriya, 2001: 111), the implication being that the politics of state reorganization is not a zero-sum game.

In fact reorganization may take quite different forms, not least because there is little as yet to suggest that the increasing pace of the global economy will result in fully integrated, and thus hegemonic, global markets. Regulation theorists like Hollingsworth (1998), for instance, see less scope for the exercise of institutional power at nation-state level, but nevertheless consider that welfare, tax and training policies are likely to remain within the ambit of a nation-state, the *economic* institutions and functions of which will increasingly be dispersed across supra-national, regional and local levels. In a different way, Boyer (2000: 296–9) notes that, although the financial crisis in Japan and other East Asian countries has 'clearly [shown] that no authority is completely in charge of ensuring its stability' and that 'the bursting of the financial bubble in Japan, uncertain development and near-stagnation in Europe and, above all, the flagrant American expansion of the 1990s have considerably affected the competitive position of [different forms of] capitalism', these changes are unlikely to result in outright neoliberal convergence. In his view, growing inequalities have acted as 'an antidote to the imperfections of collective action' identified by neoliberals in the first place, Boyer (2000: 306) commenting that 'there is nothing like privatization to discover the

value which citizens really attribute to public services'. The implication here is that state reorganization could potentially take the form of the revitalization of core 'coordinating' institutions, particularly of course in the CMEs.

Elsewhere much less emphasis is placed on the state's capacity for reorganization of this kind. For their part, Garret and Lange assume the continuation of existing institutional arrangements with changes being kept to the minimum. They are convinced that 'the relationship between changes in economic structure and public policies is contingent upon extant institutional conditions' (Garrett and Lange, 1995: 636) and that path dependent behaviour makes it difficult for governments to pursue change even in circumstances where they believe that a reorganized state would be better placed to derive benefits from the global market. Existing preferences in key sectors will be sufficiently deeply embedded to inhibit governmental efforts to achieve institutional change, meaning that governments' ability to capitalize on the benefits offered by closer integration in the international economy, as these observers perceive them, depends upon an array of purely conjunctural factors. These include prevailing levels of risk-aversity, the length of time remaining in office before voters are able to hold them accountable for their actions and the favourable nature of existing external conditions such as the state of the international economy. In short, Garrett and Lange argue that institutional change is possible – but only at the margin, because it is heavily dependent on endogenous factors outside the control of democratically elected governments.

This view, which is clearly the polar opposite of convergence theory, is broadly endorsed by Kitschelt (1999), who agrees that contingent factors such as the strength and economic predilections of governments, the inclinations of voters and the relative power of key institutions are important. Other reasons for rejecting convergence include the fact that not all sectors of domestic economies are equally vulnerable to the vagaries of the wider global marketplace, the argument being that these more sheltered sectors may form 'local production regimes' of their own, insulated from global economic movements and so can preserve existing institutional configurations and arrangements. Moreover, different sectors of any particular economy are likely to be differently resourced and organized, the point being that 'efficient institutions differ across sectors, regions and countries' (Kitschelt, 1999: 450), and governments will desire to preserve them in order, paradoxically, to remain internationally competitive. These considerations add up to the fact that, although international competitive pressures do indeed exist and tend to take a common form across all advanced industrial countries, they nevertheless 'are likely to be perceived differently by actors in different institutional settings' (Kitschelt, 1999: 440). In this way, production regimes and the social systems associated with them will continue to be characterized by different degrees of divergence, their nature depending, however, on a range of domestically driven factors.

This latter discussion qualifies the wilder excesses of convergence theory but is not intended to lend support to the idea that the effects of GEPs on nation-states are somehow insubstantial. The question is whether their impact is 'direct' or mediated by other factors. As subsequent chapters demonstrate, GEPs are essentially

'frame-setting'. Because they limit certain economic policy options, the salience of other, contingent, factors increases, forcing governments to maximize economic efficiency and cost-effectiveness in ways which tend to favour market solutions. For example, CMEs like Sweden, confronted by considerably higher levels of capital mobility and demands for tighter budgetary policy, had to adopt certain 'market-friendly' measures to reduce budget deficits in the mid-1990s, while other countries such as France and Germany currently remain locked in deep political disagreements about the viability of their respective institutional arrangements – particularly where welfare is concerned. LMEs are better disposed towards market solutions, by definition, although it is clear that the countries discussed below are deepening their commitment to the market as a result of GEP-induced constraints.

The general argument here, then, is that, where states are confronted by the challenges associated with GEPs, existing institutions will remain influential, but an endemically unstable economic environment will lead to the sharpening of competition both within and beyond the state as various actors attempt to gain, or retain, influence. Power struggles of this kind can face elected governments with complex dilemmas as they attempt to balance economic and democratic priorities. His convictions about convergence notwithstanding, Cerny (1997, 2000) is surely correct to point out that governments in the mature democracies are having to face a deepening democratic deficit as they attempt to reconcile economic and political demands. The need to 'make firms and sectors located within the territory of the state competitive in international markets', undoubtedly an important consideration, nevertheless plays uneasily with the equally important need to respond to voters' anxieties, the concerns of organized labour and the fears of a number of social movements about the social impact of these supply-side policies. As the next chapter demonstrates, this dilemma is played out particularly clearly in relation to contemporary understandings of the role of the welfare state and the changing politics of welfare.

### **3 Globalization and welfare regime change**

Views about the possible impact of ‘globalization’ on welfare regimes fall into the three broad categories outlined in the previous chapter. Hyperglobalizers argue that growing GEPs associated with increased trade openness and capital mobility have radically affected traditional social and economic arrangements in the advanced societies. By relating these changes to shifts in the institutional foundations of different welfare regimes these observers suggested that pressures to adopt neoliberal social and economic policies can be directly traced back to economic difficulties that have their origins in the global economy. Sceptics, on the other hand, argue that changes in the international economy have at best had a minimal impact on welfare regimes, maintaining that regime change, such as it is, is better attributed to endogenous economic factors such as domestically induced unemployment and low growth, changes in gender relations and household arrangements, and the ageing of populations in the advanced societies. This approach can also hold that institutional factors inhibit the full force of economic pressures, whatever their origins. Finally, the middle way/weak globalization perspective contends that economic change at the global level is increasing, but does not exert the degree of pressure on national welfare arrangements that globalization enthusiasts believe. Commentators favouring this approach point out that welfare regimes are able to accommodate global pressures by adjusting their institutional foundations in ways that do not fundamentally alter their character. In contrast to the globalization thesis, from this perspective there is no ‘race to the bottom’ spurred by attempts to reduce social spending and levels of protection in order to accommodate market demands for neoliberal solutions. Rather – and in general terms – it is possible to observe an ongoing process of (differential) adjustment to the impact of new economic phenomena, which has recently been characterized by Leibfried and Obinger as ‘divergent convergence’. These writers (Leibfried and Obinger, 2001: 5) draw attention to the ways in which different approaches to reform are influenced by a number of factors including ‘the partisan complexion of government, the power resources and aggregation capacity of trade unions and employers, the system of interest mediation ... and ... the institutional legacy of the welfare regime’.

To prefigure the argument of this chapter, the ‘weak globalization’ thesis, as this relates to welfare, suggests that GEPs are increasing in scope and influence,

and that they constitute an important phenomenon that demands a response from existing welfare regimes, social democratic, continental and liberal alike. To this extent, there is a gathering drift towards a social policy environment in which such pressures are likely to become more rather than less determining over time. The notion of 'drift' depicts the indirect nature of the ways in which GEPs disrupt domestic institutional and political structures, even as they are affected by them. GEPs present important challenges because they play a significant *frame-setting* role in social reform that 'unsettle' existing arrangements.

## **Globalization and welfare regimes**

### ***Welfare regimes and the globalization thesis***

Writing about the weakening of social democracy in the modern world, John Gray (1997) is clear that its decline has much to do with the ways in which globalization has undermined the centrepiece of the model – the egalitarian, redistributive welfare state. For Gray (1997: 28), 'economic globalization removes, or weakens, the policy levers whereby social democratic governments sought to achieve goals of social solidarity and egalitarian redistribution'. It is able to do this because pressures for liberal market reforms undermine typical social democratic, welfarist policy options. For example,

full employment cannot be promoted by policies of aggressive deficit financing since that will now be interdicted by global bond markets ... using the tax system to promote goals of income and wealth redistribution is severely constrained by unprecedented international mobility of capital and people.

Furthermore, 'globalization weakens or undermines the bargaining power of organized labour [while] public financing of the welfare state is constrained by dependency on global capital markets, which limit to a narrow range national governments' leverage over interest rates and exchange rates'. According to Gray (1997: 29), the weakening of state institutions by global economic forces is occurring apace whether globalization is defined or measured 'by the magnitude of trade flows, capital or migration, or as a massive extension of processes of marketization of social life that have long been in evidence within national economic cultures'.

These arguments find echoes in the writings of Anthony Giddens (1998, 2000) as well as others like Martin *et al.* (1997). Of more direct relevance to welfare regimes, however, are the writings of Ramesh Mishra and these will be explored in some detail. Mishra believes that the social, political and economic foundations of postwar welfare regimes have been severely weakened and places the main responsibility for this crisis squarely on globalization, perceiving a convergence of welfare arrangements on the liberal, Anglo-Saxon model. For Mishra (1996: 317, original emphasis), globalization 'appears as an *external* constraint – not as a matter of political choice at all, but rather of economic necessity – so that nation-states can do little besides follow the dictates of footloose capital in a downward spiral of

deregulation, lower social spending and lower taxes'. An essential feature of his position is that economic globalization is forcing national governments into policies which have an underlying 'market logic'. In contrast to the 'golden age' of the 'Keynesian Welfare State', which was characterized by full (male) employment, organized trade unionism and high levels of social provision, usually delivered through state-based goods and services, Mishra (1999: 25) believes that the period since the 1970s has been marked by dramatic labour market changes that can be attributed, directly or indirectly, to globalization (see also Reich, 2002). Newly industrializing countries like Japan entered the global economy during the 1960s, bringing cost advantages to mass-produced goods which threatened manufacturing employment levels elsewhere. Just as importantly, 'with increasing capital mobility, freedom to locate production overseas and the use of outsourcing, some of the routine production moved out into the Third World', which also had consequences for full employment strategies. In addition, changing technologies contributed to the phenomenon of jobless growth, which particularly hit the male-orientated manufacturing sector, while the move from manufacturing to service sector employment in the developed societies led to an increase in part-time, non-unionized work often taken up by women (see also Land, 1999).

These changes have led welfare states, 'irrespective of their political complexion', to abandon Keynesian-inspired policies of full employment, progressive taxation and high social spending in favour of liberal supply-side policies, spending cuts and privatization (Mishra, 1996: 323). To be sure, Mishra does not argue that different welfare regimes are adopting *identical* policies, let alone that they have already converged on the neoliberal model, but his belief that 'Keynesianism in one country' is no longer an option leads him to argue that the social democratic 'left approach', so closely associated with state welfare provision in the postwar era, has fallen victim both to 'real' changes in the global economy and to the increasingly hegemonic market liberal ideology that accompanies them (Mishra, 1999: 102–3).

Mishra's argument is typical of many contributions that regard trade openness and increased capital mobility as an unholy alliance contributing heavily to higher unemployment while simultaneously constraining governments' capacity for economic management, particularly where this involves deficit financing (see also Kurzer, 1993; Sachs and Warner, 1995). Indeed, others less convinced by the globalization thesis overall also endorse the causal logic of this approach. Gilbert (2002: 38), for instance, though more circumspect than Mishra about the precise impact of globalization, nevertheless, argues that 'with the emergence of a well-integrated global market ... national policy-makers are increasingly being disciplined, and spending on redistributive social benefits is being squeezed by the mobility of capital to go where production costs are low'. It is these changes that inform Gilbert's concept of the marketized 'enabling state' briefly mentioned in Chapter One. This state works on policies and principles established 'on the ideological terrain of the Right – a paradigm shift for the welfare state if ever there was one' (Gilbert, 2002: 180). Scharpf (2000) also argues that increasing international competition in product markets leads to unemployment in the exposed



sectors and that this in turn reduces the state's capacity to use private sector employment relations as one means of maintaining egalitarian welfare goals. Hostility to higher taxation and deficit financing means that these same factors also prevent the state from shifting the burden onto the formal welfare and tax systems. In these circumstances, Scharpf (2000: 224) concludes, 'all countries are under pressure to increase private sector employment, raise the efficiency of welfare state spending and in particular reduce the employment impeding effects of welfare state financing and welfare state benefits'.

### ***Welfare regimes and globalization – the sceptical view***

The economic logic of the hyperglobalist position is contestable. First, as Huber and Stephens (2001) note, the extensive welfare regimes of the Scandinavian countries (indeed the majority of Western European nation-states) developed in highly open market conditions. Not only does this fact indicate that high public spending, deficit financing and other 'Keynesian' policies have always co-existed with economic openness, it also implies that the difficulties experienced by some of the Nordic regimes in the 1990s may not be solely attributable to this factor. A second, and related, matter concerns the extent to which unemployment is caused specifically by factors associated with the international economy. Where increasing trade competition is concerned, Schwartz (2001: 20–1) argues that evidence connecting rising unemployment amongst unskilled labour in the advanced economies directly to corporate relocation to the newly industrializing economies (NIEs) is slight. For one thing, FDI continues to flow disproportionately among the advanced economies as is generally recognized and, for another, 'NIE imports created growth in the OECD that in turn could have provided a window for redistribution towards [unskilled] workers'. More significantly, even if competition from NIEs can explain the weak demand for labour at the low end of the manufacturing labour market, 'it does not provide a sufficient explanation as to why cutbacks are the natural political response to rising unemployment and inequality or why welfare institutions were restructured'.

Turning to trade competition *within* the advanced economies, Iversen points out that the assumption that trade openness leads to economic insecurity and consequently to welfare regime adjustment might be false. In his view (Iversen, 2001: 50), high export volumes may be associated with *lower* domestic volatility because 'participation in international trade makes it possible to escape excessive dependence on small home markets', which tend to be more volatile. As Iversen and Cusack (2000: 319) note, the bulk of international trade occurs within product categories that are exposed to similar cycles – the point being that risks are thus diversified across a number of national markets, leading to greater overall stability. Consequently, as the major part of trade the within the OECD is 'intraindustry and occurs across numerous national markets, there is little a priori reason to expect that trade is associated with greater volatility'. Iversen's empirical study found no relationship between the export dependence of manufacturing and a range of volatility measures, including unemployment, in the sixteen OECD



countries he studied, leading him to conclude that trade openness cannot explain changes in welfare regimes.

With regard to the links between capital mobility and welfare regime change, neither Schwartz nor Iversen – and nor, for that matter, others better disposed to aspects of the globalization thesis like Garrett (1998) – can find proof of a causal relationship here. The lack of unambiguous evidence about interest and exchange rate convergence, discussed in the previous chapter, in addition to the absence of any significant convergence in tax policies, suggests that nation states continue to exercise a degree of autonomy over their economic destinies, which enables them to preserve welfare regime characteristics despite the growing influence of capital markets. There are good reasons why this could be the case. For one thing, as Hay suggests, capital, once it is invested, may become rather more immobile than globalization enthusiasts allow. Outside obviously mobile portfolio investments, other types of FDI, ‘once enticed and attracted to a particular locality ... “bed down”, acquiring an array of significant sunk costs ... as virtual/immaterial assets are translated into human and physical capital’ (Hay, 2001: 51), with potentially significant cost consequences for further relocation.

That the threat of capital flight may be more apparent than real – unless in the exceptional circumstances of extremely large budget deficits (Swank, 2001: 224) – gains support from Scharpf, who argues that employment in exposed industries, though in his view declining due to international competition, does not appear to be particularly vulnerable to a regime’s overall tax burden. Indeed he argues (Scharpf, 2000: 204) that high-tax Denmark and Sweden, as well as medium-tax Germany and Austria ‘have more jobs in the exposed sectors of the private economy than is true of the United States, one of the two countries with the lowest tax burden’. So mobile capital may not actually be that ‘flighty’. Indeed it could be the case, paradoxically, that capital actively chooses to locate in high-spending welfare regimes, perhaps because they offer greater long-term social and political stability, or higher productivity ratios, in spite of countervailing pressures emanating from the global economy – this possibility will be considered below.

The main point here is that some observers perceive a distinct gap between pressures arising from economic openness, on the one hand, and welfare regime change, on the other – and this challenges the causal logic of the globalization thesis. With this possibility in mind, it is tempting to go further and argue with Iversen, Paul Pierson, Castles and others that GEPs are so weak as to be virtually irrelevant, if not entirely chimerical. Certainly for Paul Pierson (2001: 82), the budgetary stress with which welfare regimes are currently confronted stems not from ‘globalization’ but rather from ‘a series of “post-industrial” changes occurring within advanced industrial democracies’. Of particular significance here is low economic growth – a phenomenon created not by external factors but by domestic deindustrialization, which is itself the result of technology-led productivity gains and changing patterns of consumption. The principal feature of this perspective is that, although jobs lost in highly productive manufacturing industries have been ‘replaced’ by rising employment in the rapidly expanding service sector, these latter jobs are simply less productive. According to Baumol’s law (1967) productivity in

the service sector cannot match that in manufacturing because of the greater labour intensity involved in many service industries and partly, too, because wage increases in the traded sector will inevitably filter into services with negative consequences for growth and employment. As Iversen and Cusack (2000: 337) note, 'in labor-intensive services, which include many personal social services, a tightly coupled and compressed wage structure will result in rising relative prices and therefore in a slower rate of job creation'. Welfare regimes can be affected by this phenomenon in two ways, depending on their institutional make-up: first, deindustrialization can lead governments to raise the generosity of transfer payments as they 'respond to electoral pressures for insurance against labor-market risks' (Iversen and Cusack, 2000: 336). Second, deindustrialization creates employment effects that lead governments either to stimulate employment by expanding public sector services or to rely on the private sector to soak up surplus labour – contributing to the 'service sector trilemma' identified by Iversen and Wren (1998). Certainly in those nations with traditions of centralized bargaining, 'deindustrialization produces large numbers of workers who cannot find employment in private services... [so] service employment is expanded by increasing the direct provision of government services' (Iversen and Cusack, 2000: 336–7). Sweden, where the social democratic left has traditionally been strong, provides a good example, although as Swedish fortunes during the 1990s demonstrate, there are limits to the extent to which social democratic employment and equality goals can be achieved in an overall context of budget constraint (Iversen and Wren, 1998). Conversely, where bargaining is decentralized, as it is in liberal regimes, then private sector solutions are relied upon. This approach relieves governments of the need to increase the size of the public sector, with beneficial budgetary effects, and frequently leads to higher overall employment levels – however, the 'costs' of deindustrialization are visible in greater wage inequalities and more heavily gendered divisions of labour.

In addition to these processes of endogenous deindustrialization, other domestic 'post-industrial pressures' are also creating difficulties for welfare states, of which perhaps the most visible is population ageing. As Pierson (1998: 550) notes, birth rates are falling and people are living longer in all the advanced industrial democracies with the result that increasing resources need to be found from diminishing numbers of economically active people to pay for those in retirement (see Chapters Six and Seven below). Because pensions are the most expensive item of welfare state expenditure, the current demographic shift constitutes 'a central source of fiscal pressure on national welfare states' (Pierson, 1998: 551) – the problem being that in certain types of welfare regime path-dependent assumptions can lead to significant struggles over changes in pensions arrangements and so to a degree of institutional stickiness.

For sceptics, then, the particular nature of deindustrialization processes, in addition to demographic and other pressures, deny the convergence logic of the globalization thesis. National governments, though not disconnected from the global economy, are more likely to struggle with these domestically driven issues within a *national* policy discourse and political idiom. While this perspective does not necessarily argue that welfare regimes are incapable of change (the pressures noted

here may simply be becoming too much to sustain existing arrangements) reform, if it comes at all, is most likely to be a product of newly emerging domestic political coalitions within regimes themselves (Pierson, 1998). The strength and influence of such coalitions will vary, however, so it is likely that the extent of change will be conditioned by the political capacity of existing institutions (the state, political parties, social movements) either to defend traditional arrangements or at least to 'mediate' attempts to alter them. The nature and character of such attempts will inevitably be regime specific.

### ***Challenging scepticism: towards a middle way***

How convincing is this argument that pressures on the welfare state are attributable to endogenous processes primarily associated with domestic labour market restructuring, population ageing and institutional stickiness? There is something in this view, to be sure. Taking deindustrialization first, as Held *et al.* (1999: 187) note, 'manufacturing's share of employment tends to decline at higher levels of development: as productivity rises in manufacturing, progressively fewer are needed to produce a given level of output' – and of course technological advances only exacerbate this process of jobless growth. However, there is a need for caution here as two counter-arguments make clear. First, although sceptics place a good deal of weight on Baumol's law as a major explanatory factor for low growth and higher overall unemployment in the developed economies, it may be that the law 'describes a tendency rather than an absolute condition' (Schwartz (2001: 28). Moreover, as Schwartz argues, the widespread introduction of performance management and other organizational technologies have been successful in increasing service sector productivity, while 'changes to collective bargaining regimes that delink Baumol's progressive and constant sectors [have prevented] rapid cross-sectoral transmission of wage gains'. Arguably, then, if low growth and higher unemployment cannot entirely be laid at the door of the transition to a service economy other factors could be playing a role.

Second, even if it is accepted that deindustrialization is essentially an endogenous process, it may be one that is now on the wane. Burgoon's (2001) study of the effects of economic openness on welfare effort notes that, if the impact of deindustrialization is judged over the 1980–94 period, as opposed to the 1961–93 period used in Iversen's study, its influence, though remaining significant, appears to have declined. With trade openness and capital mobility increasing dramatically during the former period, and continuing to do so, it may be that the factors affecting welfare regime change are themselves changing. On this reading, processes of endogenous deindustrialization may have run their course in the majority of the developed economies and welfare regimes are, in all likelihood, beginning to experience a 'second wave' of pressure in which openness of various kinds, increasingly driven by advances in information and communication technologies, plays a larger role. Castells (1996: 238–9) provides support for this view in his contention that, in recent years, a wide range of opportunities has opened up for companies in advanced capitalist nations 'concerning strategies towards labor, both skilled

and unskilled'. Itemizing five strategies, ranging from downsizing but keeping a skilled labour force in the North, through various forms of subcontracting, to automating or relocating certain tasks and/or reducing wages and working conditions, Castells argues that 'this range of possibilities translates into the actual use of all of them depending on firms, countries and periods of time'. Increasing low-wage competition from the NIEs could be a factor here, at least to the extent that such competition has encouraged producers in high-cost countries 'to automate production or to specialize in "upmarket" industrial products of high technical or aesthetic quality, and in highly productive services' (Scharpf and Schmidt, 2000: 72; see also McKeown, 1999). But the key point is that 'although global competition may not affect directly the majority of the labour force in OECD countries, its indirect effects entirely transform the condition of labor and labor institutions everywhere' (Castells, 1996: 239). Welfare regimes are deeply implicated in this process.

There is some empirical evidence to support these conclusions. Although it is difficult to isolate particular economic explanations of welfare regime change in ways that govern adequately for the influence of alternative factors, Burgoon's study, referred to above, suggests that there is some evidence that economic openness can have a positive effect on welfare effort. Using disaggregated data, Burgoon (2001) argues that, while evidence of an overall effect of economic openness is hard to find, *certain* elements of openness appear to be correlated with *certain* elements of welfare provision. He (Burgoon, 2001: 519) is particularly interested in the impact of trade with developing countries, arguing in contrast to Schwartz (2001), that

the sharper wins and losses stemming from developing-country competition should spark stronger demands in industrialized countries for government policies that compensate for the risks of such openness [because] the losers with a concentrated interest in mobilizing action may look to welfare provisions of various kinds – not just to protectionism.

The major losers are likely to be unskilled, low paid workers in the exposed industries (McKeown, 1999), and this group according to Burgoon could be expected to demand greater spending on active labour market programmes, education and training, and other forms of provision explicitly devoted to employment protection and job creation. Importantly, these demands are also likely to be supported by certain producer and investor groups who regard these particular components of welfare as conducive to improving 'economic adjustment, research and development, infrastructure and human capital' (Burgoon, 2001: 523). Burgoon's analysis suggests that there is some merit to this hypothesis, the general picture being one 'of openness having modest and varying consequences for aggregate government spending efforts, negative for general trade, weakly positive for low-wage proportions, and mixed for portfolio and fixed investment' (Burgoon, 2001: 540). Specifically, the data point to the possibility that 'the proportion of low-wage imports tends to have a more

significant and positive effect on welfare compensation than general openness' and, more especially, that 'low wage, FDI and portfolio openness has a generally positive effect on training and relocation spending' (Burgoon, 2001: 547). Of course, much lies in the detail and like many of those who are sceptical of the globalization thesis, Burgoon notes that 'the findings ... suggest that openness encourages bigger changes in some "worlds" of welfare capitalism than in others'.

Turning briefly to the problem of population ageing, it is worth prefiguring three points made in subsequent chapters in order to provide a counterweight to the sceptical position. First, although the fact that the 'baby boom' generation is approaching retirement is undeniable (as the OECD has tirelessly made clear) and is beginning to exert pressure on existing pensions arrangements, it is not clear that this challenge can be labelled as 'domestic' in any easy sense. For one thing, the alternatives open to governing parties wishing to recast their pensions systems are likely to be limited by spending constraints resulting from market pressures for fiscal rectitude; it is clear that raising taxes or insurance contributions to maintain existing benefit levels is no longer a simple matter. Second, to the extent that GEPs do indeed have an impact on deindustrialization and the associated rise in service sector work, they can be implicated in new patterns of employment that could require different pensions arrangements from those established in the Keynesian era. For instance, many more women now go to work, albeit mainly part-time, and the incidence of self-employment has increased markedly (Bonoli and Gay-des-Combes, 2003), while, the numbers of fully-employed men around whose permanent lifetime employment pensions systems were originally constructed, have declined dramatically. Finally, in so far as many national governments are seeking solutions to their pensions difficulties by incorporating a 'market element' into predominantly state schemes, these systems, along with the savings of the individuals they support, are vulnerable to market instability in a global economic environment that is beyond the capacity of any one national government to control. In this way, with new arrangements frequently entailing a degree of privatization and increasing reliance on the investment decisions of corporate fund managers, the pensions issue is becoming a globally significant phenomenon.

### ***Welfare regimes, institutions and democratic politics***

Having considered the arguments advanced by globalization enthusiasts, the responses of their sceptical critics and some criticisms of the sceptical view, it is plain that neither side is entirely convincing about what it understands as the causal factors promoting welfare state change. Certainly, where the globalization thesis is concerned, Pierson (2001: 99) is surely right to argue that 'simple versions of the globalization story flatten national differences ... [because] if globalization creates a set of overriding imperatives, national characteristics decline in significance'. Too much attention to endogenous economic factors, however, risks losing sight of the global level in spite of sufficiently compelling evidence suggesting that pressures arising in the global economy are likely to condition national policy making, even though indirectly. In attempting to resolve the impasse there is a

need to steer between the ‘one-explanation-fits-all’ position of the globalization theorists and the opposing view that GEPs have little influence on welfare regime change. In other words, it is important to explore the limits that GEPs may place on welfare regimes, but just as important to be clear about the nature of ‘welfare state limits to globalization’ (Rieger and Leibfried, 1998).

One way of advancing this position is to stress again the fact that economic pressures are likely to provoke *differential* responses from welfare regimes depending on their political and institutional characteristics. Although GEPs can appear as relatively homogeneous entities at the global level, they inevitably fracture as they come into contact with specific political, institutional and cultural environments. Their influence has to be understood in relation to the countervailing influence of the domestic aspects of each regime’s global-institutional nexus – for example, structures of industrial relations and the degree of embeddedness of domestic employment patterns, the balance between the exposed and service sectors and between public and private sector employment. In addition, the extent of ‘welfare effort’ typical of a particular regime, including the proportion of GDP devoted to social spending, the range of, and balance between, ‘active’ and ‘passive’ measures for the support of the unemployed, the degree of state support for child care and other care services, together with cultural factors governing attitudes to women working outside the home and part-time working also need to be taken into account.

These considerations indicate that GEPs will be both generally influential and simultaneously regime-specific. Their frame-setting capacity will unsettle *all* welfare regimes even as the political and institutional supports of each regime either enhance or reduce their overall impact. As Reiger and Leibfried (1998: 366, original emphasis) argue:

The movement toward and the trends in a globalized economy have been triggered, contained, differentiated or modified, weakened or strengthened, and slowed down or speeded up through *national structures of social policy and their developments*... The crucial variables are the institutional characteristics of social policy. They are the starting and focusing points for new social groups, varying political mobilization, and structural change in interest mediation in the welfare state.

If anything the statement underestimates the influence of GEPs, but it recognizes that they do exist and, equally significantly, that ‘politics’ and democratic contestation are essential features of global-institutional paradigms.

### **Stability and change in contemporary welfare regimes**

If ‘politics’ remains important to the ways in which contemporary welfare regimes are responding to GEPs and other contingent pressures, how are the institutional structures of different regime types politically configured and how do they confront the challenges currently facing them? Swank distinguishes three core characteristics of welfare regimes that either predispose them towards market liberal or (versions

of) corporatist policy solutions. First, differing forms of interest group representation influence the extent to which groups can rely on continuing social protection in a climate of increasing economic pressure. Swank (2001: 208–9) maintains that the existence of corporatist institutions in the context of economy-wide bargaining ‘in which broadly organized and centralized labour movements have regularly exchanged wage restraint for full employment commitments and improvements in social protection’ will continue to sustain those nations that have traditionally attempted to balance economic efficiency with comprehensive welfare provision. Countries with more decentralized, pluralist forms of interest representation, on the other hand, are more likely to be characterized by less comprehensive, more contested forms of welfare provision in a policy environment that, when confronted by GEPs, eschews gradual, negotiated change in favour of ‘relatively quick and non-trivial retrenchments of the welfare state’. Second, the number of potential ‘veto points’ within a polity may influence the nature of welfare provision. Where policy making is decentralized, for instance, there may be greater scope for the mobilization of countervailing social forces which can inhibit central government efforts to develop and impose new social policies. As Swank (2001: 211) comments, ‘institutional structures that disperse policy-making responsibility tend to undercut the formation of coherent national policy strategies by groups and parties’ – the upshot being that the decentralization of political authority can be associated with low levels of social spending and fragmented forms of welfare. Finally, Swank (2001: 213) points to the significance of the specific nature of social and political support for welfare goods and services. He notes, for instance, how universal welfare systems ‘tend to create large cohesive constituency groups organized around relatively generous, universal programmes of social welfare provision’, which function at national level. This relatively undifferentiated support base for universal social protection contrasts with more fragmented systems where welfare arrangements are rooted in sectional claims for protection based around particular status groups or social classes.

According to the above analysis, the local impact of global change will differ according to the degree of embeddedness of centralized, corporatist institutions. Where social cohesion and corporatism are weak, political authority decentralized and social democratic parties rarely in government, ‘rises in public sector debt and international capital mobility are associated with downward pressures on social welfare provision’ (Swank, 2001: 233). Conversely, where social corporatism is strong, left political parties powerful and policy making centralized, ‘the effects of fiscal stress and international capital mobility are absent, or they are positive in the sense that they suggest economic and political interests opposed to neoliberal reforms ... have been successful in defending the welfare state’ (Swank, 2001: 233). The Nordic social democratic regimes with their historic commitment to universal welfare provision, full employment and centralized bargaining arrangements, stand as examples of the corporatist route, while the USA, Canada and the United Kingdom, joined more recently by New Zealand and Australia, exemplify the neoliberal alternative.

Continental regimes constitute a more complex set of examples. In this diverse group of countries, elements of corporatism are clearly visible but they are usually



located within decentralized structures of political authority and, occasionally weak, forms of interest intermediation. Not surprisingly, there are differences in the ways that these countries deal with GEPs and other factors, much depending on the particular configuration of social, economic and political forces in each case. The general effect, however, is that continental regimes exhibit little in the way of universal or 'citizen-based' social protection, relying instead on generous insurance-based transfers closely linked to employment history. Because high benefit levels are so dependent on payroll taxes and a fully employed working population, these countries are generally considered to be less capable of adapting to economic and demographic challenges than either their social democratic or liberal counterparts.

These broad descriptions of welfare regime characteristics do much to 'place' the potential influence of globalization as a phenomenon likely to be dealt with differently by differently constituted systems. However, as noted in Chapter One, the systems as described by Esping-Andersen, Swank and others only provide basic, 'ideal-typical' accounts of the nature of the institutional make-up of different regimes. While these institutional supports may have been roughly consonant with postwar regime requirements, evidence provided by the case studies in Chapters Four through Seven suggests that welfare regimes in the OECD are either beginning to adjust their social policies in a market-oriented direction, or, at the very least, are experiencing significant levels of political argument about potential marketization, which are progressively bringing existing welfare arrangements into question. These changes suggest that explanations that consider institutional factors to be capable of effectively *offsetting* the effects of GEPs need to be probed a little further. If there is a difficulty, it lies in the conviction that welfare regimes and the institutions that underpin them will consistently 'conform to type' in the face of global economic pressures. But is this in fact the case? Might it be that as the states within the clusters outlined here experience continued and persistent pressures for 'adjustment', their institutional supports will progressively weaken? In consequence, could 'traditional' forms of welfare provision erode as regime-specific institutions start to fracture? An indication of the accuracy or otherwise of this possibility can be gained by taking a closer look at the changing nature of core elements of the production regimes with which welfare regimes in the developed democracies are so closely associated. Changes in patterns of industrial relations that alter the balance of power between employers and employees are likely to have significant implications for employment policies and levels of welfare provision. In addition, shifts in the nature and levels of political support for established welfare arrangements provide a further indication as to whether contemporary welfare regimes may be living on 'borrowed time'. Finally, some assessment needs to be made about the causal impact of global forces on these changes.

### ***Change in the social democratic universe***

One of the points made by Soskice in his discussion of 'divergent production regimes' is that coordinated market economies (CMEs) contain institutional frameworks that tend to develop 'long-term cooperative relations, between one company and another, between companies and employees, and between companies



and their owners' (Soskice, 1999: 106). Until the 1980s, the 'industry coordinated economies' of many European nations could be divided into the 'centralized egalitarian' systems of Scandinavia, characterized by 'egalitarian, centralized wage-setting procedures' and the 'flexibly coordinated' systems of countries like Germany, 'in which average wage increases are coordinated across industries but in which companies contain considerable room for maneuver' (Soskice, 1999: 124). In Soskice's opinion, a number of factors, of which GEPs are one, have forced across-the-board changes as coordinated institutional frameworks have 'increased considerably in the flexibility they allow individual microeconomic agents'. The Scandinavian model, in particular, has experienced significant changes, moving rather closer to the German model, at least in terms of employer autonomy.

Soskice's argument seems to apply most obviously to the Swedish case. As Swenson and Pontusson (2000) have argued, it is widely recognized that centralized bargaining broke down under the weight of international pressures in the 1980s (see also Lash and Urry, 1987). In a context of rising demands from employers for a more liberal direction in economic policy and substantial welfare state restructuring, Social Democratic governments abandoned devaluation as their preferred means of maintaining Swedish competitiveness in favour of a hard currency policy and increased central bank autonomy. The ill-timed 'stabilization policy' coincided with the global economic upheavals resulting from the loosening of capital controls and led to Swedish multinational companies swiftly increasing their outward investment (Swank, 2002: 135). Rapidly rising unemployment and severe economic crisis were the inevitable results (Benner and Vad, 2000: 419). These changes struck at the heart of Sweden's established postwar pattern of economic management and fundamentally challenged the relationship between the social partners on which it was based – with obvious results for Swedish industrial relations. Two factors were particularly important. First, the interests of private and public sector unions began to diverge as those in the exposed sectors became aware of the threat to jobs posed by public sector wage increases and, second, this loss of cohesion within organized labour facilitated employers' demands for an end to centralized wage bargaining.

The strains of sustaining the solidaristic wages policy in the face of employers' desires for more decentralized bargaining practices in an effort to improve firms' international competitiveness led initially to sectoral bargaining rounds in the late 1980s followed by employer withdrawal from centralized bargaining in 1990, which involved the removal of over six thousand business representatives from the various institutions associated with the bargaining process (Blyth, 2001: 14). While these changes should not be taken to suggest a complete collapse of corporatist arrangements, not least because sectoral bargaining has continued and the trade unions remain powerful, particularly in the web of institutions that support Swedish economic performance and social welfare arrangements, there is nevertheless a sense that something has changed. In Traxler's (1997: 172) opinion, 'the system became unsustainable after liberalization of the financial markets because further support for competitiveness through devaluations became impossible' and the focus consequently shifted to wage restraint. Others concur with this view that Sweden

experienced severe economic difficulties following financial deregulation in the 1980s (Clasen and Gould, 1995; Stephens, 1996; Jochem, 2000), some even arguing that ‘Sweden represents one of the most obvious instances of “paradigmatic realignment” or “regime change” among OECD countries over the last 10 to 15 years’ (Iversen and Pontusson, 2000: 1–2). To be sure, the Swedish economy improved markedly in the later 1990s but this was partly because first Bourgeois, and subsequently Social Democratic, governments pursued tight monetary and anti-inflation policies in an environment of decentralized wage bargaining – and at the expense of the traditional goal of full employment (Benner and Vad, in Scharpf and Schmidt 2000).

Whether these changes directly resulted in a ‘transformation’ of the Swedish universal welfare state – and indeed whether they were a *direct* result of global economic pressures – is by no means clear. The specific examples of labour market policies and pensions will be discussed below – but here it is important to note in general fashion that Swedish governments of both political colours attempted to curb spending on core welfare programmes throughout the 1990s and that the process of retrenchment was made easier by organized labour’s relative disarray and the growing power of employers. Benefit levels, though remaining generous, were cut, waiting periods lengthened and eligibility criteria tightened, while certain services were decentralized and/or privatized – health care being a core example (Gould, 2001: 74–5). As Timonen (2004: 85) notes, these changes have begun to have an impact on those most vulnerable to welfare state withdrawal, who include new groups – young people, immigrant populations, lone parents and large families. Importantly, too, the trade unions proved unable to resist new employment laws introduced by the Social Democrats in the mid-1990s, which went some way to ‘flexibilizing’ the highly controlled labour market. The fractured character of organized labour was visible during the negotiations, with unions disagreeing both among themselves and with the Social Democratic government about the nature of employment protection (Gould, 2001: 150–1). To be sure, the unions did succeed in defeating more radical proposals for labour market flexibility coming from the Association of Swedish Industry and endorsed by the Bourgeois parties; they also remained important actors in the delivery of certain employment-related services such as active labour market policies. Nevertheless, if the tone is one of ‘adjustment’ rather than ‘transformation’, the direction, however gradual, is towards greater marketization.

Concentration on Sweden, often treated as *par excellence* the embodiment of social democratic corporatism, needs to be balanced by a brief consideration of the fortunes of other Scandinavian nations. With the exception of oil-rich Norway, the other two Scandinavian countries, Denmark and Finland, experienced severe economic difficulties in the 1980s and 1990s respectively. To take the Danish case, the crisis began to come under control in the mid-1980s when Centre-Right governments adopted a hard currency policy as well as placing stress on exchange rate and price stability together with reforms to curb public sector spending. Industrial relations have changed markedly in recent years, starting in the late 1980s. The ‘1987 declaration of intent’ saw Danish unions agreeing to keep wage

increases below the level of Denmark's trading partners while subsequent years saw a trend towards 'centralized decentralization' in wage bargaining (Benner and Vad, 2000: 439–40; Bjorklund, 2000: 159). According to Due *et al.* (quoted in Benner and Vad, 2000: 440) this process has meant a transformation of national bargaining

from a large number of trade unions and employer organizations to a few, broadly based bodies capable of concluding framework agreements. This centralization is accompanied by a decentralization of competence to make decisions on wages and working conditions for a single workplace at local level, thus allowing maximum flexibility when filling in the details of these framework agreements.

By the late 1990s decentralization had expanded further. Although the social partners continue to be committed to an organized labour market at one level, it is the case nevertheless that 'as more and more employees negotiate salaries, pensions, special bonuses, etc, with their employers on an individual basis, a gradual challenge to centralized decentralization in both the private and public sector is emerging from outside the system' (Benner and Vad, 2000: 440). In Bjorklund's (2000: 159) words, 'central agreements at the industry level have gradually become less binding on individual firms' and, to this extent, bargaining processes are becoming more 'supple' (Rhodes, 2001: 167) with corporatist structures loosening accordingly.

These changes were accompanied by reforms to the Danish welfare system that, in Scandinavian terms, are far-reaching. The 1990s saw both Conservative and Social Democratic governments cutting taxes, reducing benefits, tightening eligibility criteria and increasing means-testing, albeit in the context of continuing generosity in comparison to other welfare regimes (Swank, 2002: 143–4) – a bipartisan approach to welfare that has continued into the new century. The Centre-Right coalition government, led by Anders Fogh Rasmussen, that came to power in 2001 and gained a second victory in February 2005 differs little in social policy terms from its social democratic counterparts, although its enthusiasm for neoliberal adjustment appears to be becoming more pronounced (Aarsland, 2005). In contrast to Sweden, however, where union resistance was more than residual, Danish governments have broadly enjoyed the backing of both trade union leaders and employers in their efforts to reorganize the Danish economy and welfare state. Union support can be attributed to the recognition that the Danish export sector, dependent as it is on a large number of small- and medium-size enterprises, is not well-linked to expanding market areas, particularly in the new technologies, nor easily able to compete in a global marketplace increasingly dominated by large corporations. Anxieties about unemployment dampened wage demands and accepted the need for industrial restructuring in a 'liberal' direction, which recently has stressed the importance of 'framework conditions' – increased skills training, infrastructural change and tax reductions – with the private sector as 'the main engine of growth, employment and welfare' (Benner and Vad, 2000: 442).

Is there a sense in which these changes and their knock-on effects for welfare arrangements can be attributed to GEPs? To the extent that Danish politicians and labour market actors are clearly aware of the ways in which the growing world economy can create pressures for a small, open economy such as Denmark's, such awareness has contributed towards political demands for the development of market-friendly policies in the 1980s and beyond. However, this context of global economic pressure has been accompanied by certain domestic factors which have strengthened the trend towards marketization – while others have worked in the opposite direction to balance these 'neoliberal' changes according to the prevailing logic of the universal welfare state. On the first count, Centre-Right policies in the 1980s were aided by the relative absence of veto-points in the Danish system, which means that key negotiations about budgets tended to be conducted among a small group of party leaders with 'the content of the compromise ... often unknown to the public until the very last moment' (Goul Andersen, 2002a: 156–7). For example, central government proved quite successful at imposing fiscal restraint on localities, particularly at the height of economic stress in the 1980s (Schwartz, 1999: 13). A further factor is that the social partners have proved reluctant to oppose the changes in bargaining practices mentioned above, with the result that wage restraint generated higher employment levels. Moreover, acceptance of increased labour market flexibility and low employment protection also bolstered employment – although support for the unemployed remained comparatively generous. On the second count, the prevailing logic of universalism has meant that 'the well entrenched Danish moral consensus favoring the welfare state strongly conditioned efforts at change [which] had to be sold as welfare preserving cost containment, not a gutting and rebuilding' (Schwartz, 1999: 15). In this social democratic environment, characterized by cross-class support for existing arrangements, Centre-Right coalitions have had to cut their neoliberal cloth to suit enduring universalist ends – at least until very recently. In sum, then, prevailing global economic conditions set the parameters within which Danish governments and the social partners have been forced to operate, but they have not directly dictated precisely how key actors would respond to these pressures, nor the content of the policies designed to ameliorate them.

### ***Continental regimes in changing times***

Unlike countries in the social democratic cluster, it is less easy to characterize the Continental regimes of continental Europe as systems that are essentially similar. These countries vary a good deal in terms of population size, the nature and size of their economies and their political structures. Of particular note for present purposes are the variations in industrial relations practices among these states, which display markedly different degrees of union strength and social partnership. Two key similarities stand out, however. As Scharpf and Schmidt (2000: 104) have pointed out, all the continental systems are involved in the various processes of European integration, including financial market integration. Each participates in European Monetary Union, for example, and so currently operates under the

tight monetary constraints imposed by the European Central Bank. Moreover, as mentioned, their welfare institutions are broadly 'Bismarckian', employing the social insurance-based, male breadwinner model as the central means of social protection. Despite Esping-Andersen's (1996a) conviction that the particular institutional make-up of continental welfare regimes militates against reform, it is possible to discern a general, if embryonic, drift in a neoliberal direction as existing welfare and production regimes are confronted by new economic and political challenges.

Taking Germany first, it is clear that there is now an extensive history of governmental attempts to 'adjust' the German social market model. The West German economy was amongst the first to adopt a hard currency policy in the wake of the economic difficulties associated with the collapse of the Bretton Woods exchange rate system and oil price rises of the 1970s, with the Bundesbank pursuing a tight monetary policy throughout the 1980s and 1990s. This stance meant that West German governments had to achieve and maintain cost efficiencies in the public sector, particularly in relation to welfare provision – and the successes and failures here are very much the story of the CDU governments led by Helmut Kohl which enjoyed an unbroken period in office between 1982 and 1998. Pre-unification, the healthy state of the German export sector and the stable nature of industrial relations meant that it was possible to conduct a restrictive macro-economic policy in the prevailing context of capital liberalization and increasing trade openness without trenching too much on social provision – though at the cost of higher-than-average unemployment. To be sure, measures were taken to control health costs in the mid-1980s and the 1989 pension reform tightened eligibility and benefit levels but, in general terms, the German welfare state was not subjected to extensive cuts and, indeed, was even modestly expanded in certain areas – child benefits being one example. Unification with the German Democratic Republic in the East altered the picture substantially, however. The decision immediately to extend the West German welfare system eastwards to offset the effects of industrial collapse and rapidly rising unemployment effectively entailed a huge expansion of welfare effort, the costs of which were borne mainly by rises in Western insurance contributions derived in the main from payroll taxes (Fuchs and Schettkat, 2000; Swank, 2002: 178).

There is some evidence to suggest that GEPs have played a part in the fortunes of the German economy in the 1990s, if only because they have exacerbated the deleterious effects of unification. As Swank (2002: 182) notes, increasing export-oriented modernization combined with 'accelerating European Community trade integration increased the already high trade openness of Germany' – and to these factors may be added significant outward flows of FDI in search of cheaper labour costs, which may have directly caused additional problems for a system increasingly characterized by high levels of unemployment. With resources being diverted to the social and economic development of the Eastern Länder, it is not surprising that employers and politicians began to voice concerns about the viability of the social market model, which appeared to be being sustained by persistent rises in payroll taxes and contribution levels at a time when the German export sector

needed to become more competitive. Nevertheless, once again, these global pressures provide a backdrop and context which 'frames' political debates about reform rather than acting as direct economic agents of change. For one thing, in the *absence* of unification, it is likely that the West German economy would have proved to be more robust in the face of global competition and European integration than it turned out to be having taken on the economic deadweight of the Eastern Länder. Moreover, it is worth noting that policies for the reform of the social market economy, particularly in relation to the welfare state and labour market, did not emerge in any sustained manner during the early and mid-1990s, when concern about German uncompetitiveness was growing. Indeed welfare reform has really only been on the political agenda since the late 1990s, which suggests no direct cause-effect relationship.

The dangers of globalization have been used, however, to underpin employer and Centre-Right-led demands for the reform of the German model. Calls for welfare reform, particularly for a greater degree of marketization in service provision and cuts in benefit rates, came from these sources during the 1990s, with employers becoming increasingly vociferous in their demands for changes in the industrial relations arena where nascent shifts in favour of decentralized bargaining had begun to erode the power of the trade unions. This latter issue is worth pursuing further because the challenge to union power is clearly a significant indirect effect of the political deployment of globalization arguments.

The German industrial relations system is characterized by the legalized absence of the state from industrial bargaining practices, which may have served to loosen existing sectoral bargaining structures over the past decade. In an economic context which encourages new decentralized forms of business organization as well as departures from traditional methods of financing within the social market model (Hall and Soskice, 2001: 61), German companies have proved able to manipulate the parameters of social partnership in their favour. In this connection, Rhodes and van Appeldorn (1998: 417) note that 'German companies and unions are now agreeing patterns of flexible working that were unthinkable just five years ago, and many of these are reached locally with company works' councils'. Changes of this kind have been directly reinforced by the consequences of reunification. High unemployment levels in the eastern Länder have meant that employers there have been reluctant to develop traditional West German forms of collective bargaining – and indeed relatively few employers in the East are organized in the manner of their Western counterparts (Fuchs and Schettkat, 2000: 221). Far from West German institutions being exported eastwards as the trade unions had originally hoped, the scale of Eastern unemployment has led to demands for greater wage flexibility, which have spilled over into the West. As is often the case, these issues are particularly clear in the metal industry where, in the light of the collapse of East German markets and the ensuing productivity gap between East and West, many Eastern firms have found it easier to stay out of Gesamtmetall, the employers' association, and instead to bargain directly with individual employees (Thelen, 2000: 144). As Fuchs and Schettkat (2000: 229) make clear, the acceptance of

these ‘opening clauses in the East was a signal for employers to abandon collective bargaining or to ignore agreements – even though the unions were prepared to accept a moderate, flexible policy on wage levels and working hours’.

There are currently signs that politicians may be growing more sympathetic towards employer aspirations for a reform of the system. Although during the 1990s both the Germany’s political parties were apparently content to negotiate changes towards greater flexibility, decentralized bargaining and wage restraint consensually through tripartite talks – to little effect (Ebbinghaus and Hassel, 2000: 51) – there is currently a much greater willingness to support employers’ demands in more forthright fashion. With the more vociferous employers demanding a ‘German Thatcher’ (Gow, 2003: 1) and an end not simply to job protection but to the entire social market model (Gow, 2004), Chancellor Schroeder’s new Agenda 2010, introduced in May 2003, goes a long way towards recognizing the validity of these objectives. For example, the Agenda explicitly endorses the easing of employment laws and the further relaxation of rules on collective bargaining in addition to cuts in the levels of unemployment and other welfare benefits, including pensions (*The Economist*, 5.6.03). Significantly, too, a key justification for these changes, which were endorsed by the SPD and came into force early in 2004, is that ‘globalisation is not an “option”; it is a reality’ and that modernization is necessary if the social market economy is to be saved from the inegalitarian ravages of ‘uncontrolled market forces’ (Schroeder, 2003: 1). In this sense, globalization provides an economic justification for a shift of *political* focus aimed at securing a greater space for neoliberal policy alternatives. Of course, only time will tell whether Agenda 2010 represents an unequivocal step towards neoliberalism or a defensive move aimed at retaining the core characteristics of the social market model. This issue will be further addressed in Chapters Five and Seven.

The French case echoes the German story to the extent that here, too, there has been a degree of drift towards neoliberal policy alternatives over the past twenty years or so. The manner of drift differs, however, as does the role played by GEPs. In the French case, the marked departure from demand-led policies by Francois Mitterrand’s Socialist government in 1982, characterized above all by the dramatic expansion of social protection, testifies to the increasing difficulties associated with trying to run ‘Keynesianism in one country’. Falling confidence in the domestic business sector combined with a deteriorating balance of payments forced changes which entailed significant welfare retrenchment and a turn towards ‘business-friendly’ industrial restructuring. With financial liberalization proceeding apace during the 1980s, eligibility rules were tightened, benefit levels reduced and health budgets capped, while taxes and social insurance contributions were increased. Significantly, though, the election of a Gaullist government led by Jacques Chirac in 1986 did not lead to the predicted radical shift towards neoliberalism, his plans for an overhaul of the entire social security system being met by strong union and popular opposition (Swank, 2002: 192). Indeed this pattern of government attempts to implement far-reaching reforms to the welfare system meeting with strong opposition from public sector unions and other interest groups, typified French social politics throughout the 1990s and into the present century.



In one sense then, the core of the French welfare regime has not been greatly changed: despite reductions, benefits remain generous, there is a continuing, if increasingly politically contested, emphasis on ‘solidarity’ and a combination of continuing high unemployment and domestic demographic pressures make it difficult to reduce social spending. Moreover, the social insurance basis of the system remains – although it has progressively been hedged around by means-tested benefits and other measures designed to reduce the salience of the contributory principle and cater for the increasing numbers who do not qualify for contributory benefits (Gilbert, 2002: 144). In another sense, however, much has altered. Where industrial relations are concerned, as Ebbinghaus and Hassel (2000: 50) make clear, over the past twenty years union-employer bargaining has become increasingly decentralized in the private sector, leading to ‘market-driven, employer-imposed wage settlements at workplace level against the will of the unions’ (Ebbinghaus and Hassel, 2000: 50; see also Clift, 2004: 102). These changes have led to greater labour market flexibility, lower rates of taxation on employers, lower service sector wage levels, less job protection and greater compulsion for the unemployed to find work, as Chapter Five demonstrates. Whether GEPs can be held directly responsible for this shift of emphasis is doubtful, however. It is true, as Swank (2002: 199) acknowledges, that financial liberalization and the reform of the ‘overdraft economy’ through a turn to price and exchange rate stability during the 1980s ‘contributed to economic policy reversal and the shift from welfare state expansion to cost control and revenue raising’ – but economic pressures arising from European Monetary Union have clearly been a factor here, as much as distinctly global challenges, while demographic issues continue to contribute to French difficulties. Moreover, the defensive political-institutional response has been marked, particularly among the public sector unions where the financing of health and pensions are concerned – changes in these areas remaining essentially path-dependent. Even so, although current levels of retrenchment hardly amount to neoliberal convergence, it appears that the French welfare system is beginning to drift in that direction.

The Italian case is distinguished by the late turn towards continental welfare structures, which really only emerged during the 1970s. Welfare state expansion consequently coincided with the economic downturn associated with the collapse of the exchange rate system and the rise in oil prices, which resulted – not surprisingly – in a declining balance of payments and rising inflation. Some efforts were made to tackle these difficulties during the 1980s. With the lira in the European Monetary System from 1979, a restrictive monetary policy was pursued by the newly independent Bank of Italy while unions and employers agreed, at least in principle, to greater labour market flexibility, and welfare spending was tightened. These initiatives did not succeed in lowering unemployment, however, while high levels of social spending continued to contribute to Italy’s budget deficit, which stood at over 10 per cent of GDP throughout the 1980s (Swank, 2002: 205). A marked change occurred in the early 1990s, since when a number of attempts have been made to reform key elements of welfare provision. Three factors are particularly important. First, GEPs played at least a contextualizing role, as did



other supranational pressures associated with European integration. For example, the liberalization of capital controls in 1988 and Italy's increased openness to global capital markets, as well as rising FDI outflows, produced pressures for labour market changes and the reduction of public debt. This latter issue was particularly pertinent in the wake of Italy's ratification of the Maastricht Treaty in 1992 as the Treaty demanded that all signatories must conform to strict European public spending targets. Second, a specifically domestic political pressure occurred in the form of the national emergency created by the scandals of *Tangentopoli* (Ferrera and Gualmini, 2000: 199). The investigations into widespread political corruption involved the 'turnover of the entire national political class' and contributed to the ensuing fiscal and monetary crisis that effectively paralysed the country. Third, in the wake of this crisis, the new government led by Giuliano Amato initiated moves designed to stabilize the Italian economy in general and its industrial relations system in particular. As Ebbinghaus and Hassel (2000: 52–3) note, a key feature of the Italian case is the reduction of employer-union hostility and the move towards stable industrial relations based upon the unions' willingness to drop automatic wage indexation in return for extensive reforms to the bargaining system. These reforms, implemented in 1993, reduced the hold of Italy's three main union confederations, which had historically divided on ideological lines. Driven partly by demands from autonomous unions and partly by employers' desires for 'a strong institutional link between bargaining agreements at the national and plant levels', the reforms consisted of national-sectoral level agreements, which set out wage norms in the medium term, and a system of plant level bargaining that allowed union representatives to negotiate wage bonuses on the basis of productivity increases (see generally, Thelen, 2001: 90–1).

As to social policies, GEPs combined with these new forms of 'concertation' to produce changes, mainly in the areas of pensions and health policies. As detailed in Chapter Seven, 'the 1992–5 pensions reforms represented major breakthroughs with respect to the institutional legacies of the past' (Ferrera and Gualmini, 2000: 192), although these changes, together with others, were only achieved through a consensual and dialogic process during which governments were forced to make significant concessions which reduced the impact of the reforms. Nevertheless, some progress was achieved – and this in distinct contrast to the first Berlusconi government's attempt to short-circuit negotiations with the trade unions over an explicitly neo-liberal pension reform package which backfired and resulted in the government's dramatic downfall in late 1994, in the wake of intense opposition from trade unions and the public at large. This clear resistance to the attempt to shift the Italian polity towards market solutions – resistance which has re-emerged during the second Berlusconi administration – suggests that the nature of the reforms implemented by the Amato and Dini governments was essentially incremental. Where globalization is concerned, economic pressures constrained Italian governments and cut out certain policy options, particularly perhaps in the late 1980s and early 1990s. But EMU has also played a significant part and GEPs cannot be said either solely or directly to have caused welfare reforms. As discussed below, these are best understood as the product of a combination of domestic

political factors, including pressures arising from the need to reorganize the complex and fragmented Italian welfare system itself, though in circumstances framed by international and European economic constraints.

Turning finally to the Netherlands, changes here have been more marked than in other Continental countries, leading some observers to go so far as to label the Dutch welfare regime as 'post-productivist' (Goodin, *et al.*, 2001). In historical perspective, however, as van Kersbergen (1995) has demonstrated, the pillarized, confessional nature of Dutch politics created a typical 'breadwinner style' welfare system characterized by generous, insurance-based transfers as the respective pillars developed their own designs for social improvements in the context of a general acceptance of the family as the focal point of social life. These arrangements survived subsequent depillarization and the decline in family ideology during the 1960s, 'the prevailing high benefits [becoming] the norm when differentiation in the schemes was eliminated' (van Kersbergen, 1995: 135). Generous welfare spending was maintained both by the new cross-confessional Christen Democratisch Appel (CDA) in the 1970s and later by the social democrats under Wim Kok – both parties effectively marginalizing neoliberal resistance to high social expenditure. However, although rapidly rising social spending initially appeared to be economically sustainable in the late 1960s and early 1970s, largely due to the discovery of North Sea gas reserves, a number of difficulties emerged in the wake of the economic turbulence created by the oil crises of 1973 and 1979. The impact on the exposed sectors of the economy led to a severe employment crisis – unemployment rose to 15 per cent in 1984 – a major consequence of which was the acknowledgement on the part of the trade unions that the constant pursuit of higher wages was counter-productive in terms of both economic growth and employment.

The Wassenaar agreement, concluded between trade unions and employers in 1982 just as Ruud Lubbers' new Christian democrat-conservative liberal coalition came to office, signalled a recognition from both sides of industry that 'higher profits were required for the higher level of investment essential to job growth' (Hemerijck *et al.*, 2000: 216). For Martin Rhodes (2001: 182), this agreement was the key feature of the ensuing 'Dutch miracle', which represented a return to corporatism following the breakdown of arrangements in the wake of the economic crises of the 1970s. This was a new 'competitive corporatism', however, with 'a considerable degree of decentralization in wage bargaining that is compatible with intensified competitive restraints'. Because Wassenaar also involved an austerity package that saw salaries, benefits and the minimum wage frozen, and public sector wages cut in 1983–4, in addition to a hard currency policy which pegged the Guilder to the Deutschmark, it may be regarded as a significant factor contributing to the extensive institutional change subsequently experienced in the Netherlands.

These basic features of social and economic policy have persisted. The pact was updated and renewed in 1993 in the shape of the 'New Course' agreement between the social partners, which introduced even more flexibility and decentralization, while reforms in the welfare sector saw an attack on the widespread abuse of disability benefits in addition to cuts in mandatory insurance provisions and the

privatization of sickness allowances. Moreover, as Cox (2001: 484) reports, ‘the wage indexation of benefits was adjusted so low that it is virtually insignificant’. Wim Kok’s Labour-led coalition government continued these reforms throughout the 1990s, further attacking sickness and disability programmes, and launching new initiatives, particularly in the area of labour market flexibility (Levy, 1999: 261). Here, as Chapter Five records, initial scepticism about flexibility, particularly from the unions, has been turned on its head by the greater institutional willingness to accept change and also by the ‘contingent’ factor of increasing female employment. With many more women entering the labour market, the traditional male full-employment model has explicitly given way to one which recognizes the importance of part-time work (with appropriate social benefits) and the work-life balance. In what is effectively a clear shift in political and institutional discourse, labour market flexibility has come to be regarded favourably by politicians, employers and unions, while ‘flexicurity’ has proved politically popular because it provides high levels of insured employment. Although it is certainly the case that part-time work is heavily concentrated in the female workforce, which hardly makes for genuine independence for women, there is at least the possibility of mixing careers and family life, owing to the recognition of the importance of publicly-funded social care arrangements (Knijn, 2004: 63).

To be sure, there is little direct relationship between GEPs and the current Dutch attachment to part-time working and a constrained welfare state. Even so, as Green-Pedersen (2004: 143–4) argues, the Netherlands, in common with neighbours like Denmark, had to develop macroeconomic policies which met the demands of the financial markets for low inflation and limited budget deficits before proceeding with welfare state reforms. With these changes achieved, further reforms associated with labour market and pensions policies have been attained through political ‘adjustment’ – although as subsequent chapters make clear, adjustments have taken a liberal direction and the process is by no means complete, particularly where pensions are concerned.

### ***Embracing change: liberal democratic regimes***

As already intimated, those countries that broadly endorse the market model are also those which accept the ‘logic’ of GEPs with the greatest alacrity. Reasons for the undoubted deepening of neoliberal policies in these regimes have much to do with the institutional predisposition against forms of corporatism, which characterize their business systems in particular, and their institutional make-up more generally. In broad terms, the nature of companies’ market strategies, industrial relations structures and perceptions of the state’s role in economic management are premised upon the inability, but also the ideological unwillingness, to coordinate capital and labour. Weak associational relationships among firms together with the weak central coordination of organized labour lead to extensive decentralization in product markets and industrial relations, where bargaining mainly takes place at plant level. As King and Wood argue, these features have certain implications for LMEs in a context of increasing GEPs. For example,

because growing trade openness and capital mobility compromise Keynesian full employment strategies they weaken ‘the power of trade unions and [increase] the centrality of firms’ competitiveness in economic performance’ (King and Wood, 1999: 379). Significantly, though, in order to ensure the viability of their economies in the absence of coordinating institutions, governments have to support these decentralized competitive strategies by developing increasingly market-friendly policies – at the cost of social protection. It is in supporting these strategies that the move towards the ‘competition state’ (Cerny, 1990; Evans and Cerny, 2003), or Schumpeterian workfare state (Jessop, 1994, 2002) is at its most visible.

With respect to the United States, the marked neoliberal shift that started at the end of the Carter presidency is clearly observable. Confronted with high unemployment and inflation on coming to office in 1980, Ronald Reagan initiated a series of measures – tax cuts, ‘welfare’ retrenchment, cuts in social insurance benefits and increased insurance contributions, deregulation and labour market reforms – that began the process of ‘re-liberalizing’ the US economy. This was indeed a *process*. Despite the contemporary rhetoric, the Reagan years did not produce the level of economic reform or the degree of retrenchment in social spending that conservatives had hoped, mainly because a Democrat-dominated Congress supported by the trade unions successfully opposed the full extent of proposed cutbacks and were also able to mitigate the impact of Republican welfare legislation in the late 1980s. However, because the Clinton presidency broadly continued with welfare retrenchment, this time with a Republican-dominated Congress demanding ever more radical changes, the outcome by the beginning of the new century has been one of the purest neoliberal welfare models on the globe (see Chapter Four).

In terms of causation, in the US context the relative weight of global economic, political/ideological and institutional factors is hard to ascertain. Taking GEPs first, although the world’s largest economy, this feature alone has not immunized the US against a range of challenges that threaten to undermine American economic hegemony. These were particularly evident from the late 1970s and throughout the 1980s, a period during which the USA experienced significant deindustrialization and declining living standards. To some extent, the magnitude of the problem depends on the spin put on it, and some commentators attach more weight to falling shares of world trade, rapidly increasing budget and trade deficits, increased competition, particularly with Japan, and the perceived shortcomings of American management than others (see Coates, 2000: 26–32). What seems incontrovertible, however, is the fact that the USA became more vulnerable to GEPs as a result of falling levels of national saving and the consequent need to turn to foreign capital as a major source of domestic investment. As Krugman (1998: 85) acknowledges, during the 1980s the USA became ‘a massive net importer of capital – initially by selling foreigners large quantities of bonds, and increasingly, by attracting foreigners eager to buy controlling interests in American businesses’. These developments are particularly important in the US context because the extensivity of corporate welfare – company-provided health care insurance, corporate pensions and so on – is such that for many individuals ‘foreign trade is a directly

relevant factor in their personal social security' (Rieger and Leibfried, 2003: 153). Their vulnerability is particularly acute because, as Rieger and Leibfried go on to say, failures in corporate welfare are not adequately compensated for by publicly funded income or service support. In these circumstances, it is not surprising, first, that the USA has become increasingly protectionist and, second, that social policy has been adjusted to conform to the perceived needs of the market.

Political factors facilitated the movement in this direction. With the bulk of federal spending, such as it is, tied up in popular 'middle-class' programmes such as old age pensions and medicare (the costs of which are set to rise markedly as a result of population ageing), political attention shifted to the less powerful 'undeserving' poor. Here a combination of neoliberal and neoconservative ideological initiatives succeeded in linking 'welfare' (i.e. social assistance in the American context) spending with a range of social problems and pathologies – achieving extensive reform as a result (see for example Murray, 1984). Although, as Krugman (1998: 96) argues, the resulting cutbacks could produce only 'pocket change compared with the size of the deficit problem', suggesting that there was little formal or *direct* connection to globalization arguments, there is no doubting the effectiveness of this domestic ideological onslaught on core aspects of US social policy, conducted against the backdrop of global economic uncertainty. Importantly, too, certain elements of the US' institutional structure work to cement the neoliberal understanding of the role of social policy. For instance, the degree of decentralization in the US political system, with state governments having independent tax-raising powers, increasingly extensive control over welfare budgets and a good deal of legal autonomy, works against attempts to coordinate opposition to cuts in social spending. As Swank (2002: 228) notes, decentralization works to fragment 'pro-welfare state actors and coalitions and [has] promoted antistatist orientations, conflict and competition within the American political system'. This degree of institutionalized fragmentation has allowed many state governments to pursue the liberal supply-side solutions held by business and political elites to be conducive to greater economic competitiveness.

Other elements of the political system do not encourage even this level of potential opposition, however. Organized labour in the USA is weak in comparison to that in many Western European countries. Although American trade unions have traditionally supported welfare initiatives, not without effect during the postwar period, they came under sustained attack during the Reagan years, finding themselves 'hard pressed to protect [their] most immediate interests in wages, jobs and labor legislation' (Pierson, 1994: 160). Certainly union membership fell markedly during the 1980s – a trend that has since continued (Bureau of Labor Statistics, 2004) – and this lack of influence, together with other factors such as low voter turnouts at elections (with the active electorate coming from higher income groups), and a diverse system of interest group representation that favours the business lobby and 'coalitions of the wealthy', makes it difficult for low-income groups, especially minority ethnic populations, or their supporters to develop coherent strategies capable of attracting a significant cross-section of opposition opinion.

If decentralization fragments opposition in the USA, the high degree of centralization and effective absence of veto-points in the UK gives elected governments a wide degree of discretion over policy making. Ironically, both the establishment of the welfare state in Britain in the late 1940s *and* its subsequent restructuring since the early 1980s owe much to the fact that governments with large parliamentary majorities can effect radical changes if they are minded to do so. This constitutional feature alone, however, can hardly account for the turn towards market liberal alternatives in British social policy since Mrs Thatcher's Conservative Party won office in May 1979 – other factors, both global and domestic, need to be taken into consideration.

Judged from the perspective of the postwar 'golden age', the UK was by no means a typical liberal regime, but a 'hybrid' which displayed continental and social democratic, as well as neoliberal, characteristics. Benefit structures, developed under the insurance system originally devised by William Beveridge (1942) and introduced by the Labour government's Social Insurance Act in 1946, had many of the features of the Bismarckian employment-based breadwinner model. Replacement rates were considerably less generous than continental models, however, mainly because (excepting the brief experiment with earnings-related benefits in the late 1970s) unemployment and sickness benefits, as well as old age pensions, were based on the principle of flat-rate contributions for flat-rate payments, designed to provide incomes at about 25 per cent of the average male industrial wage. The system also mimicked Bismarckian arrangements in so far as it was designed to protect individual *contributors* (as opposed to all citizens) against the major risks of unemployment, sickness and old age, while the 'citizenship' element took the form of means-tested, tax-financed social assistance for those not eligible for contributory benefits (see Glennerster, 1995). These measures, together with a newly created National Health Service (arguably the only truly 'social democratic' element in UK welfare) and a free system of compulsory primary and secondary education made up the core of the UK's postwar welfare regime.

These arrangements did not survive the recession of the early 1970s. The UK experienced increasing difficulties in the wake of the move to floating exchange rates and the oil price rises of 1973 as the new phenomenon of 'stagflation' hit the economy and industrial militancy spiralled. In the UK's case, the quasi-corporatist solution in the form of the 'social contract' between a minority Labour government and the trade unions briefly held wages and inflation down in the mid-1970s but, in the absence of a properly institutionalized social partnership, ultimately fell victim to a combination of employer hostility and the inability of the Trade Union Congress to control the sectional demands of its more militant members. This latter shortcoming had dramatic results. Throughout the 1980s and much of the 1990s, Conservative governments under Margaret Thatcher and her successor, John Major, progressively reorganized UK industrial relations to reflect employer demands for a low-cost, flexible labour force suited to the conditions of what they perceived as an export-dependent economy in an increasingly competitive global market. Trade union rights were abrogated and unemployment was allowed to rise to over 12 per cent, its highest level since the 1930s. As Wood (2001: 395)



comments, ‘the effect on unionization rates in Britain [was] catastrophic – TUC membership fell from 12.2 million in 1979 to 6.9 million in 1995’.

With the unions on the defensive, Conservative governments turned their attention to the labour market, where greater flexibility was the key objective. To this end, nationalized utilities were privatized and elements of low-paid welfare state services such as hospital catering and cleaning, and residential care for older people, contracted out to private sector companies. Also, wages and working conditions were progressively deregulated, particularly for younger employees, with a consequent decline in income levels for low-paid workers. To bolster these initiatives and encourage individuals to take up employment, eligibility rules for benefit receipt were continually tightened, with specific attention being paid to unemployment benefits and the requirement that claimants should ‘actively seek work’. Complementary moves saw old age pensions virtually privatized and core services reorganized to mimic the workings of the market – the National Health Service and education being the two clearest examples (Bartlett *et al.*, 1998).

In asking whether GEPs played a role in this turn to market liberal welfare solutions, the answer is a qualified ‘yes’. The UK’s economy has always been open to international influences and the fact that the country suffered periodic currency crises throughout the postwar era suggests that the (declining) domestic economy was indeed vulnerable to global pressures. More recently, of course, rising trade flows and extensive financial liberalization have led to greater economic integration with global markets. As Swank (2002: 233) has noted, ‘the integration of British and international markets [has] increased significantly [with]... total flows of FDI, portfolio investment, direct bank lending, as well as trade flows, [averaging] 60 percent of GDP in the 1990–5 period’ – higher than in the majority of OECD countries. However, to argue that these factors alone are solely responsible for welfare state retrenchment in the UK, as governments seek to strip away inhibitions to greater competitiveness, would be to go too far. At least two further domestic factors have contributed to a ‘mix’ that has clearly itself contributed to the extensive changes, aspects of which will be detailed in Chapters Four and Five.

First, structural explanations suggest that there was little option but for UK social policy to shift towards neoliberalism. According to King and Wood (1999), the economic challenges of the 1970s and 1980s made the turn towards markets inevitable because, as suggested, the UK is institutionally indisposed towards forms of economic governance such as corporatism, which privilege ‘organized’ relationships between labour and capital. As King and Wood (1999: 379) point out, weakened unionism in the wake of the failure of full employment policies left employers in a powerful position to insist on the market-friendly policies they regarded as essential for increased competitive performance. This institutional factor is complemented by another which specifically concerns the nature of the UK welfare state. Because UK social policy has always contained certain neoliberal components – for example, a high degree of means-testing, ungenerous replacement rates and high levels of occupational pensions in addition to other forms of occupational and fiscal welfare (Titmuss, 1963) – these embedded precedents made the UK susceptible to policy changes that sought to reinforce and build upon them

while eroding those collectivist elements of welfare which had come to be regarded as both inefficient and expensive.

Turning finally to the Antipodes, both Australia and New Zealand differ from other liberal states in that they have a history of 'wage earner' welfare with its own institutional and political characteristics (Castles, 1986). Of particular significance here, however, is the way in which increasing GEPs conspired to undermine the foundations of the wage-earner model, leaving governments in both countries in the early 1980s facing rising unemployment and a growing budget deficit as traditional economic policies based upon 'import substitution' failed. These policies aimed to maintain employment by using profits made in the export-oriented sectors to fund increased employment in the service sector. With the arbitration courts – the core apparatus for wage setting – awarding high wage increases to both sectors, exposed parts of these economies were forced to demand increased protection to remain competitive. The system held together during the postwar years partly because export markets held reasonably steady and partly, too, because employment policies discriminated against Aboriginal peoples and foreign labour in favour of white Australian men, thus restricting the demand for jobs (see Schwartz, 2000: 82–3; Huber and Stephens, 2001: 173). However, by the mid-1970s it was becoming clear that the export sectors in both countries could not make sufficient profits in an increasingly competitive global market to be able 'to fund a volume of consumption and capital goods imports consistent with the socially defined standard of living' (Schwartz, 2000: 83). In much the same way as in the UK in the 1970s, the initial reaction was a turn to incomes policies in an effort to contain wage rises and inflation. To compensate for rising unemployment and falling wages, both Australia and New Zealand shifted social policy from its 'informal' role as a complement of their respective egalitarian wages policies to a 'formal' one in which the core elements of welfare – health care, social security and so on – were properly institutionalized as a 'social wage'.

At this point the policy choices of the two countries diverge, Australia being the focus of discussion here. Utilizing the spirit if no longer the letter of the wage-earner model, Australian Labor governments successfully sought a corporatist relationship with the trade unions which was sustained through a series of 'Accords' from the early 1980s to the early 1990s. The main feature of the Accords was organized labour's agreement to allow governments to pursue economic liberalization in return for a degree of social protection (Saunders, 1999: 497–8). This they did. On the one hand, Australia witnessed a marked decentralization of the wage system with the Keating government in particular encouraging bargaining at enterprise level. On the other hand, a range of social reforms saw important innovations in health and childcare in the context of an approach to social policy that tightened eligibility criteria for benefits and pensions, introduced means-testing for some benefits and encouraged individuals 'to be "active" recipients of welfare' (Johnson and Tonkiss, 2002: 8). In the words of Johnson and Tonkiss (2002: 10), Australian Labor governments produced a 'peculiarly economic kind of social contract [that] was seen to rest on the assumed common interest of wage earners, welfare recipients and business in economic growth, in the context of a welfare



system strongly oriented towards waged work'. Since the mid-1990s, however, in the 'post-Accord era', National coalition governments have taken welfare state restructuring much further in a neoliberal direction, particularly in relation to labour market and pensions policies. They have also presided over the further decentralization of industrial bargaining and consequently a marked weakening of the Australian labour movement.

Before moving on to consider labour market and pensions policies in the above countries in more detail, it is important briefly to take stock of the discussion so far. The core contention is that GEPs are significant constraining factors in a process which is witnessing marked, if varying, degrees of change in 'mature' welfare regimes. In most cases, they play an indirect or 'contextualizing' role in welfare regime change. However, much depends on the particular configuration of institutional factors ranged against them and, of course, the nature of other contingent issues with which welfare regimes have to deal. Broadly speaking, GEPs are more influential in regimes with liberal economic and social arrangements because these are institutionally predisposed to embrace the logic of 'globalization' and attempt to absorb the impact of increasing trade openness and capital mobility even at the cost of certain radical institutional adjustments. Conversely, regimes with highly institutionalized and embedded systems of economic and social governance supported by a range of core social and political actors are less likely to want to accommodate GEPs in this manner. However, while each of the countries considered here is faced with the need to deal with these pressures by making (at least) incremental adjustments to its welfare policies, a key issue is whether the core institutional supports in social and continental systems can remain sufficiently well embedded to limit the extent of the neoliberal turn. The following chapters will consider this matter in the context of an examination of labour market and pensions policies in the countries under review.

## **4 Towards workfare?**

### Changing labour market policies

Maintaining 'full employment' in conditions where deindustrialization has removed many of the traditional male, blue-collar jobs, where women are entering the workforce in increasing numbers, and where budgetary constraints make it difficult to reduce the problem by increasing public sector employment constitutes a significant challenge for many welfare regimes. Is it feasible, in the light of these developments, to formulate labour market policies that can lead to greater employment opportunities without eroding the institutional structures and assumptions on which any particular welfare regime is founded? To answer this question, this chapter will first examine the changing nature of labour markets and employment in selected OECD countries before moving on to consider how liberal welfare regimes have attempted to use labour market policies to deal with the difficulties involved. Taking these regimes as examples of extensive change, Chapter Five will then consider the labour market measures that social democratic and continental regimes are developing to bolster employment and assess the impact of these policies on their institutional make-up.

#### **Changing labour markets**

What factors have contributed to the far-reaching changes that have occurred in labour markets in OECD countries over the past thirty years? We have already seen that GEPs set the context for change in a number of ways. While deindustrialization and the dramatic rise of the service sector are not purely a consequence of global economic pressures, these changes need to be understood against the unforgiving backdrop of increases in trade openness, capital mobility and the technological advances that have set a new competitive tone for the exposed sectors of the developed economies. In response, employers have come to demand greater 'flexibility' from their workforces, this demand frequently being synonymous with 'downsizing' as companies subcontract work and make increasing use of part-time, casual, and often female, labour (see Castells, 1996). At the same time, low wage competition from developing countries appears to have increased the pressures created by domestic deindustrialization by reducing the demand for unskilled labour, particularly in textiles and associated goods. The resulting wage inequalities, reduced working conditions and unemployment have come to be regarded as

endemic features of deindustrialized, service-oriented economies in which governments appear to be faced with a trade-off between ‘equality’ – the attempt to maintain wage levels and generous social protection – and ‘employment’ – the desire to maintain employment levels even where jobs are low-paid and/or part-time (Esping-Andersen, 1996a; Iversen and Wren, 1998). Here the traditional Keynesian strategies for dealing with this tension – tight incomes policies accompanied by devaluation – employed in particular by Scandinavian and Continental regimes, have proved less useful in an economic climate dominated by free capital movements where the ‘rational expectations of investors [mean] that the negative effects of (fear of) inflation or devaluations, especially increasing interest rates, come before positive effects’ (Goul Andersen and Halvorsen, 2002: 5). The resulting marked shift towards hard currency policies and balanced budgets in the 1980s subsequently led to greater concentration on supply-side measures designed to improve competitiveness.

These changes naturally affect existing labour market structures, but they are also accompanied by other social and economic phenomena which contribute to increasing pressure on traditional labour market policies. Where labour markets are concerned, much depends on how a range of factors common to the advanced economies are accommodated by regimes that hold rather different views of the challenges posed by the global economy. Five factors are particularly significant and are characterized by Sarfati (2002) in the following terms:

- High unemployment, albeit with regional and national variations.
- The differential role of the services sector in different national economies.
- The dramatic rise in female employment and labour participation.
- Changes in family composition.
- The diversification of forms of employment.

These ‘postindustrial’ phenomena are well known and have been widely discussed, particularly in relation to changing class structures (Esping-Andersen, 1993, 1999; Castells, 1996; Klausen, 1999), but certain aspects are important for present purposes because they bear directly on the changing nature of labour markets – and labour market policies – in a variety of welfare regimes. It is worth noting, for example, that high unemployment has affected all the advanced economies at different times since the 1970s, with, in many cases, long-term unemployment taking up an increasing proportion of total unemployment in the 1980s and 1990s (see Table 4.1). Unemployment rates decreased in the late 1990s, to be sure, as European nations began to increase employment in their service sectors – a feature of the US economy since the early 1980s. As Sarfati (2002: 17) explains,

the difference in employment rates, particularly between the United States and the major European Union countries, can almost entirely be explained by the higher employment in services in the United States, where the services sector accounted for 90 per cent of net job growth.

Table 4.1 Growth of long-term unemployment as a percentage of total unemployment in OECD countries

	1979	1985	1989	1991	2000	2001	2002	2003
Australia	18.1	30.9	23.0	24.9	29.1	21.2	22.1	22.5
Canada	3.4	10.3	6.8	7.2	11.2	9.5	9.7	10.1
Denmark	36.2	39.3	25.9	–	20.0	22.2	19.7	19.9
France	30.3	46.8	43.9	37.3	42.6	37.6	33.8	–
Germany	28.7	47.9	49.0	–	51.5	50.4	47.9	50.0
Italy	51.2	65.8	70.4	–	61.3	63.4	59.2	58.2
Japan	16.8	13.1	18.7	17.9	25.5	26.6	30.8	33.5
Netherlands	35.9	60.7	49.9	–	–	–	26.7	29.2
New Zealand	–	–	14.7	21.2	19.2	16.8	14.4	13.3
Sweden	6.8	11.4	6.5	–	26.4	22.3	21.0	17.8
UK	29.5	48.6	40.8	–	28.0	27.8	23.1	23.0
USA	4.2	9.5	5.7	6.3	6.0	6.1	8.5	11.8

Source: adapted from OECD, 1993: 87 and OECD 2004a: 315.

Within Europe, service sector expansion has increased fastest in Scandinavia and the UK, ‘with the difference that in Scandinavia growth has been particularly strong in social services and the public sector whereas in Britain much of the growth took place in the predominantly private-sector service occupations (Klausen, 1999: 268) (see Table 4.2). As is well known, the rise of service sector jobs is closely associated with the entry of large numbers of women into labour markets in the advanced economies, although, as Klausen’s comment implies, the structure of this sector varies depending on the regime in question. In general, Scandinavian countries, and the Netherlands, have been favourably disposed towards integrating women into the post-industrial workforce, and have attempted to support female employment by maintaining large public and social services in addition to near-universal access to child care. Women are heavily, though more precariously, employed in private sector distributive services and ‘personal services’ like domestic work, hotels and catering in liberal economies such as those of the UK or the USA – particularly the latter. In contrast, female participation rates in continental states like Germany, Austria, France and Italy, which have been slower to deindustrialize, have tended to lag behind social democratic and liberal nations, although female service sector employment has nevertheless increased over the past decade (see Table 4.3).

The turn to services is part cause, part consequence, of marked changes in household structures since the 1970s. Alongside other factors such as advances in labour saving technologies, which have reduced domestic working time (Gershuny and Miles, 1983), the increase in services has effectively created a new employment sector that, among other things, has ‘increasingly [absorbed] what are essentially menial household job functions’ (Esping-Andersen, 1993: 22). If the up-side of this phenomenon has been that many women are now free ‘to pursue sustained employment and career development’ and that double-income families have greater

*Table 4.2* Employment in services as a percentage of civilian employment

	1970	1988	1991	1996	1999
Australia	55.6	67.9	71.2	72.4	73.4
Denmark	50.7	67.1	66.6	69.0	70.0
France	47.2	63.0	65.3	69.4	71.0
Germany	42.0	56.1	54.9	61.6	62.6
Italy	40.3	57.7	59.2	60.8	62.2
Netherlands	54.9	68.8	69.9	73.8	75.9
Sweden	53.5	66.7	68.6	71.0	72.3
UK	52.0	64.8	66.6	70.7	72.4
USA	61.1	70.2	71.8	73.3	74.4

Source: adapted from OECD, 2001a.

*Table 4.3* Female labour force as a percentage of total labour force

	1970	1988	1991	1996	1999	2003
Australia	32.2	40.3	41.6	42.8	43.1	44.6
Denmark	38.6	45.7	46.5	45.8	46.5	46.5
France	35.7	43.1	43.7	44.7	44.9	46.4
Germany	35.9	39.9	42.2	42.8	43.1	45.3
Italy	28.8	36.3	36.9	37.0	38.0	38.3
Netherlands	23.5	38.3	39.7	41.7	42.9	43.6*
Sweden	39.5	48.0	47.9	47.8	47.6	48.3
UK	35.3	42.5	43.1	44.0	44.4	45.0
USA	37.2	44.5	45.0	45.9	46.3	46.8

Source: adapted from OECD 2001a and OECD 2004b.

Note: \*2002

access to leisure time and consumption, the down-side is that certain social groups – predominantly women and those from minority ethnic groups – can end up trapped on the margins of employment. This is not of course to sanction the traditional postwar model of the nuclear family over other types of family structure and functioning, which, after all, vastly underplays the social importance of unpaid domestic labour, but it is to recognize that the consequences of the expanding service sector may be less than optimal for many of those involved.

The economic shift towards service sector employment in the 1960s and 1970s occurred simultaneously with changes in attitudes to marriage and traditional gender roles, this combination of economic and socio-cultural factors being implicated in increasing divorce rates and rising numbers of single parents, as well as mounting numbers of people either choosing, or finding themselves having, to live alone (these phenomena being particularly visible in Northern Europe, the USA and Canada). Because these types of household are more vulnerable to poverty, owing mainly to the fact that they are more likely to be employed in low-paid service sector work, or to be without work entirely, there are knock-on effects for traditional patterns of welfare provision. Significantly, too, the diversity of employment associated with the service sector has meant that many people,

especially the large numbers of women employed in distributive and personal services, tend to work either casually or part-time and on low wages (see Table 4.4), the point being that even those who participate in the labour market may need forms of welfare support, outside traditional benefit arrangements, to keep them there. The general point, however, as Sarfati (2002: 37) observes, is that

these changes in occupational structures and job profiles are liable to adversely affect the viability of existing social protection systems, which were created in the context of a completely different set of parameters (full lifelong employment of male workers in large manufacturing establishments).

Of course, the direction of causality implied by Sarfati's statement can be inverted and it is important to appreciate that social policies in general, and labour market policies in particular, are themselves a factor in labour market change. As Esping-Andersen (1993: 19) argues, because social policy 'directly and powerfully determines ... some of the principal mechanisms by which [labour] markets "clear"' – for instance, 'the welfare and behaviour of the family, the commodity status of labor and the organization of the market' – it inevitably influences the nature and structure of labour markets. For example,

welfare state institutions [can] dictate the choice of non-entry; either via the provision of a social wage option, or via ... tax or service treatment of households. Women with small children are capable of paid employment only if they have access to child care facilities and enjoy rights to paid absenteeism.  
(Esping-Andersen, 1993: 20)

More specifically, labour market policies can influence entry into employment, employment levels, levels of job mobility, and, to an extent, *who* is employed. Active labour market policies (ALMPs), to which particular attention is paid here, can provide education and training programmes, job creation schemes and other supply side measures designed to ensure that the jobless remain connected to the world of work, while the balance struck between 'active' and 'passive' policies might affect tax levels and thus employers' capacity to create jobs, as well as wage structures and industrial relations more generally.

### **Active labour market policies in contemporary welfare regimes**

As Chapter Three indicated, the structures of production regimes in the advanced democracies are altering in ways that permit greater flexibility of employment and, in certain cases, the emergence of new forms of industrial bargaining. These changes form the backdrop to shifts in labour market policies across the advanced economies which in some cases have been dramatic. In general terms, the most visible change, *irrespective* of regime type, has been the increased attention paid to various forms of ALMP, characterized most obviously by greater efforts to 'guide'

*Table 4.4* Part-time employment as a percentage of total employment and women's share in part-time employment

	<i>Part-time employment as a percentage of total employment</i>			<i>Women's share in part-time employment</i>		
	<i>1990</i>	<i>2001</i>	<i>2003</i>	<i>1990</i>	<i>2001</i>	<i>2003</i>
Australia	22.6	27.2	27.9	70.8	67.8	67.2
Denmark	19.2	14.7	15.8	71.1	66.0	64.2
France	12.2	13.8	12.9	78.6	79.6	80.0
Germany	13.4	18.3	19.6	89.7	84.6	83.3
Italy	8.9	12.2	12.0	70.5	72.6	74.7
Netherlands	28.2	33.0	34.5	70.4	76.3	76.0
Sweden	14.5	13.9	14.1	81.1	72.7	70.8
UK	20.1	22.7	23.3	85.1	79.8	77.3
USA	14.1	12.8	13.2	68.2	67.5	68.8

Source: adapted from OECD, 2004a: 310.

the unemployed into work and also by their emphasis on education and training, particularly for the young unemployed. Certain countries have attempted literally to 'activate' unemployed individuals by tightening eligibility rules, withdrawing benefits and, in some cases, coercing them into a job. Despite the fact that the effectiveness of such policies is open to question (Martin, 1998), these alternatives to 'passive' forms of welfare provision have been enthusiastically supported by both the European Union, through successive versions of the European Employment Strategy (EES), and the OECD. In the former case, the Essen European Council in 1994, and particularly the Amsterdam Council and the Luxembourg Special European Council (the Luxembourg 'Jobs' Summit), both of which met in 1997, agreed that social protection must not act as a disincentive to work. To this end, the 'Employability' pillar of the EES (one of four, the others being entrepreneurship, adaptability and equal opportunities) contains principles and goals which include a 'preventive approach' (creating employment through activation strategies) as well as the improvement of education and training systems, and the inclusion of disadvantaged groups in the labour market (CEC, 2001: 8). Such changes also include reform of the Public Employment Services (PES) in each country with a view to ensuring a more coherent approach to the job search and allocation process, particularly at local level.

Much of this strategy conforms to OECD employment priorities. For much of the 1990s, the OECD promoted ALMPs in preference to passive policies, which were regarded as a work disincentive (OECD, 1994, 1998a), continuing to argue in the 2002 *Employment Outlook* (OECD, 2002: 9) that 'a "rights and responsibilities" approach is needed, which increases employment opportunities and the financial returns to working, but also obligates benefit recipients to actively search for work or take steps to improve their employability'. Indeed the Organization (OECD, 2002: 9) remains convinced that 'making work pay policies can play a constructive role as a component of a more employment-oriented social policy'. As this and

the next chapter demonstrate, different states have interpreted such policies in different ways, with regimes differing to greater or lesser degrees between two broad approaches. First, ‘work first’ (WF) approaches look for rapid moves into work on the part of the unemployed and, while a certain amount of education and training assistance may be provided (often by private sector agencies), the emphasis is squarely upon intensive counselling and job search, frequently underpinned by a system of penalties for those who fail to comply with programme requirements. Second, human capital (HC) approaches develop policies that stress the importance of education and training as the best means of ‘securing sustainable transitions to work’ (Theodore and Peck, 2000: 85). The main objective, as Theodore and Peck (2000: 85) note, is to ensure ‘substantial “front-end” investment [which] will not only prepare participants more comprehensively for work, but [by] raising levels of human capital will actually broaden the range of jobs open to welfare recipients’. In broad terms – and with some exceptions – while regimes can exhibit examples of both perspectives, active labour market policies in liberal regimes tend to accentuate the work first philosophy in policy initiatives that more closely resemble ‘workfare’ alternatives, while social and continental regimes veer towards the human capital model.

Activation policies apart, adjustments to passive policies in the shape of benefit cuts, and changes to eligibility criteria and the length of benefit entitlement, feature in the efforts of a wide range of regimes to combat unemployment and increase their participation rates. Expenditure on ‘in-work’ benefits such as tax credits and benefits to employers, in contrast to passive spending on unemployment benefits and social assistance, has been historically less popular in Europe than in the USA, with the partial exceptions of the UK and the Netherlands, but there is a growing trend in this direction. Is there evidence here of a convergence of labour market policies among the developed economies, broadly speaking? The answer to this question is both ‘yes’ and ‘no’. On the one hand, the across-the-board rise in interest in ALMPs, retrenchments in benefit levels, tightened eligibility criteria and other efforts designed to keep individuals in work (or to make work a more attractive prospect) are notable changes that contrast with the traditional passive-protectionist approaches to unemployment which characterized the postwar period. In this regard even the briefest reading of the European Commission’s report on *Employment Policies in the EU and in the Member States* (CEC, 2001) indicates a general movement in the direction of ‘activation’ and associated policies, in addition to others designed to reduce tax burdens on business and encourage labour ‘flexibility’, part-time working and so on. On the other hand, much depends on context, and, as suggested, the nature of activation policies varies both among and within regime types, as do other measures designed to stimulate employment. Clearly, such measures have to be considered alongside broader aspects of social and economic policy such as tax policies, public sector employment strategies, approaches to female employment and governments’ willingness to intervene in wage setting through low or minimum wage strategies, as well as access to child care services – in other words, the panoply of policies deployed by different countries in their efforts to negotiate the trade-off between ‘equality’ and employment.



What follows examines the development of labour market policies in liberal regimes. In view of their looser institutional make-up, these regimes have proved readier to develop WF approaches to ALMPs that are aimed at reducing spending on passive benefits while simultaneously promoting the workforce flexibility that they believe the global market requires.

### **Labour market policies in liberal regimes**

Liberal welfare regimes are less committed than their social and Continental counterparts to ‘equality’ and the extensive social spending that such a commitment entails. Aware of the need to remain globally competitive in order to attract inward investment to flexible labour markets, these regimes are reluctant to raise taxes to fund social spending, preferring to let the market set wage levels, particularly in their expanding service sectors, and use ALMPs to bolster employment at the bottom end. Significantly, too, because the market is believed to offer individuals the best chance of income security, less attention is paid to alternative policies designed to enhance social cohesion and associated forms of collective responsibility found in other types of regime. Because liberal regimes are less heavily institutionalized than others they are able to alter existing welfare arrangements with somewhat greater ease. In two of the examples discussed here – the USA and Australia – existing preferences for market solutions have facilitated radical changes in the direction of loosening controls over the labour market and furthering forms of WF activation. The Australian case is particularly interesting. Here a declining ‘wage earner’ regime initially adopted a version of corporatist industrial relations and social policies in an effort to offset the social costs of liberalization in the economic sphere. Recent changes, however, suggest that corporatism Australian-style is firmly on the wane, Australia adopting an uncompromising neo-liberal WF approach where employment policies are concerned. The UK presents a slightly different picture. Change has been extensive, to be sure – and in the context of an across-the-board alteration in welfare policy. Nevertheless, certain elements of UK labour market policy border on an HC approach, though one more than tinged with a WF mentality. Before considering Australia and the UK, it is important to begin with the clearest case of a shift towards a WF version of active labour market policy: the USA.

#### ***The USA***

In the US context ‘welfare’ has a different meaning. Unlike the situation in Northern and Western Europe, or in the UK, where the term is frequently used generically to apply to the full range of publicly provided goods and services, including social insurance and social assistance, ‘welfare’ in the USA applies strictly to the latter. Unemployment insurance, ‘social security’ (which refers to insurance-based old age and disability pensions) and Medicare are regarded separately from ‘welfare’. In the absence of an egalitarian social policy tradition, however defined, this separation between benefits that are regarded as ‘deserved’, because of their contributory nature, and ‘handouts’ to the poor, who are conceived as largely

‘undeserving’, is particularly rigid. The result is that the core sources of ‘welfare’ – Aid to Families with Dependent Children (AFDC) and its much changed successor, Temporary Assistance to Needy Families (TANF) – are, as their titles suggest, stigmatized and contested forms of support intended solely for very poor families with children. Stigmatization is particularly marked because those *uninsured* individuals on means-tested benefits who are considered ‘deserving’, such as older people and those with disabilities, are treated separately through the Federal Supplemental Security Income programme. Only 3 per cent of the total amount spent on income maintenance is devoted to ‘welfare’ (Evans, 2001: 8), but this area is the focal point of labour market policy in the USA. In common with other liberal regimes, unemployment benefits, which are administered at state level in the USA, have strict eligibility rules and, like those in the UK, run for only 26 weeks, during which time unemployed individuals must be seeking work or registered with the State Employment Service. As Rosch (1998:1) notes, ‘in the USA [there] does not exist any kind of unemployment benefit, it is only a temporary short-term earnings-related benefit’ and it is up to the individual concerned ‘to search for a new job and to accept one if it is offered to him or her’. Once the insurance period is exhausted, those who remain unemployed join those on ‘welfare’, both groups constituting the core targets for a liberal regime intent on enforcing the work ethic (see Karger, 2003).

That so much political and ideological attention is given to welfare and the resources spent on it demonstrates the strength of the conviction expressed by politicians of the two major political parties, as well as by large sections of the American public, that individuals who can work, should do so, virtually irrespective of their domestic circumstances. It is this principle that lies behind the growing belief among Democrats and Republicans alike that even potentially vulnerable individuals such as single mothers with young children should be employed because the market is considered to be the best source of income and also because work is believed to develop self-discipline. As Hillary Clinton (quoted by Deacon, 2001: 9) puts it, ‘I think getting up and going to work ... and having to make difficult decisions about who cares for your children that every other working mother has to make is a necessary step toward learning how to be self-sufficient’.

On one view, it is moral concerns of this nature, as much as the economically-induced imperative of reducing high unemployment, that have driven the US reform agenda and brought labour market policies and ‘welfare reform’ into ever closer proximity. While many European countries, as well as Australia and New Zealand, have experienced periods of high unemployment and reduced passive spending in favour of ALMPs in response, the USA has consistently seen unemployment rates lower than those of European Union countries over the past twenty years – enjoying rates of less than 4 per cent in the latter part of the 1990s. Of course, this figure masks wide variations, with unemployment among African American and Hispanic populations, though declining, nevertheless running at a rate twice as high as the figure for the white population and ‘50 per cent higher than the overall rate’ (Evans, 2001: 8). Moreover, as Gray has commented, the USA does not compare quite so favourably with others when *all* forms of non-employment and high rates of incarceration are taken into account. As he (Gray,

1998: 113) makes clear, ‘over a million people ... would be seeking work if American penal policies resembled those of any other western country’. Even so, these comparatively low levels of joblessness – sustained by a strong private service sector – suggest that the need to reduce open unemployment *per se* has been less of a driving force behind the dramatic changes to the US welfare system since the mid-1990s than the perceived need to enforce preferred forms of behaviour among certain sections of the poor – predominantly those in minority ethnic populations. Certainly the highly charged ideological debates about the role and nature of ‘welfare’, which preoccupied social liberals and neo-conservatives alike during the 1980s and early 1990s, are considered a key source of change according to many observers (King, 1995; Schram, 1995; Deacon, 2000; Peck, 2001). There is little doubt that during the course of these debates right wing critiques of welfare spending, initially expressed in the writings of major neo-liberal and conservative thinkers like Charles Murray (1984) and Lawrence Mead (1986), and subsequently reflected in policies developed during the Reagan and Clinton presidencies, gained the upper hand. It is the degree to which these critiques have become so influential that indicates the extent of the institutional shift away from what were, by US standards, the rather more generous ‘commercial Keynesian’ (Skocpol, 1995: 217) attitudes towards welfare associated with the postwar period.

The core conviction here is that the dramatic increases in passive benefits like AFDC, which characterized the Johnson and Nixon administrations in the 1960s and early 1970s, led to ‘dependency’ among poorer social groups and that this, in turn, resulted in a range of social ills including rising divorce rates, increasing numbers of never-married mothers, absent fathers and a general decline in family values – all culminating in the emergence of a largely racialized ‘underclass’ cut off from the rest of society both culturally and economically (Murray, 1984). Although different strands of thinking can be found within this broad critique – Deacon (2001) points to fundamental differences of approach between Murray and Mead, for example, while William Julius Wilson (1987) has a very different take on the issue – there is no doubt that the basic idea that welfare spending actively creates dependency made dramatic headway in policy terms. Peck (2001: 84–8) shows how, once the Republican Party had gained control of Congress in 1994, key figures like Newt Gingrich and Alfonse d’Amato were able to capitalize on the (relatively small) gains made during the Reagan years to change the basis of welfare ‘discourse’ in ways that effectively demonized traditional social liberal welfarism and replaced it with the hard-edged logic of ‘workfare’. Clinton, if not initially a crusader for welfare reform, changed his tone in the lead-up to the 1996 presidential election. By this time, as Peck (2001: 87–8) states, ‘workfare was no longer one of the “wedge issues” that differentiated the candidates in terms of policy substance’ because ‘conservatives and liberals [had] found common cause – and a common *language* of reform – in the issue of “welfare dependency”’.

The undoubted power of neo-conservative ideology notwithstanding, it is hard to imagine that the increasing influence of these ideas on government policies just at the time that the US economy began to experience the effects of the intensified global competition discussed in Chapter Three is entirely coincidental. Indeed, as Rieger and Leibfried (2003: 208) comment, ‘the changed framework conditions

of the market economy [led] to welfare state institutions suddenly being seen in a different light and to their programmes' benefits being measured by different standards'. With employment shifting away from its postwar base in manufacturing towards less secure service sector jobs by the early 1980s, solutions to the prospect of rising un- or under-employment were held to lie less in traditional forms of social protection than in an outright endorsement of a free market in labour where 'private insurance, entrepreneurially provided social services and transfer systems employing strong income incentives are considered far more suitable to the new *Zeitgeist* of frugal state budgets and deregulation' (Rieger and Leibfried, 2003: 211). As intimated, the changes in the nature of employment in the USA do not appear to have resulted in the kind of open unemployment rates experienced in parts of Europe. However, private service sector work in the USA is distinguished by 'the proliferation ... of "non-standard" forms of employment: part-time jobs, temping, self-employment and multiple job-holding' with 'as many as 4 million workers ... in 1997 [reporting] that they wanted full-time employment but could only find part-time work in which by then 30 per cent of all available employment was of this non-standard variety' (Coates, 2000: 250).

In view of the prevailing commitment to market solutions – and taking account of the sustained political assault on assumptions that the state should be powerful enough at least to play a major role in the shaping of macro-economic strategy – it is not surprising that the USA has moved to shore up employment at the bottom end with an increasingly rigorous supply side-oriented, WF labour market policy.

Turning to welfare reform itself, the thrust of change has been twofold. First, welfare payments have been progressively restricted in terms of both eligibility and value; second, however, *in-work* benefits have noticeably increased. These changes were introduced during Reagan's presidency in the 1980s, the most obvious examples of his administration's efforts to curb welfare spending coming in the form of the Omnibus Budget Reconciliation Act (OBRA) early in the first term and the Family Support Act (FSA) of 1988. OBRA restricted access to AFDC, cut welfare payments and began a process of decentralization that gave individual states incentives to develop welfare-to-work programmes (Peck, 2001: 91) – a process that gained added impetus with the passing of the FSA. This latter piece of legislation reflected a compromise between Republican desires for radical reform and the limits of what could be obtained from a Democrat-dominated Congress. Passive benefits were increased, for instance, in the form of the extension of AFDC to two-parent families, while the FSA built on demands from the National Governors' Association for an extension of the 1981 welfare-to-work reforms by accelerating the move towards workfare. Stringent participation rates on welfare-to-work programmes were required in order for states to qualify for federal funding (King and Wood, 1999: 389). Differences about the 'rehabilitative' or 'deterrent' functions of workfare still persisted at this stage, however, with social liberals favouring a human capital approach and demanding increased spending on training and counselling (Pierson, 1994: 123).

In retrospect, these changes look decidedly moderate in comparison with subsequent events. Once the Republicans had gained a majority in Congress, the way was clear for an altogether more dramatic and radical overhaul of the US

welfare system, which came in the form of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996. As Holcomb and Martinson (2002: 1) put it, ‘the new legislation set the course for a work-oriented welfare system designed to provide temporary financial support for needy families, and gave the states unprecedented fiscal and policy authority to carry out its goals’. These observers also make it clear that ‘work first’ was the dominant – indeed the universal – approach taken towards workfare, although there is wide variation among states and localities over the details of specific programmes. Before briefly discussing the kinds of workfare programmes that have emerged across the USA since 1996, it is important to note that PRWORA effectively abolished the ‘right to welfare’ as this phrase is commonly understood. Deacon (2001: 1) notes that the original obligation placed upon states ‘to pay something to people whose income and resources fell below the limits defined by the federal government’ has been removed (see also Holcomb and Martinson, 2003). PRWORA specifically states that the Act ‘should not be interpreted to entitle any individual or family to assistance under any state program’ (quoted in Deacon, 2001: 1–2). The core social assistance programme created by PRWORA – TANF – only guarantees eligibility for welfare payments for a maximum of five years (Florida, Massachusetts and Wisconsin have adopted more restrictive time limits). Moreover, a range of associated conditions prevent, *inter alia*, states from using TANF allocations for payments to a family that includes an adult who has claimed welfare for a total of five years, or to single mothers who are under eighteen and not living with their parents or at school. As Wiseman shows, tough participation requirements are imposed by PRWORA, actual levels depending on family category. For instance, ‘in 1997, on average, 25% of single parents were to be participating for at least 20 hours per week in any of nine work activities’. Participation rates for two-parent families were more demanding – rates for the ‘non-exempt parent [rising] from 75% in 1997 to 90% in 2002, and through the five year period 35 hours per week of activity are required for meeting the participation standard’ (Wiseman, 2000: 232).

Of course, as these comments suggest, the key objective of PRWORA is to instil a WF mentality among the unemployed – ‘activation’, American-style. States take a dual approach to this goal involving benefit cuts and sanctions regimes, on the one hand, and the linking of payments to participation on work programmes, on the other. Many states operate rigorous sanctions policies, which either cut or entirely remove benefits where individual recipients fail to comply with stated work requirements. The nature of these sanctions depends on the particular state in question: as Holcomb and Martinson (2002: 6–7) note, thirty-six states ‘impose full-family sanctions for noncompliance’, eighteen initially reducing the grant before terminating it in cases of additional noncompliance and the remaining thirteen imposing full sanctions immediately. The characteristics of the work programmes themselves vary widely with much depending on local social and political conditions. There are certainly ‘more’ or ‘less’ radical initiatives under the general rubric of PRWORA. For example, Florida’s WAGES programme (1996–2000) permitted only a three-year lifetime limit on benefit while requiring adults to work or ‘engage in work activities’ (Jonas, 2001: 16) under threat of immediate sanctions

for non-compliance. Wisconsin's W-2 programme contains similar features being premised on the notion that 'welfare recipients should be required to participate in employment or employment-related activities in return for their benefits' (Theodore and Peck, 1999: 494). In both these cases, welfare administration was decentralized, with Florida creating twenty-four regional boards charged with the task of meeting programme goals and Wisconsin opening the public system of welfare administration to competitive bidding from for-profit and non-profit organizations. Perhaps the most influential programme, however, has been the GAIN project at Riverside, California. The chief characteristic here, according to Theodore and Peck (1999: 493), is a "hard" welfare-to-work' model, which enforces 'rapid entry into the wage-labor market at whatever wage and under whatever conditions' (Peck, 2001: 171). To this end, job search is given priority over education and training. This is essentially a 'strict regimen of supervised daily vacancy searching and cold calling' (Peck, 2001: 179) with targets being set for the number of calls to be made in a day and the number of 'job leads' generated. In a process which Peck labels 'Riversidization', other areas such as New York, and indeed other parts of California, abandoned approaches which placed greater emphasis on human capital development in favour of 'work first'. On the other hand, more socially liberal initiatives continue to exist, as Holcomb and Martinson (2003: 147) note in the case of Portland, Oregon. They argue that this programme has 'substantially increased participation in education and training programmes – particularly post-secondary education and training – and placed a strong emphasis on job quality while maintaining an employment focus'. The Portland programme has produced a 21 per cent increase in employment, a 22 per cent reduction in time spent on welfare and higher earnings for participants over time – figures which compare favourably with Riverside.

These examples aside, there is no space here to enter into a detailed account of the effectiveness of the various US welfare-to-work initiatives. It is not the purpose of this chapter to provide an analysis of this kind, although it is worth noting with Peck and Theodore (2001: 434 original emphasis) that

the matrix of successful and innovative programmes in the US remains extremely sparse ... programme quality remains highly uneven, progress in raising employment and wage levels has been incremental at best, while ... the aspiration of underwriting *sustainable* transitions from welfare to work remains just that, an aspiration.

Nevertheless, there is no doubt that the general impact of PRWORA, and particularly the new approach to welfare payments contained in TANF, has been to cut welfare rolls, and thus passive spending, dramatically, while unquestionably adding to the numbers of those in some form of work. It has been estimated, for example, that 76 per cent of TANF spending was on cash benefits in 1996, this figure falling to only 41 per cent by 2000 (Holcomb and Martinson, 2003: 137). Significantly, too, welfare caseloads fell 50 per cent between 1996 and 2002. Of course, it is not surprising that spending on benefits has fallen in view of the rigorous



eligibility criteria; nor is it surprising to learn that the numbers of welfare recipients reporting income from paid work has increased from 7 per cent in the early 1990s to 33 per cent in 1999 (Weil, 2002: 2), given the near-universal emphasis on work programmes. The real issues are twofold. First, is it the case that those leaving welfare enter sustainable employment, which offers a secure income? Here, as Peck and Theodore intimate, the evidence hardly supports an affirmative answer. Loprest (2002: 21) reports that ‘of those who left welfare between 1997 and 1999, 22 per cent were back on welfare ... in 1999’. Just as importantly, 52 per cent of those leaving welfare in 1999 had incomes below the poverty level (Loprest, 2001). On the other hand, those who do manage to gain employment are likely to benefit from the Earned Income Tax Credit (EITC) the value of which has been vastly expanded in recent years to ‘make work pay’, although it is not clear that these in-work benefits really help to lift the low-paid out of poverty (Besharov and Germanis, 2001: 77). Less is known about those whose time on benefit expires because they are relatively few in number owing to the fact that the five-year limit on welfare payments adopted by the majority of states has only recently expired – and states are permitted to extend payments beyond the TANF limit in 20 per cent of cases. Those who fall through the net may not necessarily be without benefits altogether because they may be eligible for alternative forms of support such as food stamps and housing, which ‘are often more valuable than the basic welfare payment’ (Besharov and Germanis, 2001: 74). However, it is hard to pretend that individuals who become ineligible for TANF are not vulnerable to extreme poverty. Moreover, they tend to come disproportionately from minority ethnic communities, be poorly educated and in worse health than others (Loprest, 2002: 25; Weil, 2002: 5) – underlining Loprest’s (2002: 26) opinion that ‘economic hardship among disconnected families is acute’.

Second, the success or otherwise of welfare reform, at least judged by the numbers of people able to sustain employment, is only now being properly tested in a period of economic slowdown. During the initial phase of reform, in the mid-to-late 1990s, the US economy enjoyed sustained growth, which inevitably had a beneficial effect on welfare rolls. An economic downturn can be expected to affect adversely those with less formal education and fewer skills who tend to inhabit less secure areas of the labour market. While some may be eligible for unemployment insurance in the short term, Nightingale (2002: 114) points out that ‘many unemployed people, especially low-wage workers, do not qualify for benefits’ because ‘some do not have enough quarters of work to qualify [and] some have left their jobs under conditions that disqualify them for benefits’. Any sustained downturn is likely to result in rising welfare caseloads as well as an increase in the number of poor families who are no longer eligible for TANF.

This brief assessment of what is undoubtedly a radical example of a workfare – and WF – approach to welfare reform and activation needs one qualification. As the policy has unfolded since 1996, it has become clear that its obvious success in terms of cost-effectiveness has meant that the federal funds that states originally had to devote to passive welfare spending are now available for increasing investment in existing welfare-to-work initiatives. Greater amounts of funding have led ‘some

states ... to broaden their focus on work by providing post-employment services to improve job retention and by incorporating strategies to improve individuals' skills and earnings potential' (Nightingale, 2002: 109). Paradoxically, it may be that an HC approach is developing from *within* the WF perspective, particularly because some states may be beginning to realise that those left on welfare rolls face more serious barriers to employment than those already working. Obviously it is too early to tell how far this process may go in terms of ultimately substituting a human capital ethic for the work first approach, but, in view of the uncompromising nature of change under PRWORA to date, this nascent shift away from so-called 'tough love' is unlikely to do more than blunt the hardest edges of what remains the most radical case of market liberal 'activation' in the OECD.

### ***Australia***

As discussed in Chapter Three, Australia's history as a 'wage-earner' welfare regime has been explored by Castles (1986, 1996) in some detail. The crucial issue, however, is that this type of regime became increasingly unsustainable as the exposed sectors of the Australian economy began to encounter stiff global competition in the late 1970s. Faced with the prospect of economic decline but with a strong trade union movement used to receiving favourable treatment over wage levels, Australian Labor Governments set out to alter the institutional foundations of the wage earner state by developing a market-friendly form of corporatism in the shape of the Accords. While the Accords set a certain 'negotiated' tone to change – change occurred nevertheless. Indeed, as Schwartz (2000: 105) makes clear, 'the Hawke-Keating governments used the Accords to decentralize collective bargaining while still preserving minimum wages, to remove trade protection and encourage more manufactured exports, and to generate robust part-time employment as lower barriers to trade destroyed unsustainable jobs'. Since the Australian Labor Party's (ALP) fall from power in 1996, John Howard's Liberal-National coalition has continued policies of economic liberalization including the decentralization of collective bargaining and, significantly, a radical decentralization of labour market policies, which had already seen a dramatic orientation towards activation under the ALP in the 1980s and 1990s.

The first Accord, agreed in 1983, succeeded in stimulating investment while containing wages, which fell from a peak of 64.6 per cent of GDP in the late 1970s to 60 per cent. With employment gains made from lower wages and rising productivity the unemployment rate fell from 10 per cent in 1983 to 5.7 per cent in 1989. Deep recession in the early 1990s, however, saw unemployment hit 11 per cent and led the ALP to formulate a more systematic approach to labour market policy. To this end, the 'Working Nation' White Paper was published in 1994 and proposed 'a strategy which combined an expansion of labour market programmes with reforms to the benefit system which, with continued economic growth would effectively end long-term unemployment' (Finn, 1999: 56). The core component of this strategy was the 'Job Compact' which, as Finn (1999: 56) notes, was 'effectively a job guarantee, under which all the long-term unemployed, or



those at risk of long-term unemployment, would be offered a temporary job or training place' – the object being to reconnect the unemployed to the labour market. Associated measures included a Youth Training Initiative and comprehensive case management for the long-term unemployed. On the benefits side, Australia has no insurance system to protect against unemployment but rather pays the unemployed through – not ungenerous – means-tested, flat rate social assistance funded by general taxation. Eligibility for this benefit was increasingly targeted (Saunders, 1999) and progressively tightened from the 1970s, with job search requirements being incorporated in the late 1980s and early 1990s. Indeed, starting with younger age groups, unemployment benefit was progressively withdrawn from 1988 and replaced by different benefits (e.g. the Newstart Allowance) targeted at different age groups, each of which emphasized the importance of job search. Under the Working Nation strategy, enhanced work activity tests strengthened search requirements with regulations also being introduced to encourage claimants to take part-time or casual work. Moreover, the numbers falling subject to the activity test were increased when, in a marked shift from earlier cultural assumptions associated with the wage earner ethic, spouse dependency was ended. In Shaver's (1999: 594–5) view, Australia has made strong headway towards the feminist goal of 'economic individualism' – although she points out that allowances for non-employed spouses with dependent children (under 16 years of age) remain rather more generous than elsewhere. This tendency to protect the position of non-employed spouses is a feature of the Liberal-National Coalition government's conservative approach to social policy. Shaver states, in this regard, that the Government 'reshaped ... allowances to reflect a conservative preference for traditional family structures' by introducing a Family Tax Initiative which gives 'very substantial added support to single-earner families with children under five'.

Despite what appeared to be initial success in the shape of falling numbers of long-term unemployed, Working Nation fell subject to the kind of problems that often affect programmes of this kind. For example, it became clear that employers were unwilling to take on the long-term unemployed, the result being that the Compact moved away from a reliance on subsidized work with employers to intensive training and work placements. In an effort to improve the quality of placements, the newly created Employment Services Regulatory Authority (ESRA) began to outsource case management to private and community providers (Webster and Harding, 2000: 21), but, because the system became dominated by the need to find placements quickly, this pressure 'led to fewer placements into sustained regular employment than might have otherwise been achieved' (OECD, 2001b: 80). In addition, the reformed benefits system was characterized by lack of clarity about eligibility rules, the ambiguous status of part-time and casual work, and the inevitable anomalies that ensued. Indeed, as Finn (1999: 65) reports, Department of Social Security (DSS) staff had 'themselves become "increasingly concerned" that the system was becoming "too complex and riddled with anomalies to be administered" and were demanding "a major restructuring and simplification"'.

'Simplification' arrived in 1996, in the form of Howard's Coalition government, which among other things, abolished the DSS. The government announced radical

changes to Australian labour market policy, including a substantial reduction in spending and a clear turn towards the 'work first' model. Borrowing from policies established by some of the federal governments, particularly Victoria, a fully 'contestable' employment service was to be created 'with the government no longer a direct provider, but rather a purchaser of services determined through competitive tendering' (OECD, 2001b: 89). To this end, the Commonwealth Employment Service (CES) was abolished in 1998 and the majority of employment services were contracted out to over 300 members of the newly created Job Network. The system, which covers a wide range of services, is coordinated through Centrelink, a one-stop shop which provides information about benefits and placement providers, and also assesses eligibility for labour market assistance. A key feature of the new arrangements is the relative absence of job creation and training programmes targeted at the long-term unemployed. In their place the Coalition government has substituted measures designed to provide training within, or at least associated with, employment relationships – a reworked version of the traineeship system in the form of 'New Apprenticeships' is one example (OECD, 2001b: 273–4), and Work for the Dole is another. Otherwise the emphasis remains firmly on job seeking: for instance, job matching services for all those on unemployment (and other) benefits, who are entitled to self-refer with up to six Job Network providers suggested by Centrelink; job search training for those unemployment beneficiaries assessed by Centrelink as 'job ready' (Webster and Harding, 2000: 24); and, for the longer-term unemployed, Intensive Assistance (IA), where eligible jobseekers are referred by Centrelink to placement providers with a view to receiving intensive support in their search for employment.

Taking these changes as a whole, it is clear that Australian labour market policies have progressively tightened over time, continuously developing towards the current position in which increased responsibility to find salvation through work is placed upon unemployed individuals in a highly decentralized 'unemployment market'. Although, as Chapter Five will discuss, there are certain broad points of similarity with developments in social and Continental regimes, which have instituted one or other version of active labour market policy, supported by associated benefit reforms and an increased sense of 'obligation', the WF approach has obviously been applied more stridently in the Australian case and this has contributed to the clearest difference between Australia and alternative regime types: Australian governments have pushed the 'contractualist' model of welfare virtually to its limits. As Ramia and Carney (2000: 63) make clear, 'the Australian context now embeds case management within a broader employment services regime, consisting of various public and private organisations which "negotiate" with unemployed people in a complex of contracts, administered predominantly according to private sector principles'.

This model permeates not just Australian employment policy, but the industrial relations system too, where direct bargaining between individual workers and their employers has been encouraged by the Coalition government. The point, of course, is to distance the state from direct contact with activities which are considered to be the responsibility of individuals themselves, while nevertheless ensuring

compliance with the general requirement to seek work above all else. Whether or not this approach is effective in terms of maintaining and improving participation rates it is too early to tell. Younger workers apart, where employment rates are amongst the highest in the OECD, Australia performs around the OECD average for the 25–54 age group and lower than average for older workers of 55–64 years (OECD, 2001b: 60–2). Even so, long-term unemployment remains high at 22 per cent of the total unemployed and this may prove to be a difficult problem to solve. Having witnessed a steeper than average decline in the male full-time workforce during the 1980s, Australia's employment structure is distinguished by a large private service sector and high rates of part-time and casual employment. The potential difficulty with the Australian version of the 'active line' is that the WF approach is less committed to social inclusion than HC approaches – even, as in the case of France, where these latter policies clearly exist in tandem with a number of WF policies. For instance, it appears that the Jobs Network may not always provide equitable access to available services, 'particularly for indigenous job-seekers' and there are further issues about 'balancing quality of service and flexible delivery' (OECD, 2001c: 102). There is some suggestion, then, that the move to contestability had more to do with cost reduction (Webster and Harding, 2000: 33) than with improving standards of service delivery and employability – a characteristic that can be observed in the radical changes made to employment policy in the USA.

### ***The United Kingdom***

The changes to labour market policy in the UK over the past twenty years have been amongst the most marked in the mature welfare democracies. Progressive moves towards these new arrangements were stimulated by the impact of deindustrialization, which was at least partly induced by GEPs (see Allen and Massey, 1988) and saw (largely full-time, male) manufacturing jobs decline from 44 per cent of the labour force in 1966 to just under 27 per cent by 1991, while poorly paid (largely part-time, female) service sector jobs increased (Allen and Massey, 1988; Glynn and Booth, 1996). High unemployment rates throughout the 1980s and early 1990s, together with falling union membership, fostered flexibilization while, in a manner typical of liberal regimes, alterations to the benefits system from the mid-1980s onwards saw its transformation from a system of social protection to one which progressively reinforced the supply side imperatives of the new labour market policy (Jessop, 1994).

Beginning in the mid-1980s – and much influenced by debates about welfare reform in the Reagan White House (Deacon, 2000) – the Thatcher governments reduced benefit levels and subjected the unemployed to a regime that increasingly stressed the ills of welfare dependency and the importance of taking personal responsibility for 'actively seeking work' (King, 1995). The result of these changes, as Clasen (2002: 67) states, was that 'by 1994, the UK had no regulation of working time or wage levels, no legal protection for those hired under fixed-term contracts and no right of representation at the workplace'. Moreover, 'policies made it harder

for jobless people to qualify for contributory benefits, excluded certain groups from benefit eligibility, introduced reduced rates for younger claimants and lowered the number of unemployed claiming benefits'. The apogee of these Conservative efforts to furnish UK employment policies with a clear supply side logic came in the form of the Jobseeker's Allowance (JSA), introduced in October 1996. The title is instructive: the contributory component of unemployment benefit was reduced from one year to six months, at which point claimants are shifted to a means-tested 'allowance' paid on the basis that claimants are actively 'job seeking'. This latter element was enhanced by a new stress on activation, hitherto neglected in government policy. Claimants were required to sign 'Jobseekers' Agreements', which committed them to a specified and agreed job search strategy and their efforts to find employment were monitored more closely, individuals being obliged to visit Jobcentres fortnightly 'when staff would review their jobsearch activity and provide advice' (Trickey and Walker, 2000: 189). In addition, the JSA made greater use of welfare-to-work programmes, forty-two of which were running before 1997, mainly connected with 'education, training or jobsearch assistance' (Trickey and Walker, 2000: 189).

If there is an irony in the UK case, it is that successive Conservative governments never fully implemented the strict US-style workfare regime that their critique of welfare dependency seemed to demand (Peck, 2001: 297–8). Instead they concentrated largely on the rhetoric of welfare dependency and personal responsibility for finding work, and less on developing a dedicated infrastructure to enforce job seeking. In contrast, it was the incoming New Labour government, which won a 179-seat majority in the House of Commons at the May 1997 General Election, that created a more comprehensive system of employment support, combining both WF and HC approaches to labour market policy. This (for Labour) radical new perspective had taken time to mature, being one instance of the Party's marked ideological (and institutional) shift from its democratic socialist past (see Ellison, 1994, 1997; Shaw, 1996; Hay, 1999) to a more market-friendly, 'post-Thatcherite' position (Driver and Martell, 1998) by the mid-1990s. Gathering coherence in the wake of the sharp recession in the early 1990s, when unemployment once again rose to over 10 per cent of the workforce, the new proposals developed by the Labour-appointed Commission on Social Justice (1994) were endorsed by Tony Blair after his election to the leadership. They focused particularly on work as an obligation of citizenship in the context of a 'right', not so much to work *per se* but to an *opportunity* for employment. In essence, this developing vision – some would say 'sleight of hand' – conjured by New Labour's 'third way' rhetoric was of an enabling state providing the chance of work but requiring its citizens to take that chance as and when offered. The supply side impetus is unmistakable. As Labour's Chancellor, Gordon Brown (1999: 37) has written, 'we operate in a global market in capital and credit where billions of pounds flow in and out of Britain each day', this context providing, in his view, the *raison d'être* for a switch away from demand-led social protection to an approach to welfare that privileges paid employment. According to Brown (1999: 41), what is good for the individual – inclusion in society through access to paid work – is also for the good of the

economy, which needs to utilize and develop ‘the skills of the whole workforce’ if the UK is to become a global competitor. These ideas have been echoed by Blair who argues that the government’s task is to encourage ‘fair but flexible labour markets’ and to increase ‘the employability of our people through education and skills, and an active employment service’ (quoted in Finn, 2003: 115–16).

The New Deal for the Young Unemployed (NDYP) – the first and arguably most successful of New Labour’s New Deal measures – typifies this general policy approach. Utilizing the basic framework of the JSA regime, the NDYP offers an increased degree of support to jobseekers through the medium of personal advisers, who provide careers advice as well as guidance about job search techniques and information about available job opportunities. Those who have not managed to obtain unsubsidized employment after six months on JSA are required to take up work in one of three NDYP schemes: a subsidized employment option, employment with the Environmental Task Force or full-time education and training. There is no option simply to draw benefit without undertaking some kind of work-focused activity. This WF approach has been further enhanced during New Labour’s period in government most obviously via the institutional changes made to the Employment Service. Following pilot projects designed to test the efficacy of a ‘single work-focused gateway’ to the benefit system (ONE pilots), the government decided to establish a new ‘Jobcentre Plus’ regime. This built on the idea of the ‘single gateway’ by bringing the Benefits Agency and the Employment Service together under one roof (CEC, 2002a: 16), with services being delivered either by public, not-for-profit and for-profit agencies in designated local areas, each working to centrally defined performance measures (Stafford, 2003: 156). Effectively, as Finn (2003: 122) makes clear, claimants – or customers – having contacted Jobcentre Plus through a call centre, are then interviewed by a benefits assessor before seeing a ‘personal adviser whose task it is to assess employability and provide employment assistance’, this process taking place within one local office. Significantly, it is this emphasis on employment services and administration rather than training and skill enhancement that defines British governments’ (and specifically New Labour’s) approach to active labour market policy. As Clasen and Clegg (2003: 374) make clear, the reform of these services accounted for well over 40 per cent of ‘active expenditure’ in the late 1990s.

The New Deal ethos has been extended to other social groups, notably the long-term unemployed. However, lone parents and people with disabilities are also encouraged to think of work as a possible option, and voluntarily to join a New Deal programme following a compulsory work-based interview. This attention to other sections of the community is a distinguishing feature of the New Deal, which some observers regard as beneficial. For Millar (2002) this indicates that the government is attempting to address the general issue of worklessness as opposed simply to dealing with those on the unemployment register. Others, conversely, are wary of policies that focus exclusively on paid work (Levitas, 1998), while Stafford (2003) notes the creeping degree of compulsion in the treatment of lone parents and disabled people.

A core feature of New Labour’s approach, which underpins the JSA and various

New Deals, is not simply the desire to encourage work, but to ‘make work pay’ – and here, once again, the American influence is discernible. Like the EITC, the value of which was substantially increased by the Clinton administration, the Working Families Tax Credit (WFTC) that replaced Family Credit in October 1999 was intended to supplement the incomes of those with children who are in low-paid employment and who work for sixteen hours or more per week. Importantly, the money was paid directly to the employed person and incorporated credits for 70 per cent of childcare costs as well as credits for children and adults in receipt of disability living allowance. In April 2003, this arrangement was itself replaced by a series of new tax credits – the working tax credit, child tax credit and childcare tax credit (Bennett, 2004: 46) – with both the first and last of these being paid as in-work benefits. Although the sums paid are not overgenerous, WTC explicitly rewards those who work and, in this way, clearly contributes to New Labour’s efforts to activate the workless and unemployed. Indeed, the fact that WTC, unlike WFTC, covers certain groups of able-bodied, childless individuals indicates a desire to ensure that those on low incomes are provided with the incentive to stay in employment. In pursuit of an integrated approach to welfare provision, other policies have been developed to support these work-oriented measures. The government’s Childcare Strategy, for instance, has created over 484,000 new childcare places, with the objective of providing ‘a childcare place for each lone parent entering employment by 2004’ (CEC, 2002a: 8). More generally, the childcare tax credit is paid to all those with young children who receive WTC and is clearly primarily designed to encourage mothers to seek – and to stay in – work.

This growing reliance on ALMPs and associated policies is significant because it illuminates wider issues about the ideas and principles that inform New Labour’s vision of welfare. On the face of it, UK policy-makers appear to have adapted US attitudes to welfare dependency to the British situation – and much has been made of this connection by some observers. Deacon (2003: 65) points out, for example, that ‘Americanisation has served to heighten New Labour’s preoccupation with the problem of welfare dependency’ and, to this extent, ‘the British debate is less dominated by economic considerations than it otherwise would have been and more concerned with the issues of individual responsibility and personal behaviour’. And, to be sure, the current stress on duties and obligations and the equal stress on the ‘conditionality’ of benefits (Dwyer, 2000) provide unambiguous evidence of trans-Atlantic policy transfer. However, it is important to be clear that UK labour market policy may be becoming less concerned with individual responsibility and behaviour. Conservative governments embraced this dimension of welfare reform with enthusiasm without doubt but, as the statements from Gordon Brown and Tony Blair quoted above suggest, New Labour has shifted the emphasis to incorporate a distinctively *economic* rationale for employment and ‘social inclusion’. That the current government’s key target group is the young unemployed, followed closely by the long-term unemployed, in contrast to the US stress on lone parents, suggests that the policy focus is essentially ‘economic’ and ‘skills-based’ rather than purely ‘moralistic’ (Stafford, 2003). Programmes like the Employer Training Pilots and, more specifically, the Modern Apprenticeships scheme, which is intended



to ‘prepare young people for an economy requiring a high level of skills’ (CEC, 2002a: 12), provide further evidence of this HC focus. In this way, US-inspired policies are being given a different slant in the UK context – the slant being attributable to an identifiable ‘European’ dimension in UK labour market policy. This mixed approach accords with New Labour’s conviction that the New Deals and associated programmes can act as vehicles for reducing welfare dependency *and* simultaneously strengthening social inclusion in the context of a global economy. In Levitas’ (1998) terms, these objectives mean that UK labour market policies operate on a dual logic. First, they exhibit a ‘moral underclass discourse’ (MUD), derived from the US conservative critique of welfare via British Conservative governments while, second, attempting to embrace a ‘social distributionist discourse’ (SID) that owes much to European anxieties about the consequences of social exclusion in economies that are increasingly vulnerable to the play of market forces.

There is a real ambivalence here. While much of New Labour’s rhetoric revolves around a moralized communitarianism, which certainly invokes a WF vision of citizen duty and responsibility to the ‘community’ (see Mandelson and Liddle, 1996: 102), the New Deals also appear to embrace elements of the HC dimension in their recognition of the importance of skills training, personal guidance and particularly the need to develop employment services to facilitate job search. However, the balance between these two perspectives is hard to sustain in view of the open, flexible and business-friendly nature of the UK economy. At its base, New Labour’s apparent concern for social inclusion is embedded in a view of economic policy that makes a virtue of flexibility, low job protection and low pay – in other words, a view that accepts that the trade-off between employment and ‘equality’ should favour the former. While it is possible to maintain the belief that *any* form of paid employment is more likely to be inclusive than lack of employment and possible benefit dependency, the onus is on governments to ensure that work is actually available and the ‘opportunities’ offered to jobseekers genuinely capable of leading to sustainable jobs. In the absence of such guarantees, the extent of ‘inclusion’ derived from poor jobs is unclear.

This review of the recent changes to labour market policies in liberal regimes illustrates how extensive the shift away from earlier practices has been. Although these regimes differ from one another in many respects – not least of course in their very different histories of welfare state development – they nevertheless share a number of characteristics that have allowed them to alter social and economic policies to accommodate perceived market demands with *relative* ease. As Hall and Soskice (2001: 57) point out, the looser institutional configuration of liberal regimes mean that ‘in the face of more intense international competition, business interests in LMEs are likely to pressure governments for deregulation, since firms that coordinate their endeavours primarily through the market can improve their competencies by sharpening its edges’. The real issue, however, is that liberal regimes do not possess the institutional depth in countervailing areas of economy and society to offset demands of this kind. To be sure, ‘organized labor will put up some resistance, resulting in mild forms of class conflict. But because international

liberalization enhances the exit options of firms in LMEs ... the balance of power is likely to tilt towards business' (Hall and Soskice, 2001: 57). Even in the UK, where attachment to welfare state institutions was embedded more deeply than in other liberal regimes, the absence of more tightly institutionalized, non-market forms of coordination means that path-dependent behaviour among welfare state supporters is more widely dispersed and less deeply entrenched than in other regime types. Conversely, as Wood (2001: 250) points out, employers are not only used to maintaining competitive advantage through well-tried market-oriented strategies but *have* to do so because they would otherwise be 'faced with enormous collective action problems in the absence of institutions and practices of coordination'.

While it may be possible to take a sanguine view of these developments in purely economic terms, it is more difficult to do so when confronted by the effects of – in this instance – the WF turn in labour market policy. In each of the countries discussed above, this trend has contributed to growing wage inequalities even as employment rates have held up in comparison with other regime types. And of course the effects of these inequalities are experienced more acutely by some social groups than others. Minority ethnic groups suffer disproportionately from unemployment, under-employment and low wages, for example (Quadagno, 1994; Craig, 2002), while women from both minority ethnic and majority white populations also experience poorer quality, lower paid jobs than males. Because, these populations in particular lack coordination and are 'institutionally fragmented' in liberal regimes – having no concerted base within organized labour and possessing no alternative institutional mechanisms for voicing their demands – they cannot easily combat the atomizing processes fostered by means-testing and the privatized, decentralized forms of welfare delivery that characterize many welfare state programmes.



## **5 Labour market policies in social democratic and continental regimes**

The discussion in Chapter Four suggested that liberal welfare regimes have made extensive changes to their labour market policies, particularly over the past fifteen years or so. They made these changes in response both to a perceived rise in global economic competition and a number of other associated factors primarily concerned with employers' responses to service sector expansion, most obviously their demands for greater flexibility within the workforce. These policy shifts are not too surprising in view of the 'disorganized' character of welfare institutions in liberal regimes. A further issue, however, is the extent to which similar changes are occurring in those regimes in which welfare institutions are more closely coordinated, both in terms of popular subscription to existing arrangements and the ways in which institutional relationships, particularly those among the state and the social partners, work to perpetuate them. What follows examines current developments in labour market policies in social and continental regimes, beginning with the latter.

### **Continental regimes**

A good deal has been said about the character of continental welfare regimes in previous chapters. However, it is worth repeating the fact that, as van Kersbergen and Hemerijck (2004: 172) comment, these regimes have

always promoted a passive or reactive social policy which was characterised by the readiness to moderate the harmful outcomes of the imperfect market mechanism by transferring considerable sums of money to families in need, without changing the logic of the market itself.

This reluctance to intervene directly in market processes is also reflected in the equal reluctance to tamper with the existing social structure. Welfare policies in the continental states have never been egalitarian as such, which is not to say that they are ungenerous. Rather they are used to preserve social divisions – and indeed to reproduce them 'well into retired life' (van Kersbergen and Hemerijck, 2004: 172). Unsurprisingly, then, active labour market policies have not been a marked feature of these regimes, the emphasis being placed instead on 'compensation' for

breadwinners' loss of income. Of course, the parallel stress on the traditional family and the familial role of women as cornerstones of the social architecture not only helped to perpetuate the male breadwinner model of welfare throughout the postwar period, but also compounded it by condoning high male wages and job protection. As Levy (1999: 242) has noted, high wages dampen job creation, particularly in low-productivity services and, in addition, rising unemployment can only be dealt with by generous early retirement or disability programmes premised upon prior social insurance contributions. This reliance on social insurance as the main means of funding the core risks of unemployment, sickness and old age places a heavy burden on employers and employees alike, both of whom face rising payroll taxes during economic downturns – the result being self-defeating as the costs of employment increase. It is this kind of vicious circle that led Esping-Andersen (1996a) to speak of 'Euro-sclerosis' and the innate conservatism of the continental model, his prognosis being that this model has 'an inbuilt tendency to eat the hand that feeds it' (quoted in Levy, 1999: 242).

Esping-Andersen's dictum may no longer be entirely accurate, however. Continental regimes are currently struggling with the unenviable logic of their welfare systems, to be sure, and there is also little doubt that many of these regimes seem to be institutionally 'stickier' than either their liberal or social democratic counterparts. Nevertheless, an examination of labour market policies in contemporary continental regimes lends credence to the view that this judgement may be premature, at least in certain instances. What follows surveys changes in labour market policies, and particularly the use of active labour market policies to enhance the work relationship, in Germany, France, Italy and the Netherlands. These countries have been chosen either because, like the Netherlands, they constitute examples of a capacity for change, or because, like Germany, France and Italy, they provide an insight into how continuing institutional hindrances to labour market reforms are beginning to be addressed by greater emphasis on the duties of the unemployed in the context of labour market flexibilization.

### ***Germany***

The original 'home' of Bismarckian social insurance, the postwar West German welfare regime was distinguished by generosity towards those – mainly men – whose insurance contributions entitled them to a range of benefits at high replacement rates. Based on the principle of 'subsidiarity', the West German system was designed to ensure that 'welfare' was achieved through a combination of informal (female) care at family level supported financially by the male wage packet or, in cases of unemployment, sickness and old age, benefits derived from insurance contributions based on employment record. Outside this system, less generous tax-financed, means-tested social assistance is available for those either lacking a work-based contribution record or whose entitlement to insurance benefits has been exhausted.

As indicated, systems of this kind are vulnerable to economic downturns because rising unemployment quickly undermines the contribution-benefit relationship.

In addition to this systemic difficulty, the German welfare regime also proved susceptible to another: the temptation, particularly in view of the (then) Bundesbank's hard currency policy, for both federal governments and Länder to make savings by cutting their contributions to the social budget, thus forcing employers and employees to shoulder an increasing share of the burden of social protection through higher workplace contributions. As Manow and Seils (2000: 143) point out, Federal government support for the social budget fell by 5 per cent between 1970 and 1997, while Länder support fell by 3 per cent. Meanwhile, insurance contributions rose by 7 per cent over the same period. This practice was not seriously questioned until very recently because the social insurance system was broadly accepted by the social partners, particularly the trade unions, whose members have proved reluctant to give up the prospect of generous benefits and pensions.

The weaknesses of this combination of a contribution-based system of social protection, a hard currency policy and an industrial relations system historically linked to the social insurance principle were exposed during the process of reunification following the collapse of the Berlin Wall in 1989. Conducted against the backdrop of a seemingly immovable Bundesbank, which rigidly stuck to a high-valued Deutsche Mark, the political decision to reunite East and West Germany as rapidly as possible led to severe economic dislocation, the effects of which continue to be felt. Dramatically rising unemployment in the East – the result of the brutal exposure of the old communist economy to global market forces and an unrealistic conversion rate for the East German currency – was met by the decision to use social insurance fund resources, as opposed to general taxation, to finance the process of economic and social restructuring in the eastern sector. In view of the fact that West German industry was itself beginning to feel the effects of international competition by 1990, the twin burden on the insurance funds inevitably led to higher contribution rates from both employers and employees – which in turn resulted in growing wage militancy, higher non-wage labour costs and thus increasing unemployment. Moreover, it became more difficult to disguise both the level and costs of unemployment through the traditional route of early retirement: the costs of early retirement programmes increased enormously as employers 'resorted to [them] simply to pay workers to stay at home at the state's expense' (Wood, 2001: 388). This situation was further exacerbated because avenues into lower paid service sector employment were blocked. For one thing, Germany's service sector has remained comparatively small because the rigidly structured patterns of social and industrial relations associated with the social market economy do not easily permit the kind of flexibility associated with service sector employment. For another, rising employer contributions could not be offset by lower wages because wage levels are not permitted to fall below the minima set for unemployment benefit and social assistance. As Manow and Seils (2000: 156) make clear, 'one consequence is that many low-productivity jobs become unprofitable and are either replaced with more capital-intensive production methods or are not created in the first place. The upshot is poor job growth and below-average employment in the German service sector'. Due to this coalescence of factors, unemployment has literally become institutionalized in post-unification Germany, with the East regularly recording rates which are 10 per cent higher than those in the West.

Faced with these multifarious challenges, it is not surprising that both CDU and SPD governments generally failed to ensure that German labour market policy effectively counters the rising trend in joblessness. Indeed, in contrast to the emphasis placed on activation policies in the Scandinavian countries (and, in different fashion, in Australia or the USA), labour market policy has been decidedly cautious until very recently. Caution has taken the form of incremental moves away from the idea that the state had prime responsibility for avoiding unemployment. Initially the Kohl administrations restricted benefit eligibility, encouraged job search and weakened employment protection in small firms, while the Schroeder Red-Green coalition government elected in 1998 concentrated on working with the social partners to increase part-time working, flexible working and job creation (Evans, 2001: 15–16), in addition to tightening unemployment compensation payments. Where ALMPs are concerned, this minor tinkering was supplemented by new vocational training and job creation measures, which were initially used in Eastern Germany in the early 1990s ‘as a bridge over the “troubled water” of the transformation process’ (Blien *et al.*, 2002: 6). However, there is some reason to doubt the effectiveness of these early attempts at activation, as Wurzel (1999) has noted. Participation in employment provision and training schemes fluctuated during the 1990s, with the schemes being cut back for budgetary reasons in mid-decade. Significantly, too, figures for one of the new Länder – Saxony-Anhalt – show that ‘in the eight years from 1990 to 1997, only about a third of training scheme participants in work provision schemes went on to employment’ (Wurzel, 1999: 3).

Of course, such criticism should not be taken as an indication that these policies were universally unsuccessful – and, as with the other examples discussed here, the key concern here is less about efficacy *per se* and more about the extent to which activation has become a significant feature of a general move towards workfare-style policies as a solution to persistent unemployment. In the German context, much depends on the nature of the claimant, the benefits involved and the locality in which benefits are being claimed. In this regard, the principle of subsidiarity that pervades German social policy has contributed to a highly decentralized system of employment services with institutions arranged at national, federal and local levels. As Voges *et al.* (2000: 72) make clear, ‘this multiplicity of actors means that there is a great heterogeneity in how, and to what extent, unemployment provision programmes are implemented’. Some claimants – primarily those who are insured and receiving unemployment benefit and unemployment assistance benefit through locally based federal employment offices – ‘are relatively well placed to access support in the form of job creation opportunities’ (Voges *et al.*, 2000: 75). However, the monitoring of job search activities is not systematic and ‘the underlying approach of [Public Employment Service] offices is not to enforce job search but to leave it to the claimant’ (Evans, 2001: 35). Others, conversely, are less well served. For example, uninsured claimants in receipt of tax-funded social assistance have worse placement prospects than their insured counterparts, though, here too, the monitoring of willingness to work and subsequent placement activity varies among local authorities. Where social assistance claimants are concerned, the ‘Help Towards Work’ (HTW) programmes run by

local authorities are primarily intended to provide a 'workfare' element, with 'work testing' being a core component of the schemes. In practice, however, HTW is implemented differently in different localities, programmes varying greatly in terms of target groups, types of employment offered, the length of employment, sanctions imposed and the organization and delivery of the programmes themselves (see Voges *et al.*, 2000: 87–96). This degree of diversity implies an absence of generally accepted criteria against which the achievements, or otherwise, of HTW programmes can be evaluated – the suggestion being that lack of systematic evaluation is likely to hinder a more coherent approach to policies designed to tackle unemployment at the more 'vulnerable' end of the labour market.

This situation is beginning to change, however. Recently there have been signs of a growing awareness in political circles of how ill-matched German labour market policies are to prolonged economic recession. Although local and Federal job placement services have been 'continuously reorganized to increase performance' (Blien, *et al.*, 2002: 9) in recent years, a much more radical reorganization is now under way in the aftermath of the discovery of apparent mismanagement of job placements by the Federal Employment Service, which came to light in early 2002. In response to this incident, the government established the Hartz Commission (named after its Chairman, Peter Hartz, Head of the Personnel Executive Committee at Volkswagen), charging it with the task of producing recommendations for the modernization of German labour market policy and the reduction of unemployment. The Commission reported in August 2002 and – surely correctly – argued that the government's responsibilities for the unemployed should be brought together under one organizational structure. Specifically, 'the administration of social [assistance], unemployment benefits and unemployment assistance will become the responsibility of local employment offices' (*The Economist Intelligence Unit*, 19.8.02: 1). In addition, the Commission recommended that job centres be introduced throughout the country and child day care facilities be expanded to facilitate female employment; further, temporary employment and employment at home should also be promoted. These recommendations, which are broadly aimed at bringing the unemployed into more systematic contact with available jobs, are complemented by others geared towards tightening benefit entitlements and imposing greater penalties on those who turn down offers of work. In the Commission's view, for example, entitlement to unemployment benefit should be reduced from three years to one – with those moving to means-tested social assistance even having their children's savings taken into account in the calculation of claims. Moreover, young unemployed people should be expected to accept jobs anywhere in Germany or risk losing benefits.

The Schroeder government has broadly supported the Commission's recommendations – and all the more so in the aftermath of the September 2002 general election and rising levels of voter dissatisfaction in the face of increasing unemployment. Under the Job-Aktiv Act 2002, tougher rules have been imposed on the unemployed including the implementation of Hartz's proposal that claimants refusing offers of work should be penalized. Moreover, the employment service has been reorganized with new 'personnel service agencies' to place unemployed people into temporary work being created in the non-profit and private sectors.

Restrictions on private job agencies have been removed and, since 2002, they no longer require a licence to operate – these agencies also being permitted to ‘charge a fee of between 1500 and 2500 euros if they successfully find a job for an unemployed worker’ (Bleses and Seeleib-Kaiser, 2004: 65). These measures have been accompanied by other employment enhancing policies. For example, older unemployed workers whose unemployment benefit is not yet exhausted are being encouraged to take jobs at a lower monthly income for the duration of the remaining benefit entitlement measures, while employers providing work for those over 55 years of age, who have not previously worked for them, are rewarded by reductions in their unemployment insurance contributions (see Bleses and Seeleib-Kaiser, 2004: 65–7).

It is true, of course, that these measures are still in the process of being implemented and to condemn them for failing to produce desired results would be premature. However, there is as yet little indication that they are having the anticipated impact on German unemployment rates. In May and June 2003, unemployment fell slightly, but rose a little to a standardized rate of 9.8 per cent in October 2004 (OECD, 2004b). The apparent intransigence of these figures suggests that the claim that the reforms will yield a 50 per cent fall in unemployment, as the Hartz Commission and government predicted, is open to question. So, while in Gray’s (2004: 180) view, these changes indicate that labour market policy ‘is dissolving into an extreme form of workfarist benefit system, with employment agencies as placement agents’, with ‘the emerging German model of workfare [being] the European form that perhaps comes closest to the US model’, they may not be enough in themselves to stimulate higher employment. It is partly for this reason that the trade unions are currently calling for greater attention to be paid to the creation of additional new jobs, while simultaneously sticking to their institutionally ordained role of demanding greater job protection for those already in work – a sort of rearguard action in a struggle which has seen the state increasingly reluctant to intervene in the marketplace and, at the most, being prepared only to ‘enhance and enable market solutions’ (Bleses and Seeleib-Kaiser, 2004: 125).

As Chapter Three suggested, Germany currently faces challenges both from GEPs and, more directly, from the consequences of reunification, the effects of which are mutually reinforcing. The political decision to reunite with the East was taken at a time when global pressures on (West) German industry were mounting with the result that there was little economic leeway for the accommodation of the internal challenges that reunification inevitably posed. With labour market reform now firmly on the agenda as one means of cutting spending and the increasing recognition that new working practices are necessary to develop competitiveness, the trade unions, for all their opposition to extensive change, appear to be making compromises – at least on a case-by-case basis. That managements at Daimler-Chrysler and Siemens have succeeded in gaining agreements from their respective workforces to work for longer hours with no extra pay in order to save jobs being moved abroad is indicative of the kind of decisions that unions may be faced with in other parts of German industry in the near future. Again, the fact that in October 2004 Volkswagen workers had to vote on a proposal to reduce labour costs by 30 per cent over six years, while the recent decision by General Motors to cut

approximately 8,000 jobs in their German car operation citing ‘the pricing environment and competitiveness of the market [which] do not allow us to grow fast enough to offset the cost base we have today’ (*The Guardian*, 14.10.04) as key reasons, are further instances of the pressures with which established institutional structures and expectations are increasingly having to deal.

It may be that Germany is approaching a ‘tipping point’, which will see substantial institutional changes both to core elements of its welfare system and also to the infrastructures that support them. Although countervailing factors such as the profound disparity between West and East (Hutton, 2004: 2; *The Observer*, 5.9.04), which necessitates the continuing flow of resources into the East German Länder, mean that there will no seismic shift in existing welfare arrangements for fear of destabilizing the East, there is now evidence from monthly public opinion polls that Schroeder’s plans for welfare reform are finally beginning to strike a chord with the electorate (Traynor, 2004). This nascent endorsement of reform by voters, combined with the fact that the trade unions appear to be increasingly on the defensive, suggests that core institutional actors are beginning to question the key institutional assumptions which underpinned the German welfare regime for much of the twentieth century.

### **France**

In a similar manner to the German system, French labour market policies are insurance-based, ‘with a strong reliance on both the contributory principle and the principle of subsidiarity’ (Enjolras *et al.*, 2000: 42). However, although France has not had to contend with anything as dramatic as reunification, the country has struggled to adjust to the pressures imposed by global competition and, just as importantly, EMU. The challenges for labour market policy have been severe. French unemployment rose continuously throughout the 1970s and 1980s from a level of 3 per cent in 1974 to 10.5 per cent in 1987. Even higher levels – 12.5 per cent – were experienced in the mid-1990s with a gradual decline thereafter; currently, as of October 2004, the French unemployment rate stands at 9.5 per cent (OECD, 2004b). Although key indicators such as the levels of long-term or young unemployed have declined since the mid-1990s nadir, the French labour market, and by extension French society, have a number of characteristics that make it, if not impervious, then certainly institutionally resistant to change. For one thing, like other continental states, long-term unemployment has remained high (rising as high as 43 per cent of total unemployment at the end of the 1990s) while, perhaps more than elsewhere, labour market participation ‘has been highly concentrated on intermediate age groups’ (CEC, 2002b: 6) owing to policies that have encouraged young people to stay in formal education and those over 54 years of age to take early retirement. In 2001, for example, nearly 80 per cent of the 25–54 age-group were in work in comparison to only 62 per cent of the 15–64 age-group, suggesting much higher levels of inactivity at either end of the employment cycle.

These trends are beginning to change. As part of its participation in the European Employment Strategy, France is committed to reducing levels of youth



unemployment as well as to increasing participation rates among older workers – these issues having to be dealt with at the same time as pressures to increase employability in general, and women’s entry into the job market in particular, are mounting. Taken together, these factors have encouraged successive governments to alter employment policies in ways designed to achieve higher overall participation rates. However, the process of reform has not been smooth, with successive governments attempting to strike a difficult balance between the traditional imperative for socially inclusive policies to protect the most vulnerable and increasing demands from employers for market-friendly measures such as lower payroll taxes and benefit levels, as well as reduced employment protection and greater flexibility. This process is ongoing, but the clearest outcome to date has been a discernible fragmentation of French labour market policy as governments attempt to push beyond the parameters set by traditional social insurance solutions while nevertheless recoiling from the prospect of root-and-branch reform.

The insurance system itself – *Union interprofessionnelle our l’emploi dans l’industrie et le commerce* (UNEDIC) – was originally created in 1958 to protect against unemployment in the private sector. Administered by the social partners, it was entirely separate from state social security provision and has remained so. However, owing to rising unemployment in the early 1990s, the traditional method of maintaining insurance protection – raising employer and employee contributions – was acknowledged to be counter-productive, contributing both to further unemployment and increasing pressure on the insurance fund. One strategy to offset this trend was the reform of unemployment protection in 1992 in the shape of the introduction of a new benefit, the *Allocation Unique Dégressive*. With the impetus coming mainly from employers, changes were made to eligibility criteria and benefit levels, a key feature being that full entitlement (75 per cent of earnings) lasted for only six months with reductions thereafter. A condition of benefit receipt is that claimants ‘must actively seek work, must enrol at the State employment exchange office and must accept jobs where the wage is above 30% of the wage they earned in their most recent job’ (Enjolras *et al.*, 2000: 48–9). If they are still unemployed at the point of benefit exhaustion, claimants become eligible for a means-tested ‘solidarity benefit’, the discretionary and locally administered *Allocation de Solidarité Spécifique* (ASS). Not surprisingly, the numbers claiming ASS rose dramatically to 467,000 in the early-to-mid 1990s. Significantly, however, as many as 700,000 individuals, the majority of them under 25 years of age, failed to meet the eligibility criteria for ASS and so fell outside the system altogether – the point being that fully one-third of the unemployed were neither catered for by social insurance nor by ASS.

Recognition of the increasing gap between what the social insurance system could provide and the needs of the growing numbers of those falling outside this system led to the development of new forms of income maintenance. Generally speaking, in the context of a discernible shift away from the ‘passive’ forms of protection associated with the social insurance model towards activation, there has been a two-fold policy response. First, the late 1980s saw an attempt to enhance social inclusion, through the *Revenu Minimum d’Insertion* (RMI), while, in the early-to-mid-1990s, more clearly market-oriented initiatives were developed in an effort to create jobs. Since that time, French governments have oscillated – at least in



terms of political rhetoric – between the two poles of ‘inclusion’ and ‘liberalization’. Beneath the rhetoric, however, it is possible to detect a drift towards the latter pole, even where policies have been framed in terms of inclusion.

Support for social inclusion was clearly the intention behind the tax-financed RMI introduced by Michel Rocard’s Socialist government in 1988. Until that time, a comprehensive system of income support for those lacking entitlement to social insurance did not exist, so the ‘universal’ right to means-tested assistance, albeit only *for all those over 25 years of age*, was clearly a major advance on existing provision. The ‘insertion’ aspect of RMI is particularly important. Recipients have a ‘right’, through an ‘insertion contract’ agreed between the individual and local ‘commissions for insertion’, to various services designed to facilitate their social integration. Employment is an obvious example, but health, housing and vocational training are others (see generally Enjolras *et al.*, 2000: 50–1). Here, however, party political differences and tensions between the social partners (and between the social partners and the state) ensured that the path of reform was hardly smooth. Differing perceptions of the nature of the contract provide an example of the tensions between social inclusion and ‘liberalization’, which broadly mirror human capital and work first approaches to labour market policy. From the outset, socialists stressed the individual’s *right* to insertion and cash assistance, while their opponents argued that benefits should be *conditional* on the individual taking up these opportunities for reintegration. As Enjolras *et al.* point out, despite a ministerial circular of 1989 attempting to clarify the position by indicating that the insertion contract was intended as a means of allowing for each RMI recipient ‘to assert the right to insertion’ (quoted in Enjolras *et al.*, 2000: 51), confusion remained with expectations about ‘rights’ and ‘conditionality’ varying according to local practice. In the meantime, the cash element of RMI is now going to over 1 million households and the benefit is ‘increasingly [functioning] as a safety-net for the long-term unemployed’, who fall outside the social insurance system (Palier, 2001: 66).

RMI is significant because it represents an attempt to resolve the difficulties created by reliance on social insurance provision without relying solely on the market. Whether a safety-net benefit of this kind can really increase social inclusion is a moot point, but perhaps the major feature of the policy is that it deliberately excludes support for the young unemployed. This large group is not included in RMI because of government fears that receipt of the benefit and associated insertion opportunities, in the absence of any previous work experience, may induce welfare dependency. Instead, activation was regarded as particularly important for the under-25s with an emphasis on vocational training and work experience. More than others, this group has been subjected to HC-oriented, but nevertheless ‘workfare-style’ policies in the sense that ‘absence of entitlement, plus the presence of work programmes constitutes a kind of workfare policy for young people in need of financial help’ (Enjolras *et al.*, 2000: 53). Since its inception in 1998, for example, over 350,000 young unemployed have entered the *Nouveaux Services emplois-jeunes* programme, which provides young people with a five-year work programme designed to enhance their vocational skills by providing subsidized employment at local and community levels. The long-term aim is

that at the end of five years, those jobs which are clearly addressing a continuous and long-term need will become permanent, with the funding provided locally, and where this is not the case the young people involved will have by then acquired recognized skills of interest to other employers.

(Pisani-Ferry, 2001: 5)

Alongside initiatives of this kind, France has also implemented key elements of the EES, notably the development of individualized ‘guidance’ services for both the young and long-term unemployed by the National Employment Agency. As Pisani-Ferry (2001: 4) has observed, employment policies for these groups are now ‘moving in the direction of a much more finely-tuned monitoring of the situation of jobseekers so that they can rapidly be offered jobs or training’ – and this largely irrespective of party politics.

If these measures display an ambivalence about the importance of social inclusion as a goal of French labour market policy, the ‘liberal turn’ that gained increasing influence during the 1990s can certainly be construed as a clear shift in favour of the market. The process began with the Balladur government in the early 1990s, although the policies associated with it have been employed by Socialist as well as right-of-centre administrations. The core features of this approach involve a typical agenda of cuts in social insurance contributions accompanied by tax cuts, the objective being to relieve pressures on employers in the hope they will be encouraged to increase their labour forces. Both the Balladur and Juppé governments, for instance, ‘exempted employers from paying social taxes on low wages’ (Ughetto and Bouget, 2002: 95) in an effort to encourage higher employment amongst the unskilled. Following orthodox economic policies designed to keep the French budget within the guidelines set for monetary union, these governments are associated with regressive tax policies and the cuts in insurance entitlements (see Levy, 2001: 281). In certain respects, Lionel Jospin’s Socialist government, which came to power in 1997, adopted a similar approach, assisting low-wage employment creation by further reducing social security contributions on low-skilled work. Moreover, in a move reminiscent of recent policy initiatives in liberal regimes, an earned income tax credit (PPE), intended to support those employed on low incomes, was introduced in 2001 – and if a rigorous privatization policy is added to the mix, it seems reasonable to suggest that low-end private sector service employment has been given a significant boost.

Taken together, these sustained efforts to lower labour costs and encourage low-wage, unskilled employment have led to a situation in which ‘most hiring is now carried out for insecure jobs’ (Ughetto and Bouget, 2002: 96). It has been estimated, for example, that permanent, full-time jobs now account ‘for a much smaller proportion of total employment than they did ten or twenty years ago and the proportion of “atypical” jobs (fixed-term contracts, temporary agency work ...) increased from 16% in 1990 to close on 25% in 2000’ (Pisani-Ferry, 2001: 4). This liberal approach may offer ‘activation’ of a kind, to be sure, as the unemployed take up the large number of unsubsidized jobs that have been created, especially in the private sector. However, this form of liberalization has also contributed to

an unbalanced labour market, which combines ‘precariousness with unemployment’ (Ughetto and Bouget, 2002: 93) and hence threatens the logic of inclusion.

It was in an effort to retain at least an element of the social inclusion principle that the Jospin Government attempted to complement its activation policies towards the young unemployed with more obviously ‘inclusive’ measures towards the labour market in general. For example, the Government took a decidedly more *dirigiste* approach to working time in the later 1990s in the form of the 35-hour week – the objective being the attainment of higher levels of employment without further increasing reliance on low-wage, dual labour market strategies. Although a good deal of initial ‘persuasion’ had to take place to allay employers’ anxieties about the costs, by the end of 2000 approximately 56 per cent of employees in businesses with more than ten employees were working thirty-five hours – and recent estimates suggest that the policy has contributed to the creation of over 200,000 new jobs (Pisani-Ferry, 2001: 2–3). Again, the Government supported the trade unions in their attempt to prevent the implementation of the proposed *Plan d’Aide au Retour à l’emploi* (PARE), much favoured by the main employers’ association, MEDEF. The original provisions of the PARE were decidedly ‘liberal’ and WF in character in so far as they required the unemployed to accept whatever jobs or training they were offered – thereby acknowledging that benefit was no longer a social right driven by the logic of inclusion, but a status conditional upon the acceptance of an offer of training or employment. Union objections to this workfarist conception of unemployment provision provided an opportunity for Jospin to reject it and jettison the element of compulsion in favour of voluntary acceptance of the PARE. Essentially, unemployed individuals would sign a PARE contract based on its perceived advantages to them – one being that unemployment benefits are paid at a constant, rather than diminishing rate throughout the period of unemployment (see generally Ughetto and Bouget, 2002: 98–9).

In contrast, the rightward turn in French politics following the general election in June 2002 witnessed a renewed trend towards liberalization. The incoming Prime Minister, Jean-Pierre Raffarin, made his intentions clear within weeks of his election victory. In his general policy address delivered to the French National Assembly, Raffarin promised to reduce social insurance charges and taxes – including an across-the-board 5 per cent income tax cut – because ‘we simply recognize that it works. It creates jobs’ (Raffarin, 2002: 17). To this end, he argued (Raffarin, 2002: 18) that ‘we must trust creators and entrepreneurs, all those who can create employment [for] what benefits employment, benefits us all’. This stress on the need to stimulate private sector employment, coming, as it did, at a time when France was once again entering a period of economic slowdown, is indicative of the Centre Right’s willingness to reduce the rigidities associated with the insurance system, even if such policies compound the inequalities associated with a dual labour market. Moreover, the Raffarin government supported this line of policy with a more rigorous approach to unemployment – particularly youth unemployment. According to Raffarin (2002: 17), the young unskilled unemployed should be offered a ‘social reinsertion contract’, which would provide a guaranteed minimum income in return for a *commitment* to take up offers of jobs or training – terminology

notwithstanding, the proposed arrangement resembles MEDEF's original proposal for PARE in key respects.

The general point, however, is not that liberal policies are about to be uniformly applied in crude fashion – this is unlikely, not least because the institutional infrastructure of social insurance presided over by the social partners remains largely in place. It is a paradox, nevertheless, that, despite the apparently high degree of institutional embeddedness, the social partners' hold over employment policy is gradually being whittled away – not by a direct assault on the social insurance principle but by stealth as the growing numbers of uninsured unemployed are dealt with in different ways. As Clasen and Clegg (2003: 373) make clear, 'France's institutional expression of occupational solidarity is objectively in crisis, unable to respond to the diversification of labour market trajectories'. The system's continued survival is bought at the cost of 'abandoning its one-time quasi-universalist pretensions [and] casting the net of its coverage ever less wide [which] has left France with an ever more fragmented and complicated system of provision for the unemployed'. These developments do not make France a 'workfare state' on US lines, although the tendency to label activation policies targeted at those without insurance as a form of 'solidarity' is surely something of a misnomer. But the ambivalence about, and tension between, social inclusion and liberalization that have characterized recent French labour market policy, are likely to continue in an economic environment which appears to favour the latter but in a political environment where governments face clear electoral costs if they push for far-reaching institutional change. To surmount this impasse will be difficult. In terms of labour market policy, it may be that France – now with a new right-of-centre prime minister – will tackle the issue by allowing 'passive' social insurance to wither further as policies focus increasingly on market-led job creation, easier redundancy procedures and means-tested social assistance for uninsured individuals. However, as Hutton (2004: 1–2) comments, pressures for swifter, more radical change are mounting as the economic costs of institutional stasis become ever clearer.

### ***Italy***

In the words of Dell'Aringa (2000: 1), 'Italy has one of the "worst" labour markets in Europe'. This judgement refers to the fact that Italy suffered – indeed continues to suffer – from a number of structural and institutional labour market rigidities which conspire against reform. Although some changes have occurred in recent years, it is clear that Italy continues to face severe difficulties in its attempts to adjust labour market policies better to conform to the demands of the global market.

The difficulties are plain to see. To a greater extent than the other countries discussed here, the Italian labour market is heavily segmented in terms of territory, gender, age and skills. Moreover, there is a legacy of rigid regulation, especially in relation to job protection and 'flexibility', that has proved particularly damaging. Taking these issues in turn, despite the state's efforts to promote employment at regional levels, the historic divide between North and South persists. In labour market terms this means that 'in the South there is an abundance of workers and

a shortage of jobs, while in some zones of the North the situation is exactly the opposite (Franzini, undated: 4). In 1999, for example, the unemployment rate of 6.5 per cent in the Centre–North contrasted markedly with the South’s rate of 22 per cent (Franzini, undated: 4). According to Chiesi (1999: 3) ‘regional differences turn out to be the most important variable that can explain differences between unemployment rates’, to the point where ‘two separate labour markets seem at work during the nineties’. This territorial dimension is accompanied by marked gender differences, Italy’s female unemployment rate of 14.4 per cent in 2000 being well above the European average and contrasting with the male rate of 7.4 per cent. Age differences are also evident with employment rates of 29 per cent for men and 21 per cent for women of 15–24 years-old in 1999 contrasting with rates of 84 per cent and 49 per cent respectively for those aged between 25 and 54. Employment rates also drop significantly for those over 54, standing at 40 per cent for males and only 15 per cent for females in 2000.

Accompanying these structural problems are other features of the Italian labour market that have contributed to Italy’s persistently high levels of unemployment. For instance, although Italy has a higher share of jobs than the European average in agriculture, ‘industry in the strict sense’ (Franzini, undated: 5) and public administration, the country lags behind others in areas ranging from construction through transport and communications to services. Moreover, rates of self-employment and ‘atypical work’ are higher than the European average, while the amount of irregular work in Italy’s extensive informal economy is estimated to be as high as 15 per cent of the total of those employed – the figure possibly being as much as 20 per cent in the South.

The factor that compounded these difficulties, at least until the early 1990s, was the extreme degree of regulation, which, to make matters even more complex, was (and to some extent remains) differentially institutionalized across the Italian labour market. As Ludovici (2000: 273) points out, labour market regulation was generally accepted by the social partners but really only covered ‘core dependent workers and family heads by the strict regulation of employment relations and the use of public resources to support labour hoarding’. Essentially the system was designed to protect the insured industrial elite against the perceived ‘risk’ of flexibility, particularly in the form of fixed-term contracts and part-time work. Although characterized by high contribution levels, it was in the interests of both trade unions and companies to perpetuate this system because, from the union viewpoint, it protected the incomes and employment conditions of unionized industrial workers while, so far as firms were concerned, it excused them from having to bear the costs of temporary lay-offs but nevertheless afforded high internal flexibility. There were some broader advantages to the arrangement. For example, it smoothed potential industrial conflict between the social partners and also provided generous protection in the form of the contribution-based *cassa integrazione ordinaria* (ordinary redundancy fund) and the *cassa integrazione straordinaria* (extraordinary redundancy fund), thus allowing companies in the industrial sector to restructure at little cost. However, because the system covered so few employees (about 40 per cent of total employment), it reinforced the segmented nature of the

labour market and contributed to the growth of the ‘underground economy’ at a time when growing global competition was beginning to highlight Italy’s economic weakness. Moreover, because the redundancy funds bore the brunt of the costs of restructuring in the industrial sector, benefit levels elsewhere were less generous. Unemployment benefit, for instance, covers those on open-ended employment contracts who are made redundant, provided they have accumulated 53 weeks of contributions in the previous two years – but replacement rates are only 40 per cent of the average industrial wage, which is low by the standards of continental regimes.

Over the past decade, Italian governments, in concert with the social partners, have made efforts to alter labour market policies in ways designed to reduce labour market segmentation and, by introducing greater flexibility, increase Italian economic competitiveness. The result, as Ludovici (2000: 274) makes clear, has been a gradual turn away from the rigid system of the past – although, the path of reform has been far from smooth. Attempts at reform began in earnest in the early 1990s with the unions’ acceptance of the fact that greater flexibility was required if unemployment rates were to be lowered. To this end, the Guigni income agreement of 1993 saw constraints on fixed-term and part-time contracts reduced, while the 1997 ‘Treu Package’ eased regulations on job protection and atypical contracts, albeit in the context of a ‘strong regulative approach, all premised on concertation with the social partners’ (Ludovici, 2000: 280). Alongside these developments greater flexibility over wage determination has seen a moderate shift away from national level bargaining for each industry towards a combination of national and firm-level bargaining – the latter allowing companies to take account of local factors such as their financial viability and productivity rates. Meanwhile, some progress has been made in reducing contribution levels in an effort to lower labour costs.

Progress has been slow, however, and ‘one-sided’ to the extent that flexibility measures in the shape of a relaxation of regulations on temporary, part-time and atypical employment were not accompanied by reform of the public employment service or the active measures required to link jobseekers with work until very recently. Italy’s *Impact Evaluation of the European Employment Strategy* (CEC, 2002c: 1) noted that, despite significant growth in employment since 1995, ‘we are still far from a solution to the traditional problems of the Italian labour market’. The key drawbacks remain those discussed above and the document makes it clear how difficult it has been to make progress towards those EES goals which stress activation and PES reform. The document (CEC, 2002c: 29–30) records, for instance, the difficulties encountered in decentralizing responsibility for ALMPs to the regions and provinces. It comments that ‘the network of employment services has long been in a situation of uncertainty’ and that ‘this is all the more serious in a phase in which services are called upon to undertake new tasks in line with European policy’. Of particular note is the acknowledgement that circulars to regional offices requesting them to plan interviews with ‘young unemployed people and adults’ were not acted upon because ‘the request was poorly formulated and ... based on an unreliable system of procedures and administrative information in a phase

characterized by the disorientation of the sector'. This verdict does not suggest that the requirements for well-targeted labour market and training measures, in addition to the 'rapid revision of the social protection system', noted by Ludovici (2000: 296) are close to fulfilment. Indeed recent developments suggest that institutional constraints in the labour market are likely to ensure that the pace of reform remains slow.

Significant in this regard is the reception of the 'Biagi Law' implemented by the Centre-Right Berlusconi coalition during 2003. The law contained the majority of the proposals made by a labour law expert, Marco Biagi (murdered by the Red Brigades in March 2002), in a 2001 White Paper and aimed to improve the efficiency of job placement services, as well as to increase labour market participation by extending existing flexible labour contracts and reforming the PES by ending its public monopoly and allowing employment consultants, temporary work agencies, universities and joint bodies created by the social partners to provide employment services. The social partners expressed conflicting opinions about this legislation. Employers' associations such as Confindustria, not surprisingly, signalled broad approval, as did two of the three major trade union associations. The Communist-led Cgil confederation was more cautious, however, with the result that negotiations about the law were protracted. Key arguments in negotiations within the commercial sector, for example, turned on the determination of wage increases and the degree of flexibility permitted within companies allied to this sector. As Eironline (2004: 6) records, 'the talks ... were long and difficult' and it appears that, although they ultimately produced agreement among the social partners, both wage levels and 'flexibility' continue to be regulated to a greater degree than is now the case elsewhere in the continental universe. The suggestion, of course, is that the intractable problems associated with the Italian economy combine with, and are compounded by, institutional, path dependent assumptions and practices in ways that prevent far-reaching labour market reform. While these factors would certainly hinder any attempt to impose the workfare-style solutions noted elsewhere, policies of this kind are not on the Italian agenda. The current issue is whether Italy can discover a satisfactory 'middle way', which combines HC approaches to activation and labour market flexibility with robust – and egalitarian – practices supported by the social partners that are capable of encouraging wider participation among all sections of the population and all regions of the country.

### ***The Netherlands***

In contrast to the Italian case, the Netherlands stands as an example of a regime that has reformed labour market policies better to meet the combination of changing global demands for more flexible patterns of employment and domestic pressures for labour market change arising from, for example, the rise in the numbers of women seeking work. With the Wassenaar and subsequent agreements between the social partners effectively resolving hitherto divisive issues of macro-economic strategy by the early 1990s, employers and trade unions have since worked together to reduce unemployment. Employers gave up their previous opposition



to shorter working hours while the unions accepted flexible working time patterns and part-time working as a solution to worklessness. Moreover, both sides also accepted the need to develop active labour market policies (Hemerijck *et al.*, 2000). Importantly, agreements have also been reached on key distributional issues such as levels of social security contributions, low wages and training.

These measures, initially helped by the global upswing in the mid-to-late 1980s, have resulted in a steady improvement in the Netherlands' economic and employment position. The gradual fall in the standardized unemployment rate to 4.5 per cent in 2004 was achieved in the context of strong economic growth, wage moderation and industrial peace, accompanied by a successful job creation strategy, which displayed a growing emphasis on paid work and ALMPs. Two points worth noting here are, first, the dramatic surge in female participation rates, particularly in part-time work (CEC, 2002d: 12; Visser, 2002; Zijl *et al.*, 2002) and, second, the political decision to end the misuse of the disability benefits system, which had become a backdoor method of reducing labour supply that masked the true extent of unemployment (Hemerijck and van Kersbergen, 1997). Both factors, in their different ways, encouraged governments in the 1980s and 1990s to reduce traditional passive forms of insurance-based social protection in favour of greater attention to employment opportunities and active labour market policies in a context of increased 'citizen obligation' and employer responsibilities (the latter relating particularly to sickness and disability benefits). As van der Veen and Trommel (1999: 294) argue, a paradigm shift took place in the Dutch approach to social security in the early 1990s which 'can be typified as a reversal from thinking about social policy in terms of rights and duties to thinking about it in terms of incentives and disincentives'.

On the face of it, existing criteria for the payment of unemployment and social assistance benefits already included stringent conditions: the insured unemployed had to accept suitable employment and those receiving social assistance were expected actively to look for work, accept suitable jobs and so on. Before the mid-1980s, however, these criteria were applied only loosely and much of what has happened over the past fifteen years has been a tightening of existing requirements for benefit receipt (Abrahamson and van Oorschot, 2002: 5). Nevertheless, a number of fundamental changes involving the stricter selection of recipients for unemployment benefits and tougher activating strategies have complemented the closer enforcement of conditions. Where social assistance is concerned, for example, all entitlements for individuals under 21 years of age were eradicated following the Social Assistance Act of 1996 – a move that built upon the 1992 Youth Employment Act (YEA) which removed the benefit entitlement of those aged between 18 and 22 and instead substituted minimum job rights (Spies and van Berkel, 2000; Lødemel, 2004). This focus on activation has sharpened in recent years. In 1998, following the creation of the EES, the YEA was merged with 'previously non-compulsory training and employment programmes for older long-term unemployed people through the Jobseeker's Employment Act (JEA)' (Spies and van Berkel, 2000: 105). According to research commissioned by the Dutch Ministry of Social Affairs and Employment (Zijl *et al.*, 2002: 37), the JEA, which clearly echoes the



UK's Jobseekers' Allowance and associated New Deals, 'contains a comprehensive approach for the young unemployed' in that 'within six months they are offered a route leading to employment'. All those who become unemployed are offered guidance at an early stage and a range of opportunities – education, application courses and work experience – to enhance employability. Different pathways to work are available depending on distance from the labour market, skills and so on, these ranging from subsidized work opportunities with regular employers to municipal work placements, which can become permanent subsidized jobs for those deemed unable to proceed to employment in the open labour market.

It is clear, however, that these 'opportunities' are backed by an increasingly rigorous sanctions regime. Van der Veen and Trommel (1999: 304) point out that, from 1992, 'with respect to the choice of jobs, clients [were] no longer free to refuse work beneath their level of qualification', which indicates an initial tightening. However, the Social Assistance Act further increased job search obligations for benefit recipients – single mothers, for instance, are now expected to become active in the labour market when their children reach the age of five. Moreover, a further Act of 1996, the Law on Penalties and Measures, aimed to motivate those reluctant to work by intensifying 'the sanctioning policies of social security administrations', penalties now being 'nationally prescribed per type of misbehaviour and administrations [being] policed on their implementation' (Abrahamson and van Oorschot, 2002: 5). At the margin, Spies and van Berkel (2000: 123) suggest that a WF, workfare element has been introduced into Dutch employment policy. They locate this specifically in the subsidized employment offered particularly to young people by municipalities, arguing that many of the jobs on offer are 'second rate' and 'partly superfluous', and that this pathway is distinguished by a requirement *to work* rather than to be *willing* to work.

To appreciate the true significance of these changes to labour market policy, it is important to see them as part of a wider process of reform that has seen a marked reduction in public agencies' direct involvement with the unemployed. As Abrahamson and van Oorschot (2002: 3) argue, 'only few activation measures are aimed at the unemployed individuals themselves', the majority involve a range of initiatives including payroll tax reductions and wage subsidies for employers designed to encourage them to take on unemployed (particularly long-term unemployed) people. In addition to these measures, the Netherlands has mirrored recent shifts in the delivery of services to the unemployed developed in the United Kingdom and Australia. In the same manner as these liberal regimes, the role of the PES is being redefined and public employment agencies are gradually withdrawing from frontline 'service delivery', the work placement function in particular being decentralized and made 'contestable' – that is, taken over by competitive, private sector provision. Paradoxically, however, decentralization and privatization are accompanied by an increased level of central state control and surveillance, which has led some observers to characterize the Dutch system as one of 'managed liberalism' (van der Veen and Trommel, 1999: 309). Unquestionably, too, the administrative role of the social partners has been reduced following the abolition of the old corporatist industrial insurance boards, although they continue to play

a role in the Central Employment Board, which oversees the running of the PES (Finn, 2000: 51–2). The main objective, as Finn (2000: 52) states, is for central government to consolidate ‘patterns of cooperation and partnership ... through the “Jobs and Income Collaboration Project”, which requires the PES to enter into agreements with the municipalities and insurance organizations’. The aim is to develop ‘a “one counter system”, creating a national network of “Centres for Work and Income”’. Of course, much of the *administration* of the system is carried out at municipal level with local authorities charged with the task of developing and purchasing the services they deem necessary to supply coherent and flexible forms of provision for the unemployed. ‘Supply’ itself comes increasingly from private companies, which, by 2000, were responsible for 15 per cent of 38,000 ‘routes’ towards work started by unemployed adults (Zijl *et al.*, 2002: 37).

Whether these reforms to Dutch employment policy can be described as effective is not the point here. To be sure, just as in the cases of Denmark and Sweden considered below, there are signs that the ‘activation’ element *per se* is no panacea for reducing unemployment, much depending on the type of activation in question (see Sianesi, 2002: 25–6). Van Oorschot (2002: 412) has observed, for example, that the ‘Dutch miracle’ of strong job growth and falling unemployment in fact ‘contains less employment growth than suggested by the number of people in paid work, and it conceals a high degree of hidden unemployment’. Activation remains of key significance, however. Supported by a clear stress on ‘obligation’ and a range of measures directed towards encouraging employers to play their part in the new world of flexible, part-time employment, it symbolizes the palpable shift in Dutch policy away from its traditional corporatist roots. In some ways these reforms echo the Danish case, where there has been a marked change in favour of activation, although the balance between the HC and WF perspectives in Dutch policies has tilted further in favour of the latter.

### **Social democratic regimes**

Changing labour market policies in both Denmark and Sweden demonstrate a shift towards activation in the former case and a tightening of existing practices in the latter. The Danish case provides a clearer example of neoliberal drift, partly because activation has been used directly to combat the increasing difficulties associated with passive labour market policies. In Sweden, of course, ALMPs have always been a feature of labour market policy, but there has nevertheless been a ‘refocusing’ around a tougher interpretation of ‘activation’ in recent years.

#### ***Denmark***

As Rosdahl and Weise (2000: 159) make clear, high unemployment in Denmark during the 1980s and early 1990s meant that large numbers of people of working age were receiving state assistance in the form of unemployment benefit, sickness benefit, social assistance or early retirement pension, which contributed to high levels of social spending. Indeed, between the early 1960s and the mid-1990s, ‘the

number of people receiving these benefits consistently increased alongside high and increasing unemployment' – the total reaching 13 per cent in 1994. Although Conservative-Liberal governments had made some efforts to reduce spending on 'passive' benefits for the unemployed – mainly by reducing benefit levels for the young unemployed – in the late 1980s, the unemployment benefit system with its generous, tax-financed, 'passive' provision was left largely untouched. Goul Andersen (2002b: 66) has commented, for instance, that

*access* was easy, since only one year of membership and six consecutive months of (normal) employment was required to achieve full entitlements. *Duration* was very long (some 8.5 years) because entitlements to 2.5 years of unemployment benefits could be prolonged twice for another 2.5 years if the individual took part in a job programme. The *compensation* level of 90 per cent, which is very favourable to low-income groups ... was maintained [and] the *works test* appears to have been rather liberal.

The point, as many observers note, is that the Danish system offered little incentive to seek work at a time when it was becoming clear that employers' demands for greater flexibility and productivity were potentially being undermined by traditional passive-protectionist measures.

In response, the Social Democratic coalition government that came to power in 1992 embarked on a range of initiatives that saw a tightening of eligibility rules for benefit receipt combined with much greater attention to an 'active line' designed to enhance labour market participation. These new measures had their origin in the report of the Labour-market Commission – the Zeuthen Report – set up by the Conservative coalition before it left office, the stress on activation being progressively increased in line with further recommendations from the Social Commission, and particularly the Welfare Commission, during the 1990s. The Zeuthen Report recommended that the skills and qualifications of employed and unemployed alike needed to be raised to match the changing demands of the marketplace, in addition to other reforms to the unemployment benefit system. It was particularly influential because 'the representation of the central labour-market organizations ... served to legitimize the conclusions and recommendations' (Torfing, 1999: 14). Prefiguring the EES by some years, the Labour Market Reform Act of 1993, according to Torfing (1999: 15) 'constitutes a decisive break with the passive safety-net model, not because it lowered the generous unemployment benefits, but because it implied a much more aggressive attempt to get people back into the labour market'. In this regard, the training programmes, employment projects and so on, which had been part of Danish labour market policy at least since the 1970s, were not only transformed and enhanced, but increasingly came to be understood less as a social right than as a duty.

Goul Andersen sees this emphasis on duty developing in three phases. First, the maximum unemployment period of seven years included an activation phase for the final three years – not in itself particularly demanding because, as Goul Andersen (2002b: 70) acknowledges, 'seven years is a long time and it took only 26

weeks of ordinary employment to become entitled to another seven-year period'. However, the 1993 Act required that all the long-term unemployed should have an individual plan of activation developed with the support of their local employment office and tailored to individual needs and abilities, and this 'social right' increasingly became a duty in subsequent phases. Indeed, the second stage of reform, commencing in 1996, saw the unemployment period cut to five years with a 'right and duty' to activation after two and eligibility to benefit now requiring a 52-week period of ordinary employment. Furthermore, the activation policy was also applied to those receiving social assistance and penalties could be imposed where offers of work were rejected: for example, in cases where an unemployed person rejects a fair offer of activation a month's benefit would be forfeited. This phase also included the introduction of youth measures which gave those under the age of 25 with no formal training or education a 'right and duty' to an 18-months training course after six months of unemployment. Finally, from 1999, following negotiations with trade unions and employers' associations, the unemployment period was cut to four years, 'consisting of a one-year benefit period with the possibility of activation according to a regional needs assessment and a three-year activation period with a right and duty to enter labour market programmes involving up to full-time participation during the entire period' (Maerkedahl, 2000: 265). Where those under 25-years-old were concerned, the initial benefit period was six months, with a 'right and duty' to a three-and-a-half year activation period thereafter, irrespective of whether the individuals involved had received formal training or education.

What principles underpinned these changes? In one sense, as Torfing (1999) notes, successive reforms during the 1990s introduced elements of Bob Jessop's (1994) 'Schumpeterian Workfare State' into the Danish welfare regime, with the neoliberal connotations that accompany this supply side model. Indeed, the growing stress on duty together with the fact that individuals who rejected offers of work or training could face benefit withdrawal was suggestive of the increasingly rigorous treatment of the unemployed according to WF principles in the USA. According to Maerkedahl (2000: 264), however, the governing principles of the new ALMP were less focused on workfare *per se* than on other objectives more typical of the inclusive nature of the Danish welfare regime. The fact that activation plans are tailored to individual needs, for example, frequently containing an education or training element designed to enhance opportunities of future employment suggests a concern about social integration which corresponds better to the HC than to the WF model. Significantly, too, the involvement of the social partners in the fourteen regional labour market councils and the National Labour Market Council is indicative of the negotiated, consensual nature of Danish labour market policy. This approach is also visible in the recent creation of Local Committees for Preventive Labour Market Measures. These 'coordination committees' involve social partners and non-state actors, together with municipalities, in the development of 'socially targeted employment activities' (Ploug, 2002a: 54), the point being to widen the ambit of activation policies to embrace a true 'social policy' dimension by including those on social assistance. So, as Torfing (1999: 17)

puts it, Danish ALMP has not concentrated on the typical workfarist ‘solutions’ of benefit or wage reductions, but has focused instead on improving skills and the work experience of the unemployed, and thus stressed education and training as opposed to work-for-benefit, in order to develop ‘empowerment rather than control and punishment’. In short, while there is undoubtedly an ever-stronger emphasis on the duty to work, this has to be set alongside Denmark’s continuing commitment to generous levels of ‘passive’ spending and the ‘communitarian notion of work as the core of citizenship and social integration’ (Goul Andersen, 2002b: 71).

Outside the focus on ALMPs, surely the core feature of Danish labour market policy, Danish governments also introduced complementary reforms in the 1990s designed to increase participation rates in other ways. If Denmark is not especially defined by the move to part-time working as a means of increasing participation, as has happened in the Netherlands for example (Ploug, 2002b: 47–8), there has been a concerted attempt to offer incentives to stay at work for 60-year-olds – a group not significantly affected by activation policies. In 1999 new rules governing retirement were introduced which made early retirement a less attractive option. Ploug (2002b: 19) notes that now ‘there are clear incentives to postpone early retirement at least to the age of 62’, with a tax free premium calculated according to the number of hours worked being payable to those who decide to postpone the end of their working life still further. Another aspect of Danish governments’ efforts to create an inclusive labour market with high participation rates is the high level of female employment, which already comfortably exceeds the Luxembourg benchmark for 2010 (CEC, 2001: 46). While a gender gap persists where wages are concerned, as well as in the stark pattern of vertical and horizontal job segregation, Denmark follows Sweden in its commitment to high employment rates regardless of gender.

Nevertheless, this principle of employment being a core citizenship ‘right and duty’ needs to be set against two further features of labour market policy which could, in time, compromise the apparently solidaristic nature of Danish labour market policy. First, although the tax system is not used as a central policy tool, employers’ social contributions are low and company taxes were reduced in 2001. Employers therefore do not have to contend with the prospect of high labour costs in their calculations about the size of their workforce, which, while it encourages employment, will also encourage flexibility. Second, this stimulus to labour market flexibility needs to be understood in the context of the low levels of employment protection in Denmark. Taking account of the 2005 general election result, it is possible that the balance struck in the 1990s between a liberal, flexibilized employment structure and policies that continue to stress social solidarity may be beginning to tip in favour of the former. Significantly, during the 2005 election campaign, trade unions voiced fears about the impact of ‘globalization’ on Danish employment levels and the need for stronger labour market measures relating to better training, employment opportunities and job protection. Their concerns may be justified: as Eironline (2005: 2) reports,

in 2004, more than one enterprise per month on average moved a location in Denmark with more than 100 employees to a low-paid country outside Europe

or to another of the group's undertakings in another European country, typically the eastern European countries.

It is a possibility, however, that with immigration issues playing a pivotal role in the election campaign, the returning Liberal-Conservative government will maintain the liberal drift of labour market policies while using restrictions on immigration to protect 'Danish jobs'. The new coalition depends for its overall majority on the anti-immigration Danish People's Party, which increased its vote in February 2005, so the recent trend towards much tougher controls seems set to continue.

### ***Sweden***

ALMPs have a long history in Sweden, dating originally from the public works programmes of the 1930s. In the postwar period, labour market policies have been administered by a semi-autonomous board – Arbetsmarknadsstyrelsen (AMS) – founded in 1948 and consisting of representatives from trade unions and business. The modern version of active labour market measures originated in the 1950s with the Rehn-Meidner model. This model aimed to combine tight monetary and fiscal policies, and a solidaristic wages policy with an ALMP that would help to reduce structural unemployment by increasing labour and skills mobility among companies and regions, and acting counter-cyclically to maintain full employment during economic downturns (Benner and Vad, 2000; Gould, 2001; Huber and Stephens, 2001). In its initial stages, the main objective of Swedish labour market policy was the limited one of ensuring a high level of labour mobility, albeit at the price of 'individual hardship for workers forced to move, undergo retraining or "volunteer" for early retirement' (Esping-Andersen, 1985: 231). However, what Calmfors *et al.* (2002: 4) refer to as 'generally rising ambitions in employment policy' resulted in the use of ALMPs to hold down open unemployment during recessions. In this sense, ALMPs in Sweden gradually came to be treated as measures of social integration rather than purely as economic tools to ease pressures in the labour market.

In retrospect, the 'Swedish model' as originally conceived by Rehn and Meidner had barely begun to function as planned before it encountered the economic crises of the 1970s. Since that time it has proved increasingly difficult to maintain full employment and universalistic welfare provision in the context of an open economy dependent on multinational corporations and thus vulnerable to global economic fluctuations. Initially, before Sweden opted for a hard currency policy prior to joining the European Union, governments had maintained economic stability through successive currency devaluations, which kept Swedish industry notionally competitive and employment levels high. However, although this option, in conjunction with efforts to contain public spending and wages during the early and mid-1980s, proved fairly successful in the short term, it masked a number of problems including Swedish industry's increasing uncompetitiveness and the imbalance of employment between the public and private sectors. This latter factor refers to the dramatic growth of public sector employment in the late 1970s and early 1980s, which was not only costly but also altered the operation of the collective

bargaining system as sheltered public sector unions sought settlements that ‘undermined the flexibility of real wages that had characterized Swedish wage politics in the 1960s and 1970s’ (Wood, 2001: 401). As mentioned in Chapter Three, by the early 1990s Sweden was confronted by an overweening public sector, rising wages, weakening competitiveness and declining exports as private firms began to make the most of the opportunities afforded by financial liberalization and invested abroad. With growth declining, open unemployment rose to 8 per cent of the labour force – a figure which virtually can be doubled if those on active labour market schemes are included. As Clayton and Pontusson (1998: 77) point out, this level of unemployment threatened the foundations of Swedish welfare universalism, which ‘in large measure ... derived from the universalism of employment in Sweden’, because of the ineligibility for certain key contributory benefits (e.g. sickness benefits) that lack of work entails.

Unlike Danish governments, Swedish politicians did not overstress activation during the unemployment crisis of the early 1990s – indeed, as unemployment rose through 1990, numbers on ALMPs actually fell in relation to 1989 levels. Following the employers’ disengagement from AMS in 1991, the Bourgeois government (1991–4) paid little attention to ALMPs as a solution to the crisis, preferring instead to concentrate on containing the generosity of passive measures, where expenditure was rising rapidly, by cutting employers’ insurance contributions and replacement rates for unemployment insurance, as well as introducing more rigorous eligibility criteria for unemployment benefits. At this point, according to Gould (2001: 142), ‘fears were ... expressed about whether AMS could continue to perform an effective role’. On their return to power in 1994, the Social Democrats responded to these anxieties by using ALMPs to provide programmes for the young, the hard-to-employ and the rising numbers of long-term unemployed. A 1995 proposal, *A More Effective Labour Market Policy*, stated that labour market measures should primarily be targeted at the long-term unemployed ‘and other vulnerable groups’ such as immigrants and refugees (quoted in Gould, 2001: 145). Meanwhile, more expensive AMS schemes such as labour market training were contracted out to private or municipal providers and ‘new cheaper schemes such as *Ungdomspraktik* (Youth Training) and ALU (Working Life Introduction) were introduced and expanded’ (Gould, 2001: 142). After 1995, the municipalities were given a greater role in provision for the young unemployed, with Youth Training being replaced by Working Place Introduction (API). Active provision was further extended for the long-term unemployed, who were provided for by both AMS and municipal support. The municipalities now had the ability to use AMS resources to remove individuals from social assistance into labour market programmes (Gould, 2001: 143–5) – something they welcomed because it eased the pressure on their social assistance budgets caused by unemployment.

These changes introduced an approach to activation that, over a period of time, reinforced *arbetslinje* or the ‘work line’. The abolition of both relief work and the two work practice schemes – ALU and API – in 1998, alongside the continuation of labour market training, support for the self-employed and a new emphasis on ICT training can be seen as measures designed to make LMPs more efficient and



increasingly 'employment oriented'. Finally, the last five years have seen greater attention being paid to individual advice and guidance for the unemployed with a view to increasing the chance of effective work opportunities. Of particular importance here is the 'activity guarantee', targeted at those in danger of becoming long-term unemployed. As Levy (2004) comments (see also Bjorklund, 2000), one of the weaknesses of the Swedish system lay in the fact that the unemployed could claim unemployment benefits on virtually a permanent basis owing to the fact that six months attendance on a training programme entitled them to a further two years' benefits. The activity guarantee broke this cycle by requiring claimants after their first 100 days of unemployment to be 'active' for eight hours a day 'with "activity" defined as a job, a training programme, a public internship or some other kind of structured routine outside the home' (Levy, 2004: 202). A further effect of the guarantee has been to energize not only the unemployed but the authorities who now are required to monitor the activities of unemployed people more closely. One consequence, as Levy (2004: 202) notes, has been that 'claimants can no longer receive unemployment benefits while holding a job under the table, since they must account for their actions eight hours a day'. He goes on to state that 'recent Swedish statistics reveal a sharp drop-off in the unemployment rolls at the 100-day mark'.

The use of ALMPs during the 1990s is interesting. There was a considerable turnover of initiatives within the general framework of schemes either run directly by, or contracted through, the AMS. As Calmfors *et al.* (2002: 6) make clear, with the exception of labour market training, 'all other programmes have either been instituted during the period and/or ended during it'. If there is a good deal of debate about the effectiveness of these programmes (Calmfors *et al.*, 2002; Kvist, 2002; Plougmann and Madsen 2002; Sianesi, 2002), the main object here is to understand the 'direction' that active labour market measures have taken. Are Swedish ALMPs moving towards the 'workfare' solutions, or do they retain a more Scandinavian, social democratic character typically associated with the human capital model, albeit in more challenging economic circumstances?

There is little evidence of any wholesale endorsement of the kind of US-style workfare policies discussed in the last chapter. Indeed, Plougmann and Madsen (2002: 14) have even commented that 'during the 1990s policy makers of Denmark and Sweden were locked into the universal welfare state regime and made no serious attempt to follow ... OECD recommendations [i.e. towards greater flexibility]'. In general, Swedish activation measures in the 1990s were aimed primarily at the young and long-term unemployed, and maintained continuity not so much with the initial objectives of the Rhen-Meidner model – the facilitation of employment and skills *mobility* – but those goals subsequently applied to it, which focused on maintaining the connection with employment as a means of offsetting the costs of Sweden's generous passive unemployment benefits. Within this focus it is clear that ALMPs have shifted from mass training programmes towards individualized strategies for training and employment, which are more rigorous in their demands on the unemployed. As Calmfors *et al.* (2002: 4) note, 'by making payment of unemployment compensation conditional on accepting



regular job offers or placement offers in ALMPs from public employment offices, active labour market policy has been used as a work test for the recipients of unemployment compensation'. While this 'test' carries none of the conservative moral rhetoric associated with the dangers of 'welfare dependency', which characterizes welfare-to-work programmes in liberal regimes, the Swedish regime has been tightened accordingly, albeit within an HC-led approach.

So the system itself has not been significantly transformed, but it is worth noting that the changes have nevertheless dented the generous image of Sweden's universalist welfare state. In addition, the greater incidence of decentralization and particularly the contracting out of certain labour market programmes to private providers is further evidence of this trend. On the other hand, unlike Denmark, where employment protection legislation has been relaxed considerably, Swedish governments have broadly retained the country's strict legislation bending only a little, in 1996, to allow a new form of employment which permitted employers to take on individuals for between one month and a year with the option of terminating the contract at that point or taking them on permanently (Gould, 2001: 150). While this approach to employment protection can have negative consequences for employment levels and thus place additional pressure on labour market policies, there is no evidence of a general desire to 'flexibilize' the labour market. In fact, Swedish employment rates rose in the late 1990s, although they have fallen back recently, with open unemployment currently standing at 5.8 per cent (a further 121,000 people are engaged in labour market programmes – Swedish Bureau of Statistics, 2004). There is nothing here, then, to indicate a retreat from social democratic principles as these have been understood by Swedish governments – in fact, as Kvist (2002) and others (Hvinden *et al.*, 2001) acknowledge, it is the case that the changes discussed above have not led to any *significant* departure from the Nordic ideal type. To date, then, changes have been ones of incremental adjustment – the abiding image being the continued commitment to full employment as a key force for social integration and 'welfare', as well as economic prosperity. Even so, the *direction* of adjustment is worth noting. Drøpping *et al.* (1999: 157) refer to a 'new direction in Nordic policy discourse', while Plougmann and Madsen (2002: 4) write of 'rational political adjustments aimed at adapting the social institutions to the new global economic and social conditions of the 21st century'. Underscoring both comments is the shift of policy focus towards the duty to work – and of course this represents a turn, however nascent, in a 'liberal' direction, which could act as a precedent in time to come.

The Italian case apart, this discussion of changes to labour market policy in social and continental regimes indicates that these countries are beginning, however slowly, to lean towards neoliberal or 'market-led' outcomes. It is important to be cautious about generalizations of this kind, however, and clearly there are significant differences among the regimes considered here in terms of historical context, institutional environment and consequently the manner in which budgetary constraints are perceived and managed. If labour market policies in Germany and France are changing, the process is by no means smooth – and, in view of its

contested nature, it is perhaps not surprising to discover that the spread and application of new initiatives can be uneven. Social democratic Denmark and the continental Netherlands regime, both of which faced severe economic difficulties in the 1980s, have adjusted their labour market policies in a market-oriented direction – to the point where it is legitimate to ask how much further these processes can be taken before the solidaristic character of these regimes is seriously undermined. Sweden, meanwhile, has ‘refocused’ labour market policies to accommodate contemporary demands – the extent of ‘drift’ at this point, at least, being minimal.

## 6 Population ageing, GEPs and changing pensions systems

Retirement pensions are at once the most ‘national’, ‘institutionalized’ *and* globalized of all areas of social policy – an assertion that this chapter and Chapter Seven will attempt to justify. The object here is to examine how pensions systems in different regimes are changing in response to a range of factors, exogenous and endogenous, the growing demands of which appear to be compromising the traditional, institutionalized bases of income security in later life.

Amongst the first pieces of social legislation in many cases, pensions systems emerged for a variety of reasons. In united Germany they were amongst the measures adopted by Bismarck to counteract growing socialist revolutionary fervour in the rising working class, in Sweden universal pensions were adopted in 1913 as a result of an alliance of convenience between poor farming and industrial working-class interests (Baldwin, 1990). Again, in the USA, a form of old age pension for those (loosely) defined as veterans appeared in the wake of the Civil War (Skocpol, 1995: 52). Postwar systems extended protection in old age considerably further and more systematically. In their different ways, developed welfare states ensured that pensions did not simply protect special interest groups or mitigate poverty but, instead, ‘defended the social standing attained in competitive labour markets’ (Rieger and Leibfried, 2003: 76). Irrespective of the particular system, pensions provision extended well into the middle classes, with populations in many welfare regimes enjoying generous replacement rates as a result of earnings-related arrangements either directly provided, or regulated, by the state. These systems were indubitably *national* in so far as they evolved within national frameworks of welfare and usually built upon arrangements dating from the later nineteenth or early twentieth centuries (Flora and Heidenheimer, 1981; Baldwin, 1990).

In the contemporary world these systems, and the institutional structures and assumptions that underpin them, face at least three common challenges. First, the fact that populations are ageing across OECD countries is likely to have consequences for existing pensions provision because, in the absence of reform, costs will inevitably rise, thus placing additional pressure on social budgets and economic competitiveness. This issue will be discussed below, but whether or not the ageing problem is as significant as some believe, there is little doubt that this perceived ‘crisis’ has altered attitudes to pensions provision in all welfare regimes and stimulated efforts to find alternatives to traditional arrangements. Second,

and rather differently, changing patterns of employment have challenged the fundamental assumption on which postwar pension systems in the great majority of OECD countries were based – that fully employed male breadwinners would be the contributors to public schemes, which would subsequently maintain both them and their spouses in retirement. As discussed in preceding chapters, labour markets have changed to the point where the fully and permanently employed male breadwinner is becoming an increasingly rare species. Women have entered employment in large numbers, unemployment continues at high levels in some countries and, of course, with the trend towards various forms of ‘flexibilization’, the nature of work itself has become increasingly diverse. Pensions arrangements in developed welfare systems certainly need to take account of those individuals, predominantly female but also members of minority ethnic populations, who lack a consistent employment record and, owing to the rising incidence of divorce and non-marriage, cannot be expected to rely on a spouse’s contribution record to provide for them in later life.

The third challenge arises at the global level. Both demographic and labour market changes will involve extra costs in what are already the most expensive items on countries’ social budgets (see Table 6.1). But, in an economic environment characterized by hard currency, anti-inflation policies and tight social spending, national governments are unwilling to relax their (often hard-won) restrictive macro-economic policies, preferring instead to contemplate changes, which, in some cases, were unthinkable even a decade ago. Indeed these cost pressures have contributed to a growing recognition in certain regimes that pensions arrangements require radical reorganization rather than simple ‘adjustment’. While it would be incorrect to attribute what in some instances is extensive institutional change to globalization in any direct manner, once again GEPs appear to set the parameters for national policy making. Moreover, where pensions are concerned, it is possible to go further and argue that, particularly in LMEs, the growing influence of large pensions funds is beginning to have a profound effect on the quality and extent of provision. As subsequent sections of this chapter discuss, with personal private and occupational arrangements growing in importance, the impact of pension fund resources on global financial flows is increasing. And, indeed, because what has

*Table 6.1* Old age pension spending as a percentage of GDP in selected OECD countries, 2000

Australia	3.0
Denmark	6.1
France	12.1
Germany	11.8
Italy	14.2
The Netherlands	5.2
Sweden	9.2
UK	4.3
USA	4.4

Source: adapted from Visco, 2001: 21

come to be termed the 'Anglo-American model' of finance (Clark, 2003), with its in-built short-termism, individualized returns and antipathy to 'social contract', dominates the investment strategies of the large funds, these practices are beginning to infiltrate social and continental welfare regimes in ways that are starting to challenge existing fiscal-institutional arrangements (Reich, 2002; Clark, 2003).

The discussion in this chapter proceeds as follows. Arguments about the impact of population ageing on pension reform need to be considered in some detail. This factor more than any other is responsible for the current preoccupation among governments and global agencies like the OECD with the need to reorganize existing pensions arrangements. Following consideration of this issue, the implications of labour market changes will be noted more briefly before the discussion moves on to examine the changes currently occurring in the financial sector. Finally, changes to pensions arrangements in the three liberal states will be discussed, with developments in social and continental regimes being taken up in Chapter Seven.

## **The debate about ageing**

### ***International institutions and pressures for change***

As Jackson (1998: 15) notes, concerns about population ageing and its social effects tend to rise and fall according to the pattern of demographic changes and economic conditions. There were two main periods during the twentieth century in which fears of a declining population came to the fore. The first occurred in the 1930s during the recession with anxiety focusing on the possibility that economic depression could worsen because of the dwindling demand resulting from slow population growth. Interest abated during the postwar years because the baby boom meant that 'the populations of developed countries were no longer ageing as quickly as had hitherto been expected [and] along with the rise in population growth came a rise in economic growth rates to unprecedented levels' (Jackson, 1998: 15). Current concern about population trends, which constitutes the second, contemporary, period of interest began about twenty years ago and can be related directly to the uncontroversial fact that the baby boomers born in the late 1940s and 1950s are approaching retirement age (Gauthier, 1996). Crucially, the issue is not simply one of population ageing and lower mortality rates among older people, but of 'replacement'. Fertility rates that were declining in the first half of the century, but which were reversed in the years following the Second World War, have again resumed their downward trajectory, the effect being to increase old age dependency ratios (OADR) in the majority of OECD countries as the proportion of the working population declines in relation to those in retirement (Table 6.2).

As Christopher Pierson (2001: 91) puts it,

at its most primitive, the key argument in relation to ageing societies is that at some point in the next fifty years in all developed and many developing countries the costs of supporting a growing elderly population out of current production of a much smaller active workforce will place on the latter a burden which is either unsustainable or ... politically unacceptable.

Table 6.2 Old age dependency ratios in selected OECD countries

	2000	2010	2020	2030	2040	2050
Australia*	21.0	–	25.0	–	43.0	45.0
Denmark	24.1	27.6	33.7	39.2	44.5	41.9
France	27.2	28.1	35.9	44.0	50.0	50.8
Germany	26.0	32.9	36.3	46.7	54.7	53.9
Italy	28.8	33.8	39.7	49.2	63.9	66.8
Netherlands	21.9	24.6	32.6	41.5	48.1	44.9
Sweden	29.6	31.4	37.6	42.7	46.7	46.1
UK	26.4	26.9	32.0	40.2	47.0	46.1
USA*	22.0	–	28.0	–	38.0	38.0

Source: adapted from Maré and Pennisi, 2003: 198.

Note: \*estimates from OECD, 2001d: 4.

With OADR rising, the fear is that the variety of arrangements designed to increase security in old age and put in place by all the developed economies in the early postwar period cannot be sustained economically – one key anxiety being that the ‘intergenerational contract’ which underpins much welfare funding will collapse as those in employment attempt to protect their consumption patterns at the expense of the older generation. Details will be provided below, but suffice it to say for the moment that the great majority of state pension systems developed around ‘pay-as-you-go’ (PAYG) principles where the payments made by economically active generations (roughly those between 20 and 65 years of age), through general taxation and/or payroll taxes of one kind or other, furnished the pensions of those in retirement. The implicit ‘bargain’ was that these active cohorts would themselves be supported in later life by succeeding generations. In so far as international organizations such as the World Bank (1994) and OECD (1996, 1998b, 2000a) are warning of a looming ‘crisis’, their fears are based on the apparently incontrovertible fact that the contributions of a shrinking working population will be insufficient to sustain large numbers of economically inactive older people, together with the further observation that the costs of providing public support for the latter group will not only escalate, but, in doing so, will ‘crowd out’ private and voluntary alternatives to state-provided security in old age.

So far as the World Bank is concerned, the ‘crisis’ is already in full swing. *Averting the Old Age Crisis* (1994) argues that current forms of provision for older people are out of control and require immediate reform. Noting that the OADR is set to rise from 19 per cent in 1990 to 37 per cent in 2030 in the OECD as a whole and that in certain countries – Japan and Germany for example – the rise will be considerably greater than this average, the Bank has recommended reforms designed to ameliorate these looming difficulties. Perhaps not surprisingly, in view of the Bank’s neoliberal leanings, the main suggestions for change focus on running down extensive PAYG systems in favour of a ‘three-pillared’ (or ‘tiered’) arrangement, which contains a mix of private and public provision. The first, ‘public’ pillar is comprised of a flat-rate means-tested element (effectively a safety net payment), paid for out of general taxation, and indexed to either wages or (preferably) prices.

This pillar would be accompanied by a second that would be compulsory but ‘occupational’ (i.e. financed through recognized private pension funds) and also ‘fully funded’ through employers’ and employees’ contributions. Finally a third pillar would be voluntary, comprising the personal private pensions of those choosing, and able, to enhance their financial position for retirement.

These recommendations are largely echoed by the OECD, which has now published three significant reports on the ageing issue – one essentially speculative and exploratory (OECD, 1996), one programmatic and recommendatory (OECD, 1998b) and the final report assessing the policy progress so far made by OECD countries (OECD, 2000a). If the tone is milder than the World Bank’s, the OECD is equally clear about the problem. *Ageing in OECD Countries* (OECD, 1996: 9) argues that time for action is short:

in many countries, a window of opportunity exists in which to address both short- and long-term policy goals in ways that are mutually reinforcing. Further, unless action is taken soon, problems are likely to be much worse after 2010 in most member countries as the heaviest effects of ageing populations begin to be felt.

Although the UK and Ireland are partial exceptions, and ‘the seriousness of the problem varies from country to country depending on the timing and size of the demographic transition’ (OECD, 1998b: 32), the OECD argues that all countries will experience a dramatic rise in public debt as a direct result of demands on old age pensions in ten to fifteen years time with potential knock-on effects on national saving rates and economic growth as large cohorts of older people draw down accumulated assets. The worst affected nations, according to this view, will be Japan and Germany, which face a 6 per cent decrease in fiscal balances by 2030, with Europe as a whole facing an average decline of 3 per cent.

The Organization’s response to the problem is multi-faceted, requiring both short- and long-term measures. On the one hand, a general approach to ‘active ageing’ is recommended (OECD, 1998b: 14) in which ‘a high degree of flexibility in how individuals and families choose to spend their time over life – in work, in learning, in leisure and in care-giving’ is promoted. Public policy can foster active ageing by ‘removing existing constraints on life-course flexibility’ and, in particular, encouraging the adoption of policies such as lifelong learning or medical interventions ‘that help people maintain autonomy as they grow older’. On the other hand, of course, specific recommendations for the reform of existing pensions systems are made, the emphasis being upon ‘a mix of tax-and-transfer systems, funded systems, private savings and earnings’ (OECD, 1998b: 19). The main objective is to bring contributions and expenditures on pensions into line – and certainly to reduce the significance of public PAYG arrangements in favour of fully funded occupational and private alternatives. Arguing that payments from ‘first tier’, publicly funded basic pensions do not have a significant impact on the incomes of the majority of retirees, who rely more heavily on either PAYG earnings related schemes or fully funded private and occupational pensions, perhaps

supplemented by income from property and elsewhere, the OECD (1998b: 58–61) recommends two specific measures. First, tax financed public pensions should be means tested so they can be targeted at those most in need and, second, PAYG systems should be shifted away from ‘defined benefit’ (DB) arrangements, where the retirement income remains fixed and the risk of varying rates of return to pension assets is borne by employers and/or the state, towards fully funded ‘defined contribution’ (DC) systems, where there is a strong link between an individual’s pension contributions and subsequent level of provision. The latter approach transfers risk to the individual but, according to the OECD, can provide older employees with more flexibility over the timing of their retirement in addition to providing greater choice over how they might use their ‘fund’. From the societal viewpoint, a shift to DC funding is considered to be a means of cutting back on incentives to early retirement in current public pensions systems, which certain European countries have explicitly used to combat unemployment, while also being consonant with the increased health of the ‘young old’. On this latter point, the argument is that a retirement age of 65 no longer accords with the capacity of many older people to remain economically active. In addition, increased life expectancy rates suggest that retirement at 65 means that individuals now draw down their pensions for longer than preceding generations, thus adding to funding difficulties (Table 6.3).

Two further recommendations concern two rather different dimensions of change, but both are regarded as significant features of a fully developed approach to the ageing problem. First, the OECD perceives a need to strengthen the financial market infrastructure with a view to ensuring that regulatory reforms give pension funds greater choice in asset portfolio management and thus provide support for growing numbers of fully funded private pension schemes (or schemes that have come to include an element of ‘partial funding’). Although the assets held by pension funds (shown as a percentage of GDP in Table 6.4) have grown considerably over the past decade or so, the OECD (2000a: 74) believes that the continuing ‘low level of assets to GDP in some countries is a good indication of the scope for further growth of pension fund assets in ageing countries with relatively underdeveloped pre-funded systems’. The issue is particularly important for those who favour occupational and personal private arrangements. They argue that private solutions of this kind need to make up a much greater proportion of pension funding because the better management of funds, in terms of both beneficiaries’ rights and the financial security of the schemes themselves, can not only be expected to improve fund performance but also might be required to protect savings ratios as the baby boom generation begins to sell off its financial assets. These issues will be taken up below.

Second, the OECD recognizes that ageing populations present major challenges to health and social care systems, arguing that health problems tend to increase markedly after the age of 75 with ‘a constant period of disability of about two to four years on average [to be] expected’ in the final stage of life (OECD, 1998b: 90). Health care expenditures are predicted to increase when the baby boom generation hits the ‘fourth age’, with expenditure on long-term nursing care, for



*Table 6.3* Life expectancy at birth (years) in selected OECD countries

	<i>1970–5</i>	<i>2000–5</i>
Australia	71.7	79.2
Denmark	73.6	76.6
France	72.4	79.0
Germany	71.0	78.3
Italy	72.1	78.7
Netherlands	74.0	78.3
Sweden	74.7	80.1
UK	72.0	78.2
USA	71.5	77.1

Source: adapted from UN Human Development Report, 2004.

*Table 6.4* Pension fund assets as a percentage of GDP in selected OECD countries

	<i>1990</i>	<i>1998</i>
Australia	17.0	55.4
Denmark	14.6	21.5
France	–	6.0*
Germany	3.1	3.3
Italy	3.5	3.2
Netherlands	81.0	85.6
Sweden	1.7	2.7*
UK	55.0	83.7
USA	44.9	86.4

Source: OECD, 2000a: 74.

Note: \* 1997.

example, set to increase by 50 per cent. The challenges are complex, however, as countries struggle to balance trends towards deinstitutionalization and community care, frequently driven by cost considerations, with demands from informal carers – mainly women – for adequate remuneration and recognition of the high personal opportunity costs particularly in terms of paid employment. Reforms differ markedly from country to country, but the OECD again stresses a mix of public, private and informal solutions in the context of closer coordination between health and long-term care agencies, and a decentralization of responsibility for service provision.

### ***An ageing crisis?***

The ageing crisis identified by the World Bank and the OECD is, unsurprisingly, the subject of some dispute, with debate falling broadly into three parts. First, there is an extensive demographic literature which addresses the ageing issue, with some observers (Gee, 2000; Wilson, 2000) challenging the more dramatic elements

of the time bomb theory. While this theme is plainly important – and some consideration will be given to it here – it is not a central focus of the present discussion. Of the two remaining positions, the first relates to those who are not only critical of the ageing thesis, but (consequently) critical of many of the recommendations for pension reform advanced by the World Bank and the OECD. A key element of dispute concerns the reasoning behind recommended moves away from PAYG systems and arguments about the drawbacks of alternative forms of pension financing (Barr, 2003). Finally – and most relevant for present purposes – a further literature largely accepts that there is indeed an ‘ageing problem’ of some kind, but is more concerned with how welfare regimes are dealing with it in terms of policy change. This perspective is mainly interested in the *politics* of pension reform and its impact on welfare regimes.

Such is the weight of official and academic interest in the ‘problem’ of population ageing that it is worth briefly examining the basis of the issue in a little more detail. While there is no doubt that populations in Western nations *are* growing older, primarily as a result of declining fertility rates but also declining mortality rates among older people, there is some doubt about the severity of the problem. Debate tends to focus on the nature of the indicators used to estimate the scale and impact of demographic change. For, example, although the World Bank and the OECD make much use of OADRs, there is reason to be cautious about this method of measurement. Jackson (1998: 19) argues that the notion of ‘dependency’ is complex and certainly not unique to old people – indeed ‘old age is neither a necessary nor a sufficient condition for being physically dependent’. Rather than being an ‘objective’ measurement, OADRs are socially constructed because they are artefacts of statutory retirement ages as opposed to ‘measuring’ a physical incapacity to work. If retirement ages were raised in OECD nations, OADRs would decline accordingly – and vice versa. A further factor is the apparent assumption that the two populations measured by OADRs – those between 20 and 66 and those aged 66 and over – are either fully employed, in the case of the former group, or completely inactive, in the case of the latter. Current unemployment levels across the OECD gives the lie to the idea that all those who should be economically active actually are so, while the suggestion that those over 65 are inactive ignores not only the fact that some individuals continue in formal employment past that age, but that many important informal activities are carried out by older people which could usefully be viewed as economically productive. In this regard, Gee’s (2000: 11–12) comments that ‘an elderly woman who is the primary care giver for an ill husband, a homemaker, and a volunteer worker at a local arts organization is considered to be dependant/non-provider/economic drain [or that] an elderly woman who looks after her grandchildren two or three days a week so that her daughter can profitably work outside the home, is considered a dependant’, clearly suggest that there is more to the notion of ‘dependence’ than OADRs take into account.

If the construction and use of OADRs is problematic, long-term projections about the likely demographic structures of OECD countries in 2030 are equally so. Bonoli (2000: 16) notes that World Bank and OECD population projections

assume that fertility rates will remain constant until 2005 and that they will then increase and converge in 2030, but argues that these rates may be more volatile than expected. Recent fluctuations in fertility rates in the Nordic countries, particularly Sweden, seem to relate to contingent factors like family-friendly social policies, which could be positively related to higher rates in the early 1990s, and economic recession along with the retrenchment of welfare provision, which could be a possible reason for the falling rates of recent years. As Bonoli (2000: 17) makes clear, population projections to about 2015 are relatively reliable because 'the ratio between the above-retirement-age population and the working-age population is not going to be affected by changes in fertility for the next fifteen to twenty years'; beyond this date, however, they become less useful.

These points are important because, as the World Bank and OECD literature indicates, OADR and long-term population projections make up the core basis of the argument for a restructuring of pensions systems. However, even if these figures turn out to be more accurate than some believe, other factors in addition to these strictly demographic variables need to be considered. Changes in labour force participation rates (LFPR) and levels of economic growth may be significant, for instance, because they directly impinge on the amount of resources available for transfer to an ageing generation. Indeed, the international agencies' case for a move away from public PAYG systems to fully funded arrangements is based on assumptions that worsening age profiles in developed economies will be accompanied by LFPRs that remain constant at 2000 levels and growth rates that increase at an average of 1.5 per cent per annum. Their argument is that low participation and low growth will not provide working populations with sufficient employment and incomes, or governments with sufficient political support, to raise taxes and/or insurance contributions to ensure adequate pensions as OADRs rise. These projections might be over-pessimistic, however. For one thing, they are firmly grounded in prevailing assumptions about balanced budgets – although some analysts maintain that there is no overriding need for governments to balance specifically the pension budget at all (see Jackson (1998: 128). In any event, LFPRs will almost certainly rise as women continue to enter employment in increasing numbers and labour markets are likely to become tighter and better balanced in the wake of the baby boom generation's passing. If the gathering policy shift away from early retirement in certain countries is added to the mix, together with the possibility that greater numbers may choose to work past official retirement dates, the effect on predicted LFPRs could be substantial. It is worth pointing out in this respect that estimates of participation rates are sensitive to fairly small variations so, as Christopher Pierson (2001: 105) notes, 'the consequences of an aged dependency ratio of 3:1 will be quite different where the labour force participation of the 15–64 group is at 80 per cent rather than 60 per cent.'

Low growth is a more complex issue but in fact it is not clear that the OECD's estimated growth rates for the developed countries are particularly relevant to the ageing problem *per se*. Of greater import is the balance between state and non-state provision in old age, and the degree of *political willingness* to sustain pension levels for ageing populations. For certain countries – the UK, for example – the

maintenance of provision at present levels has not been considered particularly problematic from a *fiscal* standpoint because only a small percentage of public pensions are PAYG and earnings related, and the basic state pension is currently indexed to (low) inflation as opposed to wages. (Of course, these assumptions entirely ignore the *social* costs of this approach, which are discussed below.) In other cases – those with established social insurance systems, for instance – where pensions are PAYG earnings related and usually indexed to wages, a vicious circle can develop whereby low economic growth leads to lower wage growth, making it difficult to fund the (guaranteed) incomes of increasing numbers of pensioners and consequently necessitating higher income or payroll taxes, which in turn can lead to more unemployment, falling wages and so on. In this situation, as Chapter Seven makes clear, various forms of ‘reorganization’ may be required, running through the curtailment of early retirement options and/or the extension of the retirement age, to other measures such as channelling tax revenues into dedicated retirement savings. Whatever the precise policies chosen, however, the point is that future levels of spending on pensions are unlikely to be a function of economic growth alone. Indeed, as Fougère and Mérette (1999: 421–2) have suggested, population ageing could even change existing forms of economic behaviour in ways that offset the problem and *contribute* to growth.

These critical observations about the working assumptions behind the World Bank and OECD perspectives are not intended to imply that the ageing problem is insignificant. This is far from the case, but, as Bonoli (2000: 19) notes, projections ‘are too uncertain to give a reliable measurement of the actual size of pension expenditure at any given time’, which creates a difficult environment for governments and future pensioners alike. While it is true that pension spending *will* rise over the next thirty years in the majority of developed economies and that some countries will experience a noticeable impact on their public finances in the absence of significant reform, it may be as much the climate of uncertainty as the imminent explosion of the ‘time bomb’ to which governments are responding in their endeavours to alter existing pension arrangements. This general scenario is hardly a ‘crisis’, however, because countries are by no means lacking in policy options to offset the worst consequences of population ageing. The more interesting issues concern what steps different countries are taking to adjust existing pension arrangements, the potential politico-institutional barriers to these efforts and the ways in which GEPs work to restrict particular policy choices.

### **GEPs in the pensions universe**

The various issues discussed above need to be understood in the light of GEPs for the simple reason that, pensions perhaps more than any other area of welfare, involve a tangible link between the sources and mechanisms of funding, and global financial markets. Inevitably, the basic distinction between LMEs and CMEs referred to in previous chapters is particularly relevant where pensions are concerned. In liberal economies, state pension entitlements tend to be universal but ungenerous with additional entitlements coming from a mixture of occupational

and personal private sources. Outside state provision, coverage can be patchy because employer-sponsored pensions are vulnerable for a number of reasons, discussed below. Provision for those in public sector occupations tends to be both more generous and more stable (because public sector occupational schemes are generally well funded) but many others, particularly those low income groups in the private sector, either do not – or cannot – save adequately for retirement. The result is marked inequalities in old age, with large numbers of pensioners living on inadequate state incomes and others with private and occupational pensions dependent on market fortunes. Social and continental CME systems, by contrast, are more generous in terms of replacement rates, which is not to say that they are superior in every respect. Whatever their precise arrangements, however, these European systems are increasingly encountering problems. In addition to the tighter macro-economic climate towards which GEPs have contributed, the push towards financial market integration in Europe, symbolized in this instance by the recent EU Pensions Directive, is beginning to impact upon the traditional financial practices associated with the social market model in the European Union. A recent verdict on the Directive concludes, for example, that ‘the protection of employees about potential losses when transferring pensions savings to another member state [has] a low priority compared to internal market provisions which aimed at improving above all capital mobility’ (Larsen and Daguerre, 2003: 45), while Clark (2003: 6) attributes this privileging of capital to ‘the Anglo-American model of economy, finance and the welfare state [which] poses a serious threat to the perceived integrity of Continental European traditions’.

At the core of the Anglo-American model, so far as pensions are concerned, is the growing might of pension funds, which operate in a liberal financial environment characterized by short-termism and deregulation. Governments in liberal regimes have increasingly come to rely on the private sector to fund and resource desired growth in occupational and personal pensions, with the result that the financial assets resulting from ‘how we pay for the maintenance of a large and growing proportion of the population as defined by a certain stage in life’ (Minns, 2001: 33) have vastly increased. Minns (2001: 26) estimates that the total amount of worldwide pension assets in 2000 was over \$12 thousand billion (£8.5 thousand billion) amounting to almost 43 per cent of world GDP. This figure represents a significant proportion of the total capital invested in world financial markets and, with large pension funds investing as much as 30 per cent of their assets overseas, they are clearly deeply involved in international financial flows (Minns, 2001: 29). The main point is that

the pension/stock market model shifts a major responsibility for the production of pension and social security benefits onto the market, albeit underwritten by the state through tax subsidies. By doing so, it gives the financial institutions and capital markets ... greater influence over economic and social outcomes ...

(Minns 2001: 185).

This influence can take the form of direct intervention by funds in the operations of other companies as described by Reich (2002: 80), with the threat of disinvestment or hostile takeovers being used as a means of ensuring that enterprises maximize share prices even if this entails job losses or relocating to countries with lower labour costs. But it can also take a different guise. As private arrangements of one kind or other come to be regarded as viable alternatives (or supplements) to state pensions, so the financial institutions involved exercise greater control over the future prospects of their policy-holders. Policy-holders find it difficult to counter this influence in an economic climate that has weakened the power of corporate interests like private sector trade unions, which used to monitor closely the behaviour of 'their' pension funds (Blackburn, 2003: 158). In addition, in something of a self-fulfilling prophecy, the desire for swift returns 'skews investment towards large companies' and, certainly in the USA and the UK over the past twenty years, away from 'companies that made things' (Blackburn, 2003: 184) – which contrasts with attitudes to investment and saving in many European countries.

This turn to the market initially appeared to deliver high returns in the bull years of the 1990s. However, recent stock market difficulties have led to considerable problems and many analysts have been forced to revisit the optimistic assumptions about the shift from public pensions arrangements to private alternatives. As John Thompson (2002: 2) states, 'since early 2000, the capital markets have been undergoing a serious reversal [and] the major equity exchanges have lost 35–50 per cent of their value while losses have been much larger on specialised "growth" exchanges where technology companies dominate'. The scale of reversal has not been helped by the fact that some companies took 'pensions holidays' during the boom years, while others, in an attempt to take advantage of bull market conditions to increase fund values, invested unwisely in high risk equities. Substantial underfunding has been the inevitable result. Unsurprisingly in these circumstances, there has been a quickening of a longer-term trend towards converting DB into DC schemes, thereby limiting future employer liability for poor market performance. A recent survey in the UK, for example, found that in 2002 'fewer than half of surveyed final salary schemes are still open to new members, and that a third of the sponsors of surveyed occupational schemes were reviewing arrangements' (Curry and O'Connell, 2002: 33). Well-known UK companies such as Sainsbury's, Marks and Spencer, HSBC, British Telecom and GlaxoSmithKline are closing their DB schemes to new employees in favour of DC plans. Furthermore, *The Economist* (25.9.03) has estimated that over 900,000 people have seen their DB plans closed down 'and their employers substantially reduce their contribution to the alternative (defined contribution) plan, sometimes by as much as half'. There are also growing numbers of companies which face pension shortfalls so large that they are closing their schemes and offering, at best, token coverage – with obvious results for those who rely upon them.

So, with many companies, including some in continental Europe as well as the UK and USA, closing DB occupational schemes, there is good reason to believe that the occupational solution offers no easy panacea for the future. This is not to say that occupational schemes are unviable, however. The point is that where these

schemes are DC, they are likely to provide a lower value of pension than properly and responsibly managed DB schemes. This problem is related to liberal capitalism's endemic short-termism, the need for quick returns meaning that the investment strategies underlying DC schemes are not designed to guard effectively against long-range risks. As Blackburn (2003: 163) states, the funds focus on 'pooling risk among a cross-section of the population at a given point in time', with the result that individuals have 'flattened and foreshortened protection at a time when "event risk" and global turbulence are growing' (see generally Blackburn, 2003: 163). In contrast, well-managed DB schemes, particularly in the public sector, have not relied so heavily on investing in equities and have accumulated significant assets, which better places them to absorb future shocks.

If to these difficulties are added others created by the labour market changes of the past thirty years or so, the picture becomes more serious still. Blackburn (2003: 160) argues that the rise of 'short-term contracts and part-time employment [have] spread in ways that did not favour pensions coverage'. Many of those contributing to either occupational or personal schemes cannot afford to pay sufficient amounts to produce a viable income in retirement – and, particularly in the USA, there has been a tendency 'to dip into the fund between jobs'. Where personal schemes are concerned, these are markedly skewed towards better-off groups with an equally distinct slant towards white men. These schemes can also be expensive because of the costs associated with product marketing, fund management and the constant need to track contribution histories. If factors such as these are placed in the context of the growing reluctance on the part of many governments to provide tax-financed or PAYG public pensions it is clear that governments need actively to manage the complex and diverse pressures with which they are faced. To understand how different regimes are dealing with the challenges currently confronting them it is necessary to turn to a more detailed account of each case. To what extent are embedded assumptions about 'security in old age' beginning to fragment as politicians attempt to alter existing arrangements? The remainder of this chapter will deal with liberal regimes, which are generally distinguished by their enthusiastic endorsement of occupational and personal private alternatives.

### **Liberal systems**

Despite the obvious similarities in terms of coverage and generosity, the pension systems of liberal regimes are actually quite diverse. Referring to the USA and the UK, for instance, Paul Pierson (1994: 54) notes that, although these countries are often grouped together as liberal welfare states, 'they represent near opposites in pension development'. The late-nineteenth century veterans' pensions notwithstanding, Roosevelt's New Deal provided the USA with what is effectively a 'Bismarckian', contribution-based, earnings-related social insurance system – in addition to occupational and private provision. These arrangements contrast with the UK's state pension, which pays flat-rate benefits in return for flat-rate contributions, in addition to an array of voluntary occupational and personal private schemes. The differences are viewed as sufficiently marked by some



observers to merit a new typology of pensions systems, which in contrast to Esping-Andersen's *regime* typology, treats the USA as an example of the continental, social insurance model and the UK as a 'Beveridgean' system, lacking proper second-tier arrangements (Hinrichs, 2001). Dissimilarities should not be pushed too far, however. Both these systems are wary about placing too much reliance on the state as the guarantor of security in later life and, currently, both appear to be contemplating extensive reorganizations of their pension systems. Already possessing high degrees of private provision, the issue for governments on both sides of the Atlantic is not so much *whether* to push for further privatization, but *what type* of private provision to endorse. Interestingly, these difficulties are not mirrored in the Australian case. While Australia certainly stands as an example of significant market-oriented change, with its basic 'age pension' now being supplemented by a mandatory private superannuation scheme, the development of this policy and the institutional changes required for its implementation are quite different from its US and UK counterparts.

### ***The United States***

Retirement provision is the one area of social policy where the USA has, according to at least one observer, developed 'a truly "modern" welfare state' (Myles, 1989: 265). The US system is often referred to as a 'three-legged stool' comprising individual retirement savings, private pensions and 'Social Security' – the latter being the social insurance element of this three-tier structure. The Social Security programme dates to Roosevelt's Social Security Act of 1935, which took the first steps towards the creation of a universal earnings-related, PAYG social insurance system – Old-Age Survivors and Disability Insurance (OASDI) – designed to provide income security in old age. Although it took over thirty years to achieve a system sufficiently generous to provide replacement rates which compared favourably with continental systems, major benefit increases under the Johnson and Nixon administrations saw the income position of older people vastly improved. Myles (1989: 274) states, for example, that the result of these changes was 'a real increase in benefits (i.e. net of inflation) of 23 percent in just three years [while] of equal importance was the fact that ... legislation [in 1972] added indexing against inflation'.

Undoubtedly, Social Security is the 'foundation' component of the three tiers. The system covers 96 per cent of the workforce, is the major source of income for two-thirds of retired Americans and provides the sole source of income for nearly 30 per cent of those aged over sixty-five (Fleming quoted in Blackburn, 2003: 379). Even so, the scheme does not treat beneficiaries with complete equity, being distinctly gendered and racialized. O'Connor, *et al.* (1999: 115) note for instance, that 'over 99 per cent of male Social Security beneficiaries make claims as worker-contributors' while, although the number of women only eligible for 'auxiliary' entitlement (i.e. through marriage) is falling, it remains the case that 'women's growing propensity to engage in paid labour is not yet reflected in individual entitlement to benefits'. Again, divorced women who have undertaken unpaid



domestic labour and who consequently have limited work histories can lose significant amounts of benefit under the present system. Where minority ethnic groups are concerned, African Americans and Hispanics depend more heavily on Social Security as a source of income in old age than does the white population (Tanner, 2001), although these groups also receive lower levels of benefit owing to higher rates of unemployment and thus erratic contribution histories (Quadagno, 1994; Tanner, 2001). These factors are important because they bear upon the nature of proposed reforms discussed below.

The other tiers of the US system are considerably less universal than Social Security. Private pension coverage is not extensive, with 53 per cent of the workforce having no private pension and 32 per cent having no savings specifically set aside for retirement (Social Security Administration, 2004). Women enjoy less protection from private pensions and savings than do men, while retired members of the white population receive a greater proportion of retirement income from private pensions and savings than those from minority ethnic populations. Inevitably, too, those on lower incomes have much lower coverage than those with high earnings – Economic Policy Institute (2003) analysis of data from the March 2001 Current Population Survey indicating that 18 per cent of individuals in the poorest quintile had private pension coverage in 2000 compared to 73 per cent of those in the wealthiest quintile.

Although these patterns tell a familiar story with regard to the ways in which welfare regimes tend to treat marginal and minority groups, they are particularly prescient in the US case because these groups are likely to be amongst the most affected by the proposals for reforming retirement provision currently under consideration by the Bush administration. These proposals, considered below, are the latest of many attempts to reform Social Security over the past generation or so. The impetus for reform has changed over time, shifting from a preoccupation with cutting social spending and limiting budget deficits in the Reagan years (Pierson, 1994: 65–7) to a much more defined assault, on the part of many Republicans, against what is perceived as a dangerously egalitarian, anti-market retirement programme. Underpinning this critique is a genuine concern – shared by both political parties – that the Social Security system cannot survive without far-reaching reorganization. Although the rate of population ageing in the USA is not as dramatic as it is in some other countries, the looming prospect of a doubling of the retired population and the reduction of the OADR by a third over the next thirty years has concentrated minds and led to concerted efforts to produce reform proposals designed to curb Social Security spending without significantly reducing benefit levels and so damaging the most coherent ‘leg’ of the US system. The most commonly discussed reforms focus, first, on Social Security itself and, second, on private occupational pensions, with current recommendations strongly favouring the introduction of private individual accounts (IAs) within the Social Security system in addition to the strengthening of existing occupational provision outside it.

Owing to the extent of coverage, Social Security reform is currently a hot issue in the USA, with fears being expressed about the prospective rise in the numbers of older people as baby boomers retire. Penner (2002: 1) estimates that numbers

of OASDI beneficiaries are set to rise by 65 per cent between 2010 and 2030, 'while the working population will rise less than 8 per cent'. Meanwhile, 'the number of taxpayers per beneficiary will fall from 3.4 in 2001 to 3.1 in 2010 and 2.1 in 2030'. Importantly, also, the system itself becomes more expensive year on year due, first, to the fact that Social Security benefits are linked to wage levels and, second, to increasing life expectancy. According to President Bush's bipartisan Commission on Strengthening Social Security (CSSS) (2001: 64) the fiscal problem will worsen considerably between 2016 and 2038 as tax revenues fail to compensate for the demands placed on the Social Security Trust Fund. Although this situation may be sustainable in the short term, because the Fund can redeem bonds to make up the shortfall (so long as the US Treasury is prepared either to borrow, tax or cut spending elsewhere to redeem them), forecasts suggest that the Fund will be exhausted by 2038.

These projections can be contested, of course, as can the policy lessons to be drawn from them. One issue is whether Trust Fund exhaustion in 2038, as opposed to 2075, as originally forecast is really an issue. For one thing, the projection is based on a 1.5 per cent growth rate, which is on the low side, and, for another, the contribution increases built into it are comparatively low. As Blackburn (2003: 380) points out, 'even the 18 per cent payroll tax envisaged for 2075 would be slightly below the contribution paid by Swedish employees today'. Moreover, other policies, such as the extension of the retirement age, could also influence OADR's and contribute to a reduction of Social Security's benefit commitments. Nevertheless, there is little doubt that the tone of debate in the USA, particularly over the past decade, has not been about whether reforms should be implemented but rather about which measures to adopt. Straight cuts in benefits of the kind contemplated in the early years of the Reagan Presidency are no longer regarded as viable because there is no desire to stimulate the storm of public protest that ensured the failure of Reagan's proposals. Instead, argument turns on whether, as a matter of principle, the integrity of the system should be preserved – the implication being that reform should leave it as the leading (indeed only) instance of a 'solidaristic policy' in the US welfare universe – or whether Social Security should be reorganized on lines that reflect a greater market logic.

This debate is ongoing. During the 1990s, although Clinton seriously entertained the idea of giving Social Security a greater market orientation by allowing the Trust Fund to buy into equities, with the hope of boosting returns, this proposal was eventually dropped in the face of criticisms from the political right about potential state interference in the stock market. Ultimately, the Clinton–Gore position became one of 'Social Security first'. This approach was committed to protecting the 'investment' of contributors while relying on the (then) predicted ten-year budget surplus to underpin the programme (Blackburn, 2003: 390). Bolstered by a robust defence of the DB PAYGO approach by one-time World Bank Chief Economist, Joseph Stiglitz, the policy, had Gore been victorious in the 2000 Presidential election, would have been to use the surplus to 'pay down the Federal Debt' (Birnbaum quoted in Blackburn, 2003: 411) and then channel the resulting interest savings into the Social Security account. Such a strategy would

have been popular with trade unions and those in low paid employment who always stand to gain by the retention of long-range DB provision.

In the event, George Bush's first election victory put paid to this strategy, although it should be acknowledged that the rapid elimination of the budget surplus would anyway have had significant implications for its viability. To date, the three possible strategies for reform outlined by the CSSS are the only policy options under consideration. Unsurprisingly, in view of the strong pro-market make-up of the Commission, each of the proposals involves an element of 'privatization' in the form of IAs. In the Commission's view (Commission on Strengthening Social Security, 2001: 27), 'the Social Security system would be strengthened through personal accounts regardless of the level of benefits promised, and the level of revenues committed to, the Social Security system'. A core component of the reasoning here is the conviction that the 50 per cent of US households that currently save nothing each year, in addition to others who hold no appreciable financial assets, will effectively be forced to save at least something. Quoting a paper by Moore *et al.* (Commission on Strengthening Social Security, 2001: 28), the Commission states that individuals involved in trial programmes of IAs reported that this type of asset-building led to greater feelings of security. More important, perhaps, is the Commission's anti-DB bias, which approves of the conclusion reached by other researchers (see Commission on Strengthening Social Security, 2001: 29) that 'individuals with personal defined contribution accounts would voluntarily choose to save more than individuals with a defined benefit plan'. This feature is particularly significant bearing in mind that the CSSS wants Social Security reform to contribute to national saving – something which it believes can only come about through the introduction of IAs and not 'through the Social Security system as currently structured or through government investment of the trust fund in the stock market' (Commission on Strengthening Social Security, 2001: 29).

Despite the clear preference for Social Security reforms which incorporate IAs, no final decision has been taken about how to proceed. One reason for the apparent slowness, no doubt, is the simple enormity of the task of shifting such a deeply institutionalized system onto a different track. Social Security, after all, is the USA's one genuinely *social* programme that benefits the majority of citizens, however ungenerously, in ways that cannot be described as providing 'handouts' for the undeserving. In consequence, the programme has largely avoided head-on assaults of the kind that conservatives have launched at 'welfare'. Even so, it is unlikely that the US's neoliberal regime, particularly once conservative Republicans had increased their influence in Congress in the early 1990s and a conservative President was installed in the White House, would have balked at radical reform had it not been for another factor that affected perceptions of the safety and stability of private occupational pension provision. Stock market decline in 2000–1 took much of the shine off optimistic predictions about the market's capacity to act as a partial substitute for stable PAYGO arrangements. More particularly, the collapse of Enron in December 2001, followed closely by the equally dramatic demise of Worldcom, focused the impact of market failure on the retirement prospects of

individual employees in no uncertain terms. Enron employees, for instance, not only lost their jobs but also saw their 401 (k) DC occupational schemes, which had a significant percentage of contributions invested in Enron itself, collapse with the company. These individuals were left heavily dependent on Social Security.

While by no means all enthusiasm for occupational pensions has been dimmed as a result, the Enron debacle nevertheless points up the weaknesses in the arguments of those who advocated the extension of this form of retirement provision. The criticisms of 401 (k)s levelled by many observers (Minns, 2001; Blackburn, 2003; Gale and Orszag, 2003;) are especially pertinent. They acknowledge that DC plans in general, including 401 (k)s (the most popular DC schemes the take-up of which outstrips DB schemes), can provide a more flexible form of retirement provision, allowing employees to customize their arrangements with choice over contribution rates, some choice over where to invest, and the ability to decide when to withdraw funds and in what form to take the withdrawal (Gale and Orszag, 2003: 9). However, 401 (k)s are also associated with lower accrual rates, the burden of risk attaching to the employee and low take-up among poorer groups of employees, and these difficulties require attention if occupational schemes are genuinely to complement Social Security provision.

These criticisms are telling – but, despite misgivings in some circles, occupational pensions will continue to be regarded as a core component of the pensions system. Meanwhile, Social Security is likely to be reformed in the direction of IAs even if the combination of institutional and market difficulties means that this move will have to be carried out with due regard to existing assumptions and expectations. Reform in this direction conforms to prevailing preferences for market solutions, despite the obvious risk that diverting resources into IAs will reduce revenues for the payroll tax system and so compromise existing Social Security benefit levels (Penner, 2002: 4). In this respect, Bush's key instruction to the CSSS that 'modernization must not change Social Security benefits for retirees or near-retirees' will help to ensure that the forces of popular dissent that undermined Reagan's proposals will have no compelling reason to oppose new reform proposals, the calculation apparently being that younger generations of workers – those who feel more at home in the individualized financial world of the 'new economy' – will balk less at the proposed changes. As Reich (2002: 238) acknowledges, 'the old systems of social insurance were designed for large and stable groups of people who didn't know what sorts of risks they faced individually'. But the emergence of new practices where employment law has little purchase on 'the growing numbers of contract workers, contingent workers, freelancers, e-lancers, commission-sales workers, managerial and professional workers, and everyone else selling their services directly in the new economy' means that younger citizens are becoming used to 'self-servicing', seeking private solutions to their increasingly individualized needs.

Where occupational and personal private pensions are concerned, the turn towards self-financing hardly seems propitious in the wake of Enron and market difficulties more generally. However, despite the problems associated with 401 (k) pensions and the lack of personal pension take-up, there is little reason to suppose that these forms of provision will be altered in any radical manner. Unsurprisingly

in view of the USA's liberal economic character, current debate focuses on how to extend private provision and encourage private saving in those groups that have little or no pension provision outside Social Security. As Gale and Orszag (2003: 31–7) make clear, there are ways of reducing the risks that Enron so dramatically exposed. DC schemes such as 401 (k) could be 'adjusted' to take greater account of the need for workers to have clearer information and advice about investments, and to ensure that employees can diversify their portfolios after they are vested – so further extending the flexibility of these schemes. Moreover, the percentage of assets invested in employer's shares could be strictly limited, while the balance of risk could be 'redistributed' towards the employer, and incentives for saving increased, if greater use was made of Cash Balance Plans, which also have the advantage of limiting employees' access to their funds before retirement age.

### ***The United Kingdom***

Until the early 1980s, the UK was regarded as a 'hybrid' system so far as pensions – and indeed other elements of welfare provision – were concerned. The hybridity stemmed from the mix of funding mechanisms which characterized pensions arrangements from Edwardian times. The first old age pension was means tested, non-contributory and funded from general taxation. However, due in part to a process of 'policy learning', with ideas being imported from Germany in particular, as well as to the central contribution of William Beveridge from 1910 onwards, the insurance principle became firmly embedded in ideas about how core risks could best be collectively avoided. Following the recommendations of the Beveridge Report (1942), the first Attlee government created a comprehensive National Insurance system designed, *inter alia*, to provide flat-rate pensions in return for flat-rate contributions. While this policy undoubtedly reflected contemporary optimism about the ability of such a system to 'end poverty', the government's understandable decision to include large numbers of retirees and near-retirees in the scheme – irrespective of their lack of contributions – meant that the state pension had to be supplemented with means-tested benefits from the outset. In fact the contribution-based state pension was never sufficiently generous nor sufficiently redistributive either to prevent poverty in the poorest groups of retirees, without additional means-tested National Assistance, or to foster greater income equality between the retired and working populations (Hills, 2004). Moreover, not only did the breadwinner character of the national insurance system mean that married women were dependent on their husbands' pensions, but the lack of generosity led those who could afford to do so to pay into occupational schemes, subject to generous tax concessions, which added both to the inequality of provision and the overall complexity of the system (Titmuss, 1963).

The only attempt to develop more coherent arrangements came in the shape of the State Earnings Related Pension Scheme (SERPS), legislation being passed by a minority Labour government in 1978. A second-tier, PAYG publicly-funded system of this kind had been much debated within Labour circles from the mid-1950s (Ellison, 1994) and, despite the protracted progress, SERPS was regarded

as something of an achievement. Had the policy been successfully instituted, it would have provided employees with complete contribution records and lifetime average earnings with approximately 33 per cent of their final gross earnings (Bonoli and Palier, 2001: 67). But the SERPS experiment was short-lived. Throughout the 1980s Conservative governments, citing future demographic pressures and the need to 'roll back' state spending as major reasons, whittled away at the basic state pension (benefits were linked to prices, not wages, in 1982) while also encouraging moves towards greater second tier occupational and personal private provision. In 1986, for example, SERPS was changed from 25 per cent of earnings during the best twenty years of employment to 20 per cent of average career earnings; this reform also allowed employees to opt out of SERPS entirely and into the private pensions market. As Bonoli and Palier (2001: 68) report:

the 1986 reform resulted in a massive outflow of some 5 million employees from SERPS into private pensions. The lowering of SERPS benefits, the general lack of support for state provided pensions, and the aggressive marketing by private insurance carriers persuaded many to turn to the private sector for their pensions.

On the face of it, both the de-linking of the state pension and the downgrading of SERPS passed relatively smoothly at the time. There was certainly 'uproar in the Commons' (Timmins, 1996: 376) over de-linking and both employers, and trade unions, vociferously objected to the Conservatives' initial proposal to abolish SERPS completely. In fact, on this score, the 1986 legislation was regarded as something of a *retreat* on the part of the Thatcher government (Pierson, 1994: 60). With the advantage of hindsight, however, what is noteworthy is not so much the fact that SERPS survived (though fatally damaged) but that so many people decided to opt out when the chance came. In this regard, as Pierson (1994: 63) writes, 'the reforms of the basic state pension and SERPS represent a dramatic change in pensions policy [having] significant repercussions for income distribution, the roles of the state and private sector in pension provision, and the evolution of state finances'. Unlike Reagan's experience – and certainly unlike Australia's shift towards compulsory private superannuation, discussed below – the reform process in the UK was neither inhibited by embedded popular expectations about future benefits, nor, conversely, positively endorsed by strong unions keen to see the state pension complemented by alternative forms of provision. Rather, outside the fairly thin layer of academic experts and (disorganized) institutional interests, the complex and poorly institutionalized UK pensions system was ill-understood. Few members of the public claim to have a good understanding of pensions issues with comprehension about 'the interactions between state and private pensions being problematic, as people's beliefs about what the state will provide affect their decisions about what they should add privately' (Hills, 2004: 362).

In retrospect, it is ironic that Conservative governments believed that, by effectively abolishing SERPS, they had insured the UK's pension system against future shock. This complacent attitude, based on the simplistic belief that the only



issue of concern is population ageing, has given way in recent years to a recognition that the UK has an *inadequate* pensions system and that there is little to suggest that tomorrow's pensioners will enjoy security in old age (Whitehouse, 1998). One aspect of this inadequacy is that an already ungenerous basic state pension (BSP) is set to reduce further in value over time. The Pensions Policy Institute (Curry and O'Connell, 2003: 4) estimates for example that the BSP will fall from its current value of 17 per cent of national average earnings to roughly 12 per cent by 2039. Two other factors are also important. First, the private pensions industry clearly mis-sold its products during the late 1980s and the 1990s with the result that many individuals who opted out of SERPS (and in some cases their occupational schemes) into personal pension plans now risk pension shortfalls on retirement. Although these plans drew tax concessions from the state, they did not fully compensate for the loss of the employer's contribution – and many plans were simply less well-managed than established occupational schemes, with administration charges frequently being high. In consequence personal private pension take-up stalled in the mid-1990s, with fewer than 15 per cent of employees having individual pensions. Second, private occupational pensions have a much higher take-up and, in the case of many public sector schemes, can provide good benefits on retirement. However, as noted above, women cannot always make full use of occupational alternatives because of the need for more career breaks or because of their greater presence in the low paid service sector where DC schemes predominate. Moreover, DB schemes in the private sector are becoming increasingly unstable. A recent survey by the National Association of Pension Funds has estimated that 10 per cent of final salary schemes closed to new members in 2000 – this figure rising to 19 per cent and 26 per cent in 2001 and 2002 respectively (Pensions Commission, 2004: 85). Though it is hard to be certain, the Pension Commission estimates that 'the evidence suggests that active membership of open private sector DB schemes has so far fallen by 60 per cent since 1995' (Pensions Commission, 2004: 85).

So, with a declining BSP, patchy take-up of personal pensions (which tend to be bought by the already well off) and an occupational sector rapidly retrenching on the generous schemes of the 1980s and 1990s, the New Labour government faces serious and continuing challenges. All the more so, in fact, because patterns of take-up indicate that the better off are to be found in good occupational and personal private schemes, while lower paid individuals, including a disproportionate number from minority ethnic groups, in addition to women, will have to rely on the BSP and means-tested supplements. It is interesting, then, that in its first term of office the government rejected radical reform in favour of yet more incremental additions to the existing forms of provision – and this despite having charged, Frank Field, its first Minister of State in the Department of Social Security to 'think the unthinkable'. Field's recommendation that the UK should pursue compulsory pre-funded second tier pensions – but with responsibility for fund management entrusted to trade unions, 'friendly societies' and other social agencies (see Blackburn, 2003: 298–300) – was rejected outright, with reasons differing among different sections of the Labour Party. 'Old' Labour critics, perhaps simplistically, wanted a large increase in the BSP and its reconnection with earnings, while ministers, on the other hand, appeared reluctant

to become too deeply mired in disentangling the existing mix preferring a gradualist approach designed to tip the balance between public and private provision in favour of the latter. As the Green paper *Partnership in Pensions* (Department of Work and Pensions, 1998) made clear, the objective was to ensure that, over a fifty-year period, the UK reversed the public/private pensions mix from its current ratio of 60–40 in favour of the former to the exact opposite, where private provision accounts for 60 per cent of total provision.

Outside the BSP (which is now supplemented by a means-tested Pension Credit), the declining value of which will continue, New Labour's strategy is to support the very poorest earners through a compulsory state second pension (S2P), with the result that 'the emerging system [will] mimic something not unlike a flat rate pension of more than 25 per cent of average earnings' (Hills, 2004: 363). Meanwhile, others are being encouraged to pursue private methods of supplementing the BSP. The difficulty is to persuade those on low-to-average incomes to invest in their retirement by individually saving more. With their low administrative costs, stakeholder pensions, introduced in 2001, were intended to encourage the lower-paid and self-employed, who do not have access to occupational schemes, to do precisely this. However, at the present time, take-up has been poor and, ironically, seems to have attracted a different group of contributors to that envisaged – well-off individuals who wish to take advantage of the low charges associated with stakeholder pensions to buy provision for spouses or young family members.

Lacking a clear strategy to ensure higher rates of private saving and conscious of the need to control public spending, New Labour has followed Bush's example of appointing an independent commission to examine the whole area of pensions provision. The Pensions Commission, chaired by Adair Turner, Vice-Chairman of Merrill Lynch, has, to date, produced one volume (Pensions Commission, 2004), of two, that recommends three possible alternative policies. First the voluntary system could be subjected to a major revitalization, second, significant changes could be made to the state system, and/or third, 'an increased level of compulsory private pension saving beyond that already implicit within the UK system' (Pensions Commission, 2004: xviii) could be introduced. With the UK's Chancellor, Gordon Brown, already ruling out the second option (Elliott, 2004) for fear of the impact on public spending, it appears that one private solution or other will be adopted. Whether the UK will take the mandatory Australian route remains to be seen.

### ***Australia***

Over the past twenty-five years, Australia has gone further than others in its efforts to reorganize retirement arrangements. In essence, Australian governments have created a system that continues to afford basic pension cover – the age pension (AP) – through the state while promoting a radical shift towards mandated private occupational pension arrangements. As Harris (2004: 2) puts it, 'countries like Australia and the UK have moved towards encouraging individuals to save on an individual retirement basis so offsetting the rapid ageing of each of their corresponding populations'. In fact, Australia's population is not ageing at the rate of



some other countries in the OECD – though the numbers of those over 65 are set to rise from the current figure of 12 per cent to 24 per cent by 2051. It is clear, however, that both political parties believe that the requisite action to offset future difficulties has been taken (Bishop, 1999) – and that these difficulties are as much economic as demographic.

At the present time, the main sources of pension income are the AP, with over 80 per cent of Australians receiving at least some benefit from this asset-tested source, together with age-related individual private pensions and home ownership – the latter being a particularly important source of security in old age in Australia where 82 per cent of those aged 65 or more own their homes outright (Bishop, 1999:14). The objective of Labor governments in the 1980s and 1990s was to offset the anticipated fiscal impact of an ageing population by progressively reducing state spending on the AP and substituting mandatory superannuation for all Australians. Following an initial agreement in 1985 to adopt a system of employer-funded, second-tier occupational pensions, the 1992 Superannuation Guarantee, required employers to contribute approximately 3 per cent of wages into superannuation funds (which are usually industry based) or face a penalty – the Superannuation Guarantee Charge – for failing to do so. Employers' contributions, which rose to 9 per cent of wages in 2002–3, must be fully vested and fully funded in an approved private fund, with benefits remaining in the fund until the retiree has reached the 'preservation age', which is due to be raised from 55 years to 60 years of age between 2015 and 2025 (OECD, 1999: 110). According to the OECD (1999: 117), 'the replacement rate relative to expenditure in the final working year will be a little over 80 per cent [of the average industrial wage] in 2032. This compares with a replacement rate of a little over 40 per cent in 2032 for a full-rate age pension alone'. The OECD also notes that replacement rates are inversely related to earnings due to progressive income tax rates and the means and asset testing of the age pension.

The new system has advantages and disadvantages. There is no doubting its success in extending superannuation to the vast majority of Australians, including working women, 86 per cent of whom were covered in 1993 (O'Connor *et al.*, 1999: 135). Moreover, the redistributive dimension, together with the diversity of provision among the AP, home ownership and compulsory superannuation, suggests that Australia is as well placed to meet future challenges as its politicians appear to think. As to disadvantages, one potential difficulty is the level of means testing involved in the system. Involving a 'tall poppy' test, which 'measures whether income and assets are above a limit set each year' (Curry and O'Connell, 2003: 8), the full guaranteed AP at 25 per cent of average earnings is not particularly generous, but, even so, in order to qualify for this full amount, individuals with limited assets may choose to spend them. As Blackburn (2003: 271) states, 'means testing discourages savings greater than the mandatory amount, or can lead some to spend until their savings come in below the threshold'. Women could be particularly affected here because many have limited employment records, which leaves them more dependent on available assets and state support. Where superannuation is concerned, arrangements are excessively complex, owing to the intricate system of tax concessions, and too closely bound up with the financial services industry

(Shaver, 1997). On the latter issue, it is not clear that accumulated occupational pensions assets will be deployed in the best interests of employees because the majority of funds are managed on DC principles with risks therefore being borne by contributors, not employers. Furthermore, with a high proportion of the A\$439 billion pension assets invested in equities there is the ever-present danger that the funds may not yield adequate incomes in old age if markets fail to perform. A further problem relates to the fact that the funds themselves differ widely. Blackburn (2003: 271) comments that, as elsewhere, the large public sector funds manage their assets effectively, incurring only modest administration charges but there are also 'large, private retail suppliers who manage a mass of small or individual schemes and whose charges are high' – one consequence being that the sums available from superannuation assets will vary among retirees with similar contribution profiles.

Whatever the potential disadvantages of these arrangements may be, in 'institutional' terms the shift from reliance on the AP to mandated superannuation was managed successfully. Australian Labor governments moved from a single-tier, state-funded pension system to a two-tier model dominated by occupational schemes funded through the private sector seemingly without difficulty. How did they implement these institutional changes without greater political disagreement? The short answer is the Accord process, discussed in previous chapters. One aspect of this quasi-corporatist series of agreements between the Australian Labor Party (ALP) and the Australian Confederation of Trades Unions (ACTU) was union acceptance of wage reductions in return for greater security for vulnerable groups through a rising social wage and associated benefits. In this regard, the 1985 Accord saw union agreement to restrain wages in exchange for the 'employer funded mandatory second tier pension [which] secured pension benefits without requiring government spending' (Schwartz, 2000: 118). There is no question that the trade unions favoured this arrangement – and largely because, in Australian conditions, it was perceived *not* so much as a move towards outright 'privatization' but as the extension of earnings-related pension provision to union members. Prior to the reform, superannuation had typically covered only white collar, middle-class employees amounting to approximately 40 per cent of the workforce. Women and minority ethnic groups were underrepresented, as were blue collar male workers. Moreover, in an economic environment of increasing budget constraints, wage increases were becoming more difficult to obtain. In consequence, the ACTU came to see that 'deferred savings benefits may be an alternative to simply striving for an increase in workers' net pay' (Harris, 2004: 3). There is also the highly important fact that, from the outset, the unions were represented on the trustee boards of the roughly 1,500 schemes that make up the 'Super' – indeed some schemes were initiated by the unions themselves.

Other factors are also important. The transition to superannuation was less painful than it had been in other countries – Chile for example – that had adopted a similar pensions strategy because insurance and financial services institutions, which had dealt with voluntary superannuation for many years, were already well established (Harris, 2004: 5). Just as significantly, it is likely that the ills that have affected organized labour in all the developed welfare regimes also played a role.

Their part in the Accords, notwithstanding, Australia's strong union movement was beginning to weaken by the 1980s. Membership fell from 46 per cent of all employees in 1986 to 31 per cent a decade later and this difficulty, coupled with the ongoing decline in heavy manufacturing, 'reinforced the union's (sic) enthusiasm to support ... retirement reforms as they felt that they were in effect increasing their profile and relevance for existing and potential members' (Harris, 2004: 5). Of course, the Accords themselves were made possible partly at least by the sustained period of ALP rule between 1983 and 1996, as well as by the fact that the ALP and the ACTU were able to neutralize a weaker, and considerably more divided, business opposition. Certainly length of time in office contributed to the ALP's ability to develop the requisite skills needed to balance 'the competing interests of public sector/unskilled workers and private sector/skilled workers', the Accords leading to employment gains and other advantages that reduced the likelihood of 'public-private and sheltered-exposed cleavages' (Schwartz, 2000: 122). Beyond these factors, a number of wider institutional components of the Australian political system may have worked to ensure that the process of change was fairly smooth. Shaver (1999: 597) points out that Australian incrementalism, as opposed to the rather more brutal form of welfare state reorganization adopted in New Zealand, for example, is a product of a 'federated structure, bicameral parliament, and compulsory preferential voting systems [that] serve to moderate the speed of change'.

It is clear from the above discussion that pensions arrangements in the three liberal economies examined either have changed, or are in the process of changing, markedly. While the bulk of the reforms in the Australian case were both consensual and agreed a decade or more ago, neither the USA nor the UK have yet finally decided how best to reorganize their systems. Although in each case the preference is for private solutions of one kind or other, which is in keeping with regime type, the mandatory nature of the Australian superannuation system has something in common with developments in social democratic Denmark and the continental Netherlands regime. These countries have more generous basic state pensions, to be sure, but it is important to be aware that the drift towards privatization in the pensions arena is not confined to liberal regimes. A further feature worth noting is that the 'ageing problem' in these regimes is modest when compared to countries like Germany and Japan. The real issue, tackled by these countries in slightly different ways, has been to avoid resorting to expensive public funding of pensions arrangements in an economic climate that is no longer conducive to PAYG solutions. Latecomers to second-tier arrangements like the UK and Australia have not faced quite the same level of institutional stickiness initially faced by the USA – though for different reasons – although it appears that opposition to pension reform in the USA is less extensive than it used to be. Of course, while it may prove possible to 'solve' the public finance problems that PAYG systems encounter, as Myles (2002: 151) argues, privatization does not remove larger economic challenges. It is just that 'the economic costs of supporting the retired will increasingly occur off budget'. On this reading, the levels and extent of income security in retirement could become

increasingly opaque as outcomes are controlled by loosely regulated corporations operating on Anglo-American financial principles, any notion of a redistributive bias in old age provision being accordingly lost.

## **7 Pensions policies in continental and social democratic regimes**

While it is not surprising, in view of their institutional make-up that liberal regimes increasingly look to the private sector as a major source of income provision in retirement, the issue in this chapter is whether or not changes of this kind are crossing the regime barrier and developing in countries with more closely coupled institutional structures. To anticipate the argument somewhat, the evidence indicates that they *are* – although this is not to suggest that social and continental systems are ‘catching up’ with their liberal counterparts. Rather, what seems to be happening is that each of the countries examined below is leaning towards liberal solutions at least to the extent that various forms of ‘privatization’ have either been implemented or are being actively contemplated. In addition, definite adjustments are being made to existing PAYG social insurance arrangements, usually in the form of increased contribution periods and/or later retirement. Efforts to contain contribution levels are also a core feature of pension reform, particularly in the continental countries, and can be expected to lead to reductions in pension income as the baby boom generation enters retirement.

### **Continental regimes**

This grouping contains the largest number of countries, distinguished by arrangements grounded in PAYG social insurance contributions paid by those in employment and often originating in policies adopted in the latter years of the nineteenth or early part of the twentieth centuries. The real issue in these cases is the difficulty many governments are experiencing in attempting to control the effects of expensive PAYG policies, which are deeply embedded elements of their production and welfare regimes. Nowhere is there evidence of a wholesale transformation away from public, unfunded social insurance principles towards private pension provision. In countries like Germany and France, however, where governments are actively contemplating far-reaching policy adjustments, the threat of change to established pension systems is producing extensive political disagreement between governments of all political persuasions and institutionalized interests concerned both about the loss of anticipated income in retirement and their continuing ability to exercise a degree of control over pensions arrangements. Pressures are mounting on the institutional infrastructures of continental pension regimes, in other words, and these are particularly visible in government attempts

to break – or at least to ‘adjust’ – the link between contributions and benefits, and also to introduce alternative personal private and occupational forms of retirement provision.

### **Germany**

Social insurance continues to be the operating core of the German welfare regime. It is the key institutional principle, with financing through insurance contributions extending to all the major areas of German welfare provision. With regard to old age pensions, from 1957 the system has operated on an earnings-related, DB PAYG basis. Unlike the earlier Bismarckian arrangements, which provided a contribution-linked, but relatively ungenerous pension, the 1957 reforms saw West Germany move to a true wage replacement system with replacement rates of over 70 per cent. Contributions were paid by employers and employees, with the state also providing a federal grant. The earnings related component preserved certain elements of *Lebenstandardsicherung*, or status maintenance, that had characterized the German system from its earliest days, a persisting feature of this architecture being that pensions are not state-administered but organized through occupationally segregated schemes charged with paying benefits at levels consonant with pre-retirement living standards (Hinrichs, 2003: 6). Outside this earnings-related tier, there was only means-tested social assistance for those (mainly women) lacking an employment record – so, post-1957, West German arrangements became essentially a ‘one-tier’ affair (Hinrichs, 2003: 6).

For thirty years or so, no significant reforms to the system were considered, largely for path-dependent reasons, the key principles of the system being broadly accepted by political parties and the social partners alike. So, while it is possible to discern a gradual drift away from the ‘classic’ earnings-related breadwinner model – key features of this incremental process being the gradual elimination of the differences between white- and blue-collar pension schemes, and the equally gradual extension of pension coverage to non-waged groups such as the self-employed, houseworkers and students (Leisering, 2001: 172) – this shift towards greater equity (particularly for women) did not fundamentally threaten the nature of the model itself. More recently, however, the system has been severely tested as a result of a growing recognition among politicians of Germany’s deteriorating demographic situation – more than a third of the German population will be over 60 by 2030 – but also as a consequence of the stresses and strains of the unification process. If these difficulties are set in the context of GEPs, the issues that currently face Germany are plain to see. As Hinrichs (2003: 2–3) points out, in Germany ‘as the “social insurance state” *par excellence*’, insurance contributions make up a larger share of GDP than anywhere else in the OECD – 18.6 per cent in 2001, or roughly 43 per cent of total public revenues. Such high costs on labour risk high unemployment rates as employers in exposed industries automate where possible, while in service sector areas potential job creation is impeded. High labour costs also contribute to low inward investment that has further consequences for employment, particularly in the East, where the economic fallout associated with the collapse of inefficient ex-communist industries continues.

The first signs of serious difficulty were visible – at least to some – before the Berlin Wall came down and the unification process began. The incoming Kohl government postponed the scheduled adjustment of pensions from January to July 1983 and also raised the contribution rate in September of that year, while by 1987 the government had begun to draw up a more comprehensive plan for reform (Aust *et al.*, 2002: 8–9). However, an announcement by the Association of German Pension Insurance Bodies (VDR) in 1988 that their financial reserves were low and deteriorating because of declining contributions and rising pension claims, lent some urgency to the process and encouraged the CDU/FDP coalition government to introduce a bill with provisions, *inter alia*, to increase women's retirement age to 65, restrict male early retirement, and shift the base of calculation of yearly pension growth from gross to net wages (Meyer, 1998). Although the bill was criticized by the SPD opposition, the Greens and the trade unions (not least because it contained little that was of benefit to women), as was traditionally the case with legislation of this sort extensive debate among the contending interests saw a consensus develop around 'a compromise which reflected the main criticisms [containing] the retrenchment measures of the first bill, but ... [improving] regulations to protect the income for people on low wages and interrupted employment careers' (Meyer, 1998: 200). The ensuing 1992 Pension Reform Act did not tamper with the nature of the system itself (Hinrichs, 1998: 20) but did decrease the rate of contribution rises over time and made early retirement a less attractive option by imposing benefit reductions of 3.6 per cent for each year under the official retirement age – this latter arrangement to begin in 2001. However, even before the Act was passed rising unemployment and the rising costs of unification were taking their toll on the once-healthy German economy. Indeed, such was the extent of economic slowdown that Germany experienced difficulties in meeting the fiscal demands for EMU, facing deficits exceeding 3 per cent of GDP in 1993, 1995 and 1996 (Bonker and Wollman, 2001). With respect to pensions and other 'insured' elements of the German welfare state, the fact that the major costs of unification fell upon social insurance funding, as opposed to general taxation, meant that pressure on the insurance funds increased, with contribution rates rising throughout the 1990s.

This deteriorating situation, together with additional pressures associated with population ageing, triggered further efforts to reform the pensions system, which to all intents and purposes are ongoing. As the basis of the system itself increasingly came into question, the late 1990s were characterized by growing political disagreement between the CDU–Liberal coalition and the employers, on the one hand, and the SPD and the trade unions, on the other. The latter opposed further reductions in benefit for early retirees and also opposed proposals for the accelerated increase (from 60 to 65) in the retirement age for women, for example. Significantly, the SPD refused to participate in the 'pension reform commission', set up by the government in 1997 (Hinrichs, 1998: 21). The core issues, however, which appeared in legislation between 1996 and 1999 were the continuing effort to reduce contribution rates over time coupled with further attempts to close off opportunities for early retirement, for instance by making access to disability pensions more difficult.

Moreover, the proposed introduction of a 'demographic factor', which took account of increased life expectancy for those over 65, was intended to reduce the value of pensions over a period of years (Meyer, 1998: 202).

Far from reneging on the policies pursued by the Kohl governments, as initially expected, the SPG–Green coalition has kept up the pace of reform. Although the Schroeder administration initially suspended the introduction of the demographic factor and the measures relating to invalidity pensions when it came to power in 1998, it rapidly changed course. Indeed the proposals from the SPD–Green coalition based on the policies outlined in Chancellor Schroeder's *Neue Mitte* in 1999 and introduced in the policy document *Future 2000*, went beyond the CDU position in their attempt to curtail the scope of the social insurance model. Ironically, in 2001, the government reintroduced the demographic factor and also a moderated version of the disability pension reform (Hinrichs, 2003: 12). Other changes are equally significant. Upper limits have been placed on contribution rates which must not exceed 22 per cent by 2030, with the result that the German ratio of wages to net benefits will fall from 67 per cent in 2015 to 64 per cent by 2020 (Blackburn, 2003: 261). Also an element of 'privatization' has been introduced in the form of voluntary pension provision – Riester-Rente funds – which are intended to encourage individuals to supplement the inevitable shortfall in public pension provision following the cuts in contribution rates through private pension plans. Tax relief is available on up to 4 per cent of the gross income that can be devoted to private or occupational schemes.

Although, as one observer puts it, the new funds 'will change the role of private pensions, since in the long run they will become a necessary component of income, if the living standard is to be maintained during retirement' (Sailer, 2002: 1), the issue is complex. Take-up has been low, for example, with only 12 per cent of employees investing after the first eighteen months (Hinrichs, 2003: 14; *Financial Times*, 11.7.02) – a difficulty that appears to be due in part to the problems associated with modifying existing contracts (Sailer, 2003: 81). On the other hand, occupational schemes, always a feature of the German pensions landscape, have grown rapidly because the government has reduced vesting periods, improved portability and given employees the legal right to invest part of their wages in schemes which are not controlled by their employer (Leinert and Esche, 2000; OECD, 2001d; Sailer, 2002). Current figures suggest that 42 per cent of all employees in the private sector have access to occupational schemes compared with just 29 per cent in April 2001 (*Investment and Pensions in Europe*, 2003: 23). Taken together, the development of the Riester-Rente funds and the increase in occupational schemes point to the *de facto* emergence of second tier pension provision in Germany.

To what extent do these changes constitute a major shift in German pensions policy? Certainly observers like Hinrichs (2003) and Hering (2003) believe there has been a significant 'paradigm shift' in postwar arrangements, although Hinrichs (2003: 19) argues that the changes '[do] not imply that basic programmatic structures are completely thrown out'. This is an important observation because it implies that successive incremental decisions can result in extensive, systemic change as it were 'from within' an existing model without the actual collapse of the model itself. As van Kersbergen (2000: 29) has written,



incremental changes – commonly taken as signs of the resilience of welfare states – can at a certain point in time result in a more fundamental transformation when, as a consequence of the accumulation of small measures, a social programme ceases to offer the level of protection for which it was originally designed.

In the German case, over a decade of incremental changes to the social insurance system has by no means resulted in its destruction – but serial adjustments have brought pension arrangements to a point where further, and different, forms of provision can now be contemplated. The fact that the Riester-*rente* funds could not only be advocated as serious policy proposals but also accepted as such in a welfare regime with deeply embedded interests, practices, assumptions and expectations is indicative of the distance travelled since the early 1990s. It is hard to imagine that, whatever its objective merits, this particular policy would have been considered at that time (see Aust *et al.*, 2002: 13).

This process of change is by no means complete and it is clear, for example, that movements in the financial arena are likely to have an impact on pensions arrangements in the medium-to-long term. Significantly, one signal that the Riester option is unlikely to be abandoned despite low take-up has come recently from the Rürup Commission, established under Schroeder's *Agenda 2010*. The Commission not only proposed further cuts in PAYG contribution rates, including the abolition of non-contributory credits for time spent in education, but also suggested that the Riester funds should be made compulsory if they do not take off 'voluntarily' within two years (*Investment and Pensions in Europe*, 2003: 23). This attachment to market-oriented alternatives is also evident in further developments which suggest that the financial assumptions underpinning the traditional German social market model may be at increasing risk. For instance, the German government has made important financial market reforms in the past few years, which have included measures to simplify stock market access for issuing companies and also 'regulations on delisting and a number of deregulation measures' (OECD, 2000a: 78). Moreover, in the business world, large corporations, particularly those operating in the USA and UK, are becoming increasingly familiar with Anglo-American financial systems and accounting standards – particularly the different management practices that characterize these systems – that contrast markedly with the German model of co-determination. In Clark's (2003: 127) view,

the large German firms (their management and principal shareholders) and the federal government have put in place institutions and policies consistent with the imperatives of global finance ... and have done so in order to remake the distribution of power within large firms and to enhance managers' shares of market-defined corporate value.

Employer-sponsored occupational pensions are an intrinsic part of this process, Clark's (2003: 127) point being that 'these institutions may have been thought properly to belong in the sphere of co-determination and the social market [but] these embedded commitments are being revalued in terms of global finance'.

While Clark (2003: 139) is quick to point out that ‘bonuses and stock options are not the most important issues in German corporate governance’, it is the case nevertheless that, in large companies, managers are becoming impatient with the risk aversity embedded in co-managed pension institutions, and excited by the possibility that pension fund assets (often unfunded as in the *direktsuzagen* plans) can be manipulated in ways that facilitate ‘maximization strategies’ designed to produce short-term returns. The likelihood that they will be able to pursue such strategies is of course enhanced by two factors. First, union-based opposition to change in the German pensions system is beginning to wane as the unions themselves becoming less powerful. As Rieger and Leibfried, (2003: 228) note, organized labour represents a decreasing number of workers. Second, as mentioned in the last chapter, approval of more aggressive financial management is evident in the tone of the EU Pension Directive, which clearly privileges capital mobility over social protection in its attempt to develop cross-border sustainability for occupational pensions (Larsen and Daguerre, 2003). At the very least, in view of these considerations, German citizens may be forced to look – however reluctantly – to a ‘rebalancing of the “public/private mix” of pension income ... and a long-term convergence of different schemes’ (Hinrichs, 2002: 25), as private (personal and occupational) alternatives become increasingly significant elements of pension provision.

### **France**

The distinguishing feature of the French pensions system is its complexity. Different professional categories are covered by different schemes while ‘each social group aims at preserving its own advantages’ (Mandin and Palier, 2003: 1). In contrast to Germany, there is no sense of ‘design’ in the early development of the French system, with the state playing a relatively minor role in an administratively and financially decentralized framework of provision controlled by the social partners. During the postwar period, the state acted as guarantor of last resort, ensuring the financial integrity of the various schemes, but the ‘design and implementation of the ... social security system was a contested and protracted process of accommodation’ (Clark, 2003: 67). What emerged over the twenty or so years following the Second World War was a set of PAYG arrangements which saw a series of state-sponsored institutions – the *régimes général* for private sector employees and the *régime spéciaux* for public sector workers – each administered by jointly managed regional *caisses*, joined by myriad private and occupational arrangements known as *régimes complémentaires*. As Clark (2003: 67) puts it,

at one level the rules and regulations regarding coverage, minimum and maximum benefits, and contribution rates were the responsibility of the state ... however the *caisses* were initially responsible for collecting contributions, setting benefits and distributing benefits in accordance with ‘local’ circumstances and national legislation

the point being that ‘embedded in this system were multiple and overlapping jurisdictions’. In this environment the state found it difficult to assert its authority and, indeed, it has only been over the past ten years or so that French governments have made concerted efforts to establish greater control over the system.

The impetus for reform is closely associated with the ‘usual suspects’. France’s population is ageing faster than the OECD average, with nearly a quarter of French people predicted to be over 65 by 2030 – and importantly 7 per cent of these being over 80. Labour market changes have seen a marked trend towards early retirement as a means of dealing with the impact of deindustrialization. The LFPR for men aged between 60 and 64 fell from around 70 per cent to less than 15 per cent between the late 1960s and the late 1990s, for instance, with rates also falling for men aged between 55 and 59. As Clark (2003: 63) notes, ‘it is now rare for French men and women over 60 years to be working and contributing to social security institutions’. On the economic front, the strict fiscal regime for EMU laid down by the Maastricht Treaty and the later introduction of the Euro have obliged governments of all political persuasions to control inflation and public spending deficits (Bonoli, 2000: 130–31). Despite these difficulties, however, the move away from social insurance principles has been politically difficult and ultimately rather less pronounced than in Germany. Lack of clear progress is partly attributable to trade union reluctance, particularly in the public sector, to recognize the shortcomings of the PAYG system, although the sheer complexity of French social security has also been a factor – and one that has caused significant political disagreement. In addition to the problem of fragmentation, a further instance of ‘complexity’ was the practice of making the resources of the contributory schemes available for more general purposes. As Bonoli (2000: 125) argues,

governments faced with rising social problems ... tended to use the social insurance system to achieve their social policy objectives. Instead of duplicating social insurance schemes for those unable to build up a sufficient contribution record, it was decided to extend social insurance entitlements beyond the core of actual contributors.

Where pensions are concerned older people, particularly women, who had paid insufficient contributions to be entitled to an adequate pension were nevertheless deemed eligible for a means-tested minimum pension – the *minimum vieillesse* – but paid out of the social insurance budget.

This habit, indulged by governments of all political colours, of using social insurance in this way increasingly came to be resisted by the trade unions, which, though weakly organized by European standards, have always been able to mobilize popular resistance to what can be easily portrayed as undue state interference. Even during the 1980s, before governments began to push for radical pension reforms, the unions were already trying to defend the integrity of the social insurance system by only accepting increases in insurance contributions (at this stage brought on more by the rising incidence of early retirement than predictions of population ageing) as a means of maintaining benefit levels so long as

governments introduced 'tax-financed benefits for those who did not contribute and [shifted] ... the financing of some non-contributory benefits from contribution to taxation' (Palier, 2001: 64–5). By the later years of the decade, however, it had become clear that policy makers no longer believed that adjustments of this kind were sufficient to sustain expected levels of pension provision without further changes being made to the system itself.

The first attempt at institutional reform, by the Balladur government in 1993, restricted changes to the private sector general scheme (the *régime général*), where union density was weakest, indexing pensions to prices rather than earnings and extending the qualifying period for a full pension from 37.5 to 40 years (Bonoli, 1997b). As a peace offering to the unions, not only were there extensive negotiations prior to implementation but the government also pleased them by entirely separating the contributory and non-contributory systems, and removing the non-contributory *minimum vieillesse* from the insurance scheme (Bonoli, 2000). This degree of care in negotiating the reform was successful and the measures were adopted in 1994. Their impact on long-term pension expenditure has been regarded as generally positive, recent estimations suggesting that contribution rates will have to rise by between 2.7 and 7.2 percentage points by 2010 as opposed to the 10 per cent originally predicted (Palier, 2001). For Mandin and Palier (2003: 7), the Balladur reform signifies 'a major break with the past' because the new measures effectively entail a drop in retirement income. Thus private employees who, prior to the reform, could look forward to receiving 50 per cent of their wages in pension income will in fact receive approximately 33 per cent once the system is fully embedded in 20 years time. Again, the new 40-year contribution period will mean that many employees will have to work after 60 but, because 'this does not correspond to the possibilities of the labour market', the actual effect will be to lower pension levels.

The successful passage of the Balladur government in pension reform (if not always in other areas of public policy – see Levy, 2001), contrasts markedly with the Juppé government's subsequent attempt to restructure the French social security system, as a number of commentators have made clear (Bonoli, 1997b, 2000; Merrien and Bonoli, 2000; Levy, 2001; Palier, 2001). In this instance, the government felt able simply to ignore the trade unions and pressed ahead with plans to bring the public sector into line with the reformed private sector, the increase in the contribution period from 37.5 to 40 years being a key example of the desire to harmonize arrangements between the two sectors. The Government's prevailing popularity, strong parliamentary majority and good relationship with the right-of-centre President, Jacques Chirac, led ministers to conclude that union recalcitrance could easily be surmounted. In the event, however, strong opposition to the Juppé Plan from organized labour, in the shape of damaging public transport strikes in November and December 1995, forced the government to withdraw its proposals. The example is an interesting one. For one thing, the substance of the Plan was by no means purely about retrenchment – and indeed the Socialist parliamentary opposition preferred to attack the government on the basis of its approach to the policy process rather than on the policy details themselves, with

which it broadly agreed (Merrien and Bonoli, 2000). That said, the trade unions viewed the Juppé Plan very much as an attack on them, partly because the 40-year contribution period was not popular, but, more significantly, because they feared that Juppé wanted to undermine social insurance principles through the greater use of tax financing – the proposal to shift a proportion of health insurance financing from contributions to taxation being an example of this intention (Bonoli, 2000: 144). This inversion of the earlier tendency to use insurance funds to pay non-contributory benefits not only jeopardized existing arrangements but, by diluting the insurance principle, also threatened a key bastion of trade union power. It is hardly surprising, then, that the unions regarded the Juppé Plan as an example of unwarranted state interference (Myles and Pierson, 2001).

Pressure for reform persisted in spite of union hostility. The socialist Jospin government, which came to power in 1997, took matters further in two ways, both of which signalled a desire, however tentative, for further change. First, the government continued quietly to increase the tax-funded elements of welfare provision. Palier (2001: 71–2) points to the growing role of the *Contribution Sociale Généralisée* (CSG) which, in contrast to social insurance contributions is levied on all types of personal incomes including ‘wages (even the lowest ones), but also capital revenues and welfare benefits’. CSG was first introduced in the early 1990s but increased from 1.1 per cent under Balladur to 7.5 per cent under Jospin. This tax now provides ‘more than one-fifth of all social protection resources and [pays] for more than one-third of the health care system’ (Palier, 2001: 72). Second, and less convincingly, although the Jospin government did not itself embark on extensive reform, it made a point of gathering expert advice about possible future arrangements, which its successors have utilized. In 1999 Jospin requested the *Commissariat Général du Plan*, headed by Jean-Michel Charpin, to produce ideas for pension reform and the ensuing Charpin Report recommended major changes to the system. A key proposal argued that the contribution period ultimately should be raised to 42.5 years for both private and public sector employees, which would effectively entail increasing the retirement age in France from the current age of 60 to 65. Additionally, the report urged the government to establish a central reserve fund to provide an alternative form of saving and hedge against population ageing through investing in equities on the global financial market (Clark, 2003: 45). The Taddéi study, meanwhile, addressed the apparent contradiction between increasing the retirement age and the persistent problem of early retirement, and argued for a ‘progressive transition from full activity to retirement, with a combination of revenue from employment and retirement income’ (Mandin and Palier, 2003: 10). Less ‘progressively’ perhaps, the Teulade report for the *Conseil Économique et Social* was clearly less convinced than others about the accuracy of the demographic projections, and suggested that the contribution period be reduced to the original 37.5 years, a public reserve fund created to support the PAYG system, and the state’s role in relation to non-contributory pension rights enhanced. Meanwhile economic policy should concentrate on growth and increasing productivity (see Mandin and Palier, 2003: 10–11).

Jospin remained cautious. He adopted the Teulade proposal for a public reserve fund to underpin the PAYG system, to be resourced from a proportion of the proceeds of inheritance tax and other exceptional revenues, although there is little evidence of sustained progress here presumably due to the change of government in 2002. Mandin and Palier (2003: 10) note that, with the exception of a first donation of €3.049 billion, ‘after 2001, no more money has been put into the reserve fund’. Before leaving office, Jospin also tried to extend the contribution period for public sector workers to 40 years but retreated in the face of hostility from the public sector trade unions. A simultaneous attempt by the employers’ association, MEDEF, to lengthen the contribution period for those in the *régimes complémentaires* to 45 years was also successfully blocked by the trade unions.

Jospin’s successor, Jean-Pierre Raffarin, inherited this impasse but proved more able to tackle it. Despite a series of strikes in May and June 2003 that threatened to disrupt the process, Raffarin pressed on and in the summer of 2003 the French parliament passed legislation raising the contribution period in the public sector to 40 with a ‘life expectancy’ increase that will see the period extended to 41 years in 2012 and 42 years by 2020 (*The Economist*, 3.9.03: 2). In this way, private and public sector contribution periods have now been harmonized. But does Raffarin’s apparent success here indicate that France is beginning to move away from the path-dependent disagreements of the past? This is by no means clear. Natali and Rhodes (2004: 18) argue that Raffarin, with a more cohesive executive than Juppé had enjoyed, proved willing to negotiate and compromise with the social partners ultimately forging a trade-off which ‘consisted of a mix of cost containment measures, benefit improvements (e.g. more generous indexation), concessions to particular categories of workers, equity improving provisions and a consolidation of the unions’ co-management role’. Movement, to be sure, but through a process of bargained reciprocity, the conditions for which may not always pertain. Moreover, as *The Economist* (26.6.03) notes, the Raffarin reforms are less ambitious than Juppé’s proposals of the mid-1900s – and, indicatively, they were only passed following an appeal for ‘social solidarity’ from Chirac, which was explicitly based on preserving the social insurance system. It may be that, as Natali and Rhodes (2004: 19) suggest, further reform will follow Raffarin’s example – ‘building consensus, neutralizing opposition and seeking trade-offs’ – but it is equally likely that this painstaking process will be overtaken by developments of a rather different kind, particularly as younger generations, less schooled in the arts of social partnership, become increasingly attracted by the perceived benefits of more individualized solutions.

There are signs that more extensive change may be emerging, as it were, ‘from within’, as a brief examination of the role of the pension reserve or capital funds demonstrates. Funds of this type initially surfaced in the form of the *Loi Thomas*, which allowed large private companies to create voluntary savings schemes for their employees. Although the law was passed by the Juppé government in 1997, it was blocked by the incoming Jospin administration and repealed in 2001. Indicatively, however, the Socialists did not object to the idea of non-state pension funds in principle, but wanted to see them ‘democratized’ in a manner that allowed

them to be established, and contribution levels agreed, not unilaterally by employers but through the normal channels of social partnership and collective bargaining. To be sure, Jospin shortened the vesting period and allowed contributors to draw on the funds after ten years, thus reducing ‘the likelihood that they [would] serve as a supplement or alternative to public pensions’ (Levy, 2001: 274), but no amount of tampering with funds of this kind can disguise the fact that they are new instruments designed for investment in capital markets. Once the precedent was set, it was perhaps inevitable that this ‘private’ means of bolstering the PAYG system would be increasingly exploited by employers and younger employees. Undoubtedly, as Clark (2003: 72) reports, there is rising interest in individual retirement accounts particularly by younger workers who are less certain that state pension provision will suffice on retirement. Palier (2000) has made it clear that ever-rising payroll taxes are no longer considered a viable method of financing pensions, not least because of the implications for employment, the result being that people are beginning to look elsewhere. In Clark’s (2003: 72) view, there has been a marked growth in ‘savings, equities and pension-related assets’ which he regards as ‘evidence of an *implicit* defection; those individuals who can afford to purchase such products do so while acting with the majority to limit increases in the public pension contribution rates’. This interest in the potential of private alternatives has a peculiarly French twist, however. While some large companies and younger workers may be excited by the prospects offered by the increasing power of global finance, politicians and trade unions are more cautious about being sucked into the ‘global casino economy’ (Blackburn, 2003: 242). Thus in 1999 Chirac voiced his anxiety that French economic interests were being jeopardized by the growing encroachment of foreign investments, while Jean Peyrelevade, president of *Crédit Lyonnais*, also warned that the power of the Anglo-American pension funds was privileging short-termism and the needs of ‘rentier interests’ over those of ordinary working people (Blackburn, 2003: 225). These sentiments appear to have hit a paradoxical chord within French labour. As Mandin and Palier (2003: 12) note,

members of the social-democratic party as well as trade unions’ representatives are ... becoming less reticent to the introduction of pension funds, but they ... justify this evolution by anti-American arguments [rather] than by economic arguments. They underline the necessity [of developing] French pension funds to reinforce the power of French companies to face international competition.

While unions like the *CFDT* and *CFTC* appear to endorse these opinions, they are by no means universally held – the *CGT*, for example, continuing unequivocally to support the public PAYG system. Despite growing interest in new forms of pension funding, it is important to be clear that there is ‘not yet a consensus among the players in the pension reform debate about the characteristics of these savings schemes’ (Mandin and Palier, 2003: 12), the consequence being that developments in this direction are unlikely to be rapid.



### **Italy**

If the German and French examples suggest the beginnings of a trend, however embryonic, towards greater private provision of pensions, movement in this direction has been less marked in Italy. Like France, the Italian pensions system was extremely fragmented in the postwar period, with different occupational groups being covered by different schemes. Fragmentation continues to characterize the system today with three main paying agencies 'and a plethora of formally autonomous funds operating within the agencies [and] direct government intervention dwarfed by the amounts administered through the agency system' (Rostagno and Utili, 1998: 13–14). In Italy, too, governments continue to be faced by deeply entrenched principles and practices in a system of social insurance that, until recently, paid very generous pensions to males with long employment records in core sectors of the labour market – organized on a DB formula and paying up to 80 per cent of earnings (Ferrera and Gualmini, 2000). This imbalance is a further example of the gender and geographical inequalities, discussed in Chapter Five, that characterize the Italian welfare regime. A further imbalance is the limited scope of non-pension-system social protection. Rostagno and Utili (1998: 8), refer to the fact that 'the portion of the social budget needed to meet entitlements arising from the mandatory pension system is between 10 and 20 percentage points higher in Italy than in major partner countries'. Indeed these observers make it clear that Italy's main public response to emerging welfare challenges – women's labour market participation, demands for child care, changes in family structures – has been 'the traditional reliance on derived pension rights', with governments failing to develop comprehensive policies for family support or a minimum income scheme.

Matters are also complicated by the fact that Italy has an ageing population combined with improving longevity rates, which places additional pressure on pensions even as these other challenges are increasing. The OECD estimates that 30 per cent of the Italian population will be over 65 by 2030 – about 10 per cent above the expected OECD average. This difficulty is compounded by the marked trend towards early retirement, which is more pronounced than elsewhere, *The Economist* (9.10.03) noting that fewer than three people in ten over the age of 55 'holds a (legal) job'. Each of these factors places additional pressure on Italy's expensive but inefficient pensions system.

Confronted with the need to cut back on social spending in order to conform to EMU criteria and offset wider international pressures, and with little space to resort to tax increases in an already overtaxed fiscal environment, Italian governments began to cut pension spending from the early 1990s. Pension reforms were introduced throughout the decade, particularly focusing on pension income and early retirement. While spending on pensions still remains above the EU-15 average at 15.1 per cent of GDP (Ambrovič, 2002), the changes to the Italian system have been successful to the degree that they have restrained 'a sector which has been historically hypertrophic' (Ferrera, 2000: 176). With regard to the reforms themselves, an initial phase (the Amato reforms of 1992) saw the retirement age for men and women raised (from 60 to 65 years and 55 to 60 years respectively), and



both the minimum period for pension contributions and the reference period for calculating average earnings lengthened. The package was comparatively moderate, however, particularly because few immediate savings were likely to be achieved owing to the extreme length of the transition period and the fact that contribution rates remained 'excessively high' (Hamann, 1997: 11). A year after these reforms, further changes introduced reformulated supplementary pensions arrangements, establishing public second tier provision which had been 'relatively underdeveloped ... on account of the entrenched and generous nature of public social insurance and of the rules governing severance payments' (Ferrera and Gualmini: 2000: 191). Despite these efforts, continuing increases in social spending led to mounting concern from the EU and other international agencies about the level of public debt. Against this background, in 1994–5 the first Berlusconi government attempted to drive through pension reforms without reference to the trade unions and met with a degree of opposition that not only prevented an overhaul of the pensions system but led to the early demise of the government itself. In the judgement of Ferrera and Gualmini (2000: 191), Berlusconi's attempt to implement changes to seniority pensions 'would effectively have led to their disappearance' – a case of going too far, too fast.

These initiatives were followed in the mid-1990s, by the Dini reforms that, crucially, moved pension entitlement from a PAYG, DB system to one that, like Sweden, depends on a 'notional defined contribution' arrangement that takes greater account of actuarial considerations. Unlike Amato, a flexible retirement age was introduced, with an age threshold of 57 for pension entitlement, rules between private and public sector employees were standardized, and survivors' benefits graduated according to income (Ferrera, 2000; Natali, 2004). With benefits indexed to prices, the new system was projected to result in a decrease of retirement income from the current average gross replacement rate of 80 per cent to 70 per cent in 2030 and 65 per cent by 2040. Though far-reaching to the extent that the reform tackled the large disparities among different groups of workers, while reducing benefits overall, the transition period is exceptionally long, only taking immediate effect for individuals beginning work in 1996 and new retirees having their pensions calculated partially according to the new system from 2013. As Hamann (1997: 13) makes clear, 'only from 2036 onwards will all new pensions be calculated entirely on the basis of the new system'. With benefits levels still more generous than those expected in Germany or France, the growing awareness of the long-term economic effects of this problem led the government to seek further advice about pension reform.

In 1997 the Onofri Commission was appointed to investigate Italian social spending in the round, but its recommendations for the further reform of pensions were unequivocal. Taking account of the economic constraints imposed by EMU, and recognizing that insurance contribution rates were much too high, the Commission recommended cuts in contribution levels, increases in the minimum retirement age and a redirection of social spending away from pensions to provide resources for active labour market policies and minimum incomes for the worst off. However, the policies that emerged from this process, implemented in the

1998 budget, were more cautious because they were watered down following negotiations with the unions. For instance, the government failed to persuade the unions of the benefits of speeding up the phasing in of the Dini reforms, while it also made concessions on the retirement age, exempting blue-collar workers from the increased age threshold for seniority pensions – thus reducing the overall significance of the reform package. With the system's inherent generosity not being directly addressed, scope remains for continuing debate and, indeed, arguments about the pensions system have become increasingly virulent in recent years with no real progress being achieved.

Since Berlusconi returned to power in 2002, his attempts to force the pace of change, particularly in relation to the retirement age, have generally met with popular hostility, although there has been somewhat greater consensus over the Government's attempts to develop private pension funds and enhance the role of capital markets. The drive to raise the retirement age to 65 for men and 60 for women by 2008 has been the most contentious issue and a focal point of popular and trade union protest. According to Rhodes and Natali (2003: 1), this initiative is particularly ill-judged because the reform will almost certainly be withdrawn during the scheduled review process due in two years or so – the verdict of these observers consequently being that 'the reform is more virtual than real'. As Rhodes and Natali (2003: 2) argue, the better strategy at this point would be to engage 'unions and employers in broader reforms to Italy's perverse and poorly performing welfare system'. Indeed, in the absence of such an approach, Italian pension reform will remain caught between the understandable reluctance of those who benefit from the generous PAYG arrangements to see their retirement incomes reduced, or working lives lengthened, and the mounting economic and social costs of inaction.

Where 'privatization' is concerned, recent policy proposals reflect the spirit, though hardly the letter, of the changes that have either been made, or are being contemplated, in Germany, France, Sweden and elsewhere. Generally speaking Italian pension fund assets, at 2 per cent of GDP, make up a considerably smaller percentage of GDP than those of comparable countries. One means of enhancing fund assets within second-tier provision, which is currently being contemplated, is to divert the proceeds of severance pay (*Trattamento di Fine rapporto* – TFR) into pension funds. TFR comes from the 8 per cent of employees' wages that is set aside by the employer and paid as a lump sum on retirement – it is essentially a form of forced saving for employees, and a source of low-cost financing for companies. Since 1993 efforts have been made to transform the proceeds into a source of pension fund income and the latest reform aims 'to transform the entire severance pay accumulated from 1999 up to 2002 into shares and/or bonds issued by the firm which are then transferred to the pension fund joined by the firm' (*International Reform Monitor*, 2004: 7). As the *International Reform Monitor* (2004: 4) observes, 'this reform is intended to create and develop a private system of pension funds giving more fiscal incentives to savings invested in pension funds, especially compared to other forms of long-term financial investment'. Boeri (2003) estimates that the transfer of the total stock of TFR would add assets worth roughly 14 per

cent of GDP to Italy's pension funds, with stocks for the 1999–2002 period adding approximately 6 per cent, so providing a considerable boost to the pensions industry. However, despite the fact that government and trade unions appear to agree about the benefits offered by the reform, there appears to be little movement towards implementing it owing to companies' reluctance to see this source of capital removed unless adequate compensation is provided. Consequently, while some commentators regard the proceeds from TFR as the potential 'missing pillar' in the Italian pension system (Boeri, 2003), whether or not they are likely to form the basis of properly constituted arrangements for occupational pension provision remains to be seen.

### ***The Netherlands***

In some contrast to the previous cases examined in this section, the Netherlands initially developed a pension system which was much influenced by the Beveridge vision of comprehensive, universal pension cover. Postwar Dutch reformers wanted a system of this scope but also one that provided more generous retirement incomes for all citizens, based on prior earnings and residence. Unlike Beveridge, however, the state pension – the *Algemene Ouderdomswet* (AOW) – was intended to be more than basic provision as the relatively high contribution levels (17 per cent in 2001) indicate. The resulting level of generosity from the AOW meant that the Dutch did not adopt public earnings-related second-tier provision in the postwar period, so the growth of private employer-sponsored schemes as a substitute is not surprising. Clearly these features hardly make the Netherlands a typical example of continental pension provision, although there is nevertheless a sense in which the country does conform to certain continental regime characteristics. For instance, the ubiquity of occupational pensions and their close relationship with the AOW mean that, taken together, they mimic the high contribution–high benefit, earnings related arrangements found in Germany, France and Italy. More indicatively perhaps, occupational pensions contain early retirement options, which again reflects trends in these countries, but in the Dutch case, the state has successfully managed to shift a substantial element of pension income to the private sector, 'thereby discounting its looming social security obligations' (Clark, 2003: 145).

Pension arrangements in the Netherlands, then, combine a contributory state pension with private occupational schemes, the latter enjoying rapid growth in the 1980s, resulting in almost 90 per cent of employees being covered (Myles and Pierson, 2001: 315). Although the Dutch population is ageing at rather above the OECD average (OECD, 2000a: 186) certain measures, in addition to the increased reliance on occupational schemes, have been taken to diffuse a potential pensions crisis. First, as Chapter Five indicated, labour market changes – particularly the entry of women into employment – have been explicitly encouraged, which is expected to improve the LFPR as baby-boomers enter retirement. Second, all political parties have agreed that extra revenue from general taxation should be put into a special, interest-earning fund to meet age-related pension expenditure after 2020 (OECD, 2000a: 37). Such a move will produce higher yields because

the revenue base is not restricted to employees. Third, with regard to occupational pensions, which, unlike in Denmark, has been organized on the more expensive DB model, ‘unions and employers are quietly negotiating a change from a final to middle wage system, and the replacement of collective early retirement schemes ... with a funded time-saving system’ (Hemerijck *et al.*, 2000: 224). This shift of emphasis is expected to reduce the amount of benefit payable on retirement sufficiently to enable employers and pension funds to meet their obligations – as they must do under a DB scheme. These consensually agreed arrangements are expected to ensure that pensions in the Netherlands are better adapted to the ageing problem than is the case with many European welfare regimes. It is certainly the case that Dutch governments have not had to make the marked adjustments noted elsewhere in this chapter.

Are there, then, any emerging problems on the Dutch pensions horizon? On the one hand, no, because the Netherlands appears to have incorporated successfully the financial competitiveness associated with Anglo-American capitalism and the social market features of European corporate governance – providing according to Clark (2003: 143), ‘a beneficial mixture of pension institutions’. The ‘compromise’ between the two systems is embedded, first, in the relative generosity of the AOW, which remains essentially a ‘citizens’ pension’ and, second, in the institutional structure of occupational pensions arrangements. With respect to the latter, the compromise takes the following form. Because the boards of sector-wide and corporate pension plans are legally independent and responsible for the management and investment strategies of the schemes, they have a capacity to operate autonomously in the global financial market. Yet, because pension provision is organized on a corporate or sector-wide basis, with pension boards managed by the social partners according to established processes of collective bargaining, there is little inter-firm competition with administrative costs low and contribution rates, and pension benefits, being similar within each sector (although not necessarily among them). In this way, the worst ills of ‘Grey Capitalism’ (Minns, 2001; Blackburn, 2003) are avoided with ‘the national institutions of social solidarity properly [regulating] the risks of selection bias and moral hazard’ (Clark, 2003: 152 and see Clark generally, 150–2).

On the other hand, pressures on these solidaristic elements of the Dutch system are growing. For one thing, Dutch governments have increased the market accountability of sector-wide pension funds by requiring that performance is assessed against ‘the industry average and deviations measured according to standardized Z-scores’ (Clark, 2003: 150). Although in the solidaristic world of sector-wide funds it may be possible to offset consequent competitive pressures, this move is nevertheless significant because it plainly introduces a greater market element into investment decisions. Of equal importance is the recent decision to introduce, from 2006, a new financial assessment framework (*Financieel Toetsingskader* – FTK) which requires pension funds and life insurers to match assets more closely to liabilities. The new framework demands that funds no longer value liabilities according to a fixed discount rate but instead according to a mechanism that is more sensitive to prevailing capital market rates, which will make liabilities more

volatile. A recent Rabobank International report (2004: 8–9 [www.rabobank.com](http://www.rabobank.com)) estimates that, in consequence, ‘the present value of liabilities could increase by no less than 20%’, which in turn will lead to ‘a change in the cover ratios of Dutch pension funds and probably lead to increased demand for inflation-linked bonds’. Assuming that a shift into bonds will result in lower returns on assets, Rabobank forecasts that contribution rates are likely to rise. These changes may accelerate moves from DB to DC plans as funds attempt to match the risk profile of their assets more closely to their liabilities.

Whether or not these changes will undermine the solidaristic elements of pensions arrangements in the Netherlands remains unclear. While governments have introduced them in order to conform to the liberalizing impetus of the EU Pension Directive, some efforts are being made to preserve aspects of social solidarity. According to IPE ([www.ipe.com](http://www.ipe.com) 4.11.04) a model currently under discussion will separate pension funds into two entities – ‘the pension fund board will set policy while a market-driven company will be in charge of asset management and administrative affairs [which] is expected to compete for new business on the free market’. An advantage of this arrangement is that it could act to break up potentially monopolistic behaviour on the part of fund boards, which currently can ‘operate financial firms from their administrative offices using boards of directors drawn from the fund’s own board of directors’ (Clark, 2003: 157) – effectively risking the capture of decision making and asset allocation by entrenched interests. Nevertheless, the counter-risk is that large corporate and sector-wide funds will become increasingly drawn into the activities of the global market for financial services with all the temptations that this implies. As this process advances it is hard to see how fund boards, however attached to the principles of social solidarity they may be, will be able successfully to incorporate the dynamic, competitive characteristics that their market-led arms will have to develop without ultimately losing sight of the principles themselves.

### **Social democratic regimes**

If this volume was primarily concerned with the accurate categorization of pensions systems, then Sweden would be placed in a ‘Beveridgean early second tier’ group, while Denmark, though also ‘Beveridgean’ in origin by virtue of its commitment to a universal basic state pension, is best understood as a ‘latecomer’ that failed to develop public second tier provision during the postwar period (Hinrichs, 2001; Myles and Pierson, 2001). This basic difference in pensions arrangements means that these countries have little in common in this area apart from the traditional social democratic commitment to a fairly generous universal ‘citizens’ pension’. While both face similar challenges in terms of population ageing, the pressure on public budgets and the growing influence of global finance in the form of the increasing turn towards the liberalization of financial practices, their approaches to dealing with them have been, of necessity, very different. Swedish governments have been faced with the need to reconstruct their embedded second tier arrangements – literally to alter course in mid-stream – while Danish administrations

have had to deal with a more gradual, but marked, shift towards private occupational pensions, with the potential implications for principles of social solidarity that this entails.

### **Denmark**

In common with that of other OECD countries, Denmark's population is ageing. Although the rate of ageing is not particularly dramatic – Denmark's OADR is expected to rise in line with the OECD average over the next forty years – it is the case nevertheless that, if existing trends continue, there will only be 2.5 employees for each older person by 2030 compared with 3.5 employees in 1960 (OECD, 2000a: 148). As discussed in Chapter Three, following a difficult period in the 1980s, the Danish economy strengthened during the 1990s and the commitment to welfare spending has remained strong – particularly where health and old age pensions are concerned (Goul Andersen, 2000). Indeed, Danish public spending has remained 60–70 per cent higher than the OECD average since 1980 with spending overtaking Swedish levels in the late 1990s. With a healthy balance of payments and falling debt, Denmark is now the second wealthiest country, after oil-rich Norway, in the Nordic group (Marklund and Nordlund, 1999: 23). Within this overall framework of welfare generosity, however, a number of adjustments have been made, not so much in terms of immediate retrenchment, but rather by way of a reorganization of key areas of provision in anticipation of future fiscal difficulties. Where the basic state pension is concerned, the core change has been the dilution of Denmark's generous tax-financed, universalistic pension system, which, since 1994, has been affluence-tested. Higher earners now receive only a portion of the basic pension, while the highest earners may receive no pension at all (Kvist, 1997: 235). Conversely, the poorest retirees are eligible for a means-tested supplement to a maximum value of about half that of the affluence-tested element (Pensions Policy Institute, 2003: 10). About 50 per cent of pensioners' gross incomes derives from the folkepensionen, although this figure is declining owing to the dramatic rise in occupational provision. A further element of the public system is the Labour Market Supplementary Pension (ATP), a fully funded, DC scheme which covers all wage earners and, since 1996, the bulk of social security claimants as well. ATP, however, is only intended to provide a very modest flat rate supplement to the basic pension. It is targeted primarily at low earners and has long been regarded by the trade unions as furnishing middle income earners with low replacement rates. As Kvist (1997: 27 *my emphasis*) states, although 'the national old age pension and ATP *together* provide low income groups with comparatively high replacement rates ... high income groups do not have the same income compensation as in many other European countries'. This feature is important, not least because these state systems afford a high level of gender equality in old age – Denmark being amongst the most generous of European states in this regard (Ginn, 2004: 130).

While low earners have benefited from the relative generosity of publicly provided pensions, the most dramatic change in the Danish system has been the

rapid development of occupational and private schemes, intended to provide better replacement incomes for middle and higher earners. DC occupational schemes date back to the late 1960s when plans were created for public employees as compensation for the removal of tax-financed PAYG arrangements for civil servants (Ploug, 2002b: 5). These early developments were compounded by the gradual expansion of occupational plans throughout the 1970s and early 1980s – an important precedent for more decisive moves in this direction towards the end of the decade. The occupational, or ‘Labour Market’, pensions that emerged in the early 1990s are fully funded, DC schemes with contributions set as a percentage of wages according to collective agreements between employers and employees. Since they were first introduced in 1991, these industry-wide schemes have grown to cover over 80 per cent of the labour force – effectively inverting the traditional dominance of public sector pension provision. As Benner and Vad (2000: 450) point out, annual occupational pension income rose faster than income from public pensions between 1983 and 1993 – the former rising by 6.2 per cent per year compared with a 1.6 per cent annual increase for the latter. Despite fears that inequalities among older people may increase and that rising private pension income could lead to the emergence of a dual pension system, changes to date have not led to benefit cuts for any group and the value of pensions has gone up. Even so, with low income earners apparently not benefitting to the same degree as those with occupational provision, who enjoy beneficial tax advantages, for example, this nascent division between public and private pension funding is likely to become more marked in the future.

Turning to the political and institutional processes that have driven this movement towards the marketization of old age pensions, these have been broadly consensual. At party level, Denmark’s political system is strongly oriented towards coalition governments – Conservative dominated in the 1980s and Social Democrat for much of the postwar period and for the greater part of the 1990s. Although during the 1980s the Conservative–Liberal coalition was prepared to concede to the demands of the Danish trade union confederation (LO) for a generous tax-financed minimum pension, it was not prepared to give way to union calls for a state superannuation scheme on pre-reform Swedish lines – something the LO had been demanding for years (Overbye, 1996). Lack of progress in this direction, with the Conservative–Liberal coalition first promising to negotiate with the LO, then retracting the promise while nevertheless continuing to discuss occupational pension arrangements separately with public sector unions, eventually led trade unions representing skilled workers – particularly the powerful metalworkers – to break ranks with the LO in 1990 and negotiate a separate DC occupational pension arrangement with employers (Overbye, 1996: 81). This move was facilitated by the earlier decentralization of wage negotiations in 1987. As Overbye makes clear, the Danish LO is a weaker organization than its Swedish or Norwegian counterparts, despite high union density, the consequence being that the general trend towards decentralization observable in the Nordic countries was more marked in Denmark. Industry-wide occupational pensions became increasingly popular in the early 1990s with the Social Democrats effectively being forced to accept them,



the arrangements themselves being ‘negotiated in corporatist consultation with unions or with professional organizations in a particular field’ (Cox, 2001: 482).

Two points are worth noting here. First, the general market-oriented thrust of pension reform in the 1990s was confirmed and strengthened in the recommendations of the 1993 Social Commission appointed by the Conservative coalition to review the existing welfare system. Faced with something of a *fait accompli*, the Commission concluded that individuals should take greater responsibility for their own pension savings and advocated ‘making the public system a less central component of total pension income and replacing the receding public scheme with more vigorous incentives for private pension savings’ (Cox, 2001: 481). This approach was endorsed by the Social Democrat-led coalition that came to power in 1993, its policy outcomes being clearly visible in tax reforms and the continuing expansion of DC occupational pension schemes. Second, the consensual nature of the process owes much to the Danish system of industrial relations, which, in the 1990s, was increasingly characterized by the form of ‘organized decentralization’ discussed in previous chapters. This system almost certainly facilitated the expansion of occupational pensions on an industry-wide basis (although schemes can be company based, collective agreements between the social partners are more common with over 600,000 white- and blue-collar workers participating). Indeed, such is the coverage of these schemes that, in 1997, the Danish government felt it unnecessary to make them mandatory for all workers.

There is one further issue here, which has already been mentioned in connection with the continental regimes discussed above. The fact that the Danish system has become so dependent on occupational provision means that it is no longer just a system of pension provision but also a financial industry which is becoming increasingly exposed to the global financial market. While the same can be said for all systems that have a high ratio of pension fund assets to GDP (Denmark’s ratio is among the highest in the EU), the point is that these systems are becoming participants in global financial practices organized on the Anglo-American model. Standing to one side of EMU, Denmark is less subject to the embryonic, though not unimportant, pressure for financial liberalization coming from this quarter – but the Danish pensions landscape appears to be changing nevertheless. In fact, something of a sea-change took place in 2000 with the introduction of the Taxation and Pension Investment Returns Act. This legislation removed a set of arrangements so complex that ‘only the large domestic fund managers ... were able ... to provide a full service to pension funds’ (Broby’s website for active asset management, 2002: 1). The new Act has resulted in ‘foreign fund managers ... rushing to send bright young marketers to what they see as a new and under-developed market’. While occupational schemes continue to be managed by the social partners – and domestic fund management is sophisticated – the expectation is that the industry-wide pensions sector will ‘see an increase in investments in equities [and the] increase will ... be in foreign equities’. One example of this turn is ATP – the first-pillar fund – which decided to invest €3 billion into private equities in 2002 (Altassets 2002: 2). With greater global market exposure, and markets themselves currently volatile, Denmark is likely to accede to the growing pressure to conform to more



transparent standards of pensions governance – indeed this debate began in earnest in the summer of 2004 (Mercer: 2004: 2). How new forms of governance will affect the role of the social partners and the ‘solidaristic’ dimension of Danish pensions provision remains to be seen. As discussed above, the current situation in the Netherlands suggests that solidaristic institutions, however well embedded, may be vulnerable to the increasing influence of the Anglo-American standards and practices that dominate the global financial market.

### ***Sweden***

The first tier of the postwar Swedish pension system was comprised of a basic flat rate pension, the origins of which date to 1913. A supplementary pension was added to the basic pension in 1976 for those with low incomes. Benefit levels were calculated in relation to the ‘base amount’ (about 20 per cent of the average industrial wage), with the basic pension paying about two base amounts. Over time, the supplementary pension came to increase the value of the basic pension by about 50 per cent. Following what, for Sweden, was a period of bitter political disagreement about the potential nature of second tier provision (Esping-Andersen, 1985), ATP – the earnings related component – was introduced in 1960. Benefits were calculated on the generous basis of the best fifteen years of earnings and, at the point of start-up, the system was fully funded. With the funds devoted to the financing of housing, however, the system quickly became a typical PAYG scheme with the consequence that it became vulnerable to the problems associated with population ageing. Not only did the generosity of pension provision appear to encourage early retirement – by the 1980s 50,000 new cases of early retirement were being granted each year (Stahlberg, 1995: 46) – but projections about the ageing of the baby boom generation suggested that pension payments could not be sustained on the existing DB basis. Low economic growth throughout the early and mid-1990s added to these problems, making it difficult continually to raise employer and employee pension contributions. As discussed in Chapter Five, falling GDP and a rise in unemployment from under 2 per cent in the late 1980s to over 8 per cent in the early-to-mid 1990s encouraged first Bourgeois, then Social Democratic, governments to adjust existing patterns of welfare provision, including old age pensions.

Changes to the Swedish pension system agreed during the 1990s have been substantial. At first-tier level, a new Guaranteed Pension (GP) pays benefits originally provided by the combined basic pension and supplementary pension to those whose eligibility for income related provision is restricted (Eitheim and Kuhnle, 2000). Payment of the full GP is conditional on forty years residence in Sweden, payments being reduced by 1/40 for each year under the stipulated limit. However, this arrangement was considered to discriminate against minority ethnic groups, which had disproportionate numbers of individuals with neither full contribution records from employment, nor sufficient years of residence to trigger sufficient levels of GP. To correct this problem, in 2003 a new payment – the *äldreförsörjningsstöd* (AFS) – became available to all persons over 65 ‘resident in Sweden who have no pension

or such a small pension that they cannot manage their upkeep in any other way' (Timonen, 2003: 5). For others qualifying on the residential criterion, the GP is 'affluence tested' rather than 'means tested' in the strict sense: although earnings related income is taken into account, additional income from private assets or other sources is disregarded.

Outside this reorganization of the basic pension, the core of the reforms relates to the extensive changes made to the earnings related element. The details are complex but essentially the earnings related tier takes the form of a 'notional defined contribution' (NDC) system with contributions based on a 'defined contribution rate' applied to earnings and recorded on individual accounts (Palmer, 2000: 5). Unlike typical DC schemes there is no advance funding, with contributions paid into the system being used to finance *current* pensions on a PAYG basis, which are administered through four independent buffer funds. Nevertheless, the value of an individual's account is a claim on a future pension and in this way pension provision is effectively 'fully funded'. Pension levels are based on total lifetime contributions (as opposed to the best fifteen years income under the old system), with contributions being divided equally between employees and employers, and balances further enhanced by 'interest payments' indexed to wage growth or an 'approximation of the internal rate of return in the system' (Settergren, 2001: 3; see also Myles and Pierson, 2001: 323). These arrangements reduce the salience of the connection between contributions and earnings without actually severing it, meaning that the incentives to seek and maintain employment – the core advantage of DC systems – are retained. Significantly, the fact that, in the new system, employees will be subjected to a payroll tax is expected to 'increase public awareness of the costs of retirement' (Anderson and Meyer, 2004: 152).

Four other features make the system more flexible than its predecessor. First, the NDC system automatically adjusts to financial pressures caused by population ageing because 'for any given amount of accumulated capital, a benefit is less at a given retirement age the greater the length of life expectancy' (Palmer, 2000: 11). With life expectancy projections made available well in advance, the idea is that individuals can adjust decisions about work and retirement to accord with anticipated pension provision. Second, although the earnings-related pension is no longer calculated on the fifteen best years of income, which is likely to disadvantage women, free pension rights have been made available for parents with child care responsibilities, which will mainly benefit women in particular, in addition to others, such as those on disability benefits, who have not accumulated sufficient earnings related entitlements. The system automatically credits 'the parent with the lowest earnings in the year(s) in question' with child-care pension rights, the 'earnings' being calculated according to the most favourable of a range of computations, each targeted to specific types of recipient (Palmer, 2000: 16). Third, the age of retirement has been made more flexible: the basic pension can be claimed at 65 but the earnings-related pension can be claimed at 61 with benefits being adjusted according to the exact age of take-up and becoming more generous towards the new 40-year ceiling.

The fourth point is the most interesting in view of the past universalist and

solidaristic character of the Swedish welfare regime. A compulsory private funded element, or 'pension reserve', has been introduced. Of the 18.5 per cent of gross income paid by the employer and employee as pension contributions, 2.5 per cent will go into one of (now) 650 or so privately managed funds, chosen by the individual concerned. The majority of these funds invest in equities with about 50 per cent investing primarily in overseas equities. So long as they do not opt for the default fund, which is entirely managed by the government for those who do not wish to make active investment choices, individuals are permitted to change funds at any time and do so through the auspices of a public clearing house that acts a 'broker' between individuals and the funds themselves – there is no direct communication between investors and fund managers in the new Swedish system, a feature that, by preventing unnecessary competition for clients, reduces administrative costs.

This private component is at once less and more than it appears. On the one hand, the extent of these arrangements is considerable with 'the number of investment plans vastly exceeding what is available in other countries that have introduced individual accounts or 401 (k) plans' (Sundén, 2004: 3). Investment in the privately managed funds is at the individual's own risk and there are no guarantees on returns. To this extent, free market conditions apply for those not opting for the government's default setting and, indeed, 'most participants have lost money in their accounts because of the fall in the stock market and many are starting to question the reason for managing their own pension fund' (Sundén, 2004: 7) – this feature being largely responsible for the marked decline in those opting actively to manage their individual accounts. On the other hand, the total contributions to these funds are comparatively small in relation to the public NDC element and risks are also offset by other retirement assets such as DC occupational pensions, which provide roughly 10 per cent of retirement income and cover the majority of employees (OECD, 2000b).

With these points in mind, it is clear that pension reform in Sweden has significantly changed previously existing arrangements. In general terms, individuals have to work longer to achieve a full pension, with pension value being contingent on factors such as life expectancy and market performance, which will make individual decisions about retirement considerably more complex. It is not clear that women, particularly those who are single mothers, will fare better under the new arrangements because, since they tend to earn less, they are hit harder both by high progressive taxation whilst in employment and the effects of lower pension contributions once they have retired. On a more positive note, it is generally accepted that the new system will be more equitable among social classes than the old ATP arrangements, which privileged middle-income groups once the system had matured (Gould, 2001: 95–6). With respect to the privately managed element, it seems a little dramatic to argue that it 'represents a shift from public sector to private sector control' (Timonen, 2001: 42) – particularly because a majority of new entrants to the scheme are declining to choose funds for themselves and thus opting for the general pooled fund run by the state (Blackburn, 2003: 258). It is more likely that the majority of Swedes would concur with Kuhnle's general observation (2000: 225) that, 'although the Nordic countries are now more open

to private initiatives in the fields of health services, social care services and social insurance than before ... no political party (and very few voters) favour a deconstructed welfare state', the point being that Swedes themselves do not perceive the changes made so far as likely to do significant damage to universalist principles (see Hajighasemi, 2003).

The one flaw in this judgement is that the market element in the new arrangements could increase over time with the result that the system could gradually become more market-oriented. To be sure, the current situation with individual accounts hardly suggests that Swedes are becoming avid private investors but, even so, Gould (2001: 97) points out that the incidence of personal private pension insurance rose from 5 per cent of employees in 1984 to 25 per cent by 1996 and, equally significant may be the marked rises in the equity portions of Swedish pension funds in 2000–1 (*Investment and Pensions in Europe*, 2003: 33). The 2001 Report of the Third Swedish National Pension Fund (AP3) made it clear, for example, how fund managers have reorganized investments away from the previous reliance on Swedish treasury bonds to 'a global, well-diversified portfolio with a considerably higher proportion of equities than previously' (Third National Pension Fund, 2001: 3). Perceptible changes such as these could result in further adjustments away from the public character of the Swedish pensions system in time to come (Myles and Pierson, 2001; Green-Pedersen and Lindbom, 2002), particularly because it appears that the institutional constraints on any putative move towards the market are now less than they used to be.

This much is evident from the manner in which pension reform in Sweden was achieved. Although, in contrast to the current situation in many continental countries, the process was highly consensual, the role of the trade unions was less prominent than has historically been the case in Sweden and the SAP was plainly prepared to compromise on certain important issues. Anderson and Meyer (2002: 235) note, for instance, that unlike earlier pensions investigations, 'the working group excluded members of the interest groups, such as the trade unions'. Although 'the influence of the SAP in the reform process [was] substantial' (Anderson and Meyer, 2004: 152), these observers state that the Party had to concede, for example, over the switch to the visible individual contributions, something that the unions opposed. Gould (2001: 93) also comments that the Social Democrats 'put the agreement above pressure from their own rank and file', citing the retreat from the desire on the part of both the SAP and the unions to retain PAYG and a greater degree of redistribution as evidence of the left's willingness to compromise. Most telling of all is the fact that Social Democratic agreement was gained for the 'pension reserve', which was a key demand of the bourgeois parties, and strenuously opposed by both the Party membership and the trade unions.

In the event, even though five of the seven Swedish political parties and over 80 per cent of MPs supported the reform, the context of the compromise is important. There was a general recognition that the old arrangements had to be reformed if Sweden was to retain a viable pensions system in a colder economic climate. This near-universal agreement about the need for reform meant that typical path-dependent sticking points such as the need to maintain near-retirees' expectations,

though complex, were not allowed to subvert the reform process. The concern to protect existing entitlements certainly contributed to the shared view that there should be a reasonable transition period before the new system's full introduction (see Palmer, 2000: 18–19) and also, despite some misgivings on the part of the Social Democrats, to the agreement that the public savings (AP-funds) accumulated during the build-up of ATP (i.e. to compensate for the decline of private saving in the wake of the earnings related reform) should be used to ease what could otherwise have been a significant double payment problem. Outside these technical considerations, it is worth noting once again, the fact that the trade unions, though important players, were only able to influence decision making at one remove, their *relative* weakness contributing to the particular character of the new system as finally agreed in 1998.

Taking these points together, it is hard to imagine that Sweden would have embarked on reform at all had it not been for the combination of recession and worrying predictions about population ageing. The deviation from the 'path', though slight as yet, is understandable in view of the fact that more typical reforms – raising contribution levels, taxes and so on – could not realistically be contemplated, particularly from the economic perspective of the early-to-mid 1990s. Whether or not the reformed system will be pushed towards further 'privatization' remains to be seen – but the fact that the main left parties and trade unions do not have quite the influence they enjoyed in the past suggests that such an outcome is at least plausible.

Both this and the preceding chapter have produced sufficient evidence to indicate not only that pension systems in different regimes are changing, but that reforms are reorganizing existing arrangements in ways that, however implicitly, reflect market imperatives. It is important to be clear that these developments do not have to be characterized as a 'race to the bottom'. It should be evident from the case studies that different countries are moving at different speeds, with policies emerging from different contexts in ways that are inevitably affected by 'local' institutional assumptions and embedded practices. In many instances – especially the continental countries considered here, though with the exception of the Netherlands – processes of change have been, and continue to be, extremely sticky. Faced with disruption to deep-rooted expectations about levels of security in old age, and with organized labour in particular fearing the loss of erstwhile influence, it is not surprising that governments of all political persuasions in these countries have had to employ consensual strategies of corporatist bargaining and the 'logic of trade-offs' (Natali and Rhodes, 2004) to achieve change. Elsewhere, in social democratic regimes, the pace of change has been both more decisive and swifter. Social democratic states have embraced reform in ways designed to preserve solidaristic, egalitarian principles even as they become more exposed to the market. However, the key question for these regimes is whether the speed of change can be controlled as the institutional structures on which bargaining and negotiation depend come under increasing pressure. It is when confronting issues of this kind

that the role of GEPs needs to be brought into what otherwise can appear to be essentially 'domestic' problems.

Without wishing to characterize the Anglo-American model and the financial power of the pension funds that embody its core practices as an uncontrollable leviathan, it is important to acknowledge that the model represents a clear challenge to many European welfare regimes confronted by the need to reform their pension systems. While certain countries – Denmark and the Netherlands – with longer histories of private occupational pension arrangements are prepared to see their large pension funds become more deeply engaged in the global financial market and to adjust their systems accordingly, others are more ambivalent. Although governments in Germany, France, or (differently) Sweden, may well perceive the benefits to be derived from reducing the state's commitment for funding security in old age, and while large corporations also see distinct advantages in, *inter alia*, forms of accounting that more accurately depict the relationship between assets and liabilities, and provide wider opportunities for investment and growth, organized labour and those individuals who are retired, or within sight of retirement, are understandably more defensive. It is in the clash between this 'domestic' ambivalence and defensiveness, and the domestic impact of global financial imperatives, permeated of course by a range of contingent factors – unification in Germany, the timing of elections, constitutional norms and so on – that pension reforms need to be understood.

To date, it is not the case that European governments are simply buckling under the weight of Anglo-American financial logic. 'Parametric' reforms – essentially incremental adjustments – continue to dominate actual legislation and of course public first and second tier pensions systems continue to be the core sources of security in old age in the majority of EU countries. Even in the Swedish case, surely the clearest example of systematic change, it is possible to represent the key reforms as an 'adjustment' of existing practices and principles, albeit a radical one. But the argument above suggests that in many instances parametric reforms are being accompanied by others, or ideas for others, which, if fully implemented would be 'paradigmatic' – shifting pensions provision away from established mechanisms and principles. The market orientation inherent in these policies and proposals symbolizes the declining institutional force of organized labour and the solidaristic principles embedded in conceptions of social partnership, which have hitherto characterized social democratic and continental regimes. With pressure for greater penetration of the European pensions market increasing from within and without, it is hard to be sure that these solidaristic alternatives, whether in the form of public PAYG systems or occupational arrangements managed by the social partners, can survive indefinitely.

## 8 Conclusion

### Welfare regimes in a liberalizing world

If there is a single ‘conclusion’ to this book, it is that ‘globalization matters’ – but that the impact of GEPs inevitably differs depending on institutional context. The institutional foundations of the mature welfare regimes are in flux partly because a range of contingent factors – some concentrated in one country, others such as population ageing having a wider impact – have challenged the capacity of postwar welfare systems to deliver the appropriate goods and services to the right populations in a cost-effective manner and this has in turn challenged prevailing assumptions about the role and nature of welfare itself. But these factors have not emerged in an economic and political context where the resources or political will exist to develop new goods and services, and new forms of delivery, by recourse to higher taxation and insurance contributions, and/or an increased role for the state. By themselves contributing to a global economic environment conducive to tighter budgets, GEPs constrain available options by raising the political and economic costs to national governments of pursuing ‘tax and spend’ strategies. In this way they ‘condition’ and ‘frame’ decision-making and policy outcomes within the global-institutional nexus.

This is not to say, however, that the consequences of constraint are necessarily manifested in spending cuts. As Castles (2004: 15) argues,

over nearly two decades, in which the welfare state crisis has been the leitmotif of informed social commentary, and welfare state reform an ostensibly major concern, many Western governments, welfare state structures, and priorities, at least in so far as these may be revealed by spending patterns, have remained much as they were in the early 1980s.

Contemporary welfare state politics, then, are not ‘about’ cuts as such. Indeed, it is possible that welfare systems may actually increase spending in certain areas in response to changes – both high unemployment and population ageing in (slowly) reforming pensions systems can lead to higher spending, for example. Moreover, normal processes of political debate and electoral competition will mean that ‘reforms may incorporate some programmatic expansions in exchange for cutbacks elsewhere, rather than simply dismantling social benefits’ (Pierson, 1998: 557). Nevertheless, the policy changes examined in this book indicate that, however gradually, welfare regimes are adopting policies which contain elements – sometimes



merely traces – of ‘liberalization’ as the power of traditional institutions declines and governments are confronted with the hard-edged logic of GEP-induced constraints. This term does not simply refer to ‘retrenchment’ understood in spending terms so much as to structural changes in the organization of welfare provision which, in one way or other, are loosening existing institutional arrangements

Two matters will be considered by way of conclusion. First it is important briefly to summarize the changes considered in the previous four chapters in order to provide a ‘qualitative snapshot’ of change in the examples studied. Second, in view of the fact that many regimes are ‘recalibrating’ welfare provision in ways conducive to greater liberalization, it is also important to consider what limits there might be to this process. In European welfare regimes in particular, which, after all, are the core foci of potential ‘regime change’, there is every reason to be clear about the potential of newly emerging institutions to contain the ‘liberal turn’.

### **The extensity and limits of neoliberal logic**

The evidence of neoliberal drift discussed in previous chapters is not tantamount to the ‘race to the bottom’ that many observers predicted in the 1990s. Liberal regimes themselves have, not surprisingly, embraced neoliberal logic more swiftly and willingly than have social and continental states, which have approached ‘recalibration’ more cautiously and in different ways. How far these latter countries will travel is unclear, but, in view of GEPs and the distinctly neoliberal trajectory of the EU, in some cases it could be ‘quite far’. It is not possible to ‘measure’ neoliberal advance with any precision, but with key institutional structures weakening and the influence of important collective actors on the wane, much will depend on the ways in which recalibrated social policies in the different regimes either do, or do not, enhance two significant dimensions of liberalization: ‘individualization’ and ‘conditionality’. These features are present in all ‘reorganizing’ welfare systems, but how they are configured indicates the strength of neoliberal drift.

The concept of individualization as this term has been applied to analyses of contemporary post-industrial or ‘post-modern’ societies is by no means restricted to social policy. In Bauman’s (2001: 49–50) ‘individualized society’, for example, ‘the “public” is colonized by the “private”; “public interest” is reduced to curiosity about the private lives of public figures, tapering the art of public life down to a display of private affairs and public confessions of private sentiments’ – and ‘the prospects of the individualized actors being “re-embedded” in the republican body of citizenship are dim’. In more empirical terms, Putnam (2000) charts the decline of ‘social capital’ in the USA, understood as the engagement of individuals in the life of their communities, and the corresponding rise of disengagement and individualization – expressed in the metaphor of ‘bowling alone’. If the main theme is community decline, individualization is an integral part of a process that leads Putnam (2000: 27) to conclude that ‘we have pulled apart from one another’. Beck and Beck-Gernsheim (2003: xxi–xxii) come closer to explicit social policy issues when arguing that individualization is rooted in the growth of an institutionalized



individualism in which ‘central institutions of modern society – basic civil, political and social rights, but also paid employment and the training and mobility necessary for it – are geared to the individual and not to the group’. They go on to state that ‘insofar as basic rights are internalized and everyone wants to or must be economically active to earn their livelihood, the spiral of individualization destroys the given foundations of social existence’. While, on this view, it is possible that the process of individualization might in time lead to the development of an ‘ethic of “altruistic individualism”’, the term nevertheless remains closely connected, as both cause and consequence, to the growing inequalities in post-industrial societies.

Where welfare provision is specifically concerned, Ferge (1997: 23) has referred to ‘the individualization of the social’ as ‘the withdrawal of social commitments and ... by implication ... the rejection of the importance of an integrated society’. For her, this shift is part of a wider transformation from the ‘old paradigm’ of the twentieth century, rooted in ‘the modern “European” social state’, to a new post-industrial, or post-modern, paradigm defined, *inter alia*, by rising inequalities, the rejection of collective responsibility and increased international competitiveness. This understanding very much accords with hyperglobalizers’ views about the likely trajectories of welfare regimes, with the weaknesses that this rather general, one-dimensional perspective entails. Nevertheless, Ferge’s approach usefully describes the features that need to be taken into account when considering the extent of neoliberal drift in contemporary welfare regimes, although it needs to be complemented by a rather different understanding of individualization that has more to do with the ways in which ‘social policy is becoming a branch of the do-it-yourself industry’ (Klein and Millar, 1995: 304). The point here is not to try to decide whether the state or the market is the best vehicle for delivering social policies, but to ask ‘to what extent, and under what conditions, it is desirable to promote individual decision-making in social policy – whether in a State or a market system of welfare production’ (Klein and Millar, 1995: 307). For these observers, the promotion of individual choice and decision making can certainly be desirable where DIY social policy is framed by adequate public regulation in the context of an ‘enabling state’ which attends both to redistributive issues and social investment.

Taken together, these two varieties of individualization can be used to throw light upon the nature of contemporary social policy change in different regime types – but ‘conditionality’ further illuminates matters. Two types of conditionality are relevant here. First, the degree to which policies demand ‘specific performance’ under threat of penalties demonstrates that they are less concerned about citizenship as a social right than about the desire to enforce particular forms of individual compliance. Benefit penalties for refusing offers of employment are a case in point (Dwyer, 2000). Equally, means tests are best understood as a ‘condition’ – in other words, individuals have no right *qua* citizens to social goods and services. Second, conditionality can also be understood rather differently as a ‘technology’ which induces individuals to ‘condition themselves’ – but supported by an enabling state that promotes the DIY welfare policies that make self-conditioning feasible. Certain labour market policies, for example, activate the unemployed in ways that do not simply provide jobs under threat of sanctions but also encourage the unemployed

to regard work and training as a means to a range of opportunities, including higher standards of living, a pension and so on – a life plan in other words. Individual interviews and guidance about job opportunities are an instance of how the unemployed can be trained to self-condition and this process is also evident in certain pensions policies. As previous chapters have shown, with the private/occupational element of pension provision increasing in the majority countries, some states support individuals in their retirement planning by permitting a degree of individual choice in pensions schemes, retirement ages and so on – but in the context of regulation and generous public provision in old age – while others ‘encourage’ individuals to act as responsible private consumers in the pensions market with a minimum of guidance and only modest levels of publicly-funded provision.

In certain circumstances, individualization and conditionality can be advantageous, but as Lewis and Bennett (2004) point out, different policy logics apply in differently institutionalized regimes, the nature of these phenomena varying accordingly. For example, while women may generally benefit from individualizing measures that provide greater access to the labour market and the entitlements – pension rights, sickness benefits and so on – associated with employment, they will benefit even more where these policies are accompanied by publicly provided forms of social care that reduce unpaid domestic obligations. Naturally, neoliberal drift will be more pronounced and rapid where *privatizing* and *marketizing* strategies produce highly individualized and conditional social policies relatively unfettered by concerns about social cohesion or the putative enabling role of the state. Conversely, in those regimes where individualization and conditionality are accompanied by a recognition of market limitations and a continuing commitment to public welfare the pace of liberalization will be slower.

### ***Liberal regimes***

There is a good deal of diversity among the liberal regimes examined in this book, but, because private and market alternatives to state provision have been expanded in each case, interpretations of individualization and conditionality can be extreme. Recent changes to labour market policies in the USA, where an explicit workfare agenda now dominates policy making, are an obvious example. Here the ‘work first’ regime is both robust in terms of the compliance it demands from both men and women as independent labour market actors and uncompromising in the penalties levied either for non-performance or, uniquely, for literally running out of time on benefit. Means testing is rigorous. Even where pensions are concerned, bearing in mind that US retirement provision has a significant social insurance dimension, potential solutions to the forecast overspend on pensions are understood in terms of private individual accounts for the insured and a greater concentration on personal private and occupational schemes – particularly 401 (k) plans. In both cases the turn towards full funding through IAs and occupational DC arrangements places the responsibility for retirement provision and the burden of risk on individual employees. It is hard to see social policy in the USA as anything but highly individualized, on the one hand, and ‘conditional’ in the punitive sense of the term, on

the other. Lacking a developed ‘enabling state’, labour market and pensions policies are not consistently, or coherently, underpinned by training and skills strategies for vulnerable populations, nor does the Federal Supplemental Security Income Program provide a generous ‘citizens’ pension’ for those older people lacking sufficient insurance contributions or other forms of retirement income.

Elsewhere in the liberal universe social policy changes lean towards the US model but with significant variations across countries and policy areas. Where labour markets are concerned, Australia has adopted arrangements that place the responsibility for finding work on individuals themselves, in the context of privately provided and ‘contestable’ employment service, which, through Centrelink, furnishes information about benefits and placements. While the job search regime is stringent, there are certain advantages – the foremost being that, for employment purposes, women are treated as individuals in their own right. This is a substantial change in favour of female independence, although household means tests continue to dictate benefit levels and state provision of care services are modest. The UK has also moved in a similar direction but, as pointed out in Chapter Four, New Labour governments have supplemented earlier Conservative rhetoric about welfare dependency with an economic rhetoric about labour market flexibility and ‘efficiency’, and a European-style discourse of ‘social inclusion’, leaving a real ambiguity in UK labour market policy. Like Australia, though, conditionality is high, with inactivity in both countries not being an option and penalties incurred for failure to comply with job search requirements. Here too, although women have to meet eligibility conditions as individual claimants, levels of support are determined by family means tests (Millar, 2004: 70). Both countries have developed ‘enabling systems’ to facilitate job search and preparation for work, although there is a ‘work first’ edge, particularly in the Australian case.

In relation to pensions, the UK has clearly broken with past traditions of social protection as the value of the state pension declines and a combination of means-tested supplements and private personal and occupational solutions are offered as substitutes for comprehensive public provision. With only minimum support from the means-tested ‘citizen’s pension’, these policies individualize in the sense that people increasingly have to find their own salvation in retirement, the expectation being that individuals will increasingly have to self-fund retirement income by recourse to (frequently DC) occupational schemes or personal private provision. There is little sense of the state playing an enabling role here. Australia, in contrast, by opting for a *mandatory* private/occupational system is in the process of developing a comprehensive system of provision in old age. While these arrangements have certain disadvantages, not least their vulnerability to market movements, the redistributive element in the system, together with union representation on trustee boards mean that there is an element of ‘solidarity’, which is lacking in the UK.

### ***Continental regimes***

Social insurance regimes with embedded systems of industrial relations that privilege union–employer partnerships and ‘wage replacement welfare’ at the

expense of wider citizen-oriented or solidaristic concerns are struggling to come to terms with pressures for change. In the very recent past, many continental regimes have begun to adjust their core social policies in ways that appear to lean towards neoliberal solutions. Faced with the difficulties created by reunification as well as the impact of GEPs, Germany has started to reorganize employment services to reflect demands for greater flexibility and the need to connect unemployed individuals to available work. Private job agencies are emerging, benefit periods are being reduced and penalties for those refusing work being imposed (and, more importantly, enforced). However, while Germany is beginning to move towards a more individualized and conditional approach to labour market policy, there is little indication of enthusiasm for the market as the sole provider of material wellbeing and the new policies that are being introduced are clearly 'enabling' in intent. For example, as Ostner (2004: 52) points out, while women are now treated as (at least) part-time labour market participants, key 'defamilializing' measures such as publicly-funded child and social care support are being increased – the point being that, as increasing numbers of women enter the labour market, various ancillary forms of public provision are regarded as necessary to keep them there. Where other groups are concerned, different measures may apply: younger people, for example, are likely to be more exposed to the rigours of an increasingly flexible labour market in an effort to develop 'constructive' attitudes to employment. The pensions system, too, is beginning to change. Until recently reforms remained firmly in the mould of incremental adjustments to existing social insurance arrangements but efforts to introduce private pension plans in the form of the Riester-Rente scheme may herald a new approach to retirement provision. The scheme itself has yet to take off properly, but the fact that it was introduced at all is an indication of a greater preparedness to supplement the social insurance system with arrangements that, by providing investors with a choice of private schemes, would introduce an individualized and self-conditioning component into the existing system. With financial market reforms also being introduced and German corporations becoming impatient with what they regard as the limiting structures of pension fund co-management, it may be that global economic factors will contribute to the further loosening of German pension provision as trade union power wanes. To date, however, these movements are tentative and any fundamental departure from the social insurance model has yet to take place.

In France, too, there are signs of liberalization but, as yet, few indications of a systematic preference for private alternatives. Where the labour market is concerned, the fragmented social insurance system has been supplemented in recent years by tax financed safety net arrangements for the long-term unemployed combined with activation measures for the young jobless, which exhibit the individualized and conditional features of similar policies elsewhere. Employment services have been enhanced, however, and social inclusion remains a principle that guides policy, albeit increasingly ambiguously. The fact that low-wage employers have been exempted from payroll taxes in an effort to increase flexibility and that wages are low for those – particularly women – entering service sector employment, means that although these changes hardly amount to a transformation

of the French system into a privatized, individualized and conditional welfare regime, traditional solidaristic measures are under increasing pressure with ruling political and economic elites currently seeking further market-oriented reform. Pension reform has been stickier, particularly in the public sector, with changes to the social insurance system being largely restricted to adjustments to contribution periods and retirement ages as trade unions persistently contest attempts to meddle with existing arrangements (and their prominent role in them). It may be that signs of more extensive change are beginning to emerge in the growing interest in individual retirement accounts and other forms of private provision, but France is clearly some way from implementing policies of this highly individualized kind.

Although much has been made of Italy's recent efforts to alter its complex, fractured and inefficient social insurance system, recent developments suggest that governments have largely failed to build on the changes made in the mid-1990s. This verdict contradicts Pierson's (2001a: 451) view that in Italy, 'broad centrist coalitions of varying shades have succeeded in convincing key actors, including voters, of the necessity of reform and have introduced major changes'. The changes made to labour market policies have concentrated on reducing constraints on fixed-term contracts and shifting wage bargaining from national to firm level – with some success – but progress towards activation measures and the improvement of employment services has been slow, with difficult negotiations both between the social partners and within key trade union organizations themselves. The situation is similar with regard to pensions. Improvements anticipated in the wake of the (significant) Dini reforms are being introduced only gradually while contribution levels remain too high, meaning that the system itself will not change noticeably for some years to come. Moreover, attempts by the current Berlusconi government to increase the retirement age are unlikely to succeed, while the intention of transforming TFR funds into second tier private pensions funds for employees is currently being blocked by employers. Italy, then, can hardly be considered as a liberalizing regime – indeed moves towards greater individualization and conditionality in welfare provision remain embryonic and heavily contested. The real issue is whether the neocorporatist arrangements adopted in the later 1990s will yield sufficient change to offset the persistent problems of a poorly integrated welfare system, territorial and labour market segmentation (including marked gender differences), high levels of early retirement, and population ageing in an unforgiving global economic climate.

Turning finally to the Netherlands, there is evidence in Dutch labour market policies of a significant increase in individualization and conditionality (in both senses of the term), which displays clear neoliberal tendencies. Activating strategies come with stringent conditions governing individual job search, while particular segments of the unemployed – young people and single parents, for example – are targeted for specific support and guidance. Moreover, part-time working has been institutionalized more firmly in the Netherlands than elsewhere, with women making up a high percentage of the part-time workforce. Employment services are increasingly privately run and have been made 'contestable', the original role of the social partners, and thus the culture of social solidarity, being correspondingly

reduced. Moreover, there appears to be a ‘work first’ element in Dutch labour market policies, particularly where young people are concerned. But this trend needs to be set in the context of a genuinely ‘enabling state’ that is keen to ensure that comprehensive employment services help individuals towards work, albeit in the context of a flexible labour market. There is perhaps a greater flavour of social solidarity where pensions are concerned. For one thing the citizens’ pension provides generous cover for those lacking complete employment records and, for another, the system of private DB occupational provision is as good as mandatory in view of the high levels of coverage. The corporate and sector-wide occupational schemes are managed by the social partners, with little competition among different sectors, so in many ways these arrangements continue to be organized on solidaristic principles, thus limiting the tendencies in private systems towards individualized approaches to retirement saving. However, recent decisions by the Dutch government indicate a desire to alter pension fund management to accord with Anglo-American financial practices that could undermine the existing model and lead to more ‘marketized’ pensions arrangements, which may, in turn, result in increasingly individualized retirement planning.

### ***Social democratic regimes***

Denmark is a complex and mixed case. Liberalization plainly constitutes a core theme in recent labour market and pensions reforms, but these changes need to be understood against the backdrop of a generous citizens’ state and a culture of social partnership, both of which balance some of the more individualizing elements in recent policy changes. Policies relating to the unemployed have been tightened considerably, for example, with the accent on the individual’s ‘right and duty’ to work or participate in employment schemes – and penalties for those who reject offers of employment or training. Employment protection is low and labour flexibility correspondingly high, which, in the context of a rigorous activation strategy, will enhance a DIY approach to employment. However, these factors must be set in the context of an enabling state, which provides a coherent structure of employment services coordinated mainly by the social partners and municipalities. Retirement provision displays a similar mix of solidaristic and liberal elements. The basic pension is reasonably generous, particularly when supplemented by ATP, but the real change has been the marked shift towards DC occupational pensions for all employed individuals, managed by the social partners. While these can currently be characterized as solidaristic to the extent that the industry-based funds are ‘collectively’ managed, DC arrangements are inherently individualizing and self-conditioning. Finally, the increasing influence of Anglo-American financial practices in the context of the rise of global market interest in retirement provision in Denmark could mean that the current structure of Danish pensions management is likely to come under growing pressure.

As Pierson (2001b) notes, Swedish social policies have aimed at cost containment in the context of the maintenance of a citizen-based, universalist welfare regime. There is much that remains solidaristic within Swedish labour market and pensions

policies, although it would be inaccurate to suggest that ‘individualizing’ and ‘conditioning’ elements are entirely absent. In relation to labour market policies, there has been a tightening of the ‘work line’ and a developing sense of activation as oriented towards employment as opposed to training in recent years, with the ‘activity guarantee’ helping to ensure that claimants cannot remain in receipt of benefits while not engaged in an approved work-related activity. Although there is more in the way of individual guidance and ‘targeting’ the unemployed towards jobs – and also a corresponding stress on conditionality – it is hard to see these shifts as having undermined Sweden’s long history of using labour market policies to maintain employment levels as a core focus of social solidarity. In gender terms, solidarity is expressed through the high degree of ‘participatory parity’ in the labour market, which has seen the gap between men’s and women’s share of entitlements narrowing over time (Hobson, 2004). ‘Individualization’, then, has clearly benefited women, particularly in a policy environment characterized by a strong emphasis on defamilialization. Pensions tell a rather different story. The recent reform is more dramatic than the incremental adjustments made to labour market policies and there is no doubting the fact that Sweden has enhanced the market element in retirement provision both through the creation of the pension reserve and, less directly, through the greater investment in equities by the National Pension Funds. Moreover, changes in eligibility rules for first tier provision may not turn out to be particularly favourable to women (Hobson, 2004: 81). Whether or not these moves lead to a more individualized and conditioned approach to retirement saving remains to be seen as the new reforms become embedded. There is certainly disillusionment among those who initially chose to manage their private plans in the pension reserve, suggesting the private alternatives may not become particularly popular. Furthermore, the citizens’ pension remains generous and the shift to notional defined contribution second-tier arrangements simultaneously privileges solidaristic principles even as it encourages greater individual awareness of retirement planning. With these issues in mind, it is hard to see Sweden moving decisively down the path of liberalization.

### **Tipping points, ‘flexicurity’ and ‘brittle’ recalibration**

‘Reformulating’, ‘recasting’, ‘recalibrating’, ‘adjusting’ – these are the stock terms used to describe how welfare regimes are responding to the challenges examined in this book, the consequence being that regimes are ‘unsettled’, ‘destabilized’ or ‘loosened’. But what images of change do these terms convey? Just as importantly, are these processes of adjustment likely to have an end point? If change itself appears to be endemic as regimes continually confront a variety of pressures and risks in a constrained economic climate, its intensity varies. With respect to the liberal regimes considered here, the evidence suggests, in Paul Pierson’s (2001b: 427) words, that ‘these already highly commodified welfare states have become more so’, with the UK exhibiting the clearest case of extensive institutional change. In view of the weakness of non-market forms of coordination in these regimes, they are likely to embrace further market-oriented welfare reforms as GEPs increase.



Where social and continental regimes in Europe are concerned, the picture is considerably more mixed – and it is with regard to these countries that it is important to probe the nature of ‘recalibration’ or ‘reformulation’ a little further. Meaningful generalizations are difficult to make, but if these welfare systems are ‘unsettled’ in the majority of cases, change appears to take the form of new policy combinations which mix different ‘worlds of welfare’ within each country (Lamping and Rüb, 2004: 169). A key issue is whether these processes of mixing, recalibration and adjustment are likely to continue to a point where the regimes themselves could ultimately ‘tip’ into a different (i.e. neoliberal) type. If the argument of this book is that changes of this kind are unlikely at present, at least in the dramatic sense of across-the-board transformation, it is nevertheless the case that recalibration processes remain far from complete. With persistent pressures on postwar institutional structures in the majority of cases, it is important to consider whether their continuing erosion will mean that processes of neoliberal drift will continue. Commentators who are optimistic about the capacity of existing regimes to contain future drift argue that there are sufficient solidaristic, socially oriented components in newly emerging forms of governance in Europe to preserve the core principles of the European ‘social state’. Institutional developments of key importance are, first, the emergence of new corporatist institutions in certain European states and, second, the development of new methods of policy formulation and coordination in the European Union. Each of these dimensions will be considered here.

Ferrera *et al.* (2001) acknowledge that European welfare regimes face a number of ‘adjustment problems’ (created in their opinion mainly by endogenous challenges). They argue forcefully, however, that the impact of these pressures should not be exaggerated and, importantly, that ‘they do not render different national responses or the search for equitable solutions impossible’ (Ferrera *et al.*, 2001: 155). These observers examine a range of possibilities for welfare state reform in terms of a series of ‘functional, distributive and normative’ recalibrations that are accompanied by associated political-institutional changes (see Ferrera *et al.*, 2001: 158–9 also Ferrera and Hemerijck, 2003). There is a need for a functional adjustment of social policies to take better account of new needs and risks – growing child poverty and new forms of social exclusion, for example, in addition to those examined here – while recognizing that others associated with welfare provision in the postwar period have diminished substantially. Distributive adjustments need to take account of new inequalities – of employment, certainly, but also of gender and ethnicity – the effects of which were neither recognized, nor understood, by traditional welfare regimes. Changes in these areas are likely to have implications for the normative dimension of welfare – the moral role and purpose of welfare systems. Here a Rawlsian approach is adopted with Ferrera *et al.* (2001: 159) arguing that welfare states of all kinds need to place ‘more emphasis within their normative framework on dynamic equality, being primarily attentive to the worst off, more hospitable to incentive-generating differentiation and flexibility, and actively vigilant with regard to the “openness” of the opportunity structure’ – this latter point concerning the need to enhance educational and training opportunities and ensure that these can lead to genuine social mobility.



To move towards these new parameters of welfare in policy terms demands different policy mixes capable of bridging a range of needs, risks and demands that have in the past been regarded as incommensurable. Thus efficiency *and* equality, growth *and* redistribution as well as competitiveness *and* solidarity need to be the focus of new welfare measures according to Ferrera *et al.* (2001: 159). To these ends, fiscal constraints, wage moderation and flexibility of employment together with suitable social protection for those with non-standard employment trajectories, and greater investment in education and training – the kinds of policies now being instituted in the majority of European regimes – are held to be the best means of ensuring security and inclusion while maintaining economic stability. Incremental adjustment is considered to be the optimum method of introducing policies of this kind because it permits the dialogic, negotiated and consensual approaches to change associated with social partnership, and is argued to be preferable to Westminster-style, liberal models, which are associated with more radical and exaggerated changes of direction. Recent politico-institutional innovations, in Europe at least, that involve new methods of concertation within nation-states and the development of forms of multi-level governance at EU level are considered to complement this dialogic perspective – but will they prove able to moderate neoliberal drift?

According to Ferrera *et al.* (2001: 163) ‘social pacts’ constitute an emerging form of neocorporatism, usually developing from the efforts of the central state to create consensus among the social partners, that produce different forms of ‘concertation’ and thus different approaches to industrial relations compared with traditional corporatist arrangements. For example, the new forms of ‘flexicurity’ in Denmark and the Netherlands are closely associated with the appreciation by the state and social partners alike of the centrality of part-time working and female employment, and the need to tailor wage policies, working conditions and so on to the needs of a rapidly changing labour market, as well as changing perceptions of family life and the work–life balance. Social pacts have developed in other European countries such as Portugal, Ireland and Spain, Martin Rhodes (1998, 2001) arguing that they introduce a new ‘competitive corporatism’ into the European industrial sphere which fosters greater economic stability and faster growth without entirely compromising egalitarian goals. As Rhodes (2001: 180) contends, ‘all of the social pacts that have emerged since the mid-1980s seek to combine wage moderation, the quest for lower social charges and greater flexibility of work conditions [and] ... to this extent all the pacts contain both distributive and productivity-linked innovations’. Of significance, of course, is the implicit recognition of the need to move beyond forms of industrial relations in which relations between the social partners were becoming increasingly ‘oppositional’ – Denmark and the Netherlands again exemplifying this trend.

In the European arena, the emergence of these competitive corporatist institutions has been accompanied by other institutional changes that are held to facilitate the development of new distributional and productivity coalitions at supranational level. According to Hemerijck and others, the move towards EMU has a number of significant implications in this regard. Hemerijck (2002: 190)

recognizes that EMU has produced clear economic constraints that mean that '(Keynesian) macroeconomic policy measures can no longer shield other areas of social policy and economic regulation from the need to adjust to international competition'. Low inflation policies have positively affected wage behaviour as well as facilitating deficit reduction, while greater macroeconomic stability has encouraged lower interest rates and thus proved beneficial for investment. Overall, Hemerijck is clear that 'looking back over the 1990s, we can only conclude that the introduction of EMU has been an immense success'.

This shift towards tighter management of the European economies has undoubtedly altered attitudes to welfare provision. Apart from contributing to the kinds of policy changes relating to labour market policies and pensions discussed in this volume, it is also suggested that EMU has made member states more amenable both to participating in efforts to develop Union-wide structures of coordination and to adhering – at least in principle – to the agreements about monitoring and benchmarking arrived at. Integration at this level has been complemented more recently by the emergence of different coordinating mechanisms that offer the prospect of greater policy integration from the 'bottom up'. One example here is the 'open method of coordination' (OMC), initially established at the EU Lisbon Summit in March 2000. With complaints about the top-down 'Community method' of policy making in Europe mounting in the later 1990s, the OMC has come to be regarded in some quarters as an alternative method of 'spreading best practice and of achieving thereby greater convergence' (de la Porte *et al.*, 2001: 293). It is meant to do this via a number of agreed guidelines and benchmarks designed to establish the EU as a competitive and dynamic knowledge-based economy aiming at achieving 'sustainable economic growth with more and better jobs and greater social cohesion' (Presidency Conclusion, Lisbon European Council, quoted in Chalmers and Lodge, 2003: 3). Unlike the centralized, hierarchical approach to European governance of earlier periods, the objective is to develop 'new styles of Union-member state relations [that are] forged around the diffusion of a variety of transnational norms ... supposedly leading to national adaptation' (Chalmers and Lodge, 2003: 2). The EES, which, though pre-dating OMC, has nevertheless come to be regarded as a particular instance of it, constitutes one example of this attempt to establish such norms. This is a "soft law" governance mechanism', according to Trubeck and Mosher (2003: 39) and, as intimated in Chapter Four, it is essentially an iterative process, the idea being that, in time, key objectives will gradually harmonize across member states. Although the EES has no formal sanctioning powers, the European Council can make recommendations about policy revision and, judging by the responses to the Strategy from many member states, some of the key objectives of the EES are being taken seriously. For example, as Chapter Five noted, many of the country responses recognize the significance of 'activation', while also recognizing that flexibility needs to be increased and that women need to be properly incorporated into national labour markets. More specifically, certain countries (France to name one) have acknowledged the beneficial effect of the EES on their employment policies and, in the French case, have identified specific benefits of 'policy learning' from other

countries' programmes (Trubeck and Mosher, 2003: 44). Moreover, 'cognitive harmonization' – 'the shaping and reshaping of perceptions of attitudes towards social problems and the way to tackle them' (Radaelli in Guillén and Palier, 2004: 204) – also constitutes a potentially important initiating point of coordination.

Taking account of the above, can it be said that new institutional forms like competitive corporatism and – differently – the OMC are capable of 'bounding' the processes of recalibration noted in previous chapters? While it is likely that they can slow the pace of change, it is by no means certain that they are capable of altering the neoliberal flavour of prevailing policy mixes. Taking competitive corporatism first, it is not coincidental that social pacts tend to characterize bargaining arrangements where the power of capital is in the ascendant and organized labour either historically weak or in contemporary decline – the argument being that the accent in '*competitive* corporatism' is on the former rather than the latter word and that, as an institutional form, arrangements will not be sufficiently robust to prevent further shifts towards liberal social policies in such an economic environment, however 'negotiated' these may appear to be. In this respect, Denmark and the Netherlands are particularly apposite: economic constraints and weakening labour movements in the 1980s saw the development of competitive corporatist forms of social partnership, with both countries subsequently adopting market-oriented initiatives in the areas of labour market policy and pensions. Certainly the Dutch case has been described as one of 'corporatism *and* the market' rather than one of corporatism *against* the market (Visser quoted in Rhodes, 2001: 183). While it would be inaccurate to characterize the changes made by these countries since 1980 as transformative, or organized labour as excessively weak, the issue is how well competitive corporatist arrangements will deal with growing economic pressures. Recent evidence from the Netherlands suggests that, with employers demanding greater flexibility over wages at the level of the individual firm, 'sector-wide agreements are beginning to fragment [and] ... the ability of unions to exert control in the system is being diminished' (Rhodes, 2003: 138). If the unions were to retreat to their central roles of pay bargaining and defending members' interests, leaving 'broader distributive policies to the state' (Rhodes, 2003: 138), further neoliberal welfare adjustment would be likely.

Of course, other European countries with mature welfare systems have not developed competitive corporatist arrangements and it is important briefly to consider their position in relation to neoliberal drift. Both Germany and France, in different ways, have entrenched forms of bargaining, which have proved to be more institutionally sticky than the above examples. Recalibration processes in these cases are consequently complex, disorganized and 'brittle' as governments of all ideological persuasions struggle to contain social costs through ad hoc bargaining and (occasionally) pre-emptive policy initiatives in an unsettled institutional environment in which organized labour, in addition to significant numbers of the population, continues to be hostile to welfare reform. In the absence of agreed competitive corporatist arrangements, policy shifts, though gradual, do not emanate from a broad consensus about the need for reform as this has developed in both

Denmark and the Netherlands (see Cox, 2001), but from a protracted process during which trade-offs and compromises are negotiated on a case-by-case basis. There is a lack of consistency and stability in arrangements of this kind, and it is not surprising that French and German policy mixes display signs of ‘uneven development’, with market-friendly policies appearing in some policy areas (or sub-areas), while more cautious adjustments maintain established forms of provision elsewhere.

If neither social pacts nor existing forms of corporatism can establish clear limits to recalibration, can supranational ‘coordination’ offer a means of limiting neoliberal drift? Evidence relating to the OMC is not promising. There are two aspects to this issue. First, a brief look at the EES suggests that this form of policy making may not be as influential as recent upbeat evaluations make out (see CEC, 2002d). To be sure, some observers comment favourably on the fact that the EES is evolving into a genuine example of multi-level governance built on assumptions about the primacy of national interests (see Goetschy, 2001). More generally, Teague (2001) believes that these developing ‘deliberative’ methods of coordination will become progressively more effective over time, resulting in an increasing degree of policy learning, ‘best practice’ in the EES spreading to other policy areas. However, as Goetschy (2003: 70) points out, the architecture of the EES is designed, above all, to favour *national* diversity with overall objectives set at European level but implementation being left to member states. Whether national diversity can really be combined with EU objectives as these are formulated through this permanent ‘deliberative process of becoming’ is doubtful. There is the awkward question, for instance, as to why, in view of the ‘substantial evidence of turf-fights and non-learning in national government ... there should be grounds for so much optimism about “learning” and “preference adjustment” when it comes to the level of the European Union’ (Chalmers and Lodge, 2003: 18). Moreover, as mentioned, not only did the EES precede the OMC, but even before the EES’s inception, many member states had already adopted key policies that were subsequently included in the guidelines. As Taylor-Gooby (2005: 45) states,

while policies which promote activation, reform tax to reduce labour costs, advance equal opportunities, expand child-care and [encourage] the availability of more flexible jobs can be identified in EU Member countries, it is hard to establish how far these developments are the outcome of EU-level activity or of more far-reaching and simultaneous social and economic changes.

Second – and ironically – although it appears that the OMC may not be particularly influential as a vehicle for European integration, in so far as it *is* playing a role, ‘competitiveness’ is favoured over the social dimension. As Radaelli (2003: 28) argues,

Although at the general level the recalibration of the welfare state and the challenge of competitiveness are not mutually exclusive ... empirical evidence

from employment policy, social policy, pensions and taxation points to conflicts between those organizations and policy-makers that put a premium on competitiveness and those who make ‘social Europe’ their ultimate goals.

Radaelli (2003: 29) goes on to observe that, ‘if and when there is a tension between competitiveness and “social Europe”, the task is easier for those pushing for competitiveness’. It is not surprising, then, that the competitive elements of the OMC, such as the Broad Guidelines on Economic Policies (BGEP), are better developed than other components, stemming, as they do, from the budget-constraining logic of the Maastricht Treaty and the relative failure of attempts in the 1990s to develop an integrated approach to social policy at EU-level (Chalmers and Lodge, 2003: 8; Taylor-Gooby, 2005: 44).

In this vein, it is worth pointing out briefly that the recent enlargement of the EU, taking in ten new countries, eight of which are from the old Communist bloc, is likely to compound its competitive rather than its social character. As Ferge and Juhász (2004: 234) remark, the bulk of economic and social policy in the countries of Central and Eastern Europe pre-accession was shaped by the World Bank and the IMF – the main elements being

the strengthening of individual responsibility and the weakening of public responsibility in social matters; the promotion of privatization and marketization in all spheres...the scaling-down of social insurance to strengthen private insurance and to decrease public spending; and the abolition of universal benefits as wasteful.

Where Hungary is concerned, for instance, although the distinctly ‘European’ issues of poverty and social exclusion were placed on the political agenda after 2000, the Regular Reports relating to Hungary’s accession did not dwell on these topics, dealing instead with how to ensure ‘economic growth and financial stability [through] budget stringency, including suggestions to reduce the level of social protection’ (Ferge and Juhász, 2004: 248). With competitiveness already embedded in social policy debates at the European level, the similar emphasis in relation to enlargement does not suggest that a new ‘social’ dynamic will be injected into OMC processes. Far from it, as Ferge and Juhász, and others, argue. Lendvai (2004: 322), for example, notes that ‘among scholars there seems to be quite a distinct consensus that the social imperatives of the accession process have been and continue to be rather weak’.

Of course, the apparent lack of attention to social policy issues at the accession stage will not necessarily prevent subsequent social policy learning and ‘cognitive harmonization’ among Member States old and new – indeed there is some evidence that the OMC can operate effectively in this way. However, even here, in view of the prevailing attachment to competitiveness, it is important to be clear about what is likely to be learned. As Guillén and Palier (2004: 206) observe, contemporary European social policy ‘is not today what it was when previous accessions took place and poses many more challenges to incoming countries’ – one of which is

the noticeably greater orientation towards neoliberalism. These observers agree with Radaelli's conviction that there is a basic conflict between 'economically oriented' and 'socially oriented' actors, but in a context in which the European social model 'has changed and become closer to neo-liberal ideas'.

### **Indeterminate drift and the 'process' of welfare**

The above suggests that currently emerging institutional structures within the EU are unlikely to be able to contain the element of neoliberal drift, which is such a feature of the various recalibration processes that are taking place in Member States. With liberal regimes elsewhere embracing liberalization more enthusiastically and their model of capitalism apparently in the ascendant, what is there to prevent 'drift' descending into a 'race'? A simple answer is that because the nature of the global-institutional nexus differs in the case of each regime it is unlikely that regimes themselves will entirely lose their character. In short, while its policy mix can be expected to change, Sweden will never become the USA! So, however much intra-regime policy changes appear to indicate a turn towards market solutions, institutional starting-points continue to be influential, despite the undoubted corrosion of key institutions themselves.

This answer is not entirely compelling, however, because, as argued in the course of this book, there is plenty of evidence to indicate that traditional welfare institutions are weakening, leaving 'their' regimes increasingly vulnerable to liberalization. A more complex – and paradoxical – approach would argue that, as this process continues, neoliberal drift, with its accompanying features of individualization and conditionality, offers new opportunities for social policy even as it constrains others, leading to different, more fragmented, understandings of welfare in the process. Viewed in this way, the notion of a 'race to the bottom' misses the point – and the notion of 'drift' itself, as the term suggests, has a certain indeterminacy. Liberalizing moves at welfare regime level which culminate in recalibrated *policies*, also recalibrate *conceptions* of the role and nature of welfare itself, as different interests, old and new, are affected by the changes. There is no reason to suggest, however, that newly emerging interests will demand further doses of liberalization, or that governments themselves will risk electoral defeat by 'pushing too far'. In this way, while liberalization can be 'accommodated' it cannot be heedlessly extended. Taking the changing role of women as an example of a rapidly emerging 'new interest', while women can benefit from greater labour market flexibility because it can enhance employment opportunities and, in some regimes at least, is accompanied by social entitlements, there is no reason to suppose that this form of individualization will culminate in demands for evermore flexible labour markets. Instead, as women come to play a more powerful (and empowering) role as paid workers, they are more likely to use their position to support core gains, contest adverse policy outcomes (the high incidence of part-time work and low wages could be issues here) and, as the process further unfolds, to reshape perceptions of welfare and employment in particular, defamilialized, ways. This is an emergent new welfare politics, not a race to the bottom.

The main difficulty with arguments of this kind – that new interests can contribute to nationally focused recalibrations of welfare from ‘below’ – concerns whether such interests can become sufficiently well institutionalized to enable them to exploit potential sources of empowerment and participate fully in processes of social bargaining. Although there can be no guarantees of effective institutionalization in such a rapidly changing policy environment, there are nevertheless some grounds for optimism here. In socio-economic and political environments where state policy capacity is increasingly ‘negotiated’, ‘relational’ and “‘hard-wired” into the very constitution of multiple and fragmented arenas of governance’ (Jayasuriya, 2004: 498) new groups may be able to forge negotiating space either alongside, or even from within, traditionally ‘incorporated’ bodies that can no longer ‘manage’ welfare change alone. Women’s and pensioners’ lobbies are surely cases in point. In doing so, they may, of course, support or contest, enhance or reduce neoliberal drift – or each of these possibilities at different times, depending on the areas and policy issues involved. In each case, their impact will depend on how contingencies and risks are configured in the context of the framing power of GEPs and the persistence, or otherwise, of regime characteristics. But the point lies in the potential of these and other new interests to become embedded in complex, non-linear and evolving sets of *processes*. For, increasingly, it is ‘process’ – the persistent negotiation and management of policy formulation and implementation among constantly changing communities of welfare at various levels of governance – that will determine welfare outcomes. In such a context it is not only particular policies and aspects of welfare provision that are consistently debated and contested, but the very nature of welfare itself.



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# **The Welfare State: a general theory**

**Paul Spicker**

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## AUTHOR'S NOTE, 2015

*The welfare state: a general theory* was first published by Sage in 2000. Sage have agreed that the rights should revert to me, and I am making it freely available on the internet.

Theory dates slowly, and I have not felt the need significantly to update what I wrote here, but in my later writing I have gone beyond some of the arguments raised here - particularly in relation to the final sections. In *Liberty, Equality, Fraternity* (2006) I looked at the arguments about principles in much greater depth, and *Reclaiming individualism* (Policy Press, 2013) makes a liberal case for expanding the role of government. I have made some alterations, but those are more about presentation than about content. The rather unusual format makes some demands of the typography - I had explained to the publishers that the book needed nine different layouts for headings. I have cut out some figures and tables, which don't really display well in e-books, and have concentrated instead on making sure that the book will still make sense if someone tries to read it on an e-reader.

The book had mixed reviews when it came out. Colin Clark wrote in the *British Journal of Social Work*:

“This is an audacious book ... The attempt to lay out of the propositions of welfare in their barest form, and demonstrate their relations, is novel and challenging. It is the kind of book we may value as much for the disagreements it provokes as the answers it offers.”

Others disliked the unconventional approach. It's true that the effect of opening arguments with propositions - something I'd adapted from writers in philosophy - had a major effect on the style of the argument.

Although I've largely left the text alone, I should say something about the evidence for the argument, which certainly has moved on. When I wrote this book, over fifteen years ago, much of what was happening in the world seemed to suggest I was running against the tide. People were writing about the crisis of welfare states; international organisations were still heavily committed to 'structural adjustment', expanding the private sector and cutting public policy down to size. If the argument in this book was right, that should not have been what was happening. I was making a case that welfare did not begin with the state, but that states had become increasingly committed to welfare, that welfare provision was becoming more generalised, and that once they had started on the road they found the pressures to do more hard to resist. It seems to me that this argument has been borne out very strongly in the intervening years. In the 1990s, some governments in developing countries had started to introduce Essential Health Care Packages; several had developed major schemes for universal primary education; others had started to develop systems of social assistance, which have taken root in the form of 'conditional cash transfers'. It has been called a 'quiet revolution'. In a field where most works focus on the differences between welfare states rather than their similarities, no-one has challenged me on the basic propositions.

Paul Spicker

# METHOD

This book is a study in Social Policy, an academic subject concerned with the application of the social sciences to the study of social welfare. Social Policy does not have a distinctive disciplinary approach. The material which is used in this study is drawn from a number of sources, principally sociology, philosophy, politics and economics; at other times, there are references to material from history, psychology, anthropology and law.

The argument develops a general theory of the welfare state. What is meant by a 'welfare state' will be explained in the course of the argument, but it is also important to explain what a 'general theory' is, and so what kind of book this is.

## Theory in social science

Theory in social science begins with the process of describing empirical material, by disentangling facts from each other, and laying out a framework through which it can subsequently be analysed and understood. Scientific knowledge generally needs much more than description to flourish, but description comes first: biology has its taxonomies, carefully describing the classes of species, and social science has its descriptive systems, which help to explain what is happening and why it matters. The best known schemes for describing welfare states are probably those introduced by Richard Titmuss<sup>1</sup> and Gøsta Esping-Andersen<sup>2</sup>. These models have important deficiencies<sup>3</sup>, and the kinds of generalisation they make are difficult to relate to welfare states in practice<sup>4</sup>. This book is concerned with a different type of description, and it takes a different approach.

The method of the book depends on a closely structured, and sometimes formal, reasoning. Formal reasoning in social science has largely been confined to economic theory, though there is also a specialised literature within sociology.<sup>5</sup> Economic analysis, and particularly welfare economics, is largely based in a formalistic argument which describes the implications of certain types of action, rather than the question of whether people really behave in that way. If certain conditions obtain, the argument runs, then, other things being equal, certain consequences will follow. This kind of reasoning has been applied at several points in the argument of this book. For example, comparative advantage - the idea that people can produce more through specialisation and exchange than they can

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<sup>1</sup> R Titmuss, 1974, *Social policy: an introduction*, London: Allen and Unwin.

<sup>2</sup> G Esping-Andersen, 1990, *The Three Worlds of Welfare Capitalism*, Brighton: Polity.

<sup>3</sup> P Spicker, 1996, Normative comparisons of social security systems, in L Hantrais, S Mangan (eds) *Cross-national research methods in the social sciences*, London: Pinter, pp.66-75.

<sup>4</sup> D Mabbett, H Bolderson, 1999, Theories and methods in comparative social policy, in J Clasen (ed) *Comparative social policy: concepts, theories and methods*, Oxford: Blackwell.

<sup>5</sup> R Boudon, 1974, *The logic of sociological explanations*, Harmondsworth: Penguin Education.

individually - is not a hypothesis; it can be demonstrated arithmetically or geometrically.<sup>6</sup> The proof is not falsifiable, any more than the statement that “ $2 + 2 = 4$ ” is falsifiable. References to the evidence serve, not to prove or disprove the theory, but to ground it - to show whether such conditions do, in fact, apply. This is the pattern of much of the argument of the book. The method is strongly associated with analytical theory, but this book is not simply an exercise in abstract reasoning. The formal arguments are related to the available evidence. This is not an argument *a priori*; it is grounded theory.

Grounded theory is not the same thing as scientific deduction. Part of the received wisdom of social science is that a scientific theory should be empirically testable, and so that it must be falsifiable.<sup>7</sup> This is right, but it is only half-right. In natural science, there is a place for classificatory systems, and for formal reasoning. (Karl Popper, the principal exponent of the test of falsifiability, accepted that it did not apply to every form of scientific activity<sup>8</sup>.) The same applies to social science. Blaug, writing about economic theory, points to the difficulty of distinguishing testable propositions from abstract principles which correspond to practice, and the problem of proof when so much of social science is based in probabilities rather than certainties. He argues:

“A 'theory' is not to be condemned merely because it is as yet untestable, nor even if it is so framed as to preclude testing, provided it draws attention to a significant problem and provides a framework for its discussion from which a testable implication may some day emerge.”<sup>9</sup>

Dahrendorf, from the perspective of sociology, proposes a test: that there has to be at least some puzzle, a 'riddle of experience', which needs to be solved.<sup>10</sup> This book addresses several riddles of this kind. The questions which it is trying to answer are: What is a welfare state? Why have welfare states developed? What can they be expected to do?

There is plenty of evidence available about welfare states; the problem is to interpret it. There is a wide range of historical interpretations of the development of the welfare states. For present purposes, they can largely be represented in terms of two very different, competing approaches. One set of historical explanations locates welfare primarily in the development of public provision, the dominance of legal measures and political decisions, citizenship and the growth of state responsibility.<sup>11</sup> Another sees the state as only a part of much more broadly based social processes: the development of welfare is described in terms of the collective action, the extension of mutualism and the

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<sup>6</sup> See e.g. M Parkin, M Powell, K Matthews, 1997, *Economics* (3rd edition), Harlow, Essex: Addison-Wesley, pp 55-59.

<sup>7</sup> K Popper, 1968, *The Logic of Scientific Discovery*, London: Hutchinson.

<sup>8</sup> Popper, interviewed in J Horgan, 1996, *The end of science*, Boston: Little, Brown, pp.38-39.

<sup>9</sup> M Blaug, 1968, *Economic theory in retrospect*, London: Heinemann, p.673.

<sup>10</sup> R Dahrendorf, 1968, *Out of utopia: toward a reorientation of sociological analysis*, in L Coser, B Rosenberg (eds) *Sociological theory*, New York: Macmillan, 1976.

<sup>11</sup> e.g. M Bruce, 1968, *The coming of the welfare state*, London: Batsford; D Fraser, 1973, *The evolution of the British Welfare State*, London: Macmillan; W Trattner, 1984, *From Poor Law to Welfare State*, New York: Free Press; P Flora, A Heidenheimer, 1981, *The welfare state in comparative perspective*, New York: Basic Books; D Ashford, 1986, *The emergence of the welfare states*, Oxford: Blackwell.

growth of solidarity<sup>12</sup>. The dominant theoretical models of the welfare state have drawn mainly on the first branch; they begin with the state. This book, by contrast, begins with society; the state does not appear until the third part. Unlike many socially based accounts<sup>13</sup>, the stress in the analysis of relationships falls on social relationships and responsibilities, rather than the logic of industrialism or the development of labour movements. The welfare state is placed in a social context, and the book maps it in relation to its different elements.

In the study of social policy, theory has a further purpose, which is the analysis of normative elements. Normative theory is sometimes seen as idealistic; David Hume established the central principle that it is not possible to go from the way things ought to be to understand the way they are.<sup>14</sup> Social science differs here from moral philosophy, because - as Hume himself recognised<sup>15</sup> - the social construction of norms, what people believe to be right, depends on what actually happens. The study of these issues in social policy is not, and cannot be, value-neutral. It is possible to examine policies in a neutral fashion, seeing whether they achieve their stated ends, but the study of social policy has to consider whether the ends are appropriate as well as whether they are achieved. This offers a basis for evaluation, and criteria by which the welfare state can be assessed.

## **A general theory**

A general theory is not a theory of everything. The theory in this book is general in the sense that it is intended to offer insights which are generally applicable. The focus falls principally on economically developed countries, because that is where the welfare states have mainly arisen, though, as explained in the course of the text, the arguments are not strictly confined to developed countries. It is not possible to argue that the argument extends to every form of society, but the book is not about Britain, or the US, or the European Union, or South East Asia, or any other particular welfare state.

The welfare states are diverse and complex, and attention has mainly been focused on the differences between them, rather than their similarities. Gøsta Esping-Andersen's classification of welfare state régimes is based on an analysis of variations. Researchers who have tried to apply Esping-Andersen's research closely to practice have found it is

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<sup>12</sup> P Baldwin, 1990, *The politics of social solidarity*, Cambridge: Cambridge University Press.; H E Raynes, 1960, *Social security in Britain*, London: Pitman; D Green, 1993, *Reinventing civil society*, London: Institute for Economic Affairs; F Chatagner, 1993, *La protection sociale*, Le Monde Editions, ch. 1; J-J Dupeyroux, 1998, *Droit de la sécurité sociale*, Paris: Dalloz.

<sup>13</sup> e.g. G Rimlinger, 1971, *Welfare policy and industrialisation in Europe, America and Russia*, New York: John Wiley; J Saville, 1975, *The welfare state: an historical approach*, in E Butterworth, R Holman (eds) *Social welfare in modern Britain*, Glasgow: Fontana.

<sup>14</sup> D Hume, 1751, *An enquiry concerning the principles of morals*, Oxford: Oxford University Press, 1998.

<sup>15</sup> D Hume, 1748, *Of the original contract*, in E Barker (ed) 1971, *Social contract*, Oxford: Oxford University Press.

almost impossible to tie in the specifics with the broad models.<sup>16</sup> “The devil is in the detail”, Ditch comments. The root of the problem is that Esping-Andersen is concerned with variation - the things that make welfare states different - and there are more grounds for variation than he can encompass sensibly in a limited typology.

Political and historical accounts of welfare tend to emphasise the disparate, idiosyncratic character of welfare systems. Social explanations - which, Baldwin notes, have taken a beating in recent years<sup>17</sup> - point to common issues and pressures. It is quite possible to argue on the evidence that welfare states have nothing in common; they may have a family resemblance, but the variation between them is so great that no generalisation can be made. That position is tenable across a wide range of the activity of welfare states, and for many areas of social policy it is so obviously true that it is difficult to argue against it. This leaves us, however, a central puzzle, because welfare states do still have something in common: they are characterised by collective action for social protection. It is not the differences between welfare states which present a problem to be explained; it is the similarities. (To that extent, this book shares its agenda with de Swaan's historical overview, *In the care of the state*.<sup>18</sup> However, its approach, and its argument, are very different.) A theory which can explain these similarities has to be general.

At this level, the theory cannot be concerned with many specific problems (like, say, mechanisms for delivering benefits, or for user involvement) which an analysis of welfare might reasonably refer to. More fundamentally, some important issues - like labour movements, gender, or political bargaining - receive only a limited emphasis, because they help to explain variations in welfare states, rather than common factors. Because the argument of the book excludes specific points and issues, it describes only a small part of the whole. But that part provides an explanation of the relationships between a range of disparate issues, and a framework within which other issues can be considered.

The general theory in this book is one of several. Marxism, functionalism and feminism, amongst other schools of thought, have offered general arguments applied across a range of welfare states.<sup>19</sup> Conventionally, arguments are tested by being subjected to opposing points of view, and there is often an advantage in anticipating criticism; certainly some readers will pre-judge the argument, on the basis of views they have long held. However, this book does not review different schools of thought. The views of neo-liberals or marxists depend on an elaborately developed understanding of society, and I have not considered them in any depth here; I have referred to them when they are relevant. Although the process of criticising such work has been important in the development of my own thinking, the argument of the book has not been constructed from the ruins of other theories. It begins from a completely different set of premises from most other books about

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<sup>16</sup> H Bolderson, D Mabbett, 1999, *Theories and methods*, and J Ditch, 1999, *Full circle: a second coming for social assistance?*, both in J Clasen (ed) *Comparative social policy*, Oxford: Blackwell.

<sup>17</sup> Baldwin, 1990, p 288.

<sup>18</sup> A de Swaan, 1988, *In the care of the state*, Cambridge: Polity.

<sup>19</sup> See e.g. R Mishra, 1981, *Society and social policy*, Basingstoke: Macmillan; V George, P Wilding, 1994, *Welfare and ideology*, Hemel Hempstead: Harvester Wheatsheaf; M Mullard, P Spicker, 1998, *Social policy in a changing society*, London: Routledge.



welfare; there is no obvious way to go from there to here. For the most part the book makes its own case, in its own way.

## **The structure of the book**

The book consists of a set of hierarchically ordered propositions. The argument is built on three basic propositions. They are not self-evident; each is discussed and explained in the course of the argument.

*I. People live in society, and have obligations to each other.*

*II. Welfare is obtained and maintained through social action.*

*III. The welfare state is a means of promoting and maintaining welfare in society.*

Each of these statements is developed through a series of sub-propositions.

*I. People live in society, and have obligations to each other.*

I.1 People live in society.

I.2 Social relationships are patterned and structured.

I.3 Within social networks, people have obligations to help each other.

I.4 People and communities have to act morally.

*II. Welfare is obtained and maintained through social action.*

II.1 People have needs, which require a social response.

II.2 People have economic and social rights.

II.3 Social protection is necessary to secure welfare.

II.4 Welfare implies redistribution.

*III. The welfare state is a means of promoting and maintaining welfare in society.*

III.1 “Government is a contrivance of human wisdom to provide for human wants.”

III.2 The welfare states provide social protection.

III.3 Welfare is promoted and maintained through social policy.

III.4 The welfare states have a wide range of options through which social policies can be pursued, but they can be assessed by common criteria.

These second-level propositions are explored in a further series of propositions, and the third level is considered in turn at a fourth level. They are not substantively different kinds of statements - the 'levels' or tiers simply reflect the structure of the argument. The propositions are numbered according to their position in the hierarchy, so that:

I	is a first-level proposition;
I.1	is second level;
I.1.a	is third level;
I.1.a.i	is fourth level; and
I.1.a.i.(1)	is fifth level.

The full set of propositions is listed in a summary at the end of the book.

## **PART I: PEOPLE AND SOCIETY**

**I. People live in society and have obligations to each other.**

## **I.1 THE PERSON**

### **I.1. People live in society**

*I.1.a. People live with other people.*

I.1.a.i. People in society are interdependent

I.1.a.ii. Social interaction follows common patterns.

*I.1.a.iii. People are defined by their social relationships.*

I.1.a.iv. The personal is the social.

I.1.a.iv.(1) Personal differences are largely not explicable in terms of biology.

I.1.a.v. The 'individual' is a myth.

*I.1.b. Social relationships generate obligations between people.*

I.1.b.i. Interdependence implies reciprocity.

I.1.b.ii. Each person must have regard to others.

I.1.b.ii.(1) If I am not for myself, who will be for me?

I.1.b.ii.(2) If I am only for myself, what am I?

I.1.b.ii.(3) If not now, when?

I.1.b.iii. Obligations have to be counterbalanced with rights.

## **PEOPLE IN SOCIETY**

### **I.1.a. People live with other people.**

A social life is life with other people, and for the vast majority of us, it is the only life we will ever know or ever have. Most of us 'live with other people' for a large part of our lives: typically, this means that we live in families or households, and for most of us the family is basic to social integration, particularly in childhood. There are, of course, many other arrangements, in which people share accommodation and basic facilities with people beyond a family or household; people may also live in schools, group homes, institutions, religious orders, military bases or communes.

When people live alone, they do not generally live in isolation from other people. 'Living alone' means simply that people do not have immediate contact with others in the household where they live. Many of us do live alone at some time in our lives, and there are societies in which the numbers of people living alone are increasing. However, this generally occurs long after they have been introduced to the patterns of life, expectations and norms which are part of life in any society.

#### ***I.1.a.i. People in society are interdependent.***

Society involves much more than proximity. Beyond the immediate circle of family and intimates, contact leads to interaction, and interaction leads to exchange - the exchange of

goods, of symbols, of possessions, even of relatives.<sup>20</sup> People become interdependent. Society is formed from a complex series of social relationships, and interdependence is fundamental to those relationships.

Interdependence means that people's lives are conditioned by the lives of other people. This is most obvious in interpersonal relationships, but it is no less true of material affairs, and the minutiae of everyday life. Interdependence is so much a part of our lives that it can be difficult to recognise; people can only see a small part at any one time. In material terms, interdependence shapes everything we use or possess - the food we eat, the clothes we wear, the places we live in. The products of exchange dominate the physical environment, including roads and buildings, fields and the countryside. In developed countries, self-sufficiency is so rare as to be almost inconceivable. People may build their own houses, or grow their own meals, but in general they do not do it with tools and materials they prepare themselves.

Some writers have seen exchange as the fundamental cement which holds a society together<sup>21</sup>; it means not just that strangers can interact in ways which are mutually beneficial, but that codes are held in common to make it possible for them to do so. Interdependence means more than economic exchange; it leads to shared norms, expectations and patterns of behaviour. We have relationships with many people. Even when the relationships are remote, we usually have some idea of how to react to others. People share codes of behaviour, and expectations about the way in which others will behave.

#### ***1.1.a.ii. Social interaction follows common patterns.***

The relationships which people form do not occur randomly. The process of contact and interaction is complex, and that can give the impression of randomness and chance. For example, people may seem to fall in love randomly, but the truth is that most people meet their partners in predictable locations - home, work, formal social events or in an extended circle of friends. Love is principally a matter of geography, though it is moderated by cultural influences.<sup>22</sup> Consciously or unconsciously, people take into account social expectations; because so many codes are shared, information about a person's background and approach is rapidly absorbed from personal presentation, dress, appearance and demeanour.

People occupy roles in society, and these roles structure their social relationships.<sup>23</sup> A role is a part that someone plays; the part defines the kinds of things the person does.

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<sup>20</sup> C Lévi-Strauss, 1969, *The elementary structures of kinship*, London: Eyre and Spottiswoode.

<sup>21</sup> e.g. M Mauss, 1925, *The Gift*, London: Cohen and West, 1966; G.C. Homans, 1961, *Social behaviour*, London: Routledge and Kegan Paul; P Ekeh, 1974, *Social exchange theory*, London: Heinemann.

<sup>22</sup> R Baron, D Byrne, 1994, *Social psychology: understanding human interaction*, Boston: Allyn and Bacon, 7th edition, ch 7.

<sup>23</sup> M Banton, 1965, *Roles*, London: Tavistock; T Sarbin, V Allen, 1968, *Role theory*, in G Lindzey, E Aronson (eds), *Handbook of social psychology I*, Reading, Mass: Addison-Wesley,

This is most obviously the case with occupational roles; social introductions often begin with the question, 'what do you do?', and the familiar answers - police officer, pharmacist, refuse disposal operative, circus acrobat - conjure a picture, not just of the job, but of the person's patterns of life, education, and social milieu. Equally, there are other kinds of role - parents, patients, even bystanders - which mean that people who find themselves in a situation or a relationship have some idea of how to behave, and what to expect. The role defines, not just what people do, but what they can be expected to do.

People tend to occupy, not one role, but many. No-one is just a teacher, only a daughter, nothing but an old person - or, if they were, we would think there is something seriously wrong with their life. But when we know that someone is a professional artist, mother of four, postgraduate student and member of a feminist reading group, we begin to get a picture of the person. (In this case, it is a caricature, because there is not enough information here to show the whole picture, but at least there is a start.) To the sociologist, Dahrendorf once wrote, people are defined by their roles.<sup>24</sup> The roles summarise the range of relationships that a person has; the relationships cover the circumstances in which the person reacts with other people.

## **THE NATURE OF THE PERSONAL**

### **I.1.b. People are defined by their social relationships.**

In sociology, a person is defined by their social relationships - that is, relationships to other people. This view may seem strange, because many of us would make the assumption that a person is the same thing as a human being. There can be, however, persons who are not human beings. A corporation, a firm, or a trust can be a person in law. Companies can own and dispose of property, they can be insulted, and they can take action.

The converse of this position is that it may be possible to be human without being recognised as a person. A person whose social relationships cease, and whose property is dissolved and distributed, may continue to exist in body but not in other respects. People are socially dead if they are left without any social roles; they become non-persons. This may be the position, unfortunately, of people in long-stay institutions.<sup>25</sup> 'Social death' does not imply that a person vanishes altogether, because in social terms people who are physically dead do not really cease to exist, either. They have been part of a pattern of social relationships, and aspects of those relationships continue to apply after death. People can leave wills, which determine the use of their property after their death. Courts in England can require a dead person's estate to continue to support people who were supported when the dead person was alive.<sup>26</sup> Death is not the end, then, though it has to be admitted it is something of an inconvenience.

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<sup>24</sup> R Dahrendorf, 1973, *Homo sociologicus*, London: Routledge and Kegan Paul.

<sup>25</sup> E Miller and G Gwynne, 1972, *A life apart*, London: Tavistock, p.80.

<sup>26</sup> The law is in the Inheritance (Family Provision) Act 1938, the Intestates Act 1952, and the Family Provision Act 1966.

This view of personhood has been criticised as 'oversocialised'<sup>27</sup>, because there is more to people than their social identity. There are certainly aspects of human conduct which are not conditioned by society, but they are not for the most part those aspects which we value. Those aspects of our lives which are most directly animal are seen through the glass of social relationships; we learn to eat, to walk, and to sleep in the patterns which are expected in our society. (Sometimes, of course, these issues come into conflict; many human problems, like illness, insomnia or incontinence, become vastly complex because of their social implications.) Love, honour, justice, honesty and wisdom are social in their nature. Qualities like diligence, skill and creativity may be admired, but whether they are valued depends on what they are applied to. It is only in a social context that people can do the things in life which are worthwhile.

***1.1.b.i. The personal is the social.***

Social relationships are fundamental to our humanity. People tend to think of their thoughts and feelings as personal, and individual to themselves: each human being has distinct thoughts, feelings and memories, which are private and unique to that being. Gilbert Ryle, the philosopher, argued that because language and reactions are formed socially, in interactions with other people, our thoughts, feelings and memories can never truly be 'private'. We learn about them in the same way as other people do; we observe our actions, see how we feel, and record the information.<sup>28</sup> This also means, of course, that our ability to understand ourselves depends on our ability to understand other people. Introspection is not the way to enlightenment.

The language we use, the way we use our senses, the way we relate to other people, the terms on which we interact, are social in nature; they are shaped by the society in which we live. Children are not found under gooseberry bushes, with all their faculties fully formed; they are born into families and communities, and over time they are socialised, absorbing the codes, patterns of thought and ways of life which shape their world and the people around them. From the extraordinary case of the Wild Boy of Aveyron<sup>29</sup>, we have a vague, if disputed, idea of what a human being might be like without this kind of contact; raised without language and social contact, the Wild Boy learned to speak and to live with others, but not to reason abstractly. Similar conditions have been found with some children who have been severely neglected and isolated from others.

*1.1.b.i.(1) Personal differences are largely not explicable in terms of biology.*

The strongest arguments against a social view of people are based in biology. Collectively, the role played by human biology is evident: people are born, they develop physically, they have physical needs. If they are able to reproduce, they can only do so for part of the life-cycle. They grow old, they die. Gender, age, reproduction and health are vitally important elements of any society.

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<sup>27</sup> D Wrong, 1967, The oversocialised conception of man in modern sociology, in H J Demerath, R Peterson (eds) System change and conflict, New York: Free Press.

<sup>28</sup> G Ryle, 1963, The concept of mind, Harmondsworth: Penguin.

<sup>29</sup> H Lane, 1979, The Wild Boy of Aveyron, St Albans: Granada.

This is the framework within which human life is set, and much of it is taken for granted in the understanding of social life.

For personal differences to be explained biologically, however, more is needed. There would have to be an association of social behaviour with a person's biological history. An argument which has recurred since the mid-nineteenth century is that human biology, breeding or genetics is central to the patterns of behaviour which people exhibit in society. If this is correct, there should be some association of particular behaviours with certain genes, or at least some degree of continuity in behaviour between generations of a family. This is the Philosopher's Stone of genetic research; after more than a century of trying, neither contention has been supported by evidence. Claims for specific inherited behaviours, like the genetic origins of homosexuality or crime, have not even attempted to identify whether the gene is generally associated with the characteristic<sup>30</sup>. If there are biological predispositions to behaviour, expressed for example in terms of aggression or the response to stress, they are hard to trace; the influence of social circumstances on these factors is profound.<sup>31</sup> As for families, studies of intergenerational continuity of social circumstances have found that any attempt to identify patterns within families is dwarfed by the magnitude of fluctuations created by other factors, such as economic conditions, education or housing.<sup>32</sup>

The strongest argument for a link between individual biology and social circumstances is that some people may have organic conditions, like physical impairments, which lead to differentiation. This is hotly disputed: proponents of a 'social model of disability' have argued that different societies respond to such conditions in very different ways, which makes it impossible to explain social circumstances sensibly in terms of physical differences.<sup>33</sup> This may leave individual biology with some role, but it is a limited one.

### ***1.1.b.ii. The individual is a myth.***

Myths are important, because they change the way in which people understand problems. It is a fundamental axiom of sociology that, if people believe something to be true, the belief is true in its social consequences<sup>34</sup>. The idea of the solitary individual is one of the most pervasive myths in western society - Robinson Crusoe, trapped on a desert island and startled at the sight of another person's footprint. As a general description of the human

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<sup>30</sup> S Jones, 1993, *The language of the genes*, London: Flamingo, ch 12.

<sup>31</sup> A Mummendey, 1996, *Aggressive behaviour*, in M Hewstone, W Stroebe, G Stephenson (eds) *Introduction to social psychology*, 2nd edition, Oxford: Blackwell; M Argyle, 1992, *The social psychology of everyday life*, London: Routledge, ch 10.

<sup>32</sup> M Rutter, C Madge, 1976, *Cycles of disadvantage*, London: Heinemann; M Brown (ed), 1983, *The structure of disadvantage*, London: Heinemann.

<sup>33</sup> M Oliver, 1996, *Understanding Disability*, London: Macmillan, ch 3.

<sup>34</sup> W Thomas, F Znaniecki, 1920, *The Polish peasant in Europe and America*, Chicago: Chicago University Press.



condition, the idea is absurd; but as a myth, it exercises a powerful influence over human conduct, on the way we understand ourselves and our relations with others. The ideology of 'rugged individualism' has been powerful in the politics of the United States: it appears in the exaltation of the individual, mistrust of government and 'big business', the legend of the frontier, and the cultural fetish of bearing arms, hunting and woodcraft.

Many analyses of society begin with the 'individual': the independent, self-determining, isolated adult who makes his or her own way in the world. This is a fictive construct rather than reality. People do not, and cannot, live in isolation (► [I.1.a](#)). They are interdependent, not independent (► [I.1.a.i](#)); they live through society (► [I.1.a.ii](#)), not according to their inner lights, and no decision outside the social context has meaning (► [I.1.b.i](#)). From the argument above, the individual may or may not be a person, and people are important; but the characteristics which make us human, and which we value, are social (► [I.1.b](#)), and it makes no real sense to talk of individuals divorced from a social context.

As a description of the way that people live, then, individualism is false. But individualism is not just a description, or a myth; it is also a method, and a moral position. As a method, it makes it possible to consider each element in a social grouping separately, and so to understand the interactions more clearly. As a moral position, individualism asserts that each human being is valuable, irrespective of any social status; that people have rights; and that no social order can justifiably sacrifice human being for the sake of the greater good. These arguments have played a major part in struggles against oppression, and they are not to be underestimated. Societies and social orders can work against their members; they can be oppressive, and they can stifle human development. The individualist approach is a useful safeguard and counterbalance to this tendency, and in the discussion which follows that is how it will be applied.

## **SOCIAL OBLIGATIONS**

### **I.1.c. Social relationships generate obligations between people.**

Social contact depends on communication, interaction and exchange (► [I.1.a.ii](#)). Relationships develop as these elements are repeated, and form recognisable patterns of contact and interaction. Patterned behaviour generates expectations, and expectations develop into the codes which govern many of our social interactions. Some of these are relatively trivial, and they are liable to be relegated to the field of etiquette; it is not a major offence to eat peas with a knife, or to cut one's toenails in public. However, even trivial expectations - that people will not stare when conversing, or that they will stand at a certain distance - are important for governing behaviour between relative strangers, and they are an essential part of interaction with strangers.<sup>35</sup> Other codes, like those governing exchange or handling money, are much more serious; without them, trade and the exchange of money would become impossible. Because people are born into societies with extended, developed norms of this kind, it can be difficult to identify just how or where the process

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<sup>35</sup> M Argyle, 1967, *The psychology of interpersonal behaviour*, Harmondsworth: Penguin.

starts, and there are many potential explanations; for the purposes of the argument, however, it is enough to recognise that they are there.

In a social context, such expectations are often accompanied by sanctions. People who do not conform to expectations are censured, rejected, even punished. Expectations acquire, in consequence, the character of obligations. These are referred to as 'norms'. A social norm is a generalised expectation, subject to a sanction. It is generalised because it is widely held. This does not mean that it has to be held by everyone, but only that it must be held widely enough to be generally understood. Disseminating and sharing views are possible because ideas, opinions and beliefs are formed through social interaction. The process is not 'subjective', in the sense that it depends on the individual observer, but it is 'inter-subjective' - based on the views, values and feelings of a wide range of people in a society.<sup>36</sup>

### *1.1.c.i. Interdependence implies reciprocity*

Some key obligations come into being because of social interdependence. There is a 'norm of reciprocity'.<sup>37</sup> Reciprocity is commonly represented in two very different ways. Balanced (or 'restricted') exchange happens when people exchange goods directly, offering quids for quos. This is the general expectation in trade or contract, and for the most part it is unquestioned. There is also, however, 'generalised' exchange, in which the return which is made may not have to be made by the person who has received the goods. What goes round comes round, but in a family or a community, there is no reason to balance the accounts directly; it is enough that other people share a sense of obligation. The concept of generalized reciprocity emerged from anthropological studies: the work of Malinowski and Mauss identified the importance of ritual exchange in social inclusion.<sup>38</sup> This offered a powerful analogy with other forms of exchange in western societies. In some circumstances, we engage in formal and indirect exchange (such as the exchange of presents). In others, we participate in far-reaching patterns of reciprocity, in which the circle of exchange remains incomplete. For example, many employers give privileges to people according to their length of service. Those who have the privileges can justify them, because they were formerly disadvantaged; those who do not have them will benefit in their turn. In the research for *The Gift Relationship*, Titmuss found that people gave blood not just because they had received blood, but because someone else had received blood, because they might receive blood, or because they might receive some other benefit from the health service. The principle was sufficiently compelling for Titmuss to make it the core of his analysis of social welfare.<sup>39</sup>

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<sup>36</sup> P Berger, T Luckmann, 1967, *The social construction of reality*, New York: Anchor.

<sup>37</sup> A Gouldner, 1960, *The norm of reciprocity*, *American Sociological Review*, 25(2), pp 161-177.

<sup>38</sup> M Mauss (1925) *The gift: forms and functions of exchange in archaic societies*, London: Cohen and West, 1966.

<sup>39</sup> R Titmuss, 1970, *The Gift Relationship*, Harmondsworth: Penguin.

***I.1.c.ii. Each person must have regard to others.***

Because people do not live in isolation (► [I.1.a](#)), because their relationships are governed by social norms (► [I.1.c](#)), and because they are interdependent (► [I.1.a.i](#)), they must have regard to others. Inevitably, this raises questions about the nature of the obligations each person has to society. The questions which follow were put, long ago, by Hillel, and they are set out in the *Ethics of the Fathers*, part of the Talmud.

*I.1.c.ii.(1) “If I am not for myself, who will be for me?”*

In some political discourses, people are regarded as fundamentally selfish. “Self interest, not altruism”, we read, “is mankind's main driving force.”<sup>40</sup> As an explanation of the way in which each person acts, this is profoundly and obviously wrong. The assumption that human behaviour is wholly, or even largely, self-motivated is untenable; family life is the simplest way to refute it.

Hillel's question seems, rhetorically, to invite a sceptical answer. It is tempting to reply 'no-one', that the only person you can be sure of is yourself. But that is not the only answer that can be given. My family will be for me, as I will be for them. My community, which is more distant, may be for me, but I am not sure of it; and I may be for them, but I am not very sure of that either. We do not come into the world without social ties. We are born into families and communities. As the distance becomes greater, the sense of responsibility which one feels diminishes - but that is almost a definition of what social 'distance' means. We may expect self-interest, and we may take it for granted, but it is not only through self-interest that people act. Responsibilities extend to family, friends, colleagues, and in some cases even strangers. People in society exhibit both altruism and kinship relations - a rare combination in the animal world, which apparently we share with vampire bats.

*I.1.c.ii.(2) “If I am only for myself, what am I?”*

Hillel's second question calls attention to the obligations we all have. There is something wrong with people who are only for themselves, and there is a name for them. A person who lacks all sense of obligation to others is a 'psychopath' (or in America, a 'sociopath').<sup>41</sup> As a psychiatric condition, its use is mainly limited to people whose behaviour is sufficiently disturbed to make them dangerous to others. The phenomenon is more common than this suggests, however: the psychopath's lack of emotional engagement and moral insensibility infect some other arenas of real life, including politics and business.

The question refers back to the one before it. If we are not 'only for ourselves', we are also for someone else. If we are for someone else, then for

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<sup>40</sup> F Field, 1996, Stakeholder welfare, London: IEA Health and Welfare Unit, p.19.

<sup>41</sup> M Gelder, D Gath, R Mayou, 1989, Oxford Textbook of Psychiatry, 2nd edition, Oxford: Oxford University Press, ch. 5.

some people the answer to the first question has to include those people who do not accept that being only for themselves is enough.

*I.1.c.ii.(3) "If not now, when?"*

Hillel's third question is abrupt and surprising, but the others might be meaningless without it. Obligations to other people are all very well, but we have to do something about them. "When" matters.

The question seems to call for the answer, 'now'; but now is not the only answer. Many of the obligations we have cut across generations. People support their parents because their parents supported them, and after they have supported their children they may feel that their children have an obligation to support them. (Reciprocity continues to play a role: even when capacities fail, there is a continuing interchange between the generations.<sup>42</sup>) This is not, however, the only source of the obligation, and in the second case especially the position is not strong. Changes in family structures have weakened these obligations - divorce, in particular, raises questions about the definition of the family and the limits of obligation - but they have not obliterated them. There are two other principles at work. People support their parents, not just because their parents supported them, but because their parents supported their grandparents. They support their children, not just because their children will support them, but because their own parents supported them when they were children. The double-headed nature of the obligation - that there is both balanced and generalised exchange - is important, because it means that even where one factor does not apply, the other may still do so. The line of obligations can be extended forward or backward indefinitely. The answer to Hillel's question, then, is not just 'now'; it is for the past, the present and the future.

***I.1.c.iii. Obligations have to be counterbalanced with rights.***

The picture which emerges of social obligation is, in many respects, intimidating. If there were only social obligations, there would be little scope for autonomous action. This was the dominant view of feudal society, and it is still central to the Confucian welfare states of South East Asia.<sup>43</sup> The Enlightenment, and the individualist critique it generated, was an attempt to break away from the conservative, confining, suffocating view of society which this view sustained.

The challenge to the established order was framed in terms of rights. Obligations related mainly to the things which people had to do, and to the things they could not do; rights were concerned with what they could do, and what others could not do to them. Rights were seen as inherent in an individual, so that each person had something about them which changed the way that others would act towards them. Each person was

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<sup>42</sup> H Qureshi, A Walker, 1989, *The caring relationship: elderly people and their families*, Basingstoke: Macmillan.

<sup>43</sup> Lin Ka, 1999, *Confucian welfare cluster*, Tampere (Finland): University of Tampere.

valuable, and each person was protected. Some rights could be construed from the duties that other people had towards a person, but many could not. Rights included liberties - things which people could do without the interference of others. The US Declaration of Independence proclaimed the right to 'life, liberty and the pursuit of happiness'.

There are conflicts between these principles. Marriage is seen, in western culture, as a matter of individual choice, and arranged marriages are not generally accepted. I suspect that few parents or children would feel, however, that their child's or parent's choice of partner had nothing to do with them (though they might not make any comment, if they thought it would be ineffective or counter-productive). The acceptance of individualism has not led to removal of obligations, but rather to a softening of them, qualified by other principles.

It is striking how little conventional rights - like freedom of assembly, freedom of worship, or freedom of speech - have to do with the obligations that bind us. Although there is a strand in individualism which asserts total independence, not many people would hold that the principle of individual freedom absolves a person of obligations to families, to past or future generations, or to other people.

## **I.2. SOCIETY**

### **I.2. Social relationships are patterned and structured.**

#### *I.2.a. People form groups.*

I.2.a.i. Social groups are defined by a pattern of relationships within the group.

I.2.a.i.(1) Social groups are not defined by relationships beyond the group.

I.2.a.ii. People have relationships with groups.

I.2.a.iii. Groups may have relationships with other groups.

I.2.a.iv. Group action is collective action.

#### *I.2.b. A society is made up of social networks.*

I.2.b.i. Social cohesion is a function of the strength of social relationships.

I.2.b.ii. Society is constantly changing.

I.2.b.iii. Social relationships are patterned, rather than fixed.

I.2.b.iv. Societies reproduce themselves.

#### *I.2.c. Societies have a structure.*

I.2.c.i. The social structure is unequal.

I.2.c.i.(1) Social relationships are gendered.

I.2.c.i.(2) Class shapes social relationships, and is shaped by them.

I.2.c.ii. Social structures convey a sense of social division.

I.2.c.ii.(1) The main divisions in modern societies relate to 'race', ethnicity and nationality.

I.2.c.iii. Where societies are divided, ties of obligation still remain.

## **COLLECTIVE ACTION**

### **I.2.a. People form groups.**

People have relationships with specific combinations of other people. At the risk of some confusion, I am going to use the simplest and most obvious words to describe this process: people form groups. The confusion comes about because we use the word 'group' for lots of different purposes - a pop group, a group of air passengers, an industrial group, and so on - and the uses are not always consistent. The groups I am concerned with here are people linked by social relationships. Probably the simplest and clearest example is a family. Other groups acquire such an identity in several ways - through formal structures, like the workplace or school, or through common patterns of behaviour, like the congregation of a church or football fans. Social groups have three core elements: identity, which is based on social recognition of the group; membership, which is the identification of people with the group; and relationships between the group's members.

The issues of identity, membership and relationships are inter-related, and difficult to separate in practice, but relationships are the key. People do not form social groups only because they have something in common. People who have university degrees, play the

accordion, or have been admitted to mental institutions are not defined as members of social groups on that account. It is debatable whether communication and interaction are enough in themselves. For example, the Internet is not yet identifiable as a base for social groups, though it is easy to imagine circumstances in which it could be. People form social groups if these issues become a focus for their social relationships, and any of them could be.

*1.2.a.i. Social groups are defined by a pattern of relationships within the group.*

Social groups are defined by a pattern of social relationships - including patterns of communication, interaction, exchange and obligation. This does not mean that every member of the group must have a relationship with every other member. The relationships which exist within a group are complex; there are often many relationships, and networks overlap. A member of the Jewish community will commonly be linked to other members of the community by family relationships, social contact, formal social groupings, voluntary and benevolent activity, and perhaps, occasionally, religious practice.

The relationships within groups are sometimes referred to as a 'network'. The term is expressive: like a net, the lines of communication run both outwards and across each other. Although social networks are complex, they are not random, and there are recognisable patterns of social relationships formed in any society. In Western society, the most obvious of these are the relationships of family, neighbourhood and employment; others include contact through formal education, social groups, ethnic and religious communities. The term 'network' has, perhaps, the unfortunate connotation that there is some pattern or order in the whole structure. There is no reason why there should be, though there are certainly patterns within the whole: relationships formed through family, work, education, and community form identifiable systems of communication and interaction.

*1.2.a.i.(1) Social groups are not defined by relationships beyond the group.*

A common experience is not enough to define a group. Social groups are identified not just by identity and membership, but by relationships between the group's members (► [1.2.a](#)). Dog owners or the fans of a particular rock band do not constitute a social group. Nor do the victims of crime, for the same reason - though there may be situations in which some victims of crime might declare a common cause. By the same argument, people who have experienced racism are not necessarily linked by that experience. The point is important politically, because there has been a determined attempt by some political groups to identify all people who are subject to racism as 'black', a position which does not relate to the experience or perception of many of those whom it is intended to include.<sup>44</sup>

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<sup>44</sup> T Modood, 1997, Culture and identity, ch 9 of T Modood, R Berthoud (eds) Ethnic minorities in Britain: Diversity and disadvantage, London: Policy Studies Institute.

The relationships which groups have beyond the group can be important for the establishment of a group identity. Identity is part of what defines a social group, and in practice it has often been a starting point for group formation, but it is not sufficient. Children, shopkeepers, people with learning disabilities or women have significant common aspects in their social relationships, but they are not 'social groups' in the sense which is being used here; there can be no expectation of mutual relationships or common action.

***1.2.a.ii. People have relationships with groups.***

People who participate in a group have a relationship, not just with other members of the group, but with the groups themselves. Where groups are constituted formally, like a mutual aid society or a religious organisation, this is easy to see; where they are loosely defined, the relationship is vaguer. People do not usually say they "have a relationship" with a group, because real people do not talk like that; they are more likely to say things like, "I belong here", "I want to give something to my community", or "We ought to do something".

Groups are formed by patterns of relationships within the group. Some of those relationships are held by people, not with other people in the group, but with the group itself. Any obligation which is held generally is held to the group, because the group is identified as the general unit. Conversely, any obligation to a person which is not held specifically by others, but is held in general, is held by the group. The obligation to help others in a community is held generally; it can be expressed, for example, as a desire to help one's home town. Similarly, a general obligation towards people within that community, like old people, will be expressed as the obligation of the community towards its elderly.

***1.2.a.iii. Groups may have relationships with other groups.***

Groups, like people, may have relationships. This can be difficult to picture, because social groups have no actual existence, and having contact with a group member is not the same as having contact with the group. It is not possible to talk to a social group, or to exchange something with them, and talking about groups having relationships sounds like 'reification' - investing an artificial social construct with the status of something real.

There are some exceptions. Some groups are also persons: we can communicate with a business or an institution, and it makes perfectly good sense to say that a business is responsible for the consequences of its actions, even though the business has no mind. Some groups have a strong enough identity to be treated as if they were persons: we can visit a family, share a meal with it, or have obligations to it. (The view of the individual as the natural focus of rights and obligations is, in historical terms, relatively recent; in Roman law, it was the family which held property, and both legally and morally there are still many survivals of this principle.)

Can this be extended to other groups? There are many cases in which this is done, though they are controversial. An example is the argument that the United States has special obligations to its indigenous peoples. This would be nonsensical if obligations are held only by individuals to individuals, and yet Robert Nozick - one of the main apostles of



individualised rights and obligation - is prepared to accept it.<sup>45</sup> The root of the argument is that groups are connected to people, and to other groups, through the same networks which bind people to each other. The test of whether a group is bound is the same as the test of whether a group exists - the issue of common identification. There is no real distinction to make between the statements that thousands of businesses from one country trade with thousands in the other, or that two countries are said to be engaged in trade with each other. In both cases, the trade takes place, not as the action of isolated individuals, or even of individuals in concert, but in the context of a complex, interlocking system of interdependency; it is not possible to distinguish the roots of obligation solely in relationships between individuals. On that argument, one community can be obliged to another, and nations can have obligations to other nations.

***1.2.a.iv. Group action is collective action.***

Collective action is the action of a social group. It takes three main forms. First, there are actions taken to form groups. Actions which are taken to cement social relationships, including social gatherings and ceremonies like weddings and funerals, are part of what helps to define a group or community. These are collective actions, both in the sense that they are done by a group and because they generate a collective identity.

Second, there is mutualistic action - action which members of the group take for each other. When a group of friends pass gossip to each other, or a group of carers of people with disabilities offer each other aid and support, these are forms of collective action. The action may not be done by everyone in the group. There may be recipients and donors with distinct roles, and there may be many in the group who are not directly affected at a particular time - people who could contribute or benefit, rather than those who do. The action is collective because of its relationship to the identity or nature of the group.

Third, there is concerted action, when people do the same things as others in the group. When a church group meets for worship, or a political group stages a demonstration, these are collective actions. There are many common actions taken by people which are not collective. For example, millions of pensioners watch certain television programmes at regular times, and a very substantial proportion of the world's population can be relied on to tune in to World Cup Soccer or the Eurovision Song Contest, but that does not mean they are doing so collectively. Similarly, there are identifiable categories of people who are recognisably following common codes of action, like motorists or shoppers, but their actions are not collective either. There is no necessary relationship between the members of the category, and their actions are not concerted. There has to be a direct link between the nature of the action and the social group.

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<sup>45</sup> R Nozick, 1974, *Anarchy, state and utopia*, Blackwell, Oxford, p ix.

## **SOCIETY AND SOCIAL RELATIONSHIPS**

### **I.2.b. A society is made up of social networks.**

It is difficult to define a 'society' precisely. It is not a simple association, and people are not part of it just because they share characteristics with other people. Equally, physical closeness is not enough. People in society are bound in a complex, interlocking web of social relationships (► [I.2.a.i](#)). Social groups are an important part of these relationships, but they are not the whole story: the networks which make up a society go beyond the relationships of the groups contained within it - they include, for example, personal obligations and obligations to strangers. The French refer to these relationships as relationships of 'solidarity'; Durkheim's famous distinction between 'mechanical' and 'organic' solidarity distinguishes two different kinds of social organisation which follow from the development of the division of labour.<sup>46</sup>

Solidarity implies relationships between the members of a society. A society has all the characteristics of a social group: membership, relationships, and identity (► [I.2.a](#)). In that sense, a society can be represented as a meta-group - a group of groups.

This tends to suggest an overall coherence in the relationships which may not be apparent when the relationships are looked at in any detail. It would be false to suppose that everyone is a part of a social network. People are integrated into society to greater or lesser degrees. Some people have relatively few points of contact - often only with their family, or perhaps with formal social services. These people are referred to as 'marginal', though in French that term also has the unfortunate connotation of deviance or immorality. Others have almost no contact at all, and they are seen as 'excluded'. The issue of social exclusion has become a major concern of the European Union, which has taken powers to respond to exclusion across a wide range of activities.<sup>47</sup>

#### ***I.2.b.i. Social cohesion is a function of the strength of social relationships.***

The strength of social relationships can be identified with the social proximity - not physical nearness, but nearness in the sense of obligations. In close-knit groups, there are strongly held expectations, patterns of generalised exchange and powerful social sanctions for a breach of expectations (► [I.1.c.i](#)). The effect is to hold society together - to tie the parts together. This is 'social cohesion'.

One of the most extreme forms of sanction is ostracism, or deliberate exclusion from the group. Parents who disinherit children, associations which expel members and

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<sup>46</sup> E Durkheim, 1915, *The division of labour in society*, (trans G Simpson), New York: Free Press, 1964.

<sup>47</sup> e.g. Commission of the European Communities, 1993, *Medium term action programme to control exclusion and promote solidarity*, COM(93) 435; Commission of the European Communities, 1994, *European Social Policy - a way forward for the Union (White Paper)*, COM(94) 333 final; Commission of the European Communities, 1995, *Final report on the implementation of the Community programme concerning the economic and social integration of the economically and socially less privileged groups in society*, COM (95)94 Final.

nationalities which stigmatise foreigners are engaging in a similar kind of activity, the establishment of social borders. There are, however, societies in which there are strong borders with only a limited degree of social cohesion - the United States is the most obvious example - and it is difficult to avoid the conclusion that strong boundaries are not sufficient to promote cohesion. Are they necessary? The example of the family suggests that they are not; strong families are well able to accept new members and changing boundaries, while the effect of expulsion from the family may be to fracture rather than reinforce the unit. Cohesion is, then, a function of the strength of relationships, not of the strength of borders. (This is consonant with the criteria used to define the nature of social groups: groups are defined by the relationships within them, not beyond them: ▶ [I.2.a.i](#)).

### ***I.2.b.ii. Society is constantly changing.***

Society can be understood as an association, but its nature is not fixed. A society consists of a complex series of interlocking relationships. These relationships form social networks, which overlap and intertwine. Some relationships are fairly constant - though even the family, once the stable core of social relationships, has been the subject of extensive change in recent years. Others change relatively rapidly: friendships, neighbourhoods, the workplace, are all likely to change several times during a person's lifetime.

### ***I.2.b.iii. Social relationships are patterned, rather than fixed.***

The very terms in which this has been expressed point to the existence of consistent patterns in social interaction. The core elements of social contact remain, for most people, family, the neighbourhood and the workplace. This is not necessarily true, because other patterns of life are possible. Everyday living can be built about a household, rather than a family; communities can be built about common links, like those of race or religion, rather than geographical location; social interaction and involvement might be based on a different type of common experience, like education or military service. (Political discourse in East Asia is often based on a conception of the country, and the political community, analogous to a family, or at least to a family group.<sup>48</sup>) But there should be some kind of pattern, because otherwise it can be very difficult to maintain the contact and relationships we need in order to manage in society. My research has included work with homeless people and with psychiatric patients, whose patterns of relationships have been disrupted.<sup>49</sup> Psychiatric patients who are being treated in hospital or community settings tend to have few major interactions, but in general they do retain contact at least with their families. The psychiatric patients in the research who were homeless, by contrast, had often lost contact with everyone, including their families; without support, they were plunged into a limbo where it was difficult to get the necessities of everyday life - including food, warmth and shelter. Patterned relationships, like those of family, community and

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<sup>48</sup> Lin Ka, 1999.

<sup>49</sup> N Crockett, P Spicker, 1994, *Discharged: homelessness among psychiatric patients in Scotland*, Edinburgh: Shelter (Scotland); P Spicker, I Anderson, R Freeman, R McGilp, 1995, *Discharged into the community: the experience of psychiatric patients*, Social Services Research, 1995-1 pp 27-35.

religion, offer a degree of stability and security in a shifting environment. Social order means, not that things cease to change, but that patterns are maintained despite changes.

***I.2.b.iv. Societies reproduce themselves.***

A striking feature in these patterns is the apparent ability of societies to reproduce themselves, leading to similar patterns in subsequent generations. 'Reproduction' is not like the reproduction of a picture, faithful in every detail. It is more like the reproduction of a family. New generations are born and grow; they are socialised into the norms and culture prevalent in society. Reproduction is essential to the continuation of any society; it produces the next generation, the next workforce, the next parents, the next set of taxpayers.

The apparent stability of the process of reproduction is partly illusory, both because reproduction is taking place in a changing environment, and because societies are not really the same from one generation to the next; but part of the process is stable, because children move into social circumstances which are often closely related to those of their parents. In some societies (particularly traditional caste societies) the opportunities and life chances of children are fixed, or 'ascribed', at birth, but this is not really the case in developed contemporary societies. The study of social mobility focuses on the changing economic and social position of children relative to their parents, but the very existence of such an area of study presumes that something about this change is worthy of note: there is an implicit assumption that what is true for one generation will, other things being equal, be true for the next. This is not necessarily what happens: although parental status is a powerful determinant of life chances, several other factors are also influential - gender, education and marriage being prominent amongst them. Poor children are more likely than others to become poor adults, but they are not destined to be poor; research on intergenerational continuity has shown that most poor children do not continue in poverty, and the effect of employment opportunities, and marriage with people who are not poor, means that there is surprisingly little direct continuity across generations.<sup>50</sup>

Much more important is the stability of the framework, or pattern, in which people find themselves. Life-chances are not fixed, but the kinds of opportunities which children will have are patterned by the society they grow up in. The social structure affects the housing people live in, the education they undergo, the social contacts they will form, and the kinds of occupation which will be available to them. It has, then, a profound effect on their lives. Reproduction takes place in the context of structured social relationships, and this gives the (potentially misleading) impression of stable, ordered development.

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<sup>50</sup> A B Atkinson, A Maynard, C Trinder, 1983, *Parents and children*, London: Heinemann; I Kolvin, F J W Miller, D M Scott, S R M Gatzanis, M Fleeting, 1990, *Continuities of deprivation?: the Newcastle 1000 family study*, Aldershot: Avebury.

## SOCIAL STRUCTURE

### I.2.c. Societies have a structure.

Generalisations about society are concerned with patterns, rather than direct causal links; few statements about social processes are true for everyone, or even for most people. It may be true, for example, that taller people are often seen in more favourable terms than shorter people<sup>51</sup>, but this does not mean that most tall people are seen more favourably; it is simply a factor, which has to be balanced against other factors. Sociological statements tend to be concerned with trends, probabilities or tendencies rather than fixed relationships. Arguments about family structure, racial discrimination, or educational disadvantage are based on the analysis of general patterns of this type.

Describing society as a structure implies that some elements have a definable relationship to others. At first sight, this may seem implausible, because in a complex, overlapping system of social networks the relationship of each element to others is liable to constant change. The argument that such patterns form a structure is, necessarily, a question of interpretation, and some sociologists - mainly the 'phenomenologists' - have made a comfortable living by arguing for deconstruction of such concepts. The central argument for a structured analysis is simply that a range of topics - including, amongst others, the distribution of income, health or education<sup>52</sup> - are more effectively dealt with by a structured analysis than by phenomenology.

#### *I.2.c.i. The social structure is unequal.*

Although social relationships are patterned, they are also complex, and differentiated. People play many roles, including for example roles within a family, occupational roles and roles within a community (► [I.1.a.ii](#)). These roles carry different expectations, and so different combinations of rights and obligations. Rights and obligations, in turn, are commonly related to differences in social esteem. The mechanisms are not straightforward, because there are cases in which social position is not related to social action. The effect of adopting differentiated roles is, obviously enough, that people's social positions differ. They do not, however, differ randomly; rank has its privileges, and commonly social position, or status, is associated with the structure of opportunities and rewards, in a society. The social structure is unequal, not simply because people are in different positions, but because the pattern of relationships places them in positions of relative advantage or disadvantage.

Social status consists of a set of expectations, and so of social obligations (► [I.1.c](#)). Status is sometimes identified with roles, which are patterned expectations; equally, it can be identified with rights and obligations, which are also forms of patterned expectation.

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<sup>51</sup> K Deaux, L Wrightsman, 1988, *Social psychology*, Pacific Grove, California, pp 95-97.

<sup>52</sup> D Champerknowne, F Cowell, 1998, *Economic inequality and income distribution*, Cambridge: Cambridge University Press; P Townsend, N Davidson, M Whitehead, 1988, *Inequalities in health*, Harmondsworth: Penguin; A Furlong, 1997, *Education and the reproduction of class-based inequalities*, in H Jones (ed) *Towards a classless society?* London: Routledge.

Some sociologists have argued that status is simply a constellation of roles, a collection of rights and duties.<sup>53</sup> This may be true of some statuses, but not of all. Some statuses, including nobility and illegitimacy, are ascribed to people by birth, and no clear role is attached. Some attach to achievements, like professional competence or success in business, and if there are rights and obligations attached they seem to relate to the activity rather than the status attached to it.

It is true, though, that status is linked to roles and obligations. The status of the aristocrat was derived initially from the role of warrior, then from that of the landowner; the status of the doctor relates to professional competence and obligations. (Many minor professions, including teachers, social workers and nurses, have tried to emulate the position of doctors by imitating their professional structure and norms<sup>54</sup>.) The mechanism by which the link is established is disputed. Weber described status as a form of social honour<sup>55</sup>. Some theorists have seen this as esteem given in return for services rendered<sup>56</sup>, others as a cruder reflection of economic position.<sup>57</sup>

It is possible to link this analysis to a concept of social power<sup>58</sup>. Whether power means the ability to produce intended effects<sup>59</sup>, or even the potential that someone has to affect the behaviour of others<sup>60</sup>, the nature of obligation means that many people have it. Power is a relational concept: that is, it has to be understood in terms of the behaviour of people in relation to each other. Wherever there are differential obligations, people have power over others. These relationships have to be understood in the context of a social framework in which people are unequal. Power, like status, can be structured; some people are able to direct the conduct of others who accept that direction.

*1.2.c.i.(1) Social relationships are gendered.*

Another form of structural inequality differentiates the sexes. The statement that social relationships are 'gendered' is intended to convey the idea that gender differentials are a basic element in the pattern of social networks. Gender determines many of the roles which men and women play, their opportunities and life-chances. Gender is written all the way through social networks, like 'Blackpool' in a stick of rock, and any analysis which is based on those networks, particularly at the interpersonal level, is likely to reflect issues

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<sup>53</sup> R Linton, 1936, *The study of man*, New York: Appleton-Century Co.

<sup>54</sup> P Wilding, 1982, *Professional power and social welfare*, London: RKP.

<sup>55</sup> M Weber, 1967, *The development of caste*, in R Bendix, S Lipset (eds) *Class, status and power*, London: Routledge and Kegan Paul, 2nd ed., pp 31-2.

<sup>56</sup> G Homans, 1961, *Social behaviour*, London: Routledge and Kegan Paul; P Blau, 1964, *Exchange and power in social life*, New York: John Wiley and Sons.

<sup>57</sup> W G Runciman, 1963, *Social science and political theory*, Cambridge: Cambridge University Press.

<sup>58</sup> G Homans, 1961, *Social behaviour: its elementary forms*, London: Routledge and Kegan Paul; P Blau, 1964, *Exchange and power in social life*, New York: John Wiley.

<sup>59</sup> B Russell, 1960, *Power*, London: Unwin.

<sup>60</sup> S Lukes, 1978, *Power and authority*, in T Bottomore, R Nisbet (eds) *A history of sociological analysis*, London: Heinemann.

related to gender structures. Gøsta Esping-Andersen has argued that gender relationships and changes in family structures are the key to understanding recent changes in economic and social structures in developed countries.<sup>61</sup>

The root of gender inequality rests, like inequalities of status, in differentiation between roles, and in the relative esteem which is attached to those roles. The inequality between male and female puts women at a disadvantage in several important dimensions of social life - notably education<sup>62</sup>, work opportunities<sup>63</sup>, and income<sup>64</sup>. Beyond this, though, the obligations which apply to people differ according to their gender: mothers have stronger obligations to care for children than fathers, and in Western countries daughters (and even daughters-in-law) may have stronger obligations to care for elderly people than sons do.<sup>65</sup>

*1.2.c.i.(2) Class shapes social relationships, and is shaped by them.*

A third form of inequality is inequality of resources, usually expressed in terms of income and wealth. People who are in poorer economic positions are disadvantaged relative to those in superior economic positions; a person with more money is able to exercise more choice on that account, and in conditions of scarcity a person with more money can purchase items before someone with less. This is different from the inequalities of status or gender, because unlike them it is not directly attributable to the structure of social relationships. People may be rich because of high status, but they can also have high status because they are rich. Income and wealth reflect the structure of relationships, but they also help to shape them; the factors interact.

Classes, according to Weber, “are groups of people who, from the standpoint of specific interests, have the same economic position.”<sup>66</sup> Class has a range of other meanings in sociology<sup>67</sup>, but for the purposes of this argument

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<sup>61</sup> G Esping-Andersen, 1999, Micro-sociological determinants of economic change, Address to European Sociological Association, Amsterdam.

<sup>62</sup> P Mayes, 1989, Gender, London: Longman, ch 3; G Pascall, 1997, Social policy: a new feminist analysis, London: Routledge, ch 4.

<sup>63</sup> C Callender, 1996, Women and employment, in C Hallett (ed) Women and social policy, Hemel Hempstead: Prentice Hall; S Lonsdale, 1992, Patterns of paid work, in C Glendinning, J Millar (ed) Women and poverty in Britain - the 1990s, Hemel Hempstead: Harvester Wheatsheaf.

<sup>64</sup> Glendinning, Millar, 1992; J Millar, 1996, Women, poverty and social security, in C Hallett (ed) Women and social policy, Hemel Hempstead: Prentice Hall.

<sup>65</sup> G Dalley, 1988, Ideologies of caring, Basingstoke: Macmillan; S Baldwin, J Twigg, 1990, Women and community care, in M McLean, D Groves, Women's issues in social policy, London: Routledge. Contrast S Chen, 1996, Social policy of the economic state and community care in Chinese culture, Aldershot: Ashgate.

<sup>66</sup> M Weber, 1967, The development of caste, in R. Bendix, S.M. Lipset, Class, status and power, London: Routledge and Kegan Paul, pp 31-32.

<sup>67</sup> S Edgell, 1993, Class, London: Routledge.

this is a convenient shorthand. People with different command over resources live differently: they are able to buy different things, to live in different places, to pursue different activities. The common patterns which this describes are the patterns of social class.

Classes are not 'groups' in the sense in which that term was used earlier (► [I.2.a](#)). Home owners<sup>68</sup> or people with disabilities<sup>69</sup> might be identified as classes in terms of their economic position, but identity is not enough to make a group: it does not imply mutual relationships or common action. The importance of class as a concept rests in what it conveys about people's relative social position: the patterns of behaviour associated with class shape life-chances, opportunities, occupational roles and status. Class and status are inter-related.

Class does not mean the same thing in every society. Like the myth of the individual (► [I.1.b.ii](#)), the myth of class consciousness has mattered in different times and places; it is important when people believe in it, and act as if it is true, and relatively unimportant when they do not. Understood as differences in economic position, classes are a major element of social relationships, whatever the society; but relationships within classes, and between them, depend on a range of social factors, and their importance varies.

### ***I.2.c.ii. Social structures convey a sense of social division.***

Reference to a society as 'divided' runs the risk of internal contradiction. If a society was truly divided, with clear borders running between different groups, it would not be one society, but several. Some societies have come to be divided literally, but more typically the division is imagined; cultural, linguistic and racial differences are taken to determine patterns of social contact and interaction, with the effect that the divisions become self-perpetuating.

Although social divisions might be generated by inequality, social division is not the same as inequality. Men and women are unequal, in the sense that women are disadvantaged socially relative to men; but, whatever the differences between the sexes, there is too much interaction for it to be possible to talk meaningfully about a 'division'. Inequalities in income and wealth do not lead directly to social divisions, because the inequality co-exists with a system of interwoven obligations - though it has been argued that at the extremes, 'economic distance' leads to effective exclusion from social networks.<sup>70</sup> Similarly, there is not a true division between social classes - though caste societies have something like a division in their reaction to pariah castes, who are not

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<sup>68</sup> e.g. J Rex, R Moore, 1967, *Race, Community and Conflict*, Oxford: Oxford University Press; .

<sup>69</sup> P Townsend, 1979, *Poverty in the United Kingdom*, Harmondsworth: Penguin.

<sup>70</sup> M O'Higgins, S Jenkins, 1990, *Poverty in the EC: 1975, 1980, 1985*, in R Teekens, B van Praag (eds) *Analysing poverty in the European Community*, (Eurostat News Special Edition 1-1990), Luxembourg: European Communities.



allowed to marry, work with or even stand next to people from other castes.<sup>71</sup> This is a case in which distance is compounded by the distinct identification of a social group, and it can be argued that identification is crucial to the nature of social divisions.

A sense of social division seems to come about when some groups have such a strong sense of identity, and such strong borders, that they exclude contact and interaction with other groups; the breakup of the former Yugoslavia is a chilling example. Divisions of this kind - based on race, language or culture - commonly reflect an historical inheritance. (This is not enough to explain the resurgence of national or cultural affiliations which had long been dormant. Scottish nationalism or the revival of the Catalan language, for example, have built on historical identity as the basis for a political movement.)

*I.2.c.ii.(1) The main divisions in modern societies relate to 'race', ethnicity and nationality.*

Social division is intimately bound up with the question of identity, and in contemporary identity is primarily expressed in terms of 'race', ethnicity, and nationality.

'Race' is frequently referred to in this context, though it is a much vaguer concept than it at first appears; it conflates aspects of biology, ethnicity, skin colour, culture, religion, and nationality, none of which is firmly or clearly defined. People of different 'races' are often socially rejected and stigmatised; in the UK and US this is principally defined in terms of colour<sup>72</sup>, in France it relates to Arabs<sup>73</sup>, and in much of central Europe the strongest rejection is of 'gypsies' or travellers<sup>74</sup>.

The concept of ethnicity is closely related to this. Ethnicity refers to cultural differences which distinguish one community from another; gypsies are a prime example.<sup>75</sup> Linguistic differences and tribal affiliations may be significant. Religion is another principal distinguishing factor, and it plays a role similar to race. The division of Protestant and Catholic in Northern Ireland is analogous; and in certain countries prejudice against Muslims or Jews has been the dominant expression of racism. (In Britain and France, the distinction between Muslims and others is a major source of disadvantage, arguably rather more important than any racial difference.<sup>76</sup>)

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<sup>71</sup> E Leach (ed.), 1960, *Aspects of caste in South India, Ceylon and North-west Pakistan*, Cambridge: Cambridge University Press.

<sup>72</sup> P Baker, L Anderson, D Dorn (eds), 1993, *Social problems*, Wadsworth, ch 8); Law, 1996.

<sup>73</sup> A Policar, 1992, *Racisme et antiracisme: un réexamen*, in G Ferréol (ed) *Intégration et exclusion dans la société française contemporaine*, Lille: Presses Universitaires de Lille.

<sup>74</sup> A Meszaros, J David, 1990, *Gipsy disadvantage and social policy in Hungary*, in S Mitra (ed) *Politics of positive discrimination*, Bombay: Sangam Books.

<sup>75</sup> Meszaros, David, 1990; D Hawes, B Perez, 1995, *The gypsy and the state*, Bristol: SAUS.

<sup>76</sup> Modood, 1997; Policar, 1992.

Nationality is a different source of division, because although it is overlaid with the same kind of stigma as 'race' it also has a legal foundation. Foreign nationals tend to be treated differently from people who have full rights of residence; their rates of pay, tenure of employment, and rights to ownership of property can legitimately be different from that of citizens of the country. The position of guest-workers in Germany is illustrative.

The effect of these distinctions is not just to identify groups, but to mark out the borders between them. 'Race' often defines an out-group - a set of people who form social groups and networks, distinct from the in-group. Usually (but not always) the out-group is in a minority. Often, too, the out-group can be directly identified - through skin colour, appearance, clothing or the distinct location of accommodation.

***1.2.c.iii. Where societies are divided, ties of obligation still remain.***

Obligations continue to exist across social divisions. This is virtually a tautology; if there were no relationships running across social boundaries, and no ties of obligation, there would be two societies, not one. Even where there are strong social borders, like the divisions of a caste society, there are generally principles which govern relationships across the boundaries. At the same time, the obligations which extend across social divides are often tenuous. It is in the nature of a social divide that it reduces contact and makes casual interaction less frequent. I argued before that the effect of contact and interaction was to generate relationships, from which obligations flowed (► [1.1.c](#)). By the same argument, the effect of reducing contact and insulating some people from an in-group is to diminish the strength of such obligations, and sometimes the obligations which are recognised beyond the group are tenuous. Responsibilities to foreign nationals, for example, tend to be limited.

## **I.3. SOLIDARITY**

### **I.3. Solidarity is intrinsic to society.**

- I.3.a. Altruism is founded in solidarity.*
  - I.3.a.i. Responsibility diminishes with social distance.
  - I.3.a.ii. Social obligations extend to strangers.
  - I.3.a.iii. Helping others is basic social conduct.
- I.3.b. People who act rationally act collectively.*
  - I.3.b.i. Mutual aid benefits the participants.
  - I.3.b.ii. Collective action increases the potential of each person.
  - I.3.b.iii. Individual interests can conflict with collective action.
    - I.3.b.iii.(1) Free riders may be compelled to participate in collective action.
    - I.3.b.iii.(2) Collective action does not have to be compulsory.
  - I.3.b.iv. Collective action and mutual aid develop spontaneously in society.
- I.3.c. Solidarity is an integral aspect of social cohesion*
  - I.3.c.i. Collective action defines a community.
  - I.3.c.ii. Collective action is exclusive as well as inclusive.
  - I.3.c.iii. Exclusion prevents social integration.
  - I.3.c.iv. Exclusion limits social cohesion.
- I.3.d. Obligations may extend beyond borders*
  - I.3.d.i. Solidarity is local and national.
  - I.3.d.ii. Social responsibility is not confined to national boundaries.

## **SOLIDARITY: ALTRUISM AND RESPONSIBILITY**

### **I.3.a. Altruism is founded in solidarity.**

Altruism is behaviour for the benefit of other people, and it is usually assumed to be motivated by a selfless concern for other people. Richard Titmuss sought to locate social welfare provision in 'ultra obligations', obligations we may feel to others on the basis of generalised principles, even though there was no contact, and no specific duty.<sup>77</sup> This argument has generally been criticised, because it is difficult to identify any altruistic action from which the giver does not, in some sense, benefit - even if it is only through a sense of self-satisfaction - and so which cannot be said in some way to be self-motivated. Relatively few discussions in the academic literature now consider 'altruism' in this sense; it has become more common to see references to 'solidarity'. Solidarity, in the teaching of the Catholic Church, is understood as:

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<sup>77</sup> R M Titmuss, 1970, *The Gift Relationship*, Penguin, Harmondsworth.

“a firm and persevering determination to commit oneself to the common good, that is ... the good of all and of each individual, because we are all really responsible for each other.”<sup>78</sup>

The idea refers to the sense of mutual obligation and responsibility which people feel towards each other. In the last century, solidarity was mainly used to justify collaborative mutual aid, in the form of social insurance. In recent times, it has increasingly come to refer to obligations which extend to other people in society, whether or not those other people have made any contribution in their turn.

Solidaristic actions are not straightforwardly altruistic. They can be motivated by reciprocity and social obligation; they may reflect the simple fact of social interdependence; they may reflect religious principle, which is primarily a duty to God rather than to other people. Altruistic actions are an aspect of social solidarity, and they are generated by and through the same principles - social expectations, norms and obligations.

### ***1.3.a.i. Responsibility diminishes with social distance***

Solidaristic obligations are not held equally by everyone. Within families, Sahlins argues that relationships are characterised by generalised exchange (► [1.1.c.i](#)); the support which family members give each other cannot be based on a calculation of costs and benefits.<sup>79</sup> At the same time, obligations towards others are often specific to certain classes of relationship - most notably, the obligations of spouses and of women in the family. There is an element of reciprocity in such relationships, but that would not of itself explain why men should be obliged less than women, or why daughters-in-law should have responsibility for parents-in-law; clearly, what is happening is that a range of social norms, rather than one dominant norm, govern family conduct.

The principle of generalised reciprocity extends to the relationship between generations beyond the family (► [1.1.c.i](#); [1.1.c.ii\(3\)](#)). Elderly people and children have acquired a special status which legitimates the receipt of social welfare services. One basis for supporting educational provision is that people have received education and now have an obligation to help others receive it. The basis for most pension schemes is that people contribute for the benefit of pensioners now in the expectation that the succeeding generation will help them in their turn. Clearly, the relationship is more remote than it would be within the family; Sahlins suggests that the relationship with more remote social contacts is more likely to be characterised by balanced exchange. People who give to friends and acquaintances are likely to expect something in return. Where social contacts are more distant, exchange becomes 'negative'; the character of generalised and balanced exchange begins more directly to reflect the concerns of self-interest. We owe a greater duty to those who are most near to us, and the least duty to those who are furthest away; that is part of what 'nearness' means.

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<sup>78</sup> cited N Coote, 1989, Catholic social teaching, *Social Policy and Administration* 23(2), 1989 p.157)

<sup>79</sup> M Sahlins, 1974, *Stone age economics*, Tavistock, London.

### ***1.3.a.ii. Social obligations extend to strangers.***

Even for strangers, however, social interaction is governed by obligations. Obligations are a form of social norm, and norms consist of expectations about behaviour, coupled with some sanction for non-compliance (► [I.1.c](#)). Some obligations are stronger than others. Because close social proximity is associated with higher levels of interaction and obligation, obligations which relate to strangers tend to be weaker; but they are still there. Some obligations are negative, like the demand not to interfere, not to do things which will jeopardise someone's position unnecessarily (like driving a car straight at them), or to respect a person's personal space or possessions. Some, however, are positive. In the United States, 'good samaritan laws' have had to be passed to remove the threat of penalties for helping people; in France, by contrast, the law makes it a criminal offence not to assist a person in distress or danger. Irrespective of the legal issues, the French approach seems to me to reflect more accurately the most widely held moral position; most people would disapprove of someone who failed to help another person, and in many cases there is a positive obligation to do so.

### ***1.3.a.iii. Helping others is basic social conduct.***

In the literature of psychology, the term 'altruism' is treated as a subcategory of 'prosocial behaviour', action which is done for the benefit of others.<sup>80</sup> People help other people in a variety of ways; motivations, like altruism, charity and humanitarianism, are difficult to identify, but the process of helping itself is not. Whether the action is minor, like holding a door open for someone else, or significant, including devoting oneself to caring for another person, life is full of examples of people helping others. Interdependence is routine. Some prosocial behaviour is so deeply internalised that we do not even think about it. 'Good manners' sometimes call for simple acts of prosocial behaviour, such as giving a drink to a visitor, or giving way to other road users, or holding a door open for a stranger; the person who fails to do so is not just selfish, but a boor. This means that people can engage in behaviour which appears to be altruistic, without having any consciously altruistic motivation. People give to others, or support others - most obviously, in the relationships between parents and children - without moving to think about the potential benefits.

Where the motivation becomes conscious, a wide range of factors come into play. Part of the process which is thought of as altruism is explained in terms of reciprocity. If people do not look for a direct and immediate return, but only to take part in a general circle of exchange (► [I.1.c.i](#)), there is no social action which might not in some sense eventually work to the benefit of the donor. There may be examples of purely self-denying altruism, but they are not part of the fabric of everyday life. This is not to deny the possibility of sainthood, but this book is not about sainthood, and those who want to become saints should read something else.

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<sup>80</sup> H Bierhoff, 1996, Prosocial Behaviour, in M Hewstone, W Stroebe, G Stephenson (eds) Introduction to social psychology, Oxford: Blackwell.

## MUTUAL AID

### I.3.b. People who act rationally act collectively.

Much economic theory is built around the analysis of the behaviour of rational, self-interested individuals. In economic theory, the rational person is an artificial construct, designed to show the implications of different patterns of decision-making. Each individual maximises utility, which means that individuals choose what they most prefer.<sup>81</sup> Utility is not necessarily selfish, but the effect of defining it in individualistic terms has been to identify rational behaviour with self-interest; economists have depended on the association with self-interest to justify the assumption of utility maximisation (rather than satisfaction). Adam Smith wrote, famously, that

“It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest.”<sup>82</sup>

This is sometimes identified, mistakenly, with the fallacy that people's actions are wholly self-interested (► [I.1.c.ii.\(1\)](#)). Economic analysis is concerned not with the explanation of human behaviour in all its forms, but in the analysis of how that behaviour changes in response to economic stimuli. Economic behaviour takes place in a social context; often there are strong obligations and precepts in place before economic choices are made.

There are important reasons why rational individuals should behave collectively. Collective behaviour is group behaviour (► [I.2.a.iv](#)), and at first blush group behaviour seems to be the antithesis of the actions of the self-interested, economic individual. The argument that the 'rational individual' acts collectively does not mean that only collective actions are rational, but simply that in some circumstances the rational individual will opt for collective, rather than individual, action. The focus of this argument falls mainly on mutualistic action.

The arguments for mutualistic behaviour have been explored by some writers through a particular form of game theory, depending on the 'prisoner's dilemma'.<sup>83</sup> The basic scenario of the prisoner's dilemma assumes that there are two people under arrest for a crime, and each is asked to inform on the other. If both remain silent, they will get only a light sentence; if both confess, both go to gaol; but if one confesses while the other does not, then the one who remains silent will have a heavier sentence, while the other will go free. The greatest benefits, consequently, are gained through co-operation, but this depends on trust. The greatest penalty lies in trusting another person who betrays you. There are some important lessons to be learned from this kind of analysis - in particular, that where there is a choice, reciprocity and trust is likely to be more productive than treachery.<sup>84</sup> It is difficult, however, to ground the theory - to prove that situations which parallel the

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<sup>81</sup> P Samuelson, W Nordhaus, 1995, *Economics: 15th edition*, New York: McGraw-Hill, p.73

<sup>82</sup> A Smith (1776) *The wealth of nations*, London: Everyman's, 1991 edition, p.13.

<sup>83</sup> e.g. G Axelrod, 1990, *The evolution of co-operation*, Harmondsworth: Penguin; de Swaan, 1988; R Frank, 1994, *Microeconomics and behavior*, New York@: Mc-Graw Hill, ch 7.

<sup>84</sup> Axelrod, 1990.

'prisoner's dilemma' happen regularly or frequently in real life. For mutual action to take place, there has to be a real prospect of mutual benefit. This is the issue addressed by another formal argument, the idea of 'comparative advantage'. If two rational, utility-maximising individuals have different productive potentials - for example, in choices between plumbing and bricklaying, or gardening and cooking - they can achieve more through specialisation and mutual exchange than they can individually. The proof that this does have an application in society is that there is, in practice, a division of labour: people accept specialised roles within an agreed framework or common objective, and the division of labour is participated in by everyone who has a job.

There are potential problems, and some limitations to the scope of this argument. There is no guarantee of an equitable distribution of gains - one party can be made better off at the expense of another. The production possibility frontier does not have to be straight, and there may be distributions in which both parties would be worse off. The scope for gain may be very limited where there are pronounced inequalities between the parties. Further, the differentiation of status and class implicit in specialisation may lead to disadvantage: the clearest example is the division of labour within the home, where the activities undertaken by women have been associated with lower status and power. The central principle, though, is difficult to dispute: that there are potential gains from collaborative action. That is why rational actors will seek to collaborate.

This is the core of the argument for mutualistic action. Mutual aid is essentially a form of collaboration, and the pooling of skills and resources - for example, self-build housing associations, local exchange schemes or babysitting circles - can be expressed in terms of comparative advantage. Pooled resources increase the potential returns to group members - not just because of economies of scale, but because there is an increase in the range of potential outcomes. The same principle extends to many forms of reciprocal action, including reciprocity within families, and of course to reciprocity over time. The pattern of exchange and interdependency described earlier is social (► [I.1.c.i](#)), but it can also be justified rationally.

The main limitation of this proof, of course, is that most people are not self-interested utility maximisers of the kind envisaged in economic theory. They are socialised into the acceptance of social codes, and participation in collective action, which means that they act in a different way, and by different standards.

### ***1.3.b.i. Mutual aid benefits the participants.***

In many cases, mutual aid and solidarity take a specific, specialised form: the pooling of resources for security. The arguments for this kind of action depend on a second set of propositions, which concern the benefits of pooling risks. People's reaction to risks varies, and is difficult to explain in rational terms; many people accept considerable risks to their health or safety (for example, through smoking or riding motorcycles) while shying away from risks which are extremely remote (like contracting Creutzfeld-Jakob disease from beef or being subject to terrorist attacks in foreign countries). When individuals make decisions about risks, they take several considerations into account. Part of their decision is based on is the perceived level of risk, which is complicated because it is formed of a series of inter-related considerations: the absolute level of risk, the level of risk over time, and the marginal level of risk. People know that smoking cigarettes or taking heroin is dangerous, but many think they can get away with it this time, or that they can give it up next month.

Part is based on the seriousness of the risk. Small risks with potentially very high costs may be avoided when high risks with lower costs are accepted. Part, too, relates to the perceived alternatives. The risks of motoring are high, but the alternative to using cars in some European societies is not to try to buy food. On the other side of the balance, there is the perceived benefit. The risks of pregnancy, relative to many other conditions, are high, but the benefits of pregnancy are clear and strong. People do not avoid risk; they avoid serious, unnecessary risks if they think the benefits are too small. The central issue is, then, the management of risk, rather than risk avoidance.

Pooling risks, like insurance against theft or ill health, has the main benefit of security; it makes expenses predictable and manageable. The benefit of security is felt, not only by recipients, but by all participants. The calculation of whether this is worthwhile depends on the extent to which people discount risks; the principal evidence that the benefit outweighs the cost is given by the number of people who do it. Voluntary systems of social insurance have functioned in many countries, often covering most of the population in stable employment: examples are the scheme for unemployment insurance in Denmark<sup>85</sup>, the union-based health service in Israel<sup>86</sup> or the supplementary insurance for sickness offered by mutual societies in France<sup>87</sup>.

### ***1.3.b.ii. Collective action increases the potential of each person.***

The theory of comparative advantage shows that productive potential of individuals is increased by specialisation and exchange. Mutual aid makes it possible to constrain the impact of risk, and so permit more risky strategies. Collective action permits the pooling of skills, so that each person can draw on the skills of others. Group formation develops possibilities for action, and some things can only be done by many people working in concert. Collective action, consequently, increases potential.

This is all subject to an important reservation. Although it is fairly obvious that some things can only be done through collective action, it is also obvious that some forms of collective action - such as the constraints of authoritarian and theocratic communities - can reduce individual potential. This is because the freedom to act of some people can constrain others, and concern about this potential for constraint is a central argument in the defence of liberty.

### ***1.3.b.iii. Individual interests can conflict with collective action***

Mancur Olson argues that everyone is likely to reach a point at which it is in their interest to default from collective action.<sup>88</sup> If people act collectively to provide public facilities like

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<sup>85</sup> J Kvist, 1998, Retrenchment or restructuring? The emergence of a multitiered welfare state in Denmark, in J Clasen (ed) Social insurance in Europe, Bristol: Policy Press.

<sup>86</sup> U Yanay, 1990, Service delivery by a trade union - does it pay?, Journal of Social Policy 19(2) 221-234.

<sup>87</sup> H Bolderson, D Mabbett, 1997, *Delivering social security: a cross-national study*, London: Department of Social Security.

<sup>88</sup> M Olson, 1971, *The logic of collective action: public goods and the theory of groups*, Cambridge, Mass.: Harvard University Press.



roads or parks, then a rational self-interested individual may consider that it is in his interests to have a 'free ride', taking advantage of the collective action of others. The effect of defaulting may be to increase the costs for those who continue to act collectively, and to increase the incentive on others to default. (This depends, of course, on the view that such an action would not jeopardise the continued existence of coverage, which is uncertain; the judgment is based, again, on an assessment of the situation. There may also be a penalty for defaulting: people who drop out of pension schemes often lose financially, and the first person to show a light in a wartime blackout is also the person who is most likely to be bombed.<sup>89</sup>)

The problem of the 'free rider' is much less acute than Olson's analysis suggests. Sugden argues that his position is manifestly inconsistent with what we know about social behaviour; people do not, for example, stop giving to charity because other people do.<sup>90</sup> Stone points to a series of motivations which encourage people to collective action: the common influences which people are subject to socially, the rewards of co-operation, and, more subtly, the ambiguity of political definitions of problems, which can lead to people understanding their interests in different ways.<sup>91</sup> Many will happily identify the preservation of the collective environment, rather than their individual right to pollute it, as representing the true definition of their interests.

The general point is still valid: individual interests may conflict with collective ones, even if people do sometimes act collectively. A person who is pursuing individual interests may not wish to be tied to collective action. Defaulting from mutual aid seems to be more immediately in the interest of certain individuals, particularly those with high security or low risks. In that light, it is interesting to note that in countries where people have had the choice of whether or not to join social insurance schemes, the vast majority have done so. It is also noteworthy that many of the people who default in practice do so, not because their risks are low, but on the contrary because they are insecure - if they have low income, they cannot afford to participate fully.

*1.3.b.iii.(1) Free riders may be compelled to participate in collective action.*

Olson sees compulsion as the primary route through which free riding can be avoided. This is debatable; people comply with social preferences for the most part through socialisation and the establishment of social norms (► [1.1.c](#)), and compulsion usually plays only a limited part. It is undeniable, though, that there comes a point at which compulsion may be introduced.

The argument for compelling free riders applies only to a part of the argument for collective action. It does not apply to mutual aid, because someone who does not contribute to a mutual aid society does not benefit, and it does not apply to national welfare systems which have been based on that principle. Free riding is a problem only when the action cannot exclude

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<sup>89</sup> O Widegren, 1997, Social solidarity and social exchange, *Sociology* 31(4) pp 755-771.

<sup>90</sup> cited A Culyer, 1991, The normative economics of health care: finance and provision, in A McGuire, P Fenn, K Mayhew (eds), *Providing health care*, Oxford: Oxford University Press.

<sup>91</sup> D Stone, 1997, *Policy paradox*, New York: Norton, 2nd ed., pp 220-1.

recipients. This mainly applies to action for the provision of universal benefits - benefits and services which are available to everyone - and to public goods or services, like roads, street lighting, parks, policing and defence.

The argument for compulsion is straightforward enough. If I use a service which I have not paid for, I am liable in civil law for an action by the owners. If the owners are the rest of the community, the principle is no different; I have no evident right to use their services without contributing. But there are two special cases which need to be considered. One is the case of goods which free riders will benefit from whether or not they pay. Public health and street lighting affect everyone, whether or not they want to be a part of it. The main case for compulsion here is that people are benefitting. But there is also an argument about 'externality'; the effects of such goods are not felt exclusively by one person, but spin off throughout society. Without a road network, transport becomes difficult; without transport, the distribution of goods and services fails; without the distribution of services, choices are limited. The interdependence of people in society makes inclusion in certain activities unavoidable.<sup>92</sup>

The second case, which is much more problematic, is where services are divisible, and people choose not to participate in a collective service because they prefer not to use it. This can be dismissed in some cases, like education, defence or health care, because people benefit as members of a society. They benefit because others use the service: other people's education makes technology possible, and other people's health protects our health. But there are other cases, like parks or libraries, where people might genuinely not use the service. The difficulty of admitting this point is that parks and sewer networks do not flourish in economic markets, and without the elements of compulsion and inclusion, they probably would not exist. (The point is acknowledged by Adam Smith in *The Wealth of Nations*.<sup>93</sup>) The main argument for such compulsion seems to be that a society can legitimately make rules for the general benefit of its members; the economic argument can be made that the benefit to each member of the population outweighs the social cost. The test is then whether such restrictions can be justified in terms of the freedom of individuals. This argument is probably not sufficient to override the objections of liberals, because it denies individual choice; but it would be satisfactory to those who believe that society should be organised for the convenience and comfort of its members.

*I.3.b.iii.(2) Collective action does not have to be compulsory.*

Some degree of compulsion is defensible. Any argument that collective action must depend on compulsion, however, would be mistaken.<sup>94</sup> It would be

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<sup>92</sup> W Oakland, 1987, Theory of public goods, ch 9 of A Auerbach, M Feldstein, Handbook of public economics, vol. 2, Amsterdam: North Holland.

<sup>93</sup> A Smith, 1776, book 4 chapter IX.

<sup>94</sup> Here I part company from de Swaan: see A de Swaan, 1988, pp 159-60.

mistaken both in theory, for the reasons which are outlined here, and in fact: many arrangements for mutual aid, and the foundation of several welfare states have been made on a voluntary basis. For example, until very recently there was no direct requirement to join the systems which protected people from unemployment and sickness in Denmark, Sweden and Finland. Compulsion was considered unnecessary, because there was no scope for free riding and the benefits of joining were clear. (Compulsory contributions were finally introduced as a means of raising revenue to cope with the economic downturn of the 1990s<sup>95</sup> - in other words, as a form of taxation.) Collective action may be compulsory, then, but it does not have to be. Because compulsion is not requisite, it is not a key element in the theoretical analysis presented here; it will be referred to later in the contexts where it occurs.

#### ***1.3.b.iv. Collective action and mutual aid develop spontaneously in society.***

People live in society (► [1.1.a](#)); society is formed of groups (► [1.2.b](#)); and where there are social groups, people act collectively (► [1.2.a.iv](#)). This form of collective action is reinforced both by moral considerations (► [1.3.a.iii](#)) and by rational self-interest (► [1.3.b](#)). This is especially important for an understanding of the provision of welfare, which this book is about. Historically, collective action and mutual aid are the origin of many arrangements for the provision of welfare in Europe and America; social protection was developed through the actions of occupational groups, guilds, fraternities and mutual aid societies.<sup>96</sup> Although such action developed through civil society, it is often seen in the present day as the product of state action. This is reflected in the competing historical accounts referred to at the outset of the argument (► Method). The emphasis on the state has arisen because many states sought subsequently either to direct or to supplant the role of collective action in provision; but we must not disregard the importance of the collective action which generally precedes state action. Some form of collective action is typical of any society - indeed, it comes close to defining what a society is. It appears to be 'spontaneous' because formal decision-making and the intervention of governments are not necessary for it to happen.

## **COHESION AND EXCLUSION**

### **1.3.c. Solidarity is an integral aspect of social cohesion.**

The principle of solidarity is rationally based and morally desirable, but neither of these features fully explains its force. Solidarity is identified with the obligations which people have towards others within a society. Because people in any society are liable to be

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<sup>95</sup> N Ploug, J Kvist (eds), 1994, Recent trends in cash benefits in Europe, Copenhagen: Danish National Institute of Social Research.

<sup>96</sup> P Baldwin, 1990, The politics of social solidarity, Cambridge: Cambridge University Press.

interdependent to some degree, and interdependence implies obligation, there is probably no form of society in which some form of solidarity does not apply. If society is an interwoven series of networks (► [I.2.b](#)), solidaristic obligations are often the threads which bind the networks together. This is another way of describing social cohesion (► [I.2.b.i](#)). Solidarity is not the only process through which social cohesion might be developed - culture, belief, or common interest matter just as much - but it is integral to social cohesion, and wherever there is a degree of social cohesion, some elements of solidarity are likely to be found. Solidarity is integral to social cohesion. The same can be said of its relationship to society, because without social cohesion, societies cannot exist.

### ***I.3.c.i. Collective action defines a community.***

Collective action is action undertaken by a social group (► [I.2.a.iv](#)). Although identity is one of the characteristics of groups, it is not always very strong. Some collective organisations are strictly formal; the members of a friendly society or insurees of a mutual insurance company may think of themselves as customers rather than participants, and respond to contact with the society as if they were dealing with a commercial undertaking. However, collective action often has the effect of building group identity, either because it formalises links and relationships which were already evident - like church societies, miners' welfare groups, or parent-teacher associations - or because it defines the group in relation to the wider society. When, for example, Afro-Caribbean societies have been formed in English cities, they have been identified as a focus and voice for a community. The links between people from different parts of the Caribbean and Africa were often tenuous at first, but the combination of social contact within the group and the perception of the wider society has helped to forge a group identity.

One of the vaguest forms of social group, though one which has been profoundly influential in social policy, is the 'community'. Communities can be formed through physical identification: a household, a village, or a city might be seen as a group. There may be some common characteristic or feature which links the members; a group can consist of elderly people in an area, or a business community. The term is also used to refer to people who are engaged in some common activity: there may be a 'community' of business people, politicians or journalists. It is not very clear what makes people into a 'community' - Hillery, in an article written in the 1950s, identified 94 distinct meanings of the term<sup>97</sup> - but generally it implies that there is something about the members of the community that means they can be taken to form a group of some kind. Because collective action defines a group, it also defines a community.

### ***I.3.c.ii. Collective action is exclusive as well as inclusive.***

The process of forming and defining groups has a double edge. On one hand, it serves to focus, and sometimes to accentuate, relationships within the group. On the other, it defines a social border - the relationship of the group to the people outside it. Social borders vary in strength and permeability, but their importance is difficult to underestimate. It seems to

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<sup>97</sup> G Hillery, 1955, Definitions of community: areas of agreement, *Rural Sociology* 20, pp 111-123.

be a general trend that social groups develop their identity either by reinforcing contact within the group or by strengthening the limits.

Social groups tend, as a result, to be exclusive as well as inclusive. The very act of inclusion implies social borders, because the more clearly a group is defined, the more clearly insiders and outsiders can be identified. The most extreme example of such borders occurs in a caste society, where strict rules are used to identify the boundaries between castes.<sup>98</sup> Crossing boundaries is defined as an act of “pollution”, and so a basic form of deviance. In modern societies, borders are less strongly identified, but there is still a strong residual element of these rules in the stigmatisation of deviant groups, including poor, mentally disordered and disabled people.<sup>99</sup>

The process of defining borders does not mean that obligations to people cease to exist altogether. On the same argument which implies obligations to people across social divisions (► [I.2.c.iii](#)), there are residual obligations to people who are within the same society. These obligations are generally seen, however, as inferior to duties to people who are members of the same social group. Solidarity and social cohesion may co-exist with structures of disadvantage and social division (► [I.2.c.ii](#)).

### ***I.3.c.iii. Exclusion prevents social integration.***

Exclusion refers, in this context, to two closely related but distinct problems. First, there are people who fall outside the borders of social groups - people who are stigmatised and socially rejected. There is a long history of the social and physical isolation of certain groups, such as people with disabilities, who are regarded as deviant.<sup>100</sup> Second, there are those who are not part of solidaristic social networks, experiencing neither obligations to others nor support from them. The extreme case is that of the single homeless person, living on the street, with no family contact. There are degrees of exclusion, however; as the number and strength of relationships diminish, it is difficult to define any single point at which a person can be said to be 'excluded'. A pensioner who is afraid to leave her house, a single parent on an outlying estate who does not have enough money to travel into town to shop, an unemployed man who has little hope of returning to work, or the residents of a nursing home, might be said to be 'excluded' to some degree, but the degree varies; all can be expected to retain at least some contact with family, friends and the activities of the wider society.

Exclusion is, then, a function of social integration, and it varies directly with the degree of integration a person has. But it is also an obstacle to social integration, because exclusion diminishes the ability of people to participate in society. If people do not have social contact, they do not form the relationships, or become part of a network of

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<sup>98</sup> M Douglas, 1966, *Purity and Danger*, London: Routledge and Kegan Paul.

<sup>99</sup> P Spicker, 1984, *Stigma and social welfare*, Beckenham: Croom Helm.

<sup>100</sup> J Hanks, L Hanks, 1948, *The physically handicapped in certain non-occidental societies*, *Journal of Social Issues*, 4(4), 11-20; P Hunt (ed.), 1966, *Stigma*, London: Chapman; M Jacques, 1960, *Treatment of the disabled in primitive cultures*, in C Patterson (ed.), *Readings in rehabilitation counselling*, Champaign, Illinois: Stipes Publishing; M Oliver, 1990, *The politics of disablement*, London: Macmillan.

obligations, to the same extent as others. Those who are highly integrated become better integrated still; those who are less integrated are marginalised.

#### ***I.3.c.iv. Exclusion limits social cohesion.***

Exclusion has, too, a wider social implication, beyond its implications for the person. The effect of exclusion on the wider society is to distinguish an in-group - those who are protected and supported by networks of social relationships and solidarity - from those who are not. Arguably this strengthens the in-group,<sup>101</sup> but cohesion is a product of the strength of relationships within the group, not of the borders (► [I.2.b.i](#)). However, when exclusion is widespread, the security and well-being of those who are included are also jeopardised. Exclusion diminishes the strength, not only of the obligation to the excluded, but of the obligations which the excluded have to others. Exclusion is often associated, perhaps unfairly, with a sense of social threat. Part of this is generated by uncertainty: where there are large numbers of people who have few obligations towards others in society, and little interaction, it is difficult to know how they will react or what can be expected of them. Exclusion generates insecurity.

From the perspective of the whole society, then, exclusion has the effect of reducing cohesion. It does this by alienating those who are excluded, so that they have fewer responsibilities towards others in society, and others have fewer responsibilities towards them; by generating insecurity even among those who are included; and, from the perspective of the whole society, by reducing the strength of the obligations to those who are relatively distant, and so to strangers. The Single European Act of 1987, on this basis, made provision in the European Community for the promotion of 'economic and social cohesion'. The principal measure undertaken under this heading has been the reform of the Structural Funds, which are described as “instruments for combatting the exclusion from the labour market of the weakest sections of the population”<sup>102</sup>.

## **SOCIAL RESPONSIBILITY AND SOCIAL BORDERS**

#### **I.3.d. Obligations may extend beyond borders.**

The processes which link social groups (► [I.2.a.iii](#)) cut across social divisions and geographical boundaries. The links across social divisions are necessary for the continuance of a society (► [I.2.c.iii](#)). The links which extend beyond geographical boundaries, to different societies, are not so immediately obvious. Contemporary societies are interdependent. Proximity, interaction and exchange lead, not just to increasing contact, but to the development of a complex set of networks, involving mutual obligation, interdependence and shared codes. This process is clearest in the case of the economy,

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<sup>101</sup> R Scott, 1972, A proposed framework for analysing deviance as a property of social order, in R Scott, J Douglas, 1972, Theoretical perspectives on deviance, New York: Basic Books.

<sup>102</sup> European Commission 1994, EC Structural Funds 4th Report: the implementation of the reform of the Structural Funds, p.25.



where the process of exchange has led to greater interdependence; but the same trends are visible in culture and social interaction.

The general name which has been given to this trend is 'globalisation'. The term is something of a misnomer, because it underestimates the degree of remoteness, and the tenuousness of social contact, between different parts of the world; the principal international relationships fall into definable trading blocs<sup>103</sup>, and the contact which takes place beyond those blocs is relatively limited. Interdependence may, too, take the form of structural dependency, in which some countries are relegated to a subordinate, and potentially an exploited, role in the world economy.<sup>104</sup> But it is clear, in either case, that relationships do not stop within the confines of any particular society. If relationships continue beyond borders, so do moral obligations.

### ***1.3.d.i. Solidarity is local and national.***

The relationships of solidarity which people have diminish in strength with social distance (► [1.3.a.i](#)) - it is virtually a definition of what social distance is. For many people, if not most, these relationships follow defined geographical patterns. The organisation of solidarity remains, for many people, determinedly local. It is bound, through the neighbourhood, city and region, to a particular place and time. These patterns are partly defined by nationality.

It has been argued, by Elie Kedourie, that there is no substance in the idea of the nation, which in historical terms is a fairly recent development.<sup>105</sup> It is generally true in sociology that the things which people believe are liable to be true in their consequences, and even if nationality is not based in any firm, objective truth, nationhood plays a major part in the formation of social policy. Language and culture are key elements in formal socialisation, particularly in schools. A sense of nationality tends to follow from this (sometimes supporting, and sometimes frustrating, the attempts of nationalists to preserve historical, cultural and linguistic identity). It also determines legal status, which can affect where people can move and where they can work. The impact of nationality on contact, status and the structure of obligation tends to identify solidarity closely with national identity. Nationality defines the nation as the root of a solidaristic community. This may put the matter too high; it is also possible to see national solidarity, as in France, as an agglomeration of local solidarities, and as such a more distant, less powerful source of responsibility.

### ***1.3.d.ii. Social responsibility is not confined to national boundaries.***

This begs the question whether it is possible to develop solidarity across national boundaries. People feel differently towards strangers in other countries than they do to strangers in their own, and this remains true even if they are likely to have social contact with those strangers. Despite the European Union, there is little fellow feeling evident

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<sup>103</sup> P Hirst, G Thompson, 1996, *Globalisation in question*, Brighton: Polity.

<sup>104</sup> S A Samad, 1996, *The present situation in poverty research*, in E Øyen, S Miller, S A Samad (eds) *Poverty: a global review*, Oslo: Scandinavian University Press, pp 33-46.

<sup>105</sup> E Kedourie, 1993, *Nationalism*, Oxford: Blackwell.

between, say, France and Austria, and French citizens are more likely to acknowledge responsibility for someone from New Caledonia (legally a part of France) than they are to acknowledge responsibility for an Austrian.

This example helps to clarify something of the nature of solidarity, and of social proximity. Social proximity is not the same as geographical proximity; networks of solidarity develop through common history, contacts, interaction, trade, military conquest, and so forth. Britain is closer to South Africa or India than it is to Albania. In some cases, the interaction is regional and geographically based: the US is bound, willy-nilly, to Mexico. Some of the ties are through common religious and linguistic links, as with the Arab countries of the Middle East, or the continued links between Spain and Latin America. Because interaction and interdependence extend beyond national boundaries, the same is true of solidarity.



## I.4. THE MORAL COMMUNITY

### I.4. People and communities have to act morally.

- I.4.a. People are bound by moral rules.*
  - I.4.a.i. Moral ideas form rules of action.
  - I.4.a.ii. Moral rules are social norms.
- I.4.b. Moral rules are socially constructed.*
  - I.4.b.i. Moral norms are complex, and sometimes contradictory.
  - I.4.b.ii. The morality of an action cannot be judged by its consequences.
  - I.4.b.iii. Morality is not rational.
- I.4.c. Morals justify intervention in other people's lives.*
  - I.4.c.i. Societies control undesirable behaviour.
  - I.4.c.ii. Deviance is a breach of social rules.
  - I.4.c.iii. Deviance implies exclusion.
- I.4.d. Where there are social relationships, there are moral relationships.*
  - I.4.d.i. Morals govern personal and social life.
  - I.4.d.ii. The morality of collective action depends on the nature of the action.
- I.4.e. Societies also have moral obligations.*
  - I.4.e.i. Societies have obligations to their members.
  - I.4.e.ii. Societies have obligations to non-members.
  - I.4.e.iii. Societies have obligations to other societies.
  - I.4.e.iv. Societies have obligations to previous generations.
  - I.4.e.v. Societies have obligations to future generations.
  - I.4.e.vi. Societies can be moral agents.

## MORAL RULES

### I.4.a. People are bound by moral rules.

People are moral agents. They have responsibilities to other people (► [I.3.a.ii](#)). Moral norms require them to act in particular ways; they are expected to behave according to certain standards, and they may be subject to a social sanction if they do not. The application of moral rules usually depends on there being a reason for a person's action; morals are the codes which are used to determine whether an action is acceptable. In the criminal law, a criminal act requires two constituent elements: the *mens rea*, or guilty mind, and the *actus reus*, or guilty act. An action which is involuntary or accidental is not likely to be criminal (though there are exceptions, of strict liability); an action which is not itself unlawful is not usually criminal, even if the consequences are bad.<sup>106</sup> Much the same is true of morality: actions are judged by their nature, not by their consequences.

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<sup>106</sup> J Smith, B Hogan, 1996, Criminal law (8th ed.), London: Butterworth.

The suggestion that people 'have to' act morally does not mean that they can only act morally; they have to act morally because they are obliged to do so by their moral code. If they do not act morally, they are in breach of the rules.

#### ***1.4.a.i. Moral ideas form rules of action.***

Morals are rules governing behaviour. Rules can define the limits of acceptable action, and they can identify desirable action; many moral rules do both. “Thou shalt not kill” is the first kind of rule; “honour thy father and thy mother” is the second. The first type is easier to enforce than the second, because it is easier to tell when it has not been followed. Prohibitions tend, as a result, to be more prominent in discussions of morality than virtues.<sup>107</sup>

This tends to distance the discussion of morality from the discussion of social norms in other senses. Social norms are expectations (► [1.1.c](#)). Morals, however, are often defined by contrast with expectations, rather than by conformity with them. They are often concerned with what people are expected not to do. Because of this, the nature of moral conduct is concealed from view. We do not think of people as acting 'morally' just because they talk to each other rather than hitting each other, walk past houses without stealing from them, or pay for goods in shops. But we would know immediately that they were not acting morally if they did otherwise.

This does not mean that moral rules do not apply in such cases. However, such rules are so strong, and so evident, that there is little reason to explain or justify them; they are an everyday part of social life.

#### ***1.4.a.ii. Moral rules are social norms.***

Moral concepts convey expectations about the ways in which people should behave; they are, then, a form of social norm (► [1.1.c](#)). They are different from other social norms in three main respects. First, they are rules, which are subject to social sanctions (and so, which are enforceable). This does not mean that there has to be a formal sanction, though often there will be; social disapproval and rejection are also sanctions for immorality. Second, they are rules about behaviour. Many of the social expectations we have are not concerned with behaviour or conduct. They relate to physical appearance, personality, social roles and status - in other words, to any aspect of individual and social relationships. Moral rules have a more limited focus; they are concerned primarily with actions. (It should be acknowledged, at the same time, that this coexists with an older form of morality, which ascribes behaviour to people on the basis of their lineage. People can be stigmatised morally because of what their parents or ancestors did.) Third, moral rules are serious. Issues which are not thought of as important are either not subject to a sanction, or reduced to matters of etiquette.

The identification of moral values with social norms means that, like other social norms, they depend on the society they are found in. They are not subjective, and they are

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<sup>107</sup> Contrast the position in D Statman (ed), 1997, *Virtue ethics: a critical reader*, Edinburgh: Edinburgh University Press.

not individual. They are based, rather, on shared, inter-subjective perceptions, developed through the process of socialisation, and disseminated through social interaction (► [I.1.c](#)).

The view of morality this offers is different from that found in moral philosophy. Moral philosophies - such as Kantianism, utilitarianism or virtue ethics - have generally sought the foundation of morality in its own internal rationale. The argument here, by contrast, is a sociological one: moral rules are a category of social norms, derived and held through a similar process to other social norms.

## THE SOCIAL CONSTRUCTION OF MORALITY

### I.4.b. Moral rules are socially constructed.

The idea that morality is 'socially constructed' does not mean that it is artificial or imposed; it means that the concepts which are used, and the relationships between them, are developed in social terms. The processes by which moral norms are established are complex. Some moral codes emerge through 'prescription'. Actions which are done repeatedly with beneficial effects condition expectations, and expectations generate norms (► [I.1.c](#)). Over time, rules become established in society.<sup>108</sup> Rules against murder, theft and public disorder exist because these acts threaten the security of everyone, and a society is better off without them.

Morality is not fixed; the process of prescription depends on the assumption that there are other processes which are being introduced, tried and either rejected or retained. Some moral principles appear to be relatively recent, like the tolerance of suicide in western countries or the reaction against the corporal punishment of children, though often recent changes simply reflect the adaptation of existing norms to new circumstances. Rules can be imported from other societies, through 'cultural diffusion'. On the grand scale, the growth of Christianity is illustrative; more recently, the cultural dominance of the United States means that many people have sought to incorporate the liberal individualism of the US within their own culture, sometimes with paradoxical results. Rules can be imposed by law, and the moral authority which supports the law invests those rules with a sense of legitimacy. If, for example, the law says that young people should not buy alcohol, it will immediately become immoral to break that rule - because it is immoral to break the law - and that sense of immorality will be shared by people who have no particular feelings about the morality of alcohol consumption. (This creates a dilemma, and so a tension, for those who feel that certain laws are unjust and should be disobeyed.) This also provides a route through which some moral principles can be consciously introduced by legislators, and educational courses in religious instruction or civic responsibility have been used to foster particular moral views.

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<sup>108</sup> E Burke, 1790, *Reflections on the revolution in France*, New York: Holt, Rinehart and Winston, 1959.

***1.4.b.i. Moral norms are complex, and sometimes contradictory.***

Moral rules relate to the way in which people live their lives, and the way that people live their lives is rarely straightforward. A single act can have many different implications, and be subject to many rules at the same time. Moral dilemmas - points at which moral rules conflict - are common. The values of work and family lead to conflicting demands on time and commitment: single parents are condemned both for going out to work and for staying at home. Parents whose children commit criminal offences are torn between moral condemnation of the offence and the moral imperative to stand by their child.

The example of abortion stands out; it is difficult to think of a case in which the moral dilemmas are so sharply defined. The termination of a pregnancy is subject not to one moral norm, but to several, relating to the unborn child, the mother, the father, other involved people, women in general, and the wider society. Although some of the protagonists in the debate present one, and only one of these positions, most people would recognise the legitimacy of more than one. This is why the issue is so complex and difficult, because the interests and positions of those involved are hard to balance, and may be irreconcilable.

***1.4.b.ii. The morality of an action cannot be judged by its consequences.***

Morality is generally concerned with what is right, not just with what has a good effect. There are, certainly, many cases where it will be right to have a good effect, and there are some moral principles which value an action according to the consequences. Some people do argue that whether or not something has good consequences is at the root of morality; this is the basis of utilitarianism<sup>109</sup>. There are two forms of utilitarianism. Act-utilitarianism argues that right actions are simply those with good results. By that argument, it is all right to kill someone who makes everyone around them miserable, like the victim in an Agatha Christie novel or university Heads of Department, and it is all right to rob a bank if the money wouldn't have been spent otherwise, because spending the money increases employment and the sum of happiness. This is unlikely to persuade many people over the moral age of seven, and it can be fairly rapidly dismissed. The alternative doctrine, rule-utilitarianism, argues that a rule is morally right if it is likely to have good effects when practised generally. As a moral doctrine, this is still questionable. Locking up people whose innocence is in doubt might be justified by the consequences, but most modern societies do not accept that it is fair to the person who is locked up. All this means that actions can be thought to be morally right even when they do not have good consequences. Although they are linked, the two ideas are discrete - that is, logically separable - and distinct in practice.

Whether a moral action has undesirable consequences depends, of course, on one's view of whether the action is actually moral, and whether the actions are actually undesirable. A cloying, cloistering morality - the kind which was used to repress a caste society - could seem highly beneficial to some, including many of its victims, while deeply objectionable to others, including some of its beneficiaries. But there are cases where 'moral' actions have had clearly undesirable consequences: for example, the prohibition of

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<sup>109</sup> J S Mill, *Utilitarianism*, in M Warnock (ed.) *Utilitarianism*, Glasgow: Collins, 1962.

alcohol in the US (which fostered gangsterism, corruption and law-breaking), or the maintenance of property rights during the Irish famine, which led to food being exported in the sight of people who were starving.<sup>110</sup>

Conversely, actions with desirable consequences can be immoral. Breaking promises is wrong, even if the promise should not have been made. Many things in life are enjoyable, pleasant and morally disapproved; as an old song says, if it feels good, it's probably illegal, immoral or it makes you fat. The problem here is that in real life moral principles often conflict, and things which are desirable for one reason may be undesirable for another.

#### ***1.4.b.iii. Morality is not rational.***

Some philosophical systems have attempted to describe morality in rational terms, identifying moral codes with consistent general principles. Utilitarianism is one such system; the most important of the others Kantian thought and contractarianism. Kantian approaches begin from general, universal propositions about morality which can in principle be applied to everyone.<sup>111</sup> Contractarianism rests on an explanatory myth, trying to identify what reasonable people might agree to if they make their decisions under a 'veil of ignorance' as to the actual consequences.<sup>112</sup>

The central flaw of any rational system is the presupposition that existing morality can be said to comply, more or less, with its precepts. Rational approaches to morality are presented as both a form of moral teaching and a description of the way in which morals work. There may well be moral codes which fail to comply with the theory, but these are liable to be dismissed as aberrations. If moral norms appear to be out of step with the ideal moral principles, the flaw rests in the norms, not in the principle. Most systems of thought are subject to two closely related intellectual vices. The first is the assumption that the morality which the writer holds is a dictate of reason, rather than a social construct. The trend is visible, in different ways, in John Stuart Mill's defence of the utility of tolerance<sup>113</sup> and John Rawls's extraordinary assumption that the values of liberal America are the values to which every rational person must assent.<sup>114</sup> The second is the inability of rationalist explanations to accommodate changes in morality when the differences have no evident function. It seems fairly obvious that sexual mores differ strikingly between societies, and sometimes differ within a short space of time in the same society; a rational, universal, consistent code cannot begin to cope with this. The truth is that these moral codes depend on the society they are part of, and they are not susceptible to rational analysis.

The attraction of rational explanations is that they are so often nearly right. Moral principles often fall tantalisingly near to rational outcomes. Axelrod's model of the evolution of co-operation shows that for rational actors faced with choices about

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<sup>110</sup> J Drèze, A Sen, 1989, *Hunger and public action*, Oxford: Clarendon Press.

<sup>111</sup> H Paton, 1965, *The moral law*, London: Hutchinson.

<sup>112</sup> J Rawls, 1971, *A theory of justice*, Oxford University Press, Oxford.

<sup>113</sup> J S Mill, *Utilitarianism*, in M Warnock (ed.) *Utilitarianism*, Glasgow: Collins, 1962.

<sup>114</sup> J Rawls, 1971; and see N Daniels (ed), 1975, *Reading Rawls*, Oxford: Blackwell.

cooperation or defection the best strategy for survival is 'tit for tat' - returning good for good, and evil for evil.<sup>115</sup> Over time, social mores seem to conform to rational principles.

The explanation for this is that morality evolves, like many other social processes, through a process of selection. The idea of prescription seems to imply a functional view of morality: moral precepts are retained if they work. But the same process leads to some irrational outcomes. Moral codes can be retained long after they have ceased to be beneficial - for example, the limitations that caste societies place on people's rights to work in different occupations or to marry. It is also possible that a rule might become established which has a very negative effect: for centuries, women's abilities have been disregarded because of a stereotypical view of their role.

## **DEVIANCE AND CONTROL**

### **I.4.c. Morals justify intervention in other people's lives.**

The rules of action implied by morals apply to everyone in a society; often, in the view of people in that society, they apply to everyone outside it. Since the Enlightenment, there has been a tendency for individualists to treat morality as a personal matter, and some reluctance to impose moral codes on other people. The kinds of moral issue about which this is true are limited to a few important areas, such as religious worship, and even then there are substantial qualifications to make. People are not free to do what they please, and even the most fervent individualists generally accept that there should be some restrictions, most typically when actions begin to affect other people.

J S Mill wrote that the individual

'cannot rightfully be compelled to do or forbear because it will be better for him to do so, because it will make him happier, because, in the opinion of others, to do so would be wise, or even right. These may be good reasons for remonstrating with him, or reasoning with him, or persuading him, or entreating him, but not for compelling him, or visiting him with any evil in case he do otherwise. To justify that, the conduct from which it is desired to deter him must be calculated to produce evil to some one else.'<sup>116</sup>

This is not a limitation, however, which is reflected in common morality. If moral codes are right, they are usually thought to be right for other people as well, and most people apply moral restrictions to the actions of other people, whether or not third parties are affected. Moral disapproval of dangerous drugs was evident long before they were actually banned, and very few people (the exceptions are 'libertarians' in the United States) seriously advocate legalisation currently. Equally, there are positive rules which people consider that others ought to accept. This is one of the rationales for the virus of religious evangelism.

Intervention in other people's lives is sometimes described as 'paternalistic'. This is a derogatory term, at least in the West, because there is the implication that intervention is treating people like children. So, for example, a recent paper from the British government on the situation of people with severe dementia shies away from the idea of intervention to

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<sup>115</sup> Axelrod, 1990.

<sup>116</sup> J S Mill (1859) On liberty, in M Warnock (ed), *Utilitarianism*, Glasgow: Collins 1962, p.135.

protect vulnerable old people from abuse and exploitation because this will 'infantilise' them.<sup>117</sup> This misunderstands the position of children and adults both. Children need protection because they are vulnerable, not because they are inferior. Adults may also need protection in certain circumstances, and whether or not children might also have such protection is an irrelevance; what matters is the situation of the adult.

#### ***1.4.c.i. Societies control undesirable behaviour.***

Norms, and moral rules, combine expectations with sanctions (► [I.1.c](#); [I.4.a.ii](#)), and there are strong social responses to deviant behaviour. On one hand, there are positive moral codes, expressing approval and offering rewards for approved behaviour; on the other, there are prohibitions, expressing disapproval and imposing stigmatisation or punishment. Part of the socialisation of children is concerned with enabling children not just to recognise the rules, but to internalise them: to accept the rules, and to behave in conformity with moral principles 'naturally', without even having to think about them. Those who do not internalise the rules - and many do not - are subject to external sanction. Ruth Benedict once made a helpful distinction between 'guilt' and 'shame' cultures.<sup>118</sup> A 'guilt' culture is one in which norms are internalised and accepted; the main constraint on immoral action is the guilt people feel. A 'shame' culture is one which relies on external sanction; the main constraint is the fear of being caught, and public exposure. [The effect of punishment is, of course, to emphasise shame rather than guilt; this is why physical punishment, like corporal punishment of children, is generally ineffective in instilling moral values. In so far as it externalises the sanction, it is likely to have the reverse of the desired effect.]

The control of unacceptable behaviour is not, then, just a matter of punishment or stigmatisation. It begins in the earliest stages of a person's life; it is part of the process of socialisation. People who subsequently deviate are liable, not just to punishment, but to various steps which might re-educate, or re-integrate, them, into the pattern of conduct approved by society. I mentioned previously the curious condition of psychopathy, in which people appear to be under-socialised and unable to accept social responsibilities to each other. The response to psychopathy is not nominally to punish psychopaths (though psychopaths can be detained if they are a danger to others), but to treat them for their condition - despite the fact that psychopathy is not, technically speaking, a mental illness. The effectiveness of treatment is uncertain, but the better results appear to come from treatments which focus on social behaviour.<sup>119</sup>

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<sup>117</sup> Lord Chancellor's Department, 1997, *Who decides?*, London: Stationery Office.

<sup>118</sup> R Benedict, 1946, *The Chrysanthemum and the sword*, Boston, Mass: Houghton Mifflin.

<sup>119</sup> M Gelder, D Gath, R Mayou, 1989, *Oxford Textbook of Psychiatry*, 2nd edition, Oxford: Oxford University Press, ch. 5.

#### ***1.4.c.ii. Deviance is a breach of social rules.***

The term which social scientists use for a breach of social rules is 'deviance'. The opposite of deviance is 'normality' - that is, in conformity with norms.

Deviance is a wider concept than immoral action, because there are many other kinds of expectation. For example, people can be 'physically deviant', if they are different enough to breach expectations<sup>120</sup>, and (however perversely) they can be subjected to the same kinds of sanction as people who are in breach of moral rules.<sup>121</sup>

It is also important to note that people, and not just actions, can be considered deviant. The general principle of criminal law in modern societies is that people are tried for what they have done, not for what they are<sup>122</sup>: but social norms often reject people for what they are, not for what they have done. This leads to the strange position where someone can do something in breach of social norms without 'being' deviant, while someone else might act in conformity with the rules and yet still be stigmatised.

#### ***1.4.c.iii. Deviance implies exclusion.***

The principal sanction used against people who are deviant is social exclusion - rejecting them, cutting them off from social contact, and denying obligations towards them. This is not, of course, the only possible reaction: some traditional societies have emphasised the reverse, which is the re-integration of the deviant person into the community.<sup>123</sup>

The process of rejection is also referred to as 'stigmatisation', though a 'stigma' might also refer to a label attached to the condition which is disapproved. The effect of stigmatisation is to send a clear signal, both to the person who is deviant and to others, that deviance is unacceptable; in principle, it should be possible for the stigmatised person to be reintegrated, but to do this the person should wish to co-operate, and there is no reason to do this if the condition is not in some way undesirable. Stigma is often, however, used unproductively. If the condition is already undesirable - like poverty, unemployment or physical impairment - the motivation of stigmatised people is unlikely to be stirred further by the process of stigmatisation, and the effect of social rejection may be to obstruct re-integration. There is then potentially a contradiction between stigma and exclusion, on the one hand, and the desire to treat or reintegrate deviants on the other.

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<sup>120</sup> R J Comer, J A Piliavin, 1972, The effects of physical deviance upon face-to-face interaction: the other side, in D Boswell, J Wingrove, The handicapped person in the community, London: Tavistock, 1974.

<sup>121</sup> Spicker, 1984.

<sup>122</sup> But see F Neumann, 1942, Behemoth, London: Gollancz.

<sup>123</sup> S Nadel, 1953, Social control and self-regulation, Social Forces, 31(3), 265-273.



## MORAL APPROACHES TO SOCIAL ACTION

### **I.4.d. Where there are social relationships, there are moral relationships.**

Wherever there are social relationships, there are moral relationships. Social relationships generate expectations, and expectations underlie morality (► [I.1.c](#); [I.4.a.ii](#)); but this is only part of the story. Moral relationships are not only generated by social relationships; they are also preconditions for them. Without a minimal degree of security, interaction with strangers becomes dangerous or impossible. There are, then, rules which govern people before their first encounter, as well as expectations which develop in the course of a relationship.

This does not mean that every social relationship is also a moral relationship. It means, rather, that every social relationship is governed by moral principles. Some of these principles are negative prohibitions, like respect for people's bodies and private space, and they become visible only when they are breached. Some are positive, like the duty to reciprocate for things received; but that duty is initially weak, and becomes stronger as interaction and relationships of exchange develop.

#### *I.4.d.i. Morals govern personal and social life.*

Morality has no evident limits, and that has troubled many commentators who believe that there should be parts of life which are unregulated. If morality is based on expectations, it does not seem to matter that the expectations are unreasonable, intrusive or oppressive. Some religious codes have prescriptions for almost every part of a person's waking life (as well as some of the times when people are asleep).

This position can only effectively be opposed by an alternative moral position, and that is what liberals do. They argue, not that there are no moral rules which apply at the level of the individual person, but that the value of individual liberty overrides them. This leaves the question of valuation. Charles Taylor makes the argument, persuasively, that the value of liberty depends on the value of the activity which we are free to pursue. Freedom of religion, freedom of assembly or freedom of speech matter a great deal; the freedom to drive a car without using the brakes does not, and no-one seriously thinks that traffic lights are a major infringement on liberty.<sup>124</sup> But debates about freedom can still be triggered by fairly minor issues, precisely because the value of what is being limited - the power to act without interference - is greater than the justification for the infringement.

The same arguments apply, a fortiori, to social relationships. Morals may limit the scope for certain types of social action; the central issue is whether or not they outweigh other principles governing social interaction.

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<sup>124</sup> C Taylor, 1979. What's wrong with negative liberty? in A Ryan (ed.), *The idea of freedom*, Oxford University Press, Oxford.

***1.4.d.ii. The morality of collective action depends on the nature of the action.***

Collective action is action by a group (► [1.2.a.iv](#)), and it can refer to a wide range of different activities. Like any other form of social relationship, collective action is subject to moral rules. The rules concerning collective action, like many other moral rules, depend on whether the action is itself acceptable. Conspiracies and gangs are unacceptable when their objects are unacceptable. (The term 'conspiracy' is of course pejorative, because people who band together for an acceptable purpose, like arranging a garden festival, are not thought of as conspirators.) There is nothing self-evidently moral about much group activity, because activity which is not in breach of norms is an accepted part of everyday life. Forming a discussion group, celebrating a birth or watching a sports match are neither moral nor immoral in themselves; there is a presumption that these are acceptable activities, and moral concerns are raised only if there is some reason to think otherwise.

Collective action, like any other kind of social relationship, depends on certain preconditions. The preconditions are not the same as those for casual interaction, because collective action concerns groups, and groups have a common identity; people do not make families, associations or communities on the basis of casual contact, but through patterns of established relationships. This makes it difficult to generalise about groups, because the morality of group formation depends strongly on a pre-defined context.

## **THE MORAL COMMUNITY**

**1.4.e. Societies also have moral obligations.**

A society is a meta-group: it embraces and subsumes the identity of the groups within it (► [1.2.b](#)). If a group can have obligations (► [1.2.a.iii](#)), so can a society.

***1.4.e.i. Societies have obligations to their members.***

Any social group can have relationships with its members, and societies are no different; there is no great difficulty about the proposition that a society can have obligations to its members. A 'society' is a large, shifting mass of relationships, but it is also a group; as such, it stands for the generality of persons within it. Any obligation which is owed to people in general is owed to that society. Conversely, any obligations which are held in general towards people - and so, any claim-rights they may have - are held by the society they are in.

***1.4.e.ii. Societies have obligations to non-members.***

More problematic is the position of people who are not members of a society: for example, someone who is passing through a country in transit. If they have obligations to the society they are found in, they are not very clear ones. There does seem to be a general expectation that tourists and visitors will respect the customs and laws of a country.

For the most part, non-members of society are assumed to be members of another society. (The case of stateless persons is exceptional. If someone is not part of any society,

it has been accepted that the place where that person happens to be is the place which should take them in. At that point, the stateless person is effectively admitted to membership of the society - on a purely formal basis, because the stateless person may have no social contact or relationship with the society he is seeking to join.)

If people are assumed to be members of another society, it would seem to follow that their relationship with the host society would depend on the relationship between the two societies. This is not consistently the case. For example, a German citizen has virtually free access to Britain, with reciprocal rights relating to the provision of health care; an Afghani does not. But a German citizen who commits a criminal offence would, like the Afghani, be subject to exclusion or deportation. This is best explained in two stages. First, there are general duties which apply to the non-members of a society. Non-members are generally subject to the law of a host country. Second, there may be specific additional duties to members of another society, depending on the relationship between the two societies. The special relationship of the UK and Germany defines additional duties which do not apply to citizens of Afghanistan.

#### ***1.4.e.iii. Societies have obligations to other societies.***

The pattern of exchange and interaction does not stop within a single society, and societies have many points of contact with other societies, as well as with persons beyond their frontiers. In the same way as groups can have relationships with other groups (► [I.2.a.iii](#)), societies can have relationships with other societies. If social groups from one society interact with social groups from another, each of those groups is likely to develop obligations to others. The most obvious example is that of business and commerce; between two trading nations, contractual relationships are formed in their thousands. This is not directly equivalent to the obligation of the whole society, though whenever there is a sufficiently large number of such relationships, it can be difficult in practice to distinguish between the actions of groups within society and the actions of the society itself. Foreign direct investment plays a major part in the economies of developing countries; it is important for those countries because it brings in resources, expertise, and revenue, while helping to incorporate the society into the economic market. At the same time, it can stifle local competition, milk a poor economy of its product and focus production on items which do not serve local needs.<sup>125</sup> It is possible to argue that these are not issues for the societies which they affect, but the position is difficult to sustain.

This kind of problem becomes an issue for the whole society when it is identified as a social matter. This statement has a certain circularity about it, but it reflects the general argument that what people believe to be true in a society is true in its consequences. If people identify themselves with armies, with businesses, with sports teams, or - however implausibly - with individual citizens, the issues become social issues.

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<sup>125</sup> M Todaro, 1994, *Economic Development*, Longmans, New York, ch 15.

#### ***1.4.e.iv. Societies have obligations to previous generations.***

If people have obligations to past and future generations (► [I.1.c.ii.\(3\)](#)), the same is true of societies. Society, Edmund Burke wrote, is a partnership: “a partnership not only between those who are living, but between those who are living, those who are dead, and those who are to be born.”<sup>126</sup> The statement, long associated with a conservative view of society, seems almost mystical; it defines a society as a partnership of ghosts. The main responsibility which is recognised to past generations is a simple one: to accept the decisions which are made until they are changed through a formal process. Laws and treaties are respected until they are changed, no matter how fatuous they may have become; property rights are treated as continuous (they do not have to be: the biblical 'jubilee' traditionally wiped out rights over land every fifty years). Some commentators have argued for compensation for wrongs perpetrated by previous generations (the basis of arguments for compensation for native Americans, Maoris and indigenous Australians, or the association of modern day racism with slavery). The argument is a direct corollary of the view that we should accept the distribution which results from our ancestors' actions, which is why it is accepted by neo-liberals<sup>127</sup>.

Beyond this, though, we also accept obligations imposed by previous generations on the basis of reciprocity: war pensions are an obvious example. Less obviously, the provision of health care for elderly people, the development of educational provision or the maintenance of the infrastructure of public services, are legacies of the past, framed as obligations because the benefits have already been received.

#### ***1.4.e.v. Societies have obligations to future generations.***

The basic responsibility a society has to future generations extends beyond its responsibility to the past. The main responsibility to the past is the responsibility of a custodian; the task is to preserve, protect and pass on what has been received. Responsibilities to the future are conditioned by the actions of people in the past; the principle of generalised reciprocity implies that the efforts which have been made for this generation carry an obligation to do as much for the next.

The classic expression of these responsibilities is the duty of stewardship - a commitment not just to preserve, but to improve and build on the things we have. Stewards work in co-operation with nature, to improve and perfect it; the classic image of the steward is someone who plants a tree for the use of future generations. This is not, however, a 'green' principle, in the sense in which that is commonly understood. Stewards do not just maintain or conserve; they change, they build, they improve, and they have a duty to do so. Stewardship is an ancient idea; Passmore attributes it to the post-Platonic philosophers of the Roman empire<sup>128</sup>, and it can be found in traditional Christianity (in, for

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<sup>126</sup> E Burke, 1790, *Reflections on the revolution in France*, New York: Holt Rinehart and Winston 1959, p.117.

<sup>127</sup> R Nozick, 1974, *Anarchy, state and utopia*, Oxford: Blackwell.

<sup>128</sup> J Passmore, 1974, *Man's responsibility for Nature*, London: Duckworth, ch 2.

example, the parable of the talents) and in Islam. The obligations of stewardship are held both to the past, to conserve and cherish the best, and to the future, to develop and to build.

The responsibility to future generations has broad implications. Solidarity can be used to define the limits of obligations, as well as the obligations themselves; one reason why people in developing countries continue to experience avoidable deprivation is precisely that they are not included in the pattern of obligation and entitlement which I have described. The recognition of responsibility to future generations brings with it elements of uncertainty. From what we know about a society, we may have some idea of future development - what is the heritage we are leaving them, whether the members of a society will be relatively advantaged or disadvantaged in their relations with other countries, or what language they will speak. But we cannot know what their life-style will be, what they will see as being in their interests, or what even their culture may be.

This seems to me to come very close to the problem that John Rawls poses: how to distribute goods fairly under a veil of ignorance, when we do not know what the consequences will be<sup>129</sup>. Although I do not share many of Rawls's value judgments, I recognise that the strategy he proposes - 'maximin', or maximising the minimum - could be an effective way of protecting the prospects of unborn generations. This is qualified mainly because the knowledge that people have of their own circumstances, and the current state of the world, might incline them to take risks, or make judgments about future developments. The safest strategy is one which promotes the best minimum conditions overall.

This is not quite the same as a general obligation of solidarity, but it does imply that solidaristic obligations have a much wider scope than might at first appear. We can only protect future generations effectively - and so, fulfil our obligations to them - by seeking to protect everyone in the circumstances in which they are likely to be found. The condition of the environment, the development of the global economy and the social relationships we promote are basic to the circumstances of the people we do accept responsibility for as well as those we don't. A commitment to the future cannot be confined to a specific and identifiable group of people.

#### ***1.4.e.vi. Societies can be moral agents.***

Saying that societies have moral obligations is not directly equivalent to saying that a society is a moral agent, because to be a moral agent there has to be a formal structure which can accept and act on moral responsibilities. A family can have moral obligations, but the family does not have the formal structure which would make moral agency possible.

A business, by contrast, usually does have such a formal structure. This is why it is possible to treat a business as a corporate person, and to treat directors as personally responsible for the conduct of the business. Societies often do have such a formal structure, through the political system, and in consequence it is through the political system that moral agency is liable to be expressed. The relationship of a society to its political system has still to be discussed, and the point will be returned to in due course.

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<sup>129</sup> J Rawls, 1971, *A theory of justice*, Oxford: Oxford University Press.

## **PART II: WELFARE**

**II. Welfare is obtained and maintained through social action.**

## II.1 THE NATURE OF WELFARE

### II.1. People have needs, which require a social response.

*II.1.a. Well-being requires certain needs to be met.*

II.1.a.i. Needs are socially constructed.

II.1.a.ii. Needs go beyond the essentials for survival.

II.1.a.iii. Well-being requires more than the satisfaction of needs.

II.1.a.iv. Social groups also experience well-being, or the lack of it.

*II.1.b. Welfare is vitiated by poverty and exclusion.*

II.1.b.i. Poverty is the converse of welfare.

II.1.b.ii. Exclusion denies well-being.

II.1.b.iii. Poverty and exclusion are moral issues.

*II.1.c. Needs present obligations to other people.*

II.1.c.i. Society defines the acceptable minimum.

II.1.c.ii. The obligation to people who are poor and excluded is often weak.

II.1.c.iii. The response to poverty and exclusion must be social.

## WELFARE

### II.1.a. Well-being requires certain needs to be met.

Welfare is an ambiguous term. It is used to refer both to people's well-being, and to systems which are designed to provide for people. For the moment, I shall confine myself to the former use of the term. At the level of the person, well-being depends on a wide range of factors, both negative and positive. The negative factors are things which should not be done to people - such as murder, arbitrary confinement, pollution of the person's environment, and so forth. The positive factors are things which should be present for people to experience well being. At the most basic level, they include the physical necessities of life, like water, food and air, and the goods and materials necessary to ordinary life, like clothing and fuel. But they also include many social factors, including interaction with other people, affection, security and personal development.

The negative factors are commonly discussed in the language of rights, and they will be returned to in those terms later. The positive factors are needs, in the sense that they are necessary for people; people cannot live well if their needs are not met. The effect of a failure to meet any one of these needs - for example, for water, shelter, security or affiliation - is that this factor, or the lack of it, comes to dominate the person's life. Needs are necessary to well-being; without them, well-being is vitiated. Feinberg argues that

these factors are essential to the person<sup>130</sup>; someone who does not have them will find it difficult if not impossible to function as a person.

### *II.1.a.i. Needs are socially constructed.*

Needs are things which are 'necessary' for a person. Needs commonly refer to things that people do not have. They are often represented in terms of deprivation, or problems, but they mean more than this: needs refer to things that people must have, or to conditions which have to be met. A need has to be a need for something.

There has been a long debate about what is and what is not necessary for people. It has often been bitter, because of the fear of each party that the kinds of need they are most concerned about may be forgotten or ignored if another definition is accepted.<sup>131</sup>

Advocates of an 'absolute' view have argued that needs apply irrespective of social circumstances or conditions<sup>132</sup>, while advocates of a 'relative' view have argued that the standards depend on the society in which they occur.<sup>133</sup> Both are correct, in different ways. We need certain things in order to live, like food, water, shelter or warmth. But the way in which these things are provided and obtained depends on the society we live in. What constitutes 'food' depends on what it is acceptable to eat: people in different societies feel differently about eating horses, insects, snakes or pigs, and these things may or may not be classifiable as 'food'. The definition of shelter depends on the society; in the UK, temporary shelters and shanties are generally illegal and liable to closure. Warmth can be achieved in several ways - through activity, through clothing, and through the use of fuel. Activity consumes calories, and so requires food; clothing requires material; and there are many types of fuel, including coal, oil, gas, wood and so forth. In Sen's terms, there may be a core of absolute need, but the commodities which are needed, and the characteristics of those commodities, are socially determined.<sup>134</sup>

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<sup>130</sup> e.g. J Feinberg, 1973, *Social philosophy*, Englewood Cliffs N.J.: Prentice Hall.

<sup>131</sup> A Sen, 1983, *Poor, relatively speaking*, *Oxford Economic Papers*, 35 pp 153-169; P Townsend, 1985, *A sociological approach to the measurement of poverty - a rejoinder to Professor Amartya Sen*, *Oxford Economic Papers* 37 pp 659-668; A Sen, 1985, *A sociological approach to the measurement of poverty: a reply to Professor Peter Townsend*, *Oxford Economic Papers*, 37.

<sup>132</sup> e.g. V George, 1988, *Wealth, poverty and starvation*, Hemel Hempstead: Wheatsheaf Books, p 208.

<sup>133</sup> P Townsend, 1993, *The international analysis of poverty*, Hemel Hempstead: Harvester Wheatsheaf.

<sup>134</sup> Sen, 1983, p 160.



### ***II.1.a.ii. Needs go beyond the essentials for survival.***

The idea of need has been used to refer to the essentials for basic survival, but the boundaries of need are hazy, and every attempt to define need in a restricted way has gradually been expanded to include further kinds of need. It is not enough to talk about the minimum necessary for survival, because people are able to survive in widely different circumstances, even where they are starved, beaten and dehumanised. The idea of 'subsistence' was introduced to refer to 'mere physical efficiency'<sup>135</sup> - a level of living at which people would not be malnourished, cold or sick. But this standard is too restrictive to be useful in practice. People are social beings, and a standard which does not allow them to protect themselves against harm, to interact with other people or to form relationships fails to relate to many of the most essential needs. The United Nations has sought to develop a concept of 'basic needs', which extends the idea of subsistence to include certain social needs, including for example education and health cover.<sup>136</sup> As this process goes on, it becomes clear that what people need extends far beyond the basic minimum necessary for survival or subsistence. People need cars, schools or electricity, not because these things are intrinsic to humanity, but because they live in societies where these things are essential.

### ***II.1.a.iii. Well-being requires more than the satisfaction of needs.***

Needs are not sufficient for well-being: more factors contribute to welfare than the satisfaction of basic material needs. Maslow wrote of a 'hierarchy' of needs: physiological needs were most basic, followed by needs for safety, love, esteem and self-actualisation.<sup>137</sup> The order of priority Maslow gives the factors is very disputable, and it is not certain that a hierarchy can be strictly defined: the needs he describes are interlinked. What does seem to be true is that people have needs at different levels, and that as some needs are met, others are liable to become apparent.

People whose basic needs are met are not necessarily content, and they may come to see other desires - a larger house, a better car, a more active social life - as important to their lives. The issue is not just that people are insatiable; achieving personal goals and ambitions also matters. In other words, people want to have their needs met, and then they want some more. Economic theory tends to focus on what people want - or more precisely, what they choose to have - rather than what they need. Assessments of need are commonly made in terms of what we think is good for people, or what they ought to have; people's 'utility' - their happiness, or what they think is good for them - is measured in terms of what people choose to have. Clearly, there is a considerable cross-over between these concepts, because many people will choose to have what they need. The economic analysis usually works well enough in practice, partly because it deals with the preferences of the 'average' person rather than any real person, and partly because it is most commonly applied in developed societies, in which basic needs are likely to be met. That means that the needs

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<sup>135</sup> B S Rowntree, 1922, *Poverty: a study of town life*, London: Longmans (new ed).

<sup>136</sup> United Nations Development Program, 1990, *Human Development Report 1990* Concepts and Measurement of Human Development, New York: Oxford University Press.

<sup>137</sup> A H Maslow, 1943, *A theory of human motivation*, *Psychological Review*, 50, p.395.

which have still to be met tend to be at higher levels - including psychological needs, and the satisfaction of aspirations. The ability to choose is fundamental to these needs.

#### ***II.1.a.iv. Social groups also experience well-being, or the lack of it.***

Well-being is not only experienced by persons; it can also be said to be experienced by social groups. A group is not the same as a number of people, and the welfare of a group cannot simply be determined by aggregating the welfare of the individuals who make it up.

Arrow's 'impossibility theorem' claims to show that it is impossible to identify the welfare of a group on the basis on individual preferences without dictatorship - imposing preferences on those who think differently.<sup>138</sup> But Arrow's proof depends on the assumption of 'unrestricted domain', the supposition that any combination of preferences might be adopted. In real life, this is unlikely. Because people are socialised into similar sets of views and values, it is not impossible that everyone might be of the same mind. There is little serious disagreement that children should be raised in families, that people should be able to buy food, or that health is better than sickness, and it has not taken the action of a dictator to produce the agreement. If everyone is of the same mind, the interests of the group and the interests of the person within the group cannot be distinguished. At the same time, it has to be accepted that groups do not in general consist of people with identical positions, interests and preferences; on the contrary, most social groups rely on some differentiation of roles and position within the group. There will be differences, and where they occur there are often conflicts or disagreements.

Irrespective of the position of individuals within a group, the group has interests as a group. These interests may be quite distinct from the interests of the people within it, except in so far as they are members of the group. It is generally in the interests of a social group - like a family, a community or a nation - to continue to exist. It is generally considered to be in the interests of a nation to defend itself against attack, even where some people within it suffer directly as a result.

The fostering of group interests is generally described in terms of 'cohesion' (► [I.2.b.i](#)). The links which are formed between members of the group are generally links of solidarity, and the connection between solidarity and social cohesion is a direct one; a cohesive group or society is one in which people feel responsibility to each other (► [I.3.c](#)).

## **POVERTY AND EXCLUSION**

### **II.1.b. Welfare is vitiated by poverty and exclusion.**

The term 'poverty' is generally used to describe circumstances in which people suffer serious deficiencies in their material needs. Someone who is poor lacks well-being. Exclusion consists primarily of a lack of integration into solidaristic social networks (► [I.3.c.iii](#)), which might occur because of social rejection or because of a lack of social

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<sup>138</sup> K Arrow, 1973, Values and collective decision-making (1967), in E S Phelps (ed) Economic justice, Harmondsworth: Penguin.

ties. The excluded person is unable to meet needs which depend on relationships with other people in society - a large part of a person's needs overall.

Poverty and exclusion are paradigmatic cases of need. They are not the only cases: people can have other serious needs which disrupt their well-being - a house which is flooded, a life-threatening illness, being subject to crime. They may not even be the most important; terrible as poverty and exclusion can be, there are still worse things that can happen. They are paradigmatic mainly because they are commonplace: poverty and exclusion account for many of the serious, extreme, or persistent needs which have become the focus of social policy. As such, they are fundamental to much of the discussion of welfare.

### *II.1.b.i. Poverty is the converse of welfare.*

Poverty is a much-used, and ambiguous, concept. It refers to a wide range of problems, including problems in material conditions, economic circumstances, and social relationships.<sup>139</sup> Material conditions include deprivation of basic needs; a low standard of living; and multiple deprivation. Material need is understood as a lack of material goods, such as food, clothing, fuel or shelter, which people require in order to live and function in society. A low standard of living refers to the general experience of living with fewer resources and lower consumption than other people. Multiple deprivation refers to circumstances in which people suffer from a constellation of deprivations associated with limited resources experienced over a period of time. Poverty is not defined, on this account, by any specific need (like hunger or homelessness), but by the existence of a pattern of deprivation.

The economic circumstances include a lack of resources; inequality; and low class. A lack of resources refers to circumstances in which people do not have the income, wealth or resources to acquire the things they need. Poverty is understood in terms of inequality when people are disadvantaged by comparison with others in society; people whose economic situation is very much inferior to others are liable to be unable to participate in society.<sup>140</sup> A 'class' of people is a group identified by virtue of their economic position in society. In Marxian analyses, classes are defined by their relationship to the means of production, and in developed countries poor people are primarily those who are marginalised within the economic system. In the Weberian sense, classes refer to people in distinct economic categories: poverty constitutes a class either when it establishes distinct categories of social relationship (like exclusion or dependency), or when the situation of poor people is identifiably distinguishable from others.

The social relationships cover exclusion, dependency, and lack of security. A concept of poverty identified with exclusion sees it as the inability to participate in the normal pattern of social life. The European Union defines poverty as exclusion resulting from limited resources:

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<sup>139</sup> P Spicker, 1999, Definitions of poverty: eleven clusters of meaning, in D Gordon, P Spicker (eds), International glossary of poverty, London: Zed Books.

<sup>140</sup> M O'Higgins, S Jenkins, 1990, Poverty in the EC: 1975, 1980, 1985, in R Teekens, B van Praag (eds) Analysing poverty in the European Community, (Eurostat News Special Edition 1-1990), Luxembourg: European Communities.

“The poor shall be taken as to mean persons, families and groups of persons whose resources (material, cultural and social) are so limited as to exclude them from the minimum acceptable way of life in the Member State in which they live.”<sup>141</sup>

The relationship of poor people to dependency assumes that poor people receive social benefits in consequence of their lack of means. The sociologist Georg Simmel argued that 'poverty', in sociological terms, referred not to all people on low incomes but to those who were dependent.<sup>142</sup> Poverty is equivalent to lack of security when it implies vulnerability to social risks. Charles Booth referred to poor people as “living under a struggle to obtain the necessaries of life and make both ends meet; while the 'very poor' live in a state of chronic want.”<sup>143</sup>

These different uses of the term have no constant element in common, though they are linked by a strong family resemblance; a person can suffer from material conditions, economic deprivation and impaired social relationships together, and in fact these phenomena are intimately connected.

The relationship of poverty to welfare is not straightforward, because the concept of poverty itself is not straightforward. If poverty is taken to mean a low income, it may be possible to have a low income while maintaining an adequate standard of living; if it refers to dependency, it is possible to be dependent and to have one's needs met. But most senses of the term 'poverty' imply a degree of hardship or suffering, and that is the converse of well-being.

### ***II.1.b.ii. Exclusion denies well-being.***

Exclusion can arise for many reasons, not all of them associated with poverty; people can be excluded because of physical differences, racial status, or moral disapproval. Exclusion has the effect of exposing people to hardship.<sup>144</sup> If there are barriers to interacting with other people, there are fewer opportunities to develop and to pursue one's objectives. People who suffer exclusion over any period of time have a limited ability to participate in society, and in this sense exclusion may be directly analogous to poverty.

The problems of exclusion go beyond poverty, though, in their implications for the person. Social identity is conditioned and formed through the type and character of the social contact which people experience (► [I.1.b](#)). It determines the structure of obligations which relate to a person, and so the degree of support which that person may expect to receive when the need arises. And it can be seen, in itself, as an indication of the quality of social life, because it is largely from our social relationships and roles that we achieve the goals and engage in the kind of activities which we think are worthwhile. Exclusion directly denies social well-being, because it implies that the person is cut off from the sources of well-being (► [I.3.c.iii](#)).

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<sup>141</sup> Council Decision of 19.2.84, cited D Ramprakesh, 1994, Poverty in the countries of the European Union, *Journal of European Social Policy* 4(2) pp 117-128.

<sup>142</sup> G Simmel, 1908, The poor, in *Social Problems* 1965 13 pp 118-139.

<sup>143</sup> C Booth, 1902, *Life and Labour of the People in London*, Macmillan, First Series: Poverty, vol 1, p.33.

<sup>144</sup> S Tiemann, 1993, Opinion on social exclusion, OJ 93/C 352/13.

### ***II.1.b.iii. Poverty and exclusion are moral issues.***

The idea of poverty has a strong evaluative and moral element. People are considered poor when their situation or standard of living falls below the level which is considered acceptable. Attempts to define poverty in objective and scientific terms have failed, David Piachaud argues, because the moral ground shifts.<sup>145</sup> Poverty consists of unacceptable hardship; the key term here is 'unacceptable', because what that means depends on the codes and values prevalent in a particular society at a particular time.

Exclusion is a moral issue in a slightly different sense. A person who is excluded is not part of solidaristic social networks; such a person is outside many of the normal structures of moral obligation which bid people together in society. This can happen because of poverty, deviance, social rejection, or the absence of social ties; but, whatever the reason, the excluded person in a sense falls outside a society. That is a moral problem in itself; on occasions, too, (notably in the French discourse on 'marginality'<sup>146</sup>), it is coupled with concern that the person who is not part of a society may not have reason to respect its norms. Either position furthers a moral argument for action against exclusion, or 'social inclusion'.

## **RESPONDING TO NEED**

### **II.1.c. Needs present obligations to other people.**

Needs are claims. A claim of need is a normative statement about the way in which people should be treated.<sup>147</sup> People who can meet needs from their own resources do not have to make a claim; but wherever needs are not met, a claim is established against others.

Who are the 'others' against whom the claim is being made? There is no single, straightforward answer, and it depends on the context - needs for health care are often seen as different from claims for housing. Some people have entitlements which are sufficient to guarantee the satisfaction of a need; some do not.<sup>148</sup> When a small child needs to be fed, the immediate assumption is likely to be made that it is the responsibility of its parents. When a person becomes too ill to work, the responsibilities may fall on family, employers or workmates, depending on the structure of obligations. Even if a person is run over in the street, there are general responsibilities applying to people in the vicinity, strangers or not (► [I.3.a.ii](#)). The structure of these obligations reflects the general structure of obligations in a society, and the patterns of exchange, reciprocity, and moral obligation which apply

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<sup>145</sup> D Piachaud, 1981, Peter Townsend and the Holy Grail, *New Society* 10.9.81, p 421.

<sup>146</sup> See e.g. E Mossé, 1986, *Les riches et les pauvres*, Paris: Editions de Seuil; P Nasse, H Strohl, M Xiberras, 1992, *Exclus et exclusions*, Paris: Commissariat du Plan; S Paugam, 1993, *La disqualification sociale: essai sur la nouvelle pauvreté*, Paris: Presses Universitaires de France.

<sup>147</sup> P Spicker, 1993, Needs as claims, *Social Policy and Administration*, vol 27 no 1, pp 7-17.

<sup>148</sup> J Drèze, A Sen, 1989.

elsewhere. (► [I.1.c.i](#), [I.3.a](#)) Ultimately, when no other obligation has hierarchical precedence, the claim of need has to rely on the broadest sense of generalised reciprocity, and that makes it a claim against a society.

The establishment of a 'need' is not, however, decisive; demanding a response is not the same thing as getting it. Needs are only one type of claim: other claims might be based on personal obligation, merit, morality or rights. Equally, claims based on need can be denied for a range of reasons, including moral principles, a limited ability to pay, or conflicting duties (including competing claims of need).

### ***II.1.c.i. Society defines the acceptable minimum.***

The norms which are prevalent in a society depend on the society of which they are part. The expectations which people have, and their perception of normality, depend on the patterns of social contact, the development of inter-subjective ideas, and the process of socialisation (► [I.1.c](#)). Taken naively, that might seem to suggest that there is a process almost like voting, in which people are consulted as to what they think essential, and a consensus emerges about the level of need. Of course, the process is nothing like this, but it is interesting to note that some very successful research has been based on just this method.<sup>149</sup> Asking people what they think in opinion polls or focus groups is a way of tapping into a rich vein of inter-subjective views - views which are not formed in isolation, but through a process of interaction and socialisation.

In the same way, a society defines an acceptable minimum. There are two discrete stages in the process - discrete, but not distinct. First, the need itself, which Sen calls the 'lack of capability'<sup>150</sup>, is socially defined. The importance of issues like transport, shelter or communications depends crucially on the kind of society one lives in. Second, the ways in which the needs might be met - the commodities - are identified socially. Ultimately, a strictly 'absolute' view is not sustainable, partly because the responses which needs call for are socially determined, but also because the needs themselves are conditioned and constructed socially.

The development of social norms is not the same as the development of social obligations; it does not follow, because society determines the standard, that society must accept responsibility for it. But it does at least add weight to claims based on need if they are socially accepted and sanctioned.

### ***II.1.c.ii. The obligation to people who are poor and excluded is often weak.***

The people who are most in need are often people to whom existing obligations are weakest. Obligations diminish with social distance (► [I.3.a.i](#)). Exclusion implies, virtually by definition, that such obligations do not exist. Poverty implies an inability to participate in society, which means that fewer social ties and mutual obligations apply to poor people than to others. It follows, then, that those who have the most serious needs are less likely

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<sup>149</sup> J Mack, S Lansley, 1985, *Poor Britain*. London: George Allen and Unwin; J Veit-Wilson, 1987, *Consensual Approaches to Poverty Lines and Social Security*, *Journal of Social Policy*, 16(2), pp.183-211.

<sup>150</sup> Sen, 1983.

than others to have those needs met. The process is visible in many countries, where there is protection of a relatively privileged inner group (the 'garantismo' of Southern Europe) and exclusion of a significant number of people at the margins.

This points to a central weakness in the structure I have outlined, and a key moral problem in the development of social policy. For those who are concerned about welfare in its own right, poverty and exclusion are fundamentally important; but they are also the circumstances in which the existing structure of obligations seems to be least active.

### ***II.1.c.iii. The response to poverty and exclusion must be social.***

It is possible that nothing at all might be done about poverty or exclusion. It is in the nature of the problems that people do not necessarily have obligations towards poor or excluded people, and they can remain in need, or be left to their own devices.

Three considerations work against this. The first is the social dimension. Exclusion and poverty have implications for social cohesion which go beyond the interests of the people who are poor or excluded. (► [I.3.c](#)) The second consideration is the moral dimension of poverty and exclusion. (► [II.1.b.iii](#)) Third, there are social principles, in particular the principle of generalised reciprocity, which imply some responsibility towards poor or excluded people. (► [I.1.c.i](#)) A striking finding from the anthropological literature is that societies do not, in general, leave poor people without support: the principle of giving to the poor is widespread.<sup>151</sup>

Although none of these principles is conclusive in itself, it seems clear that there may be a response to poverty and exclusion, and there is a moral case to argue that there should be. Where such a response is made, it has to be social - because, where there are no particular obligations (that is, obligations relating to particular individuals), only general social obligations exist.

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<sup>151</sup> Sahlins, 1974.

## II.2 THE PRECONDITIONS FOR WELFARE

### II.2. People have economic and social rights.

*II.2.a. Welfare depends on economic development.*

II.2.a.i. Economic development requires an appropriately structured economy.

II.2.a.ii. Welfare also requires the avoidance of poverty.

*II.2.b. Security is concerned with welfare in the future, as well as the present.*

II.2.b.i. Change implies insecurity.

II.2.b.ii. Those who are most vulnerable to insecurity are those who are poorest.

II.2.b.iii. Social insecurity requires social protection.

*II.2.c. Rights are essential to welfare.*

II.2.c.i. Freedom is a precondition for well being

II.2.c.ii. Political protection is required to guarantee welfare.

II.2.c.iii. Economic and social rights are preconditions for well-being.

II.2.c.iv. Rights exist.

## ECONOMIC DEVELOPMENT

### II.2.a. Welfare depends on economic development.

Well-being cannot simply be reduced to material issues (► [II.1.a](#)), and it would be false to assume that an increase in material goods automatically yields an improvement in welfare. It is easy to gain a different impression from economic theory, because most marginal analysis assumes preferences for increasing material consumption. But these preferences are developed on a previously identified structure of individual choices; choices which are morally unacceptable, or inconsistent with the pattern of social life, have been effectively excluded before the marginal analysis begins.

Economic development is not sufficient for welfare, but it is necessary, because it is basic to material welfare. In part, this is because it is only through economic development that some of the most serious issues in welfare can ever be addressed. A large minority of the world's population still lacks water supplies, sewerage and facilities for the drainage of surface water<sup>152</sup>; the provision of these very basic facilities is a form of economic development. In part, too, it is because the expansion of production is necessary to give people the power to exchange, and so to avail themselves of the goods and services which might enhance their lives.

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<sup>152</sup> J Hardoy, S Cairncross, D Satterthwaite (eds), 1990, *The poor die young*, London: Earthscan.



Economic development is requisite for welfare, however, in three ways. First, material goods are essential for people to live and to prosper. There is a prominent argument for 'sustainable' growth<sup>153</sup>, which often is taken to mean minimal growth. The condition of people in severely undeveloped regions is not sustainable, and the prime effect of attempts to restrict growth is to put a fetter on the poor.

Second, economic development is essential to social integration. Involvement in economic activity and exchange is a major determinant of the development of social relationships beyond an immediate circle. This applies not only to a person who is directly involved, but to others in the same household.

Third, being able to improve their circumstances is fundamental to the achievement of people's aims. Without economic growth, improvement can be achieved only through the reduction of inefficiency (for which opportunities may be limited) or at the expense of other people.

At the same time, economic development generates its own casualties: for example, people whose relative earning capacity is extinguished, who become vulnerable to market fluctuations, and those who are displaced because of development. Development is not an unalloyed good for everyone concerned, and mechanisms have to be introduced to protect people from its negative consequences.

### ***II.2.a.i. Economic development requires an appropriately structured economy.***

Economic development can happen spontaneously, through growth over time. Historically, this is what happened in most of the developed countries, though it largely did so from a base of relative economic security and power. It is tempting, then, to assume that economic development can be spontaneously generated in all cases. The problem with this is that there are routes to industrialization which preclude adequate development or further progress.<sup>154</sup>

The 'structure' of an economy is, like the structure of society, a construct; the reference to a structured economy is not intended to refer to a designed economy, but to one in which the elements have a systemic relationship to each other, making development possible. This is the core of the World Bank's attempts to foster 'structural adjustment' programmes, developing economies through the encouragement of rules allowing for financial stability, flexibility in markets and responsiveness to industrial demands. But this approach has often led to hardship for the less developed countries, and in particular for the poorest people in them.<sup>155</sup> Cypher and Dietz argue on this basis that structural transformation is probably better achieved through distortion, and perhaps even replacement, of market processes.<sup>156</sup>

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<sup>153</sup> Club of Rome, 1972, *The Limits to Growth*, New York: Universe Books; D H Meadows, D L Meadows, J Randers, 1992, *Beyond the limits*, London: Earthscan.

<sup>154</sup> J Cypher, J Dietz, 1997, *The process of economic development*, London: Routledge.

<sup>155</sup> F Stewart, 1995, *Adjustment and poverty*, London: Routledge.

<sup>156</sup> Cypher, Dietz, 1997, p.284.

### ***II.2.a.ii. Welfare also requires the avoidance of poverty.***

Development is insufficient to protect people from material hardship. Within the framework of development, there has to be consideration of the welfare of those who are poor. It is possible to represent economic development as the avoidance of poverty, and so as a means of obtaining welfare, but there is a degree of circularity in that argument: if poverty is a lack of welfare, developing resources is equivalent to improving welfare. This is too narrow a view of welfare, and too narrow a view of poverty.

Poverty and welfare are complex concepts, relating not only to material conditions but more generally to economic and social circumstances (► [II.1.b.i](#)). The prevention of poverty can be taken to include improvement in people's material conditions; economic development is directed towards that end. It may also, however, depend on altering social relationships, and it may imply changes in the moral status of the poor. These elements go beyond the issue of economic development.

## **BASIC SECURITY**

### **II.2.b. Security is concerned with welfare in the future, as well as the present.**

Security is part of welfare. It is important not only that people should be able to obtain and use goods and services, but that the process should be, at least to a reasonable extent, predictable. Security is a basic need, in the sense that it is essential to a person; like other needs, the effect of its denial comes to dominate and overwhelm other parts of a person's life. Poverty has been identified with a lack of basic security (► [II.1.b.i](#)):

“chronic poverty results when the lack of basic security simultaneously affects several aspects of people's lives, when it is prolonged, and when it seriously compromises people's chances of regaining their rights and of resuming their responsibilities in the foreseeable future.”<sup>157</sup>

The United Nations Development Program has argued for a wide interpretation of the idea of security, to cover a range of factors: economic security, food, health, environmental security, personal security, community security and political security.<sup>158</sup> This is a strategic argument - an attempt to broaden the focus of governments already committed to protecting the security of their citizens. In this section, though, I want to take a more limited view of the idea of security. This is not to deny the validity of the broader concept, but most of the issues have been dealt with in different ways.

The essence of a discussion of security, rather than basic needs, is that it concerns the future - the question of what may happen. People are at risk when negative things may

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<sup>157</sup> Wresinski Report of the Economic and Social Council of France 1987, cited in K Duffy, 1995, Social exclusion and human dignity in Europe, Council of Europe CDPS(95) 1 Rev, p.36.

<sup>158</sup> United Nations Development Program, 1994, Human development report 1994, Oxford: Oxford University Press, pp 24-33.

happen. They are vulnerable when they are likely to suffer as a result. (These points are separable: risk relates to the range of contingencies, vulnerability to the seriousness of their consequences.) These issues relate not just to material conditions, but to expectations. One person reasonably may feel insecure in a relatively stable, unchanging environment; another may feel secure in shifting circumstances. This is not just a question of subjective appraisal; in labour markets which require flexibility, a person with a stable work record may be more vulnerable than another person with wider employment experience and greater adaptability.

### ***II.2.b.i. Change implies insecurity.***

When things change, people may become vulnerable. The improvements in material status which accompany economic development have also often been accompanied by insecurity. The effect of moving to the market is to require specialisation in production; specialisation may make people richer, but it also makes them more vulnerable to change, because they have less protection against adverse circumstances.<sup>159</sup> There is an irony here: this sort of change is often basic to improvements in material circumstances. It has also been essential in the movement from traditional, status-based societies to economically developed societies. Security is not an unequivocal good; change is essential if people's aspirations are to be met. The main issues concern the pace of change, and the degree of protection available to people when it happens.

### ***II.2.b.ii. Those who are most vulnerable to insecurity are those who are poorest.***

Security has to be understood in the context of the society where it occurs. Expectations are developed in terms of social status (► [I.2.c.i](#)). A person's social position depends on the social structure; it relates to the set of social roles which a person plays, and roles in turn consist of expectations about what a person does in society. Because expectations are conditioned by status, and a sense of security is conditioned by such expectations, status conditions a sense of security. Many expectations about the future, and perceptions of risk, are founded in perceptions of social roles and status; status fosters expectations about occupation, career, lifestyle, income, leisure and social relationships. Evidently enough, someone with no educational or career prospects is likely to regard the future differently from someone who is socially and materially privileged.

Social status is not a simple guarantee of security; some high status occupations also involve high risks, and exposure to considerable changes of fortune, even as some low status occupations are relatively well-established and secure. What is true, however, is that people in different economic and social positions are affected differently by this insecurity. Economic position makes it possible to protect against insecurity, through savings, investment or insurance. Social position can be a means of making contacts and placing oneself to avoid future hardship.

This leads to the situation where poorer people are liable to be more vulnerable than others, even if the relative security of their position may seem to be similar to others. In

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<sup>159</sup> P Streeten, 1995, Comments on "The framework of ILO action against poverty", In Rodgers, G (ed), The poverty agenda and the ILO, Geneva: International Labour Office.

practice, however, their position is also liable to be less secure. The development of labour-saving technology has meant that unskilled and semi-skilled labour is available in abundance, and lower paid workers have been relegated to a peripheral status. There is, for poorer workers, a risk of 'sub-employment', in which they move continually between marginal and temporary labour and unemployment<sup>160</sup>. In France, this situation is referred to as 'précarité', or precariousness.

The effect of poverty is a diminution in the range of options which are available to a person. "It is not the poverty of my people which appals me," Aneurin Bevan once commented, "it is the poverty of their choice." People who have fewer and harder choices are more vulnerable than others, because the effect of losing any further options is to limit their potential outcomes to a greater extent.

### ***II.2.b.iii. Social insecurity requires social protection***

Social insecurity represents an important challenge to welfare. Even if people's basic needs are met, the prospect of changing to a situation where they might not be met is liable to be a major concern. The principal sources of insecurity in developed countries are probably concerns with old age, sickness and disability, though others are also important, like fear of crime, unemployment or business failure, and divorce.

People can attempt to limit their insecurity by insuring against a range of contingencies. The ability to do so within the constraints of each person's resources is, however, limited. This has led to the development of systems of mutual aid and, in particular, the pooling of risk. These systems are the basis of 'social protection'. It is protection, rather than a form of service, because it is contingent: people benefit from it only if they experience the circumstances for which it is designed. It is social because it depends on other people in order to work.

## **THE STRUCTURE OF RIGHTS**

### **II.2.c. Rights are essential to welfare**

A right is a norm, held to inhere in the person who possesses it, and affecting the behaviour of others towards that person. In principle, this is often equivalent to an obligation, because the effect of someone holding an obligation to another person can be directly equivalent to the situation where the other person has a right. Rights do not necessarily imply duties; my right to walk down the street unmolested does not place any obligation on another person, but comes into play only when the right is breached. Many important civil rights - like freedom of speech or freedom of assembly - are rights of this kind; they are 'liberties'.<sup>161</sup>

The role which rights play in relation to welfare is partly negative: the possession of a right means that people will not act in certain ways towards the bearer of the right. It may also be positive: having a right can mean that people will act in ways which benefit that

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<sup>160</sup> D Matza, H Miller, 1976, *Poverty and proletariat*, 639-675 of RK Merton, R Nisbet (eds.), *Contemporary social problems*, New York: Harcourt Brace Jovanovich, 4th edition.

<sup>161</sup> A Weale, 1983, *Political theory and social policy*, London: Macmillan.

person directly. When people talk about 'the rights of children', for example, the rights in question may be both negative and positive. In negative terms, the rights of children include rights not to be abused or neglected, and not to be exploited. In positive terms, they include the right of children to be educated. These positive rights are also referred to as 'claim rights', because they imply that a claim can be made, morally or legally, against someone who has the obligation to provide them.

Both negative and positive rights - liberties and claim-rights - are necessary to well-being. They are not necessary in the theoretical sense of the term. It is conceivable that someone could develop into a person without them, and that such a person might still have a degree of well-being. However, their absence would call into question the kind of well-being they could have, and they are certainly necessary in practice. The central problem is that where there are no rights, there are no means to protect well-being, and no reason why well-being should not be denied to someone. The absence of liberties does not mean that there will be no freedom of action, but it does mean that there might be none. Similarly, the absence of claim-rights or obligations does not mean that children will fail to be educated or to be protected by their families, but only that they might be. In practice, inevitably, this will apply to some people, and it is for those people that these rights are essential.

This is where individualism comes into play. People who are left out are precisely those who need rights the most. In principle, it may be possible to guarantee rights by appointing someone to protect those who are vulnerable. This happens, for example, when parents are given the right to act on a child's behalf. But it often happens that the person against whom vulnerable people have to be protected is the same person who has been invested with their rights: children need protection from abusive parents<sup>162</sup>, residents in institutions need protection against their carers<sup>163</sup>, and so on. One of the most effective ways of guaranteeing rights is to invest them in the individual, so that redress can be obtained in specific cases. Individual rights cannot be sufficient to protect people, because the rights are often difficult to exercise, but they are necessary; without them, people who are socially isolated are rendered powerless, and their circumstances are liable to be overlooked.

### ***II.2.c.i. Freedom is a precondition for well-being.***

The assertion of liberty is generally accepted in modern society, which does not mean that it is unproblematic. Liberty means three things. First, it means freedom from constraint - the reaction against tyranny, the freedom to worship - and the freedom to proceed without obstacles, the 'career open to the talents'. Second, it means the power to act, the sense in which it was taken by socialists; people could not be free if they were incapacitated by hunger and disease, or if they were unable to act collectively. Third, it means psychological liberation - the ability to think for oneself. These three elements stand

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<sup>162</sup> see e.g. M D A Freeman, 1983, *The rights and wrongs of children*, London: Pinter; W Stainton Rogers, D Hevey, E Ash, 1989, *Child abuse and neglect*, London: Batsford.

<sup>163</sup> see e.g. J P Martin, 1985, *Hospitals in trouble*, Oxford: Blackwell.

together as one: every freedom, MacCallum has argued, consists of freedom of a person from restraint to do something.<sup>164</sup>

All freedoms are not equal. Some freedoms, like freedom of religion or freedom of assembly, are more important than others, like the freedom to drive at a speed of one's choosing. Freedoms which protect people's welfare are important. They include, for example, the security of the person, the ability to associate with other people, the ability to form relationships with other people, and the power to have and raise children.

The assertion that liberty is necessary for well being is subject to the same reservation made more generally about rights: it is possible for a person not to be free and still to experience well-being. Liberty is not a guarantee of well-being. Indeed, in so far as liberty includes the power to make decisions which are destructive of a person's well-being, the argument can be made that liberty and welfare are unrelated.

The central argument against this is that people are not free to destroy their welfare. People are not free, in the name of freedom, to do things which diminish their freedom. Most obviously, they cannot sell themselves into slavery, and in many cases they can be prevented from committing suicide (which, like slavery, is a choice not to make any more choices). Welfare is necessary if people are to have the power to act, and a degree of psychological freedom is required if autonomous decisions are to be made.

### ***II.2.c.ii. Political protection is required to guarantee welfare.***

Political conditions offer security or insecurity in another sense; the political framework determines the prospect of peace or war, the rights of minorities, and the rule of law. As with other basic needs, the effect of a lack of security is liable to dominate every aspect of social relationships, and the power of political processes to threaten security make this another precondition of welfare.

Unlike the other factors, political protection of this kind is primarily a negative condition; it is concerned with preventing things from happening, rather than ensuring that certain conditions are met. (There is, of course, an argument for governments to foster welfare more positively, but that is not a precondition for welfare; it will be considered later).

### ***II.2.c.iii. Economic and social rights are preconditions for well-being.***

The absence of impediments to the pursuit of welfare is necessary to welfare, but it cannot be sufficient. T H Marshall distinguished three main kinds of rights: the civil rights of the 18th century, which guaranteed political protection; the economic rights of the 19th, which developed basic entitlements to material goods; and the social rights of the 20th century, which have been used to develop systems of social protection.<sup>165</sup>

Economic and social rights, like civil rights, have both negative and positive meanings. In negative terms, actions should not be taken which directly impair people's well-being, and that people should not be actively prevented from pursuing objectives

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<sup>164</sup> G MacCallum, Negative and positive freedom, *Philosophical Review*, 1967, 76, pp. 312-334.

<sup>165</sup> T H Marshall, 1982, *The right to welfare*, London: Heinemann.

which will further their well-being. In positive terms, there are economic and social components to well-being, and without them well-being cannot be achieved. The description of these components as 'rights' relates the process of achieving well-being directly to the people who experience it.

#### ***II.2.c.iv. Rights exist.***

Saying that rights are essential is not the same as saying that they exist; it only asserts that they ought to exist. But rights do exist, and there are two processes by which they come into existence. One is through the obligations which people have acquired to each other in the course of everyday social interaction - the rights and duties of children, families, and neighbours. If social interaction generates obligations, it also generates claim rights. Claim rights are only a form of obligation seen from a different perspective (► [II.2.c](#)). This depends on the structure of obligation - the social norms discussed in previous sections (► [I.1.c](#)). The bulk of rights provided through collective social action are particular rights, which relate to the obligations of specific individuals. Where people have paid subscriptions or contributions for social insurance, they acquire a right to receive benefits. This is the dominant form of social welfare provision in continental Europe, and much of the world.

There are also, however, general rights - rights which are held, not by particular individuals, but by anyone who is in a category. People can have rights for diverse reasons - because they are old, sick, disabled, children, citizens of a country, or whatever. These rights, and the obligations which correspond to them, exist morally for the simple reason that people believe they exist; obligations are inter-subjective, and if people believe that they are obliged, and act accordingly, they are obliged. (This, of course, leaves such rights open to challenge by anyone who wants to shout that the emperor has no clothes.<sup>166</sup>) There are examples of general obligations held by particular individuals - the rights of children are taken to impose obligations on parents<sup>167</sup> - but for the most part the obligations which correspond to general rights are held by society as whole.

The name most often given to this constellation of rights is 'citizenship'. Although citizenship has a narrow, legal construction related to nationality, it also has two broader senses. Citizenship refers to the set of rights which a person enjoys, or the status which makes it possible to have rights.<sup>168</sup> More broadly still, citizenship is increasingly used in a social sense, to refer to membership of a society, and the pattern of general rights and obligations between people and the society which they are part of.<sup>169</sup> From the perspective of welfare, the concept of citizenship has significant limitations. First, the issue of citizenship is addressed to a specific type of general right; it is not concerned with the

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<sup>166</sup> e.g. F Hayek, 1976, *Law, legislation and liberty* vol. 2: the mirage of social justice, London: Routledge and Kegan Paul.

<sup>167</sup> UN Declaration of the Rights of the Child.

<sup>168</sup> R E Goodin, 1982, *Political theory and public policy*, Chicago: University of Chicago Press, ch 5.

<sup>169</sup> G Pascall, 1993, *Citizenship - a feminist analysis*, in G Drover, P Kearns, 1993, *New approaches to welfare theory*, Edward Elgar; A Rees, 1995, *The promise of social citizenship*, *Policy and Politics* 23(4) pp 313-325.

particular rights on which many systems of welfare principally depend. The issue has been important for the development of welfare provision in the United Kingdom, but the assumption that it must be equally important elsewhere is a parochial one. Second, the idea of citizenship is inherently exclusive as well as inclusive: it identifies some people as holding general rights while others do not. This reflects the reality of many rights and entitlements, but it does not exhaust the possibilities. There may also be general rights which do not depend on membership of a society, but extend to people regardless of their status. Some countries, including the UK and some states in the US, offer a (limited) range of services to anyone within a category - in the UK, certain classes of health care, and in the US education for the children of illegal immigrants. This is a recognition of a range of rights and obligations that go beyond citizenship.



## II.3 SOCIAL PROTECTION

### II.3. Social protection is necessary to secure welfare.

*II.3.a. Social protection is necessary for welfare.*

II.3.a.i. Social protection requires collective action.

II.3.a.ii. Social protection is based in solidarity.

II.3.a.iii. Social protection should be as comprehensive as possible.

*II.3.b. Markets are insufficient to guarantee welfare.*

II.3.b.i. Solidaristic obligations do not guarantee comprehensive social protection.

II.3.b.ii. Markets are liable to exclude those in need.

II.3.b.iii. Markets may also have undesirable social effects.

*II.3.c. Social protection requires social services.*

II.3.c.i. Social services provide welfare.

II.3.c.ii. Social services do not have to be provided through collective action.

II.3.c.iii. Social services develop in a social context.

*II.3.d. Social protection, and social services, are moral activities.*

II.3.d.i. Collective action for welfare is morally informed.

II.3.d.ii. Collective action is subject to moral conflicts.

## SOCIAL PROTECTION

### II.3.a. Social protection is necessary for welfare

The idea of 'social protection' generally embraces both the principle of collective action to cover a range of contingencies, and the provision of services to deal with needs - because the existence of such services is part of offering security. Social protection is necessary for welfare, both because it provides for needs which impair welfare, and because without it people become insecure.

Although social protection is necessary for welfare, it is far from sufficient. From the preceding sections, it is clear that the conditions for welfare include the satisfaction of physical and material needs, the scope to satisfy aspirations, social and economic rights, basic security and economic development. Social protection is a necessary means of securing what is there; it is not an adequate substitute for what is not.

*II.3.a.i. Social protection requires collective action.*

Social protection depends on collective action. This is because social protection has the characteristics of solidarity - the recognition of mutual responsibility (► [I.3.a](#)) - and pooled risk, where responsibility for the risks of one person is accepted by others (► [I.3.b](#)). Even

if, in principle, measures for social protection could be instigated by people in need themselves, in practice it is often impossible for them to do so, because the conditions in which they may need protection - including poverty, physical incapacity, mental impairment and destitution - are conditions which also prevent people from acting. Effective social protection demands the contribution of other people in society, who are not themselves in need at the same time.

### ***II.3.a.ii. Social protection is based in solidarity.***

The central principle of social protection is solidarity, in the sense of obligations to others (► [I.3.a](#)). The basic principle is simple enough: that when a member of a society experiences a contingency in which support is deemed to be required, or moves into a recognised 'state of dependency' like childhood or old age, an obligation to that person will exist<sup>170</sup>.

In its earliest manifestations, social protection was seen as a form of charity. Charity is a distinctive form of social solidarity, in which obligations are recognised, but the obligations are not held to the recipient. One motivation is religious: the primary obligation is to God. Another is communal: the obligation is to the community in general. Charity, then, provides a degree of protection without granting correlative rights.

Although the charitable motive has survived, the organisation of social protection has shifted towards a foundation in the principles of mutual aid. The central principle of social protection is the pooling of risk. In mutual aid insurance, people pay a premium in order to protect themselves against certain contingencies. This places social protection more directly on the basis of reciprocal obligation. This form of social protection is often supplemented by commercial arrangements, which have duplicated the pattern of formal mutual aid.

A third form of solidarity, which has become increasingly important in the course of the twentieth century, is the growth of mutual obligation to others on the basis of membership of a society. This is an explicit part of the rationale for the development of solidarity in French social policy<sup>171</sup>; measures like the *Fonds National de Solidarité* for elderly people who have never worked, are based on the idea of shared responsibility for everyone in France. This means that the principle of solidarity, initially focused on mutual aid, has come to stand for measures which rely on redistribution.

### ***II.3.a.iii. Social protection should be as comprehensive as possible.***

The nature of social protection is that it covers, not just need, but risk - the possibility that needs may arise. It is perfectly possible for formal arrangements for social protection to cover only a privileged minority: Ferrera characterises social protection systems in

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<sup>170</sup> The term 'states of dependency' is from R Titmuss, 1963, *Essays on the welfare state*, London Allen and Unwin p.42.

<sup>171</sup> J-J Dupeyroux, 1998, *Droit de la sécurité sociale*, Paris: Dalloz, p.290.

Southern Europe as polarised, with a sharply defined dualism distinguishing those who are best protected from others.<sup>172</sup> But this is equivalent to a lack of protection for others.

Services in many countries are not universal. The Bismarckian system of provision in Germany is based on pooled risks only for those below a set income; those on higher incomes (roughly the top 20%) are supposed to be able to make their own arrangements. On the face of the matter, this seems to contradict the proposition which is considered here, that protection needs to be comprehensive. But the basic argument for social protection is not that everyone should be encompassed within the same system, but that each person needs to be protected against eventualities. This can be achieved in many ways, and there are arguments for flexibility. It should perhaps be noted that the coverage of the German system is less than complete, but complementary strategies can be adopted to develop general coverage.

The absence of social protection is not a failure of welfare in itself, because those who are not covered are not necessarily in need. It becomes a failure of welfare only when people are left with needs unmet as a result of the lack of cover, or when others become insecure as a consequence. As coverage becomes more widespread, the risk that a person in need will not be provided for reduces. This has justified a process of 'generalisation' - the idea comes from France<sup>173</sup> - to extend the scope of solidarity to the greatest possible extent. It has led, too, in several countries to the progressive universalisation of social protection, particularly for health care<sup>174</sup>; people wish to be covered. It is striking that it is in the Nordic countries, where voluntary mutual aid has been most developed, that the principle of universalism is also strongest.

This falls short, perhaps, of a case for full universal coverage, but it leads in a similar direction. The purpose of extending social protection is to reduce the area of risk. As long as the marginal risk is not negligible, the argument for extending coverage continues to apply. Other arguments add further weight to the case for extension - notably, arguments based in citizenship and rights (► [II.2.c.iv](#)). This means that although social protection may not be truly comprehensive, it will grow to be as comprehensive as possible in particular circumstances.

## **THE LIMITS OF THE MARKET**

### **II.3.b. Markets are insufficient to guarantee welfare**

Conventionally, the production of welfare provision by a range of independent actors is referred to as a 'market'. It is not a market in the sense in which that term is used in economic theory: many of the actors are charitable, mutualist or non-profit organisations, and even those who have a profit-making function may, like private hospitals in the US or

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<sup>172</sup> M Ferrera, 1996, The 'Southern Model' of welfare in social Europe, *Journal of European Social Policy* 6(1) pp 17-37.

<sup>173</sup> Dupeyroux, 1998.

<sup>174</sup> Organisation for Economic Cooperation and Development, 1990, *Health care systems in transition*, Paris: OECD; OECD, 1992, *The reform of health care*, Paris: OECD.

building societies in the UK, retain some of the aspirations or orientation of the voluntary sector.

The patterns of solidarity through which social protection is provided in such a market are complex, and the mechanisms which exist for social protection are extensive. There are still, however, important limitations on the scope of social protection on this basis. In some cases, people may be excluded, or left out. In others, even where networks of solidarity exist, the level of protection which is provided may not be adequate to cover the circumstances of the person in need.

Note that this is not what economists call 'market failure'. Market failure is a characteristic of developed economic markets in which goods are exchanged through the price mechanism. It happens principally when prices fail to convey the appropriate signals about costs and benefits (for example, when markets are distorted by monopolistic production or when there are social aspects of a decision).<sup>175</sup> Commercial markets have a limited relevance to welfare and social protection - their methods and objectives are different. If a commercial market fails, there may also be a failure of welfare, but the positions are not equivalent: people can suffer when the market is working well, and manage even when it is working inefficiently. The kind of failure which is being pointed to here is much more fundamental: markets do not, and cannot, guarantee welfare for all the population.

### ***II.3.b.i. Solidaristic obligations do not guarantee comprehensive social protection.***

Social protection calls for more than a vague commitment from members of a society to support each other. The networks of social obligation which exist are certainly sufficient to provide support for some people; the clearest example of this are children in families, who in normal circumstances, in most societies, will receive support whether or not there are formal rules or structures to guarantee their position. But, by the same token, there are many people who are not adequately protected. Most obviously, there are people without families - children who are orphaned or abandoned, like the street children of South America, and old people who have outlived the people who might have supported them. There are networks in which obligations have failed or been repudiated - such as families in which parents neglect or deny children, children repudiate their aged parents. Then there are those who have networks of support, but where there are insufficient resources within that network to meet their needs. One of the principal causes of low income in developed countries is long term sickness or disability, which affects not only the people who experience it but also the people who have to look after them, or who might otherwise have depended on them. The extent to which people are covered by networks of solidarity is intermittent, and social protection requires more than such networks generate spontaneously.

The main limitation of this system is the tendency to exclude people in greatest need, through 'adverse selection'. People in the greatest need represent the greatest liability; the effect of accepting these liabilities is to increase costs. It is in the interests of others who have pooled risks to avoid excessive liabilities. The same principle applies to commercial transactions. Even when the primary motivation of an insurer is mutualist, there is a

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<sup>175</sup> S J Bailey, 1995, Public sector economics, Basingstoke: Macmillan, pp 26-38.

pressure to exclude bad risks. A mutual aid society which does not select will have greater costs, and higher subscriptions, than one which does. If individuals with lower needs default, in order to pay lower subscriptions, costs rise further. This can only be countered by excluding high risks, or by making policy holders bear a higher proportion of the risks themselves. "Let's face it", in the words of one insurer, "competition in health care is all about making sure you don't have ill people on your books."<sup>176</sup>

The second problem is the problem of 'moral hazard': that some people bring their conditions on themselves. People who smoke, or who are involved in dangerous sports, are voluntarily exposing themselves to risk, and in situations where risks are pooled this imposes a liability on others. The effect of moral hazard is greatly to reduce the power of solidaristic obligation; many people consider that it exempts them from obligation altogether. Exclusion, however, leaves some people without cover, which jeopardises their welfare.

### ***II.3.b.ii. Markets are liable to exclude those in need.***

If a market is based on a range of services provided under different terms, the test of the market is how far the system as a whole offers the necessary degree of social protection. Commercial services offer supplementary provision to that of mutual aid, but in many areas of welfare provision their scope is limited; the dominant model in the provision of health care and social security is mutualist. By contrast, the private sector is extensively involved in housing provision and personal services like cleaning, cooking and physical assistance.

The most basic problem, which applies both to commercial transactions and to patterns of mutual aid, is that individuals have to be able either to pay for services, or to pay the premium in order to be covered. This presumes a stable economic position. Advocates of market-based provision have generally taken this to be an argument about the distribution of resources, rather than about the character of the market itself; and the issue of distribution, Seldon argues, is separable in principle from the mechanism which is appropriate to deliver services. Where people are short of food, few commentators would argue for a social service to provide it; rather, the argument is made for social security provision to give people the money to buy it.<sup>177</sup> But even where people do have the money, there may still be problems of exclusion: from the point of view of social protection and coverage, the problems of adverse selection and moral hazard continue to apply, and they are not mitigated to the same extent as the voluntary sector by the acceptance of continuing moral responsibilities.

### ***II.3.b.iii. Markets may also have undesirable social effects.***

There are well-documented problems in the provision of social protection through markets. Most relate to limitations in coverage, but there are also arguments about the efficiency of markets. The private and voluntary sectors misallocate resources geographically,

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<sup>176</sup> Cited in H Glennerster, 1997, *Paying for welfare: towards 2000*, Hemel Hempstead: Prentice Hall, p.22.

<sup>177</sup> A Seldon, 1977, *Charge!*, London: Temple Smith.

encouraging concentration of resources rather than dispersion.<sup>178</sup> They duplicate resources, because duplication is necessary to competition. In some cases, notably in the provision of health care, markets encourage over-consumption. These arguments cannot, however, be decided only as matters of general principle; there are circumstances in which the private market operates efficiently and effectively (for example, food distribution), and others in which its performance is much more questionable (such as health care). The arguments need to be considered case by case.

Markets also have social implications beyond the interests of the people who engage in them. One problem, which is widely recognised in the economic literature, is the problem of externalities: the actions of people engaged in a transaction may affect others who are not otherwise involved. Decisions about education, health and work affect other people, and a society as a whole. A further problem, which is not so widely recognised, is that legitimate individual decisions can lead to social problems. A risk of 1 in 1000 is small for an individual - there are much greater risks in smoking, pregnancy, motorcycling and so forth - but in a society of 200 million people, it will affect 200,000 of them. This general point overlaps with a third issue. Social priorities, and obligations, may be different from the aggregated effects of personal choices; issues like the education of children, the housing of the workforce or the health of old people have often, for that reason, been the focus of remedial collective action. This argument is described in the economic literature as a problem of 'merit goods' - goods and services which are worth more to society than they appear to be worth when left to individual decisions.<sup>179</sup>

## **THE SOCIAL SERVICES**

### **II.3.c. Social protection requires social services.**

Social services are organised or institutional forms of service delivery. They can be provided in several ways - including, in the terms discussed so far, charitable provision, mutual aid, non-profit, unpaid and private services. They are defined, not by the principle on which they are organised, but by the way in which they respond to need. Social services are services: they do things for people, like providing them with help, advice, or personal care. They are services for people in need; the distinguishing characteristic of social services, as opposed to public services, is that they address issues which are liable to make people dependent on others - issues like sickness, old age, disability or unemployment.

It may not be immediately obvious why social services should be favoured over any other method of providing social protection. Some contingencies can be dealt with without any form of institutional service delivery. If people are unable to feed themselves, the argument is not usually made for a food service which will grow, prepare and deliver their food; it is for financial assistance which will enable them to buy the food they need. The

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<sup>178</sup> R Pahl, 1975, *Whose City?*, Harmondsworth: Penguin; K Jones, J Brown, J Bradshaw, 1978, *Issues in social policy*, London: RKP, ch 5.

<sup>179</sup> Bailey, 1995, ch 2.

same arguments can be made for the provision of essential needs, including food, water, fuel, and health care.

There are, however, certain circumstances in which the provision of financial assistance cannot cover the needs. An example is the situation of people who lack the capacity to make decisions. Young children or people with mental disorders may not be able to undertake the measures necessary to obtain necessary care or services. The same applies to certain conditions which interfere directly with the ability of people to commission and direct the services they receive. An example might be the victims of traffic accidents: people who have just been run over are not always at their best, and they may find it difficult to negotiate the terms of their treatment.

Beyond this, there are many services that people find it difficult to commission for themselves. It is possible to build a house commercially by approaching a sequence of specialised workers, but few people do so; they buy the services of a builder or architect, who will sub-contract the work for them. When people buy health services, residential care, or education for their children, they commonly buy a whole service, rather than bits of services. For much the same reasons when these kinds of services have been commissioned by solidaristic mutual aid or insurance organisations, they have often bought services, rather than distributing cash for members to buy the services themselves.

The basic social services are conventionally understood as health care; social care (help with personal needs, either in people's own homes or in residential settings); education; social housing; and social security. (Social security, or income maintenance, can equally be seen as an alternative to social services; it represents the provision of finance to meet needs, rather than an organised response to the need itself.) These are the 'big five', but many other services might be included: for example, counselling, employment services, and transport might be seen in a similar light. Equally, wherever services are provided in place of market facilities - such as the provision of food, clothing, fuel or furniture - these services are seen as aspects of social services.

Social services have developed, not because they are the only means by which needs can be met, but because they are appropriate to the kinds of needs which social protection covers. The precise kinds of service, and the conditions under which they are offered, depend on circumstances, and in particular on what alternative forms of provision exist. It seems unavoidable, though, that some kind of social service will be required.

### ***II.3.c.i. Social services provide welfare.***

If welfare depends on more than needs, it requires more than a guarantee against needs to protect people's welfare. The role of social services extends beyond social protection itself, and the functions of social services include not only responses to need, but a range of other activities concerned with the promotion of welfare. The most important of these are facilitative and developmental functions. Social services facilitate welfare by providing services to help people to help themselves, or bringing them in contact with others: for example, offering education, giving advice or providing information (like an employment exchange). The developmental functions are concerned with enabling people: the most important is education, though services for health, employment and social work may have similar aims.

### ***II.3.c.ii. Social services do not have to be provided through collective action.***

Social services have always been characterised by collective action. Many of the earliest welfare services - schools, orphanages, hospices and so forth - were voluntary or charitable in nature. Collective action by mutual aid societies also tended to develop in situations where there were few, or no, alternatives. Commercial organisations for profit, by contrast, have had a relatively limited role in this field, because profits are rarely maximised through focusing on people with considerable needs but limited resources. Collectively based social services developed because the protection they provided was needed, and it was not provided through the private sector.

Despite this trend, it is not necessary for the organisation and delivery of services to be done collectively, and in practice social services may be provided in a range of different ways, including commercial provision. Most obviously, insurance cover is collective (because it involves the pooling of risk) but the financial payments from insurance can be used in the market. There is, then, a clear distinction to be made between the principle of social protection and the provision of social services. Social protection has to be collective (► [II.3.a.i](#)); social services do not.

### ***II.3.c.iii. Social services develop in a social context.***

There is a view that the development of social protection has depended primarily on the interaction of factors in industrial society.<sup>180</sup> If social protection depends on a structure of interdependency, solidarity and social obligation, it cannot be mainly attributable to the process of industrialisation, because these characteristics are not confined to economically developed societies. Social protection must occur in undeveloped societies as well as developed ones. This is indeed the case; Sahlins reviews anthropological evidence of the application of solidarity in a wide range of tribal societies.<sup>181</sup> Economic development has a direct effect on this process - a combination of interdependency, and the creation of the means by which welfare can be increased (► [II.2.a](#)) - but it is not sufficient to explain the establishment of social protection.

At the same time, industrial society shapes the specific forms which social protection takes in practice. Social services have developed in the society of which they are part, and the form they take reflects the conditions in that society. The forum around which many welfare organisations have been built is the workplace, with an emphasis either on the role of the unions, or the employer, or both, depending on the conditions at the time. (This is true, in different ways, both in Europe and Japan.<sup>182</sup>) Religious organisations have played a major part: the 'pillarisation' of social services in the Netherlands was based on the

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<sup>180</sup> G Rimlinger, 1971, *Welfare policy and industrialisation in Europe, America and Russia*, New York: John Wiley.

<sup>181</sup> M Sahlins, 1974, *Stone age economics*, London: Tavistock.

<sup>182</sup> Baldwin, 1990; A Gould, 1993, *Capitalist welfare systems*, London: Longmans, pt 1; G Esping-Andersen, 1996, *Hybrid or unique?: the Japanese welfare state between Europe and America*, *Journal of European Social Policy* 7(3) pp 179-189.



distinction between Catholic, Protestant and secular organisations.<sup>183</sup> In other countries, welfare was built around such formal organisations as existed - in much of England, the Poor Law. (The arrangement in England was more complex: prior to the development of Poor Law services, the main administrative authority was held by magistrates.<sup>184</sup> The local gentry often had, in consequence, the threefold roles of employers, givers of charity and exercisers of authority, and the relief of distress might fall into any of these categories.)

There is no simple formula to explain which social groupings are likely to be influential, and which will not. However, once a pattern of provision is established, any new initiative or development has to negotiate its role with the services which have already been developed. One way of representing this process is, of course, historical: the idea of 'path dependency' has been used to explain how, once certain decisions about development have been made, systems come to develop along specific lines.<sup>185</sup> Historical explanations have an advantage over sociological ones; they take into account influences which have little to do with social factors - notably, in Europe, the effect of war and invasion. Whatever the mode of explanation, the central point is that welfare does not appear in a society from out of nowhere; it grows and develops on the basis of what is there.

## THE MORAL BASIS OF WELFARE PROVISION

### II.3.d. Social protection, and social services, are moral activities.

The idea that social protection and social services are moral activities should, by this stage of the argument, be unsurprising; social action is conditioned by moral norms, and the provision of welfare is no exception. But the provision of welfare is more deeply embedded in morality than many other activities. For one thing, the provision of welfare is required morally; there are obligations of solidarity which bind people to mutual support (► [I.3.a](#)). It is not just moral activity - there are good reasons of self-interest to go along with it - but it is inevitably moral in its nature. For another, welfare itself is an evaluative concept, which can only really be understood normatively. Where moral codes are not complied with, welfare is vitiated.

#### *II.3.d.i. Collective action for welfare is morally informed.*

Whether people offer social protection to each other, or whether they band together specifically for the purpose of mutual aid, the action is morally informed. People are doing something which benefits them, and which they know to be right. This is a powerful combination.

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<sup>183</sup> M Brenton, 1982, Changing relationships in Dutch Social Services, *Journal of Social Policy* 11(1) pp 59-80.

<sup>184</sup> S Webb, B Webb, 1927, *English local government: the old Poor Law*, London: Cass.

<sup>185</sup> D Wilsford, 1995, Path Dependency, or why History makes it difficult but not impossible to reform health care systems in a big way, *Journal of Public Policy* 14(3) pp 251-283.

This means not only that people are acting morally, but that they know that moral obligation is at issue. This has important consequences for the arrangements. People in such arrangements are sensitive, not just to moral obligation, but to immorality, which is another facet of morality. One of the few things which can wipe out a reciprocal moral obligation is the breach of moral obligation on the other side. In the view of many people, the effect of criminal activity, or fraud relating to welfare provision, is to extinguish their moral responsibility. This cannot be said with confidence, because there are other sources of duty besides mutual obligation: there are duties to other members of a community, and to humanity in general, which continue to apply whatever someone does.

***II.3.d.ii. Collective action is subject to moral conflicts.***

Although there are general moral obligations to engage in collective action and mutual aid, these are not the only moral obligations which people have. There is clearly a strong potential for moral conflict. People have duties which come from their contact with others. For example, an obligation to pay a debt might be in conflict to obligations to one's family, and prior obligations are a common reason for default. This is not a good excuse, because both obligations continue to exist, even though they may be contradictory. Equally, there may be conflicts between the obligations of mutual aid and other moral codes (like political or religious beliefs). The value of freedom is often represented as if it was opposed to welfare, and individualism is opposed to communal values. But people can hold these ideas and values simultaneously; in many cases the positions can be reconciled, but even if they cannot, the choices people make do not have to be consistent.

## II.4 WELFARE AND REDISTRIBUTION

### II.4. Welfare implies redistribution.

*II.4.a. The provision of welfare reflects the values of the society in which it takes place.*

II.4.a.i. Neutral actions can have biased consequences.

II.4.a.i.(1) Action which takes account of social conditions can reinforce them.

II.4.a.i.(2) Action which fails to take account of social conditions is liable to be inequitable

II.4.a.ii. There are no neutral outcomes.

*II.4.b. Social justice is a distributive principle.*

II.4.b.i. The principle of justice is a principle of consistency.

II.4.b.ii. Justice is not welfare.

*II.4.c. Welfare is limited by social disadvantage*

II.4.c.i. Inequality is disadvantage in a social context.

II.4.c.ii. The structure of social relationships implies disadvantage.

II.4.c.iii. Justice begins with equality.

II.4.c.iv. Inequalities which are not justifiable must be redressed.

*II.4.d. Social protection is redistributive.*

II.4.d.i. Redistribution is intrinsic to solidarity.

II.4.d.ii. The distribution of resources is a matter of convention.

II.4.d.iii. Redistribution is part of the rules of the game.

*II.4.e. There are related obligations to people in other countries.*

II.4.e.i. Justice, equality and redistribution are only applied in specific social contexts.

II.4.e.ii. The scope of obligations to people in other countries is limited.

## WELFARE IN SOCIETY

### II.4.a. The provision of welfare reflects the values of the society in which it takes place.

The provision of welfare is a moral activity (► [II.3.d](#)), and the values it enshrines are the values of the society it operates in. If a society values family ties, industrial production and national culture, welfare has to be expected to do the same.<sup>186</sup> [This is not to say that a society should value these things, or that it will be a better society if it does: 'work, family, country' was the slogan of Vichy France.] Although it is fairly obvious that collective action for welfare can develop new forms of social relationship in its own right, it often begins from existing social relationships: obligations relating to community, religious grouping or the workplace. Collective action for welfare may alter social relationships -

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<sup>186</sup> F Williams, 1989, *Social policy: a critical introduction*, Brighton: Polity.

perhaps reinforcing them, perhaps reducing their strength - but it is not very plausible to suppose that such arrangements are designed to change society fundamentally. Collective action is part of society: it begins as part of social relationships, and it continues as part of those relationships (► [I.3.b.iv](#)).

This also means, perhaps paradoxically, that the provision of welfare tends to be relatively little concerned with many key social issues, because these issues are taken for granted. Gender, family, sexuality and race have come in recent years to dominate the agenda for discussion in the study of social policy. In the study of social relationships, these issues are immensely important, and sociologists who have turned their attention to welfare have sought to find this importance reflected in the agenda of social protection. In many cases, however, the issues for policy are obscure, and a great deal of work has had to be devoted to making them visible.

#### *II.4.a.i. Neutral actions can have biased consequences*

A neutral action is one which does not seek to change the conditions in which it is applied. Neutrality is important for fairness: in a neutral process, there should be no bias, prejudice or favour. A neutral process does not, of course, necessarily produce a neutral outcome. A lottery is a neutral process: each ticket has an equal chance of winning. But people with more money can buy more tickets than people with less, so that winners are more likely to be better off. This is a simple illustration, but its effects are replicated again and again in social policy. In situations where people are disadvantaged, arrangements which fail to remove disadvantage may give the appearance of perpetuating it. Women tend to receive less than men for jobs of apparently similar value. (I write 'apparently' because there is a high degree of segregation between the sexes, and there is no clear yardstick by which value can be established. Since many of the lowest paid jobs are more important for society than many of the highest, the idea of 'equal value' is problematic.) A system of social protection which reflects the pay of workers will pay less to women. The origins of this inequality lie in the pay structure, not the system of social protection, but it is a common criticism of social protection systems that they maintain gender inequality.

The structure of society is unequal (► [I.2.c.i](#)), and the effect of social protection in an unequal society is often to produce unequal consequences. There is a general problem relating to financial compensation, that the value of an item is likely to reflect the valuation which the market places on it, and the market is subject to the wishes of people who have resources. Compensation for loss of earnings is worth more to the person who earns more. Compensation for personal injury tends to reflect the structure of salaries, which in turn reflects the structure of inequality. Compensation for property suffers from the same problems: a house which is worth ten times more than the average is unlikely to be ten times more house; the valuation reflects the willingness and ability of a minor part of the market to pay for its facilities or special characteristics. Accepting cash valuations has the further effect of saying that the house of a richer person matters ten times more than the house of a poor one: when railways were built through towns, they went through the areas populated by poorer people, because that was the economic way to develop.

The provision of welfare is liable to reflect the structure of a society, then, unless specific measures are taken to prevent it. Criticisms of welfare as 'gendered', or of 'institutional racism' in welfare states, are based in the argument that welfare provision systematically produces disadvantage for women and racial minorities. There are cases of

explicit discrimination, but in modern times they have become exceptional; the substance of the complaint is not primarily that discrimination is done directly, but that it is done in effect. The inadequacy of community care services becomes a problem for women, because it is women, in practice, who do most of the caring.<sup>187</sup> The housing conditions of racial minorities show the effects of cumulative disadvantage through a series of social and administrative processes.<sup>188</sup>

In an unequal society, an apparently neutral measure will not redress, and may replicate, the disadvantage these groups experience. This is primarily a criticism of society, rather than welfare provision; it condemns welfare provision for failing to change situations it was never designed to change. That is not an excuse, because it is perfectly legitimate to argue that welfare should have been designed to change these things. It needs to be understood, however, that the point is directed at social conditions, rather than being a fundamental criticism of welfare.

*II.4.a.i.(1) Action which takes account of social conditions can reinforce them.*

The assumptions made about social relationships can affect the pattern of welfare provision, and with it the impact of social protection on society. A social protection system which makes allowance for dependants, for example, has to define who is, and who is not, entitled to receive protection. In a society where the dominant norm is that of a male breadwinner with a dependent wife, the effect of specifying that only a 'wife' may receive an allowance is potentially discriminatory; it means that women with dependent husbands may not be covered. The effect of specifying a 'spouse' does not discriminate on the basis of gender, but does discriminate between those who are married and those who are not. More recently, there have been complaints that same-sex partners are excluded by such provisions. The arguments are muddled: a sexual relationship, or a personal commitment, is distinct from the issue of dependency. What matters is the common use of resources in a household. Unconnected issues have been lumped together because of the (equally questionable) assumptions about matrimony.-

One curious side-effect of such assumptions is that systems can become a reward for conformity. People who are married receive rewards that unmarried people do not; nuclear families are protected when extended families may not be. At the same time, there may be perverse results. 'Cohabitation rules' are based on the principle that married couples should not be treated worse than unmarried couples, so that an unmarried couple have their resources aggregated in the same way. The effect is also, however, to penalise unmarried fathers for accepting responsibility for a child.

Although some authors are vehement about the effects of such 'incentives'<sup>189</sup>, there is very little evidence to show that people's behaviour is

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<sup>187</sup> C Ungerson (ed), 1990, *Gender and caring*, Hemel Hempstead: Harvester Wheatsheaf.

<sup>188</sup> J Rex, 1988, *Race and the urban system*, in *The Ghetto and the Underclass*, Aldershot: Avebury; S J Smith, 1989, *The politics of 'race' and residence*, Brighton: Polity.

<sup>189</sup> e.g. C Murray, 1984, *Losing ground*, New York: Basic Books.

greatly altered by rewards or penalties of this sort<sup>190</sup>. As a moral issue, though, there is evident concern that distributive measures should not punish people for doing what is right, or reward them for doing what is wrong. In so far as the conditions of social protection reflect existing circumstances, they might seem to convey approval; and since social protection is concerned with conditions which are undesirable, like disability, unemployment and poverty, the accusation is often made that it is aggravating the conditions it is designed to help.<sup>191</sup>

*II.4.a.i.(2) Action which fails to take account of social conditions is liable to be inequitable.*

The main way to avoid this kind of effect is to ignore social conditions - to begin with a presumption of equality and to treat people on an equivalent basis. The problem with this is that it leads to inequity, sometimes seriously so. If married people were to be treated as individuals, rather than as members of a household unit, the effect would be greatly to enhance the position of non-working spouses, including non-working spouses in relatively rich households. The rules for aggregation of household resources are intended to prevent that. Similarly, the effect of disaggregating the resources of students in higher education from their parents has been to favour richer families of higher status. It is possible, then, to avoid reinforcing existing conditions, but the results are not certain to be satisfactory.

***II.4.a.ii. There are no neutral outcomes.***

If neutral actions have biased consequences, the only way to achieve an unbiased outcome is to select a means of addressing the issues which is not neutral, but designed to produce a different balance. The only cases in which neutral outcomes can be achieved are where people begin from a position of equality. This is the position in courts of law, which begin from the proposition that everyone is equal before the law; in principle, legal neutrality is possible, even if it is difficult to achieve in practice. In theory, too, many societies are committed to the equality of their members, though because not everyone is equally able to participate in such societies, the effect is not neutral in social terms. In the field of welfare provision, there are no neutral outcomes.

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<sup>190</sup> See e.g. J Pechman, M Timpane, 1975, *Work incentives and income guarantees* Washington: Brookings, which describes a controlled experiment.

<sup>191</sup> H Spencer, 1851, *Social Statics*, London: John Chapman; Murray, 1984.

## SOCIAL JUSTICE

### II.4.b. Social justice is a distributive principle.

Justice is used in two main senses. The Platonic use of the term represents justice as what is morally right, or good.<sup>192</sup> The Aristotelian use sees justice as a distributive term, closely associated with fairness. The just, Aristotle wrote, is the proportionate.<sup>193</sup> Corrective justice, or criminal justice, is done by treating someone proportionately to their offence. Distributive justice demands an allocation between people which is proportionate to certain criteria, such as their needs, their desert, or their rights. In both senses of the term, social justice can act as a distributive principle, governing the allocation of resources in a society.

#### *II.4.b.i. The principle of justice is a principle of consistency.*

The basic argument for justice is an argument for consistency. If two people have committed the same crime, they should be treated similarly. Injustice occurs when factors are taken into account which are irrelevant; the fact that one person is a gypsy, or another happens to be related to the local magistrate, should not influence the decision unless it is directly germane to the case. Conversely, if two people have committed different offences, they should not be treated in the same way. The same principle applies in distributive justice: like cases are treated alike, and different cases differently.

#### *II.4.b.ii. Justice is not welfare.*

Social justice and welfare are not equivalent principles, and there may be cases in which justice leads to a reduction in welfare. This is most obviously true of the concept of corrective justice, which argues that in some cases it is appropriate to punish people, and so to make them worse off. Distributive justice means that if the welfare of some people is reduced, the welfare of others is increased.

It is possible to argue that redistribution can lead to an increase in welfare overall. The basic economic argument is that income and wealth have a diminishing marginal utility - £1 is worth less to a richer person than to a poorer one. The net effect of redistribution is therefore to increase the total sum of welfare.<sup>194</sup> This argument is based on the assumption that the utility refers to the same kind of spending, on the same kinds of needs. Basic needs are important at lower levels of income, but other needs become evident at higher levels of income; achieving personal goals and ambitions also matter (► [II.1.a.iii](#)). The implication is not that welfare overall is increased by the transfer, but that one kind of welfare should be sacrificed in order to foster another. That is a tenable position, and one for which I have much sympathy - it is argued by everyone who advocates the transfer of resources from developed economies to poor, less developed economies - but it would be mistaken to assume that it involves no real sacrifice on the part of the richer person.

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<sup>192</sup> Plato, *The Republic*.

<sup>193</sup> Aristotle, *Ethics*, (e.d J Thomson), Harmondsworth: Penguin, 1953.

<sup>194</sup> A Pigou, 1932, *The economics of welfare*, London: Macmillan, p.89.

## INEQUALITY

### **II.4.c. Welfare is limited by social disadvantage.**

Poverty, or the denial of welfare, is founded in social relationships as much as it is in material circumstances (► [II.1.b.i](#)). One effect of disadvantage in social relationships is a lessening of the quality of relationships in itself. People who have inferior status have not only limited access to social resources and opportunities, but a diminished set of social responsibilities (► [I.2.c.i](#)). Their integration into society, and their solidarity with others, is reduced. At the same time, disadvantage in social relationships reduces entitlements, and so the power that people have to command resources. The link between low status and low economic position is not coincidental.

People can maintain their welfare, even if they are unequal; disadvantage alone does not mean that material circumstances are unsatisfactory, or that security is threatened. But disadvantage is clearly related to unsatisfactory circumstances, and the more extreme the disadvantage, the more likely it is that welfare will be vitiated.

This might imply that welfare is diminished in proportion to disadvantage, so that as disadvantage increases, welfare diminishes. This view is tenable, but the alternative, more prevalent, view is that there is some point or threshold at which the disadvantage becomes crucial, and disadvantage leads directly to deprivation.<sup>195</sup> This perception is central to the argument that distributive justice can increase welfare. If welfare is based on the sum of utilities in a society, the argument for the redistribution of income is thin. If, on the other hand, one believes that primary objective of social protection should be the avoidance of suffering, the existence of a threshold of suffering makes it possible to define both the objectives, and the limits of redistribution: people have to be brought above that threshold.

#### ***II.4.c.i. Inequality is disadvantage in a social context.***

Social inequality occurs whenever people are disadvantaged relative to others in a society. To say that someone is disadvantaged is not just to say that they are in a less desirable position than others; I would like to be able to play the piano, but I cannot say that I am disadvantaged because I can't. A person who has a chronic respiratory illness is clearly worse off than another person who does not, but is not necessarily 'disadvantaged' in relation to the other person. Two people in different states of health might, however, be advantaged or disadvantaged relative to each other if, for example, they were in competition for a job, or for different levels of health care. Disadvantage is based in some kind of social relationship, or common social element. Inequality is disadvantage which is general, rather than specific to certain circumstances.

Inequality is not just difference. People are different in many ways: they can be tall or short, thin or fat, old or young, and so forth. These differences imply inequality only if the difference leads to disadvantage. Many differences can cause disadvantage in social relationships. Differences of gender, 'race' or age commonly lead to discrimination and

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<sup>195</sup> D Gordon, C Pantazis (eds), 1997, *Breadline Britain in the 1990s*, Aldershot: Ashgate.



differential opportunities. Those who are opposed to inequality are not opposed to difference; no-one argues that men and women should become asexual, or that everyone should be the same age. They are opposed to the social disadvantage which stems from difference, not the difference itself.

Some differences, however, are not true differences at all, but simple descriptions of disadvantage. Money is a form of entitlement - a unit of exchange, which allows command over resources. Having a different amount of money from another person means, in its very nature, that the person with more has a greater command over resources than the person with less. In a competition for scarce resources, it is the person with more money who will obtain them. Having low income and wealth is, then, a form of disadvantage, and inequality of income is an important form of inequality.

#### ***II.4.c.ii. The structure of social relationships implies disadvantage.***

Some element of disadvantage is implicit in social relationships. Social roles are highly differentiated, which is fundamental to interdependence, and these differences are associated with a range of differential rights and obligations (► [I.2.c.i](#)). Charvet argues, on that basis, that inequality is an integral element of any complex society.<sup>196</sup> I think this has to be right.

This does not, however, mean that disadvantage must just be accepted: inequality can create serious problems for social integration, and so for a society; too much inequality creates a social distance which prevents people from interacting with each other. Many commentators have sought to account for the source of disadvantage in the structure of class or power relations<sup>197</sup>, but for the most part the phenomena they are trying to explain need no explanation. Without corrective action, the effects of inequality are liable to be reproduced in subsequent allocations of resources (► [II.4.a.ii](#)), and such corrective action is only likely to be taken if there is some mechanism through which disadvantage can be remedied. The main role of concepts like class or power is to explain how movements for change can be passed over or defused.

#### ***II.4.c.iii. Justice begins with equality.***

The principle of justice is a principle of proportionality, not of equality. People who meet different criteria are not treated equivalently; we should not want everyone who comes to trial to receive the same punishment, irrespective of such criteria as guilt or the nature of the offence, and most of us would not want everyone to receive the same income, irrespective of their needs, the value of their contribution to society, the character of their work.

Justice does, however, contain a presumption of equality. If people are treated consistently, and there are no reasons to distinguish between them, then any distribution

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<sup>196</sup> J Charvet, 1983, *The idea of equality as a substantive principle of society*, in W Letwin (ed.) *Against equality*, London: Macmillan.

<sup>197</sup> Two of the most influential are F Engels, 1934, *Anti-Dühring*, London: Lawrence & Wishart, and M Foucault, 1976, *Histoire de la sexualité: la volonté de savoir*, Paris: Gallimard.

will in the first instance be an equal distribution. Inequalities have to be justified by relevant criteria.

#### ***II.4.c.iv. Inequalities which are not justifiable must be redressed.***

Inequalities can be justified in several ways, but it is difficult to justify them by their effect on welfare. Rawls suggests that inequality is justifiable if it leads to people at the bottom being made better off.<sup>198</sup> Rawls has been criticised for ignoring the importance of structured social disadvantage. His mistake is to consider welfare in terms of absolute resources, without considering its relational components.<sup>199</sup> If the implication of disadvantage is that a person achieves material improvements at the expense of social exclusion (the position of the domestic slave in ancient Greece or Rome), it may not be acceptable.

There may well be disagreement about what is, and what is not, justifiable disadvantage; there has been no shortage, over the years, of supporters of an hereditary principle.<sup>200</sup> The main opposition to this position stems, however, not from those who believe that disadvantage is just, but from those who do not accept that the redress of disadvantage is a legitimate concern. Nozick, for example, argues that a distribution of resources which stems from legitimate transactions must itself be legitimate, and that no attempt to redress the balance can be acceptable.<sup>201</sup> But this would be true only if no other principle permitted redistribution, and many principles do.

Redressing inequality is done by addressing the causes of disadvantage, but the nature of the response depends on the kind of inequality which is being addressed. Racial inequality is usually addressed by treating people alike, because racial differences are not generally relevant to the issues, like employment, housing and education, where disadvantage occurs most strongly. The response to gender inequalities, by contrast, has not been to treat men and women exactly alike, but to prevent differences between men and women being expressed in the structure of rewards and opportunities. Arguments for welfare have sought to protect and celebrate difference, rather than denigrating it.<sup>202</sup>

## **REDISTRIBUTION**

#### **II.4.d. Social protection is redistributive.**

Social protection is redistributive, in the sense that the services people receive are paid from a common pool, not from individual funds. People do not in general pay for a service at the point of delivery; they contribute to a scheme, and they draw on it when they are in need. Social services are also commonly redistributive over time - the point at which

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<sup>198</sup> J Rawls, 1971, *A theory of justice*, Oxford University Press, Oxford.

<sup>199</sup> N Daniels, 1975, *Reading Rawls*, Blackwell 1975.

<sup>200</sup> e.g. D Hume, 1888, *A treatise of human nature* (L Selby-Bigge, ed), Oxford: Oxford University Press, pp 501-513; Burke, 1790.

<sup>201</sup> Nozick, 1974.

<sup>202</sup> F Williams, 1992, *Somewhere over the rainbow: universality and diversity in social policy*, in N Manning, R Page (eds) *Social Policy Review 4*, Social Policy Association.

people pay for services is different from the point at which they will receive help. In a situation where all parties benefit (► [I.3.b.i](#)), it may not seem important whether the previous distributive balance is maintained. A concern with social justice, however, argues for a focus on redistributive outcomes.

Redistribution is conventionally classified as 'horizontal' or 'vertical'. Horizontal redistribution is redistribution from one category of people to another: from people of working age to old people, from people without children to people with children, from people who rent houses to those who buy them, and so forth. Vertical redistribution alters the distribution of income or wealth between rich and poor: progressive redistribution transfers resources from rich to poor, and regressive distribution transfers resources from poor to rich. Because social services and social protection are focused on need and conditions of dependency, they tend to be progressive in their intentions. There is however some debate as to whether they are progressive in effect.<sup>203</sup> Collective action, and in particular mutual aid, requires the ability to contribute, and that in turn implies a degree of economic stability. Where people are excluded, they are likely to be poor, or in precarious occupations. Solidarity tends, then, to redistribute horizontally; the development of vertical solidarity is far less firmly established, and more fragile.

#### ***II.4.d.i. Redistribution is intrinsic to solidarity.***

The close identification of solidarity with mutual aid has led to solidarity being used at times as a synonym for redistribution<sup>204</sup>. There are other reasons besides solidarity why redistribution might take place - for example, as compensation for injury - and other forms of solidarity besides redistribution. The principle of solidarity is based on social obligations (► [I.3.a](#)), and there are forms of obligation which are not concerned with distributive issues. But solidarity is expressed through collective action, and collective action which is based in the obligations of solidarity leads to pooled resources, in the form of mutual aid and social organisation (► [II.3.a.ii](#)). This, like other forms of social protection, is necessarily redistributive.

#### ***II.4.d.ii. The distribution of resources is a matter of convention.***

The effect of interdependence in a developed economy is that production depends primarily on a process of exchange, rather than individual effort. People do not produce their own materials and tools in order to create things; they rely on the efforts of others (► [I.1.a.i](#)). Along with the myth of individualism (► [I.1.b.ii](#)), there is a recurring myth that individuals produce property. The identification of individualism with the defence of property has been one of the principal means by which a radical and subversive doctrine has come to act as a defence of the status quo. Property is produced through the division of labour in society.

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<sup>203</sup> J Le Grand, 1982, *The strategy of equality*, London: Allen and Unwin; R Goodin, J Le Grand (eds), 1987, *Not only the poor*, London: Allen and Unwin; J Hills (ed), 1996, *New inequalities*, Cambridge: Cambridge University Press.

<sup>204</sup> e.g. J Clasen, 1997, *Social insurance in Germany - dismantling or reconstruction?*, in *Social Insurance in Europe*, Bristol: Policy Press, pp.63, 68.

The value of any good is determined by a range of factors; they include its utility, its scarcity, and possibly the labour which has been invested in it. Most of all, though, value is determined by the willingness and ability of people to pay; this is generally taken, in economics, as a sign of willingness to sacrifice other opportunities in order to gain the item. To a large extent, values reflect the conventional structure of resources and options. Value is, then, relative. Equally, that value is determined through society.

For the same reasons, the value of labour is conventional. There is no intrinsic rule which says that the value of a banker must be greater than that of a nursery worker, or that a sewage worker should be paid less than an estate agent; if anything, the scarcity of the skills, the responsibility of the post, and the importance of the function to society, suggests the opposite. But services to rich people generally command more than services to poor people, because the clients are better able to pay. There are other factors, of course, which are taken into consideration. Entry to some professions is controlled, in order to increase the price which the profession is able to command. Dirty work, like sewage treatment or refuse collection, is generally paid less than clean work. This seems to reflect social status, rather than the demands of the employment. Work predominantly undertaken by women is paid less than work predominantly undertaken by men. Where the gender balance in a profession shifts, as happened in secretarial and clerical work, the relative rewards of the profession tend to change with it.

This argument is fundamental to understanding the moral status of redistribution. The initial distribution stems from one set of social conventions, including the element of redistribution; redistribution itself derives from a related set of conventions.

#### ***II.4.d.iii. Redistribution is part of the rules of the game.***

Redistribution is frequently represented in the literature as if it were some kind of distortion of the natural order: the conscious act of a meddling government in the delicate mechanisms of a society<sup>205</sup>. But much of the redistribution which takes place for the provision of social welfare is not like that: on the contrary, it stems from mutualist arrangements, freely entered into by the participants. Several countries, notably those in Northern Europe, have developed welfare systems without the element of compulsion (► [I.3.b.iii.\(1\)](#)); others have welfare services substantially linked to mutualist associations, particularly trades unions. Redistribution is a normal aspect of social arrangements.

Another way of saying that something is a normal arrangement - not, that is, a commonplace arrangement, but one which is within the norms and expectations of a society - is that it is 'institutionalised' in society. A social institution is not necessarily a formal organisation, but it is an established part of social life which is taken for granted as part of our social relationships and ordinary lives. Examples are the family, religious worship, or the use of money as a means of exchange. Redistribution is institutionalised, or built into the social fabric, in the same way. If redistribution is intrinsic to solidarity (► [II.4.d.i](#)), and solidarity is intrinsic to society (► [I.3](#)), then redistribution is intrinsic to society.

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<sup>205</sup> e.g. B de Jouvenel, 1951, *Ethics of redistribution*, Cambridge: Cambridge University Press; H Acton, 1971, *Morals of markets*, London: Longman; or Hayek, in P Taylor-Gooby, J Dale, 1981, *Social theory and social welfare*, London: Arnold.

## REDISTRIBUTION BETWEEN SOCIETIES

### II.4.e. There are related obligations to people in other countries.

Redistribution does not take place only within societies. First, there are the responsibilities which people in societies owe to social groups elsewhere, based in their relationships and contact with those people (► [I.2.a.ii](#)). Second, there are the obligations which societies owe to other societies (► [I.4.e.iii](#)). The general pattern of foreign aid is that it goes from one government to another (and not from a government to people in need in other countries.)<sup>206</sup> The third responsibility is a basic humanitarian one, which is owed to every person; because societies are moral agents (► [I.4.e.vi](#)), they have obligations distinct from those of individuals within a society.

On all three counts, social responsibility cannot be considered to finish at the boundary of a society.

#### *II.4.e.i. Justice, equality and redistribution are only applied in specific social contexts.*

Although social responsibility can be extended across societies, there are important limitations in the concepts of justice, equality and redistribution which have been developed here. These concepts have to be applied in specific social contexts. People do not live in isolation, in an imaginary world where they have no relationships, obligations or rights; they begin as members of a society, with obligations structured in a specific social context. The groups and societies they are part of are not equal; some groups are disadvantaged relative to others. The effect of distributive justice within groups will not be the same as justice between groups. The same principle applies, evidently, between societies.

In theory, it should be possible to extend the principles of justice, equality and redistribution between societies. If a society is a meta-group, and there are responsibilities between societies, then there should be a case for redistribution between them. For redistribution between societies to have a major effect, though, obligations between societies would need to be considered before, or at least at the same time as, obligations within societies and social groups. But the structure of social obligations works in the opposite way: the obligations which are felt within groups are much stronger, and more keenly felt, than those which are felt between groups, and those which apply to societies as a whole are relatively weak. The strength of obligations diminishes with social distance (► [I.3.a.i](#)), and different groups are necessarily distant.

#### *II.4.e.ii. The scope of obligations to people in other countries is limited.*

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<sup>206</sup> J Eaton, 1995, Foreign public capital flows, in J Behrman, T Srinivasan, Handbook of development economics, vol 3B, Elsevier: Amsterdam.

The needs of people in developing countries are serious: some of those claims concern the inadequacies of water supplies, sanitation, drains, food and shelter,<sup>207</sup> but others concern relationships based in history, trade, ownership and debt. The moral obligations I have identified do not address the first set of issues very directly: the specific obligations of groups and societies to other societies do not seem to encompass them. In particular, the argument for direct redistribution is limited. Aid to developing countries tends to be characterised not so much by charitable donations as by concessionary terms: limited security for loans, reduced rates of interest, and extended loan periods. The scope of aid is limited, and the United Nations Development Program has commented that “foreign aid has critical weaknesses - in quantity, equity, predictability and distribution.”<sup>208</sup> Aid is rarely based directly in humanitarian motives; it is commonly linked to economic and military activity, and to the interest of the donor country. The clearest case of this is 'tied aid', which imposes conditions that will benefit the donor, though there is an argument that all concern with economic development rather than meeting human needs is basically self-interested.<sup>209</sup> The proportion of income given in aid has been declining in recent years, and the UN emphasises the importance of aid less and less. It has not completely given up on the idea, but most of its attention is devoted to other responses.

The responses which seem to be preferred reflect particular responsibilities, rather than generalised concern with humanitarianism or justice. There are several examples of such responsibilities in the second set of obligations. One is fair trade. Developed countries are being requested to stop weighting the game against the poorest countries. This includes, for example, the reduction of import restrictions and tariffs which make it difficult for developing countries to sell their produce.<sup>210</sup> The second is debt relief. Developing countries have extensive debts to the richer countries, and economically they are often crippled by interest payments. The issue of debt is covered by all three of the obligations to other countries, and the concern the issue has excited reflects its relative moral status.

This points to significant moral limitations in the framework of obligation which I have outlined. The emphasis on solidarity, reciprocity and interdependence help to explain both the limited role played by development aid, and the restrictive conditions which are placed upon it. In a perfect world, obligations to strangers, or demands for justice across societies, should be at least equal to, and might even outweigh, the moral considerations which arise from the process of interaction and exchange. In terms of much of the theory developed here, and in practice, they do not.

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<sup>207</sup> see e.g. M Wuyts, M Mackintosh, T Hewitt (eds) 1992, *Development policy and public action*, Oxford University Press; G Rodgers, 1995, *The poverty agenda and the ILO*, Geneva: ILO.

<sup>208</sup> cited Todaro, 1994, p.526.

<sup>209</sup> Eaton, 1995.

<sup>210</sup> United Nations Development Program, 1997, *Human Development Report*, Oxford: Oxford University Press, ch.4.

## **PART III: THE STATE AND WELFARE**

**III. The welfare state is a means of promoting and maintaining welfare in society.**

## III.1 THE ROLE OF THE STATE

### III.1. “Government is a contrivance of human wisdom to provide for human wants.”

*III.1.a. Government is a form of collective action.*

III.1.a.i. Collective action by government is similar to other forms of collective action.

III.1.a.ii. States provide a framework for political action.

*III.1.b. The state is a part of society.*

III.1.b.i. Government relates to a political community.

III.1.b.ii. Government can act to maintain or change society.

*III.1.c. Governments rely on authority.*

III.1.c.i. The legitimacy of government derives from the morality of its actions.

III.1.c.ii. The purpose of government is to serve the interests of its citizens.

## THE NATURE OF GOVERNMENT

### III.1.a. Government is a form of collective action.

Government is a set of formal structures, which are used to undertake a wide range of activities. Conventionally, the branches of government are distinguished as legislative (the formulation of rules), judicial (arbitration), and executive (the implementation of policy). More broadly, government tends to be identified with 'the state', a general term for the institutions and activities undertaken by governments. In so far as there is a distinction, states should be seen as institutions, rather than groups of people; they consist of a complex combination of agencies and procedures which together form the organisational means through which policy can be effected. Within states, 'governments' represent only the formal policy-making bodies. (This should not be taken to deny the potential of institutions within the state to generate their own rules and practices, which often acquire the status of policy.) These activities are all, necessarily, forms of collective action; they rely on concerted action within a received social framework.

*III.1.a.i. Collective action by government is similar to other forms of collective action.*

In large part, the actions of states in the field of social welfare mirror the activity of other collective organisations. The actions are unusual mainly in their scope and coverage: most collective actions relate only to a limited part of society, but actions by the state often represent collective action at the level of the whole society.



There is a view, put by radical liberals, that the intervention of government relating to welfare is illegitimate.<sup>211</sup> Many of their objections assume that collective action by a government is based in coercion. That assumption is easy to dismiss: there have been governmental arrangements for social protection in several countries which have not been compulsory (► [I.3.b.iii.\(2\)](#)). In the same light, it should not be supposed that compulsion is distinctively or uniquely the province of government: the arguments about free riders (► [I.3.b.iii.\(1\)](#)) apply to other forms of collective action. Contracts of employment, to take the obvious example, do not reflect an individual negotiation between employer and employee, but more general terms of employment, often negotiated with a range of interested parties. A firm may reasonably decide to arrange social protection, like health or pensions, for its employees; it can do so economically and effectively through a comprehensive arrangement with a third party. In practice, this has meant for many that inclusion in collective arrangements is a condition of employment, and effectively compulsory - but that the element of compulsion is not attributable to government. In France, the national system of unemployment benefits is administered on the basis of an agreement between employers' and workers' organisations. Occupational pensions were initially introduced on a similar basis, though that scheme acquired a statutory basis in 1972.<sup>212</sup>

The functions associated with governance can and do exist outside the formal apparatus of a state. Employers can regulate activity; families can exercise control. Religious bodies form and arbitrate on rules; in many European societies, in parallel with the formal structures of government there are ecclesiastical, rabbinical and Islamic courts. Their authority depends on consent - and in the case of rabbinical courts, a ritual signifying consent to arbitration is a formal part of the process. Where such activities are generated through civil society, they are *prima facie* legitimate.

The forms of collective action which have been considered up to this point have been mainly non-governmental; they are developed and pursued beyond the scope of the state (► [I.3.b.iv](#)). In practice, the overlap between state action and other forms of collective action is considerable. In many countries, the process of providing welfare falls firmly within the province of such collective organisations, and it can be difficult to clarify the distinctions between such organisations and the formal apparatuses of the formal state. Collective action for welfare occurs because it is beneficial, desirable and part of human activity. It is unsurprising that governments should seek to engage in similar activity, and it seems perverse to argue that this kind of action is legitimate when it is undertaken by independent organisations, but illegitimate when it is undertaken by a government.

There are, however, two important objections which apply specifically to government action, as opposed to other forms of collective action. One, put by Hayek, is that even when government appears to be beneficent, there is a risk that the extension of its power and influence tends to corrupt the fabric of social life and to lead to the abuse of its position.<sup>213</sup> There are some strong examples of this process taking place - Hayek was

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<sup>211</sup> Nozick, 1974; G Brennan, D Friedman, 1981, A libertarian perspective on welfare, in P G Brown, C Johnson, P Vernier (eds.), *Income support: conceptual and policy issues*, Totowa N.J.: Rowman and Littlefield.

<sup>212</sup> J-C Portonnier, 1998, *Les termes français de la protection sociale*, Paris: Mission-Recherche.

<sup>213</sup> F Hayek, 1944, *The Road to Serfdom*, London: Routledge and Kegan Paul.

writing during the Nazi era. The point is not, however, sufficient to argue against government action. There are risks of abuse and damage in many actions which affect other people; the bigger the action, the greater the risk. Someone who sets up a business might put some competitors out of trade; there may be external costs imposed on other people; the time will come when employees have to be fired; many products carry risks for users. None of this is a reason not to set up in business; it is a reason to be wary about what one does, and to make sure that it is done properly, legitimately and considerately. The same reservations apply to governments - the power to change things for the better is also a power to make things worse - but it is not a reason for refusing to start.

The second objection is more difficult to discount, and more subtle; it was made, for example, by Herman Dooyeweerd in the Netherlands<sup>214</sup>, and it has been taken up in a different form by Michael Walzer.<sup>215</sup> Dooyeweerd argued that in any society, there are distinct spheres of action: actions which are appropriate and legitimate in some social contexts may not be in others. "Sphere sovereignty" argues for a separation of different areas of social life - for example, the separation of religion from government, the separation of commerce from education, or the separation of public and private spheres. We might argue (though the position depends on the society of which we are part) that the family is not an appropriate forum for the formal exercise of justice, that commercial relationships are not a good basis for sexual activity, or that the state has no role in emotional bonding. The boundaries of different sphere of influence shift, depending on the society where they are found, but the basic idea is an appealing one: legitimate action taken by one body can be illegitimate when it is taken by another outside the sphere.

This is a difficult argument to counter directly, because it depends largely on the mobilisation of moral sentiments which differ according to social context. The separation of state and religion is evident to many people in the US and France; it is much less evident to many in England or Israel. In the Netherlands, welfare was traditionally organised around the 'pillars' of different religions; the organisation of supportive social action was the province of the churches, not the state. For the argument to act as an objection to collective action for welfare, there must be an identifiable sphere of influence, which leads to state action being distinct from other sorts of collective action, or defines collective action for welfare as the exclusive province of another aspect of social life. There may be a principle which makes it permissible for an employer, a trade union or a religious organisation to arrange health care but debars government from doing so. Where there are such principles, they appear to be specific to particular cultures and political settlements.

This argument can be used to limit the scope of other forms of collective action, through families, businesses, associations or religious organisations. None of the objections considered - coercion, the balance of power or sphere sovereignty - clearly distinguishes the role of the state from that of other forms of collective action. Government is distinguished mainly by the strength of its powers, and its scope for action. This implies a heavy responsibility, as well as an opportunity for action; but the criteria by which collective actions have to be judged are essentially the same for government as they are for others.

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<sup>214</sup> P Marshall, 1985, Dooyeweerd's empirical theory of rights, in C T McIntire (ed) *The legacy of Herman Dooyeweerd*, Lanham: University Press of America.

<sup>215</sup> M Walzer, 1983, *Spheres of justice*, New York: Basic Books.

### *III.1.a.ii. States provide a framework for political action.*

States are complex, diverse institutions which represent a range of interests, and within them governments are likely to pursue the interests of a limited part of that range. The view of government as a form of collective action is ambiguous, because it is not always immediately clear what collectivity they represent. Societies are unequal, and within unequal structures people have different degrees of power (► [I.2.c.i](#)). The marxist criticism of welfare as an exercise of power is based on the view that the actions of government are liable to serve the interests of the dominant class,<sup>216</sup> or at least of influential groups in a society.<sup>217</sup> I previously qualified this criticism by the suggestion that it would take a conscious exercise of power to alter the structure of disadvantage (► [II.4.c.ii](#)); and many governments have in fact intervened to moderate inequality, to deliver social protection and to pursue a modicum of social justice.<sup>218</sup> The view that government favours privileged groups is more true in developing countries, where government is likely to be seen, and to act, in a partisan role.<sup>219</sup> In most developed countries, the interplay of multiple actors makes it much more difficult to identify any consistent imbalance within the actions of government.<sup>220</sup>

The view this implies of government and the state is less one where governments are supreme bodies exercising ultimate control in a territory, and more one where they are policy actors engaged in negotiation with others. This position has been reinforced by changing patterns of social and economic relationships. Some of the factors driving change are supra-national in scope: the shift to 'global' (or sub-global) economic markets, the need to control multi-national organisations and international crime, the effect of population movement, have encouraged governments to take a supra-national perspective. Other issues, like political pressures from increasingly articulate and skilled local populations, or the expanding range of state activities, have prompted localism and decentralisation.<sup>221</sup> This has tended to imply a multi-tiered approach to governance. There has been, Jessop suggests, a 'hollowing-out' of the role of government: it may have the appearance of power, but the substance is less convincing, and such power as governments have has often been delegated, shifted downwards towards local initiatives, or upwards, to supra-national organisations.<sup>222</sup>

This has led many states to search for new methods of working. Ironically, at the same time as new nation states are being formed in Europe in an effort to assert independent action - the division of Czechoslovakia, or the breakup of the former Soviet

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<sup>216</sup> R Miliband, 1969, *The state in capitalist society*, London: Weidenfeld and Nicolson; H Dean, 1991, *Social security and social control*, London: Routledge.

<sup>217</sup> C Wright Mills, 1956, *The power élite*, New York: Oxford University Press.

<sup>218</sup> United Nations Development Program, 1997.

<sup>219</sup> The point is made by M Lipton, M Ravallion, 1995, *Poverty and policy*, ch 41 of J Behrman, T Srinivasan, *Handbook of development economics*, vol. 3B, Amsterdam: Elsevier, pp 2565-2565.

<sup>220</sup> R Dahl, 1961, *Who governs?*, New Haven: Yale University Press.

<sup>221</sup> United Nations Development Program, 1997.

<sup>222</sup> B Jessop, 1994, *Post-fordism and the state*, in A Amin (ed) *Post Fordism: a reader*, Oxford: Blackwell.

Union - other countries (and sometimes the same countries) have been seeking to join the European Union, which has a distinct federal structure. Federalism refers to a system of government in which citizens relate to governments at different levels<sup>223</sup>; in political terms, federal systems are commonly seen as a way of concealing local and national divisions, enabling cooperation by papering over the cracks.<sup>224</sup> One of the key characteristics of federalism is that it makes a citizen subject simultaneously to different régimes. This can limit the effective powers of government, but in some circumstances it can also widen the range of options for governmental action. The US War on Poverty was used by the federal government to expand its responsibilities for welfare<sup>225</sup>; a similar process has been undertaken by the European Union in the development of its social policy.<sup>226</sup>

The effect of the shift to multiple tiers of government may have been to reduce the impact of national governments, or at least their potential impact, on social and economic issues. But states retain two key roles: as the representatives of national interests, and as the legislative authority in particular locations. This guarantees them a major role as fora for political action - representing groups of people with a voice and a stake in the policy process - even if they do not necessarily determine outcomes in their own right.

## THE STATE AND SOCIETY

### III.1.b. The state is a part of society.

The state functions in a social context: the system of laws, the rules of exchange and collective action are social and political at the same time. A system of government is not, in practice, distinct from social organisation, and it is virtually impossible to distinguish social relationships from the relationships regulated by the state. I have referred to competing historical accounts, centred on one hand on the growth of solidarity, and on the other on the growing engagement of the state (► Method). Both are true, from different perspectives; they are not genuinely separable, because state and society have developed together.

#### *III.1.b.i. Government relates to a political community.*

There is a degree of arbitrariness in the relationship of states to societies. One government may govern several different societies; one society may be fragmented between more than one state. Some states are remote from the societies they rule; others have been created artificially. States can be established, like the separation of Ireland from the UK, or extinguished, such as the incorporation of Hawaii into the United States, or Newfoundland into Canada. A state can be imposed on, or grafted onto, a society. Even if the reasons

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<sup>223</sup> K C Wheare, 1946, *Federal Government*, Oxford: Oxford University Press.

<sup>224</sup> G Smith, 1995, *Mapping the federal condition*, in G Smith (ed) *Federalism: the multiethnic challenge*, London: Longman.

<sup>225</sup> E James, 1970, *America against poverty*, London: Routledge, chs 7-8.

<sup>226</sup> P Spicker, 1996, *Social policy in a federal Europe*, *Social Policy and Administration* 30(4) 293-304.

why states have been founded are good ones, it does not necessarily follow that their current status makes sense; lines of communication which were influential in the eighteenth or nineteenth century are not necessarily influential now. Some states govern very diverse, or divided populations; some are large coalitions of different social groups. There is no necessary link between the state and a nation or a culture.

The 'political community', though it may overlap with other kinds of community, is not directly equivalent to a society or social group; it is an artificial construct, referring to people who are subject to a particular political and legal régime, and who have rights in relation to it. Although there are important differences between the political community and the society, there is inevitably an overlap between the two. The development of political communities invariably fosters interaction and interdependence; it implies cultural diffusion, or the exportation of values, and there are many cases where shared political institutions have led to the imposition of common practices on different cultures. Even if government and society are distinct, they are intimately connected, and it can be difficult to know where one ends and the other begins.

### ***III.1.b.ii. Governments can act to maintain or change society.***

Although government is part of society, a government can also try to change a society; governments and states are agents of maintenance and change. Governments maintain society because stability and cohesion are part of the things which people want them to achieve; this is the justification for the attempt of modern governments to stabilise the economy.<sup>227</sup> Governments change society in so far as they alter what would otherwise have been true. Maintenance and change are two sides of the same coin: patterns of social behaviour and relationships are in a constant state of flux, and both maintenance and change involve an understanding of the dynamics of change. The direction of changes in society can be seen as a form of 'social policy', but the term 'social policy' is usually used much more modestly to refer to the development of social welfare services; for that reason, Ferge proposed the use of the term 'societal' or 'structural' policy to distinguish the kinds of policy intended to maintain or change social relationships.<sup>228</sup>

Whether or not changes are happening depends, in large part, on how one defines a change. The more pluralistic and complex a society appears, the more difficult it is to see any change as making a significant difference to the overall pattern of social relationships in its own right. It is true that certain social developments have rippled through different aspects of society, changing many different sectors at the same time. Examples include the aftermath of the second world war, the revolution in communications, the development of mass culture, and the growth of global systems of exchange. Family life, neighbourhoods, economic markets and nationality have been profoundly affected by each of these changes. At the same time, it is striking how little these changes have seemed to be in the control of governments, and the belief that a government has the power fundamentally to alter a society is difficult to sustain.

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<sup>227</sup> Bailey, 1995, ch 2.

<sup>228</sup> Z Ferge, 1979, *A society in the making*, Harmondsworth: Penguin p.55.

## LEGITIMATE AUTHORITY

### III.1.c. Governments rely on authority

Government and the state are distinguished from other forms of association mainly by the primacy of their authority over other agencies. Authority is a moral term; it consists of the right to undertake actions, or to constrain the actions of others. Max Weber described the state as having “the monopoly of the legitimate use of physical force within a given territory.”<sup>229</sup> This is not universally true; the foundation of the United States was based in the principle that people needed to be able to defend themselves against tyrannical force, and consequently the authority to use force is shared in the constitution between the government and the citizenry. The same kind of reservation restricts the scope of government in the US in relation to other spheres of social life, including the press and religious worship.

The authority exercised by government means that others will defer to it - another case, socially, of something being true because people accept it is true. Authority makes it possible to govern - to establish a framework of rules, and so to establish the conditions under which other associations work. It also makes it possible to coerce people, and that is fundamental to achieving some of the outcomes which states achieve; powers of coercion lie behind the imposition of minimum standards which are basic to welfare provision.

The primacy of government is sanctioned because the exercise of authority is seen as legitimate. States acquire legitimacy in a variety of ways, particularly through election, because that seems to represent the stated wishes of the citizenry. However, many states are considered legitimate just because they are there; it may be difficult to justify the existence of undemocratic countries which result from the partition of previous countries, like Kuwait or the Yugoslavian Republic. Some governments, particularly in Europe, have emerged historically as a result of the concentration of physical force, but that does not justify the assumption (made, for example, by Nozick)<sup>230</sup> that the main purpose of the early state is physical protection. Many states are creations of the twentieth century; they have developed because of the breakup of ancient empires, and the movement from colonialism. Even when they have resulted from settlements following wars, the motive forces have been arguments for national self-determination and the need for governance. Recently, there has been a proliferation of new governments, representing new, or re-emergent, nations; examples are Slovenia, Estonia, and Slovakia. They are being developed, not only to provide defence, but to do the kinds of things which governments do: to administer the society, to develop the economy, to deliver social welfare, and to offer a political forum where people's wishes can be heard. The position of the state can be seen as a practical necessity: these are important tasks, and the acceptance of the authority of the state as legitimate is essential to the performance of these functions.

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<sup>229</sup> Weber, in H Gerth, C Wright Mills (eds), 1991, *From Max Weber*, London: Routledge, p.78.

<sup>230</sup> Nozick, 1974.

### ***III.1.c.i. The legitimacy of government derives from the morality of its actions.***

The legitimacy of a government is a description of its moral status; a legitimate government is one which is morally accepted. There are two conditions which must be satisfied for a government to be morally accepted. First, it must have proper authority for its actions, which indicates moral acceptance of its accession and continuation in power. A government which is not legitimately instituted cannot take legitimate action in effect, because it has no authority to tax, to spend, to regulate or to coerce beyond the rights of ordinary citizens. Second, the actions of the government must themselves be legitimate, which requires conformity to accepted rules.

Many philosophers have sought to derive the legitimacy of government from its foundation: the authority of government has been attributed, for example, to the dispositions of a benign divinity, to its historical relationship with the people or to popular consent.<sup>231</sup> Some governments which have acceded to power legitimately have acted in an illegitimate way; the supreme example is the rise to power of Adolf Hitler, who became Chancellor of Germany through a legitimate process of election. Conversely, governments can be legitimate, even if the foundation of the system was not. The basis for the constitutional monarchy of the United Kingdom is questionable, and its parliamentary system is deeply flawed, but over time it has gained a high degree of moral acceptance, and few people would deny that the system is, more or less, legitimate.

Legitimate accession is important for legitimacy, but it is not sufficient. An action which is immoral is immoral irrespective of who does it, and actions which are not morally acceptable cannot be legitimate. The proper test of legitimate government is, then, whether it acts legitimately.

### ***III.1.c.ii. The purpose of government is to serve the interests of its citizens***

The quotation which heads this chapter comes from Edmund Burke.<sup>232</sup> It describes, perhaps, the way things ought to be rather than the way that they are, but it is also an important statement of the foundation and purposes of government. Government is a form of collective action, but it is a form which in certain circumstances may claim primacy over other forms of action. In some cases, the actions of government will be partisan, or confined to the interests of a limited number of people; but the central justification for the primacy of government is that it represents the interests of the people who are subject to it, rather than the interests of specific groups or factions within it.

The authority exercised by contemporary governments is intimately bound up with the concept of citizenship. The idea of citizenship was referred to previously in the context of social rights, where it has a range of meanings, both legal and social (► [II.2.c.iv](#)). In the political sense, a citizen is a member of a political community, holding rights in relation to government, state and society. Political citizenship is different from membership of a society; people can be political citizens even if they are socially excluded, and conversely

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<sup>231</sup> See E Barker (ed), 1971, *Social Contract: Essays by Locke, Hume and Rousseau*, Oxford: Oxford University Press.

<sup>232</sup> E Burke, 1790, *Reflections on the revolution in France*, New York: Holt, Rinehart and Winston.

they can be members of a society without having the rights of political citizens. The importance of the concept in the literature of social policy is indicative of a strong identification of welfare with political status rather than its social base.<sup>233</sup> Political citizenship gives the citizen both a status as someone holding rights, and a means of holding government to account. The development of political rights has been a major element in the history of the welfare states, constraining and guiding governments towards a greater commitment to social protection.<sup>234</sup>

Accountability has been central to this process. Governments are not simply beneficial organisations, and it would be naive to suppose that a commitment to public service could be adequate to explain the direction of public policy. Governments are subject, though, to many pressures, and for many governments these pressures include a concern with electoral advantage. This means that governments are likely to be sensitive to the expression of the wishes (or demands) of their citizens.<sup>235</sup> In these circumstances, many governments have come to pursue, however imperfectly, the interests of their citizens.

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<sup>233</sup> e.g. J Parker, 1975, *Social policy and citizenship*, London: Macmillan; D Heater, 1990, *Citizenship*, Harlow: Longman; G Andrews (ed), 1991, *Citizenship*, London: Lawrence and Wishart.

<sup>234</sup> T H Marshall, 1981, *The right to welfare*, London: Heinemann.

<sup>235</sup> J Schumpeter, 1967, Two concepts of democracy, in A Quinton (ed.), *Political philosophy*, Oxford: Oxford University Press.



## III.2 THE WELFARE STATES

### III.2. The welfare states provide social protection.

*III.2.a. Legitimate governments protect the welfare of their citizens.*

III.2.a.i. *Salus populi suprema est lex.*

III.2.a.ii. Democratic governments secure welfare.

*III.2.b. Governments have to secure the preconditions for welfare.*

III.2.b.i. Governments have to foster economic development.

III.2.b.ii. Governments have to protect the rights of their citizens.

III.2.b.iii. Governments have to promote social cohesion and basic security.

*III.2.c. Someone has to provide social protection.*

III.2.c.i. It doesn't have to be done by government.

III.2.c.ii. In the last resort, government has the duty by default.

III.2.c.iii. The provider of last resort has to offer more than the last resort.

III.2.c.iv. The provision of welfare commits governments to redistribution.

*III.2.d. The welfare states are simply institutional forms of social protection.*

III.2.d.i. Social protection exists without the state.

III.2.d.ii. There is more than one kind of welfare state.

III.2.d.iii. The welfare states elude classification.

## THE STATE AND WELFARE

### III.2.a. Legitimate governments protect the welfare of their citizens.

If governments serve the interests of their citizens, they will do the kinds of things which the citizens want them to do, or from which they believe the citizens will benefit.<sup>236</sup> These activities will often include action related to social protection. Social protection is necessary for welfare (► [II.3](#)), it requires collective action (► [II.3.a.i](#)), and it is not sufficiently provided through the market (► [II.3.b](#)). In consequence, it is something which an economically rational, self-interested group of citizens will probably want. (This may imply that the government develops a system of social protection, but the question of whether a government should provide social protection itself is distinct, and will be returned to later.)

The corollary of this position is that governments which wish to be seen as legitimate may pursue welfare policy in order to demonstrate it. Neo-marxists have described welfare provision, dismissively, as a form of 'legitimation', an attempt to make an unpalatable

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<sup>236</sup> Both definitions of interest are in B Barry, 1965, *Political argument*, London: Routledge and Kegan Paul, pp 187-8.

political process acceptable to the mass of people.<sup>237</sup> If the purpose of government is to serve the interest of its citizens, a government which acts to secure social protection is more legitimate than one that does not.

### *III.2.a.i. Salus populi suprema est lex.*

One of the most ancient precepts of political science is the argument that governments exist to promote welfare: “the welfare of the people is the highest law”.<sup>238</sup> That principle is consistent with the argument that government has an instrumental purpose, but it goes beyond it. The legitimacy of a government depends, in large part, on whether it seeks to promote the welfare of its people.

There is a problem with this formulation, which is that a government might seek to promote welfare through illegitimate means: for example, by making war against a neighbouring state. The rearmament of Germany in the 1930s undoubtedly helped to revitalise the economy and to combat unemployment. The impact of colonial expeditions in the nineteenth century was primarily to enrich the colonial nations at the expense of their colonies. A concern for welfare is necessary for legitimacy, but it is not sufficient for it.

### *III.2.a.ii. Democratic governments secure welfare*

Democracy has been defined as government of the people, by the people and for the people. It is characterised partly by the process of electing a government, but so many elections are unfree - confined to one party, or one set of approved candidates - that this is hardly enough to define the process. Much more important is the identification of democracy with liberal values - the rights of individual citizens to obtain redress against governments, or against each other.

Governments which are described as democratic are not uniquely concerned with welfare. In the course of the twentieth century, welfare systems, with extensive rationales, were developed in fascist and communist governments. What these systems had in common was the deliberate exclusion of certain parties from the remit of social protection. Fascist social policy was characterised by the dominance of the nation, a strong emphasis on socialisation into the moral dominance of the collectivity, an idealised family policy, and eugenics intended to lead to a 'desirable' pattern of births.<sup>239</sup> Communist social policy

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<sup>237</sup> J Habermas, 1984, What does a legitimation crisis mean today? Legitimation problems in late capitalism, in W Connolly (ed.), Legitimacy and the state, Oxford: Blackwell, Oxford; C Offe, 1984, Contradictions of the welfare state, London: Hutchinson.

<sup>238</sup> T Hobbes, 1651, Leviathan, Harmondsworth: Penguin, 1968.

<sup>239</sup> R Grunberger, 1974, A Social History of the Third Reich, Harmondsworth: Penguin; G Rimlinger, 1987, Social policy under German fascism, in M Rein, G Esping-Anderson, L Rainwater (eds) Stagnation and renewal in social policy, NY: P Weindling, 1989, Health, race and German politics between national unification and Nazism, 1870-1945, Cambridge: Cambridge University Press.

combined the central role of labour with the exclusion and social rejection of parasites.<sup>240</sup> Non-democratic governments may also secure welfare, but they do not do it for everyone. Democracy, by contrast, implies universalist concerns.

Democratic government is so widely practised, and so widely abused, that it seems difficult to identify the ideal with the reality. The rights of the poorest citizens in democratic countries seem so fragile that they hardly seem to offer real protection. In the US, single parents who objected to midnight searches by benefits agencies were told that they did of course have a constitutional right, but if they chose to exercise it they must expect their benefits to be stopped.<sup>241</sup> In the UK, a homeless family which went to court to protest at being placed in accommodation that was unfit for human habitation was told that it was still accommodation, and that they had no protection.<sup>242</sup>

And yet, the strongest argument for democracy is made by Drèze and Sen, in their work on famines: there has never been a famine in a democracy. Drèze and Sen argue that it reflects the more widespread dispersion of entitlements in a democracy; where people have no rights, they are not able to make use of the resources that exist.<sup>243</sup> But it is difficult to show here just what the causal link is, or if there is one; it may be true that adherence to democracy has no more basis than the superstition which sends football players to important matches tying their shoelaces in the same order as they did for their last big game. Possibly it reflects the political power of the electorate; possibly it shows the respect which democracy generates for the citizen; and possibly democracy itself depends on the material conditions which lead to the avoidance of famine.

## SECURING WELFARE

### III.2.b. Governments have to secure the preconditions for welfare.

If governments have to secure welfare, and there are preconditions for welfare to be achieved, governments have equally to secure those preconditions. The preconditions which were identified earlier had three main elements: economic development, social cohesion and security, and a structure of rights (► [II.2](#)).

Securing preconditions is not necessarily equivalent to meeting conditions directly; the conditions may be met in other ways, through existing social arrangements. The responsibility of government does imply, though, a responsibility to monitor circumstances, and to intervene as appropriate to ensure that the conditions are met. The idea that governments 'have' to do this is ambiguous. Part of the obligation is moral; rights exist because there are moral obligations which validate the claims. Part is political. One

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<sup>240</sup> V George, N Manning, 1980, *Socialism, social welfare and the Soviet Union*, London: RKP; R Berman, 1959 et seq., *The law against parasites, tramps and beggars*, *Soviet Studies* 9(2), 11(4), 13(2).

<sup>241</sup> F Piven, R Cloward, 1971, *Regulating the poor*, London: Tavistock.

<sup>242</sup> *R v London Borough of Hillingdon, ex parte Pulhofer*, 1986 All ER 734; 18 HLR 158, HL.

<sup>243</sup> Drèze and Sen, 1989.

implication of accountability to an electorate is that a government that fails to undertake these functions adequately is liable to lose power.

### ***III.2.b.i. Governments have to foster economic development***

The responsibility of governments to foster economic development is very much of this type. There are strongly opposing schools of thought among economists: some 'neo-classicists' hold that most of the mechanisms of the economy are self-regulating if left to their own devices, while others argue (after Keynes) that many economic systems are unstable, and intervention and management are essential to development. Historically, the development of the modern welfare states was strongly linked with the latter point of view.<sup>244</sup> In the post-war period, the provision of welfare was seen as an economic regulator, directly complementing the management of the economy.<sup>245</sup> The 'new right' rejected that view, arguing that public expenditure represented a threat to economic stability<sup>246</sup>; and marxist critics seized on the same arguments to claim that this position revealed fundamental contradictions in the nature of the welfare state.<sup>247</sup>

There is no evidence to support this position. In general, it is true that countries which are more developed are also more likely to have developed welfare systems, but this does not show that one factor causes another. Reviewing evidence from a number of developed countries, Atkinson found that there are as many examples of states which combine economic growth and expenditure on welfare as there are of those whose expenditure is linked with poor economic performance.<sup>248</sup>

### ***III.2.b.ii. Governments have to protect the rights of their citizens.***

Government regulates the conduct of relationships between citizens. The primary redress of the weak against the strong is the rule of law, which guarantees people's rights against exploitation and abuse. The clearest example is criminal law, which protects persons and property. This restricts the behaviour of some in order to protect the rights of all. There are many more rights, however, than the rights of the person and property (► [II.2](#)). Social and economic rights have been a fundamental part of the development of relationships in the 19th and 20th centuries, and liberal democratic governments have accordingly acted in order to protect them.

The expansion of rights is liable to abuse by governments. There are problems of patronage and 'clientelism' (which Americans call the 'pork barrel') in Southern European

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<sup>244</sup> V George, P Wilding, 1994, *Welfare and ideology*, Hemel Hempstead: Prentice Hall.

<sup>245</sup> e.g. J H Richardson, 1960, *Economic and financial aspects of social security*, Allen and Unwin.

<sup>246</sup> D S King, 1987, *The new right*, London: Macmillan.

<sup>247</sup> See R Klein, 1993, O'Goffe's tale, in C Jones (ed) *New perspectives on the welfare state in Europe*, London: Routledge.

<sup>248</sup> A B Atkinson, 1995, *Incomes and the welfare state*, Cambridge: Cambridge University Press, ch 6.

countries, where politicians reward political favour through welfare systems.<sup>249</sup> Dicey, the legal theorist, saw the constant push to deliver personal benefits as a major part of the impetus to collectivism.<sup>250</sup> But the converse may also be true; the response to electoral pressure may lead governments to reduce the rights of people in need where a sizeable bloc of voters are opposed to provision. Some governments have abolished existing rights, and during the 1980s there was widespread retrenchment in rights-based benefits.<sup>251</sup> This has included universal systems, like pensions in New Zealand, and even rights which people have paid for: since the early 1980s British governments have replaced a range of insurance-based benefits with more restricted alternatives, including benefits for unemployment, sickness and maternity.

### ***III.2.b.iii. Governments have to promote social cohesion and basic security.***

The response of governments to issues of social cohesion and security are mixed. It is not always clear what kind of policy will support social cohesion; it is not even certain that social cohesion is desirable, because so much depends on the form that it takes. It is not difficult to find agreement that some extremes are undesirable: civil war or racial strife are best avoided, while disappearances and torture are not consistent with basic security. Beyond this, there is no clear consensus. Because individualism is strong in liberal democracies, measures which focus on social relationships - such as family policy or community development - may not feature prominently on the political agenda. At the same time, many governments are committed to the extension of solidarity, which has become a major theme in the social policy of the European Union.

The substantive issue on which there seems to be broadest agreement is social protection, but the conditions under which governments are willing to engage in social protection are complex, and this requires further development in the sections which follow.

## **THE PROVISION OF WELFARE**

### **III.2.c. Someone has to provide social protection.**

Social protection is basic to the maintenance of welfare, and people are not necessarily able to provide it for themselves. I have argued that social protection, because it is a way of guaranteeing people's positions, can only be provided for through collective action (► [II.3.a.i](#)). Social protection does happen spontaneously, but it does not happen for everyone, and it does not necessarily cover all the needs people would wish it to cover. If social protection is to be provided for those who are excluded, someone has to take it on.

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<sup>249</sup> C Saraceno, N Negri, 1994, The changing Italian welfare state, *Journal of European Social Policy* 1994 4(1) 19-34; M Ferrera, 1996, The 'Southern Model' of welfare in social Europe, *Journal of European Social Policy* 6(1) pp 17-37.

<sup>250</sup> A V Dicey, 1914, lectures on the relation between law and public opinion in England during the nineteenth century, London: Macmillan, 1948.

<sup>251</sup> H Glennerster, J Midgley (eds), 1991, *The radical right and the welfare state*, Harvester Wheatsheaf.

Social protection is generally thought to be desirable, and governments have often attempted to provide it. If government is intended to provide for human wants, and people want social protection, governments will do it. This much is unsurprising, and unexceptional.

Beyond this, it can be argued that there is a moral obligation to provide social protection. This has three main elements, all of which have been discussed in previous sections. First, there are general obligations of solidarity to others in society. People have duties to others in society (► [I.3.a](#)), and people in need have correlative rights. Second, there are mutual obligations based on generalised reciprocity (► [I.1.c.i](#)). Once the process of obligation has begun, relationships are set in motion which generate obligations in other people. Everyone who receives benefits from the previous generation acquires responsibilities, not only to them, but to other generations (► [I.1.c.ii.\(3\)](#)). Third, there is a responsibility on government to promote the welfare of the people (► [III.2.a.i](#)).

### ***III.2.c.i. It doesn't have to be done by government.***

There is nothing within this system of obligations which says that government must provide welfare itself. Governments have a wide range of options to ensure that social protection is provided, and it may well be that protection is adequately provided through existing arrangements. There have been many cases where aspects of social protection have been substantially delivered through non-governmental forms of collective action: examples can be drawn from Sweden<sup>252</sup>, Denmark<sup>253</sup>, or France<sup>254</sup>. Unemployed people in France are principally dealt with through an agreement of employers and trades unions, and employers and employees both contribute to benefits. (The government subsequently commissioned this independent service to provide an additional benefit, the *allocation de solidarité spécifique*, for those whose entitlements to benefits are exhausted. It is the ASS, rather than the contributory system, which has been the focus of recent social protests by unemployed people.<sup>255</sup>)

This is not the kind of arrangement which has been made through 'privatisation'.<sup>256</sup> Privatisation has been motivated by a desire to inject the values of the marketplace into the provision of welfare. It encompasses not only the transfer of resources between sectors, but

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<sup>252</sup> A Gould, 1996, Sweden: the last bastion of social democracy, in V George, P Taylor-Gooby (eds) European welfare policy: squaring the welfare circle, London: Macmillan.

<sup>253</sup> J Kvist, 1997, Retrenchment or restructuring? The emergence of a multitiered welfare state in Denmark, in J Clasen (ed) Social insurance in Europe, Bristol: Policy Press.

<sup>254</sup> M-T Join-Lambert, A Bolot-Giottler, C Daniel, D Lenoir, D Méda, 1994, Politiques sociales, Paris: Presses de la Fondation Nationale des Sciences Politiques/Dalloz.

<sup>255</sup> A Chemin, C Monnot, 1998, Lionel Jospin n'apaise pas la colère des mouvements de chômeurs, Le Monde 23.1.98.

<sup>256</sup> J Legrand, R Robinson, 1984, Privatisation and the welfare state, London: Macmillan ; N Johnson, 1989, The privatization of welfare, Social Policy and Administration 1989 23(1). The most influential example is described in S Borutzy, 1991, The Chicago Boys, social security and welfare in Chile, in H Glennerster, J Midgley (eds) The Radical right and the welfare state, Hemel Hempstead: Harvester Wheatsheaf.

movement from traditional providers to large corporate providers<sup>257</sup>, the purchase of services from the private sector<sup>258</sup> and the conversion of state services to market principles.<sup>259</sup> Privatisation has been a highly ideological movement, and its advocates have not always distinguished between the operation of state and autonomous producers whose activities have been undertaken on a collectivist or mutualist basis. In the UK, it has led to withdrawal of state involvement from the voluntary sector in housing<sup>260</sup>, and the conversion to the market of mutualist financial institutions and building societies. The health care system in Israel was founded on a mutualist basis by the trades unions movement, and at its peak it covered nearly 90% of the population. The Israeli government took the view that this system suffered from the vices of monopolistic provision, and subsequently arranged for the breakup of the health service into distinct, competing units.<sup>261</sup>

The argument for privatisation rests on a belief in the superiority of market provision over collective action. The central problem with this approach is that, although commercial markets can often offer effective provision of aspects of social services, the overall protection they offer is deficient (► [II.3.b](#)), and states necessarily continue to have residual responsibilities.

### ***III.2.c.ii. In the last resort, government has the duty by default.***

The central problem for government is that it becomes, by default, the provider of last resort; coverage of the excluded is done by government, or it is not done at all. (People are excluded because they are not covered by other means. This is virtually tautologous, which is why more extensive discussion is not really necessary.)

What happens if provision is not made for people who are excluded? The answer may, genuinely, be nothing; certainly, several developed countries, including Germany and Italy, have managed successful economies over time with very little effective coverage for their excluded groups.<sup>262</sup> This is possible, partly, because there may be other mechanisms of support, including families, voluntary organisations and charities; and partly because countries and systems can continue to function if the numbers of people who suffer are

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<sup>257</sup> D Stoesz, H Karger, 1991, The corporatisation of the US welfare state, *Journal of Social Policy* 20(2).

<sup>258</sup> S Shaw, 1990, Privatising prison services, in R Parry (ed) *Privatisation*, London: Jessica Kingsley.

<sup>259</sup> E Granaglia, The Italian Health Service and the challenge of privatization, in B Palier (ed) *Comparing social welfare systems in Southern Europe*, Volume 3, Paris: MIRE.

<sup>260</sup> B Randolph, 1993, The reprivatisation of housing associations, in P Malpass, R Means (ed) *Implementing housing policy*, Buckingham: Open University Press.

<sup>261</sup> Y Zalmanovitch, 1997, Some antecedents to healthcare reform: Israel and the US, *Policy and Politics* 25(3) pp 251-268.

<sup>262</sup> M Wilson, 1993, The German welfare state: a conservative regime in crisis, in A Cochrane, J Clarke (eds) *Comparing welfare states*, London: Sage; J Clasen, R Freeman (ed), 1994, *Social policy in Germany*, Harvester Wheatsheaf; M Ferrera, 1986, Italy, in P Flora (ed), *Growth to limits*, Berlin: de Gruyter; U Ascoli, 1988, The Italian welfare system in the 1980s, in R Morris (ed) *Testing the limits of social welfare*, Hanover, New Hampshire: Brandeis University Press.



relatively few. But it happens at a cost. Some of the cost is felt by those who are excluded. Germany, prior to unification, excluded a small minority of unemployed people<sup>263</sup>, but it had almost full employment; subsequent to unification, the system now offers little protection for large numbers of people.<sup>264</sup> Italy has problems of exclusion, homelessness and begging<sup>265</sup>, which only recently have led to moves to develop a national programme for social integration.<sup>266</sup> Some of the cost is felt because people are not covered, and suffer insecurity as a result. Other consequences may still be experienced by those who are covered by their own arrangements, like the problems of disease, street begging, and the fear of crime. Whether this is considered tolerable depends on the numbers and influence of the people affected, and the political construction put on the problems. If government tries to avoid negative consequences for society, and tries to do what people want, it is likely to do something for excluded people; and it does it, in the last resort, because no-one else does.

***III.2.c.iii. The provider of last resort has to offer more than the last resort.***

Some governments have sought to provide welfare on a residual basis, as the safety net for circumstances when everything else has failed. In principle, this has much to commend it: it implies a tightly focused, efficient service, minimal interference in the economy, and effective redistribution to those in need. In practice, however, the general experience has been that it doesn't work. The first problem is that the boundaries are unclear; focusing provision only on those in the greatest need is administratively cumbersome and inefficient, and liable not to reach those to whom it is directed.<sup>267</sup> Second, residual welfare produces perverse effects, favouring those who have not made provision for themselves over those who have.<sup>268</sup> Third, residual welfare is bitterly resented, by donors as well as by recipients; it creates a sense of welfare as a 'public burden', and leads to a division between the

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<sup>263</sup> R Mitton, P Wilmott, P Wilmott, 1983, *Unemployment, poverty and social policy in Europe*, Bedford Square Press.

<sup>264</sup> H Ganssman, 1993, *After unification*, *Journal of European Social Policy* 3(2) 1993 pp 79-90; M Wilson, 1993, *The German welfare state: a conservative regime in crisis*, in A Cochrane, J Clarke (eds) *Comparing welfare states*, London: Sage.

<sup>265</sup> E Reyneri, 1994, *Italy: a long wait in the shelter of the family and of safeguards from the state*, in O Benoit-Guilbot, D Gallie (eds), *Long term unemployment*, London: Pinter; E Morlicchio, 1996, *Exclusion from work and the impoverishment processes in Naples*, in E Mingione (ed) *Urban poverty and the underclass*, Oxford: Blackwell; A Mitchison, 1987, *Down and out in Naples*, *New Society* 20.2.87 16-18.

<sup>266</sup> MISEP (European Commission Employment Observatory), 1998, *Policies no 64*, Winter 1998 pp 23-4.

<sup>267</sup> A Deacon, J Bradshaw, 1983, *Reserved for the Poor*, Oxford: Blackwell; J Bradshaw, 1985, *Tried and found wanting*, in S Ward (ed.), *DHSS in crisis: social security - under pressure and review*, London: CPAG; A B Atkinson, 1991, *The social safety net*, London: LSE Welfare State Programme; G Cornia, F Stewart, 1995, *Food subsidies: two errors of targeting*, in F Stewart, *Adjustment and poverty*, London: Routledge.

<sup>268</sup> Field, 1996.



dependent poor and others.<sup>269</sup> Finally, though it is not a fundamental objection, residual provision is expensive: targeting those whose needs are greater, and who cannot be dealt with profitably by the private sector means necessarily that they will cost more than others to provide for.

The general experience of governments working in this field is that the boundaries of residual welfare cannot be maintained. The history of the English Poor Law was one of inexorable, progressive expansion, despite the resistance of administrators. There were persistent problems of equity, because people who were only marginally better off than recipients did not receive benefits. It was impossible in practice to make the condition of paupers 'less eligible', or less to be chosen, than that of independent labourers<sup>270</sup>: paupers were fed, educated and received medical care, and the workhouses in some areas were described as 'pauper palaces'.<sup>271</sup> This is inconsistent with social justice, and there were recurring pressures either to reduce the quality of provision for paupers - which led to notable scandals<sup>272</sup> - or to extend these facilities to others, which ultimately is what happened. The driving force behind the expansion, though, was that the conditions of sickness and unemployment which the Poor Law was dealing with were endemic, and beyond the control of the recipients.

Part of the experience of the Poor Law, too, was that a failure to deal with one set of problems led to displacement: problems were presented to the authorities in a different form. Edwin Chadwick's *Report on the Sanitary Condition of the Labouring Population of Great Britain* was prompted by the realisation that dependency on the Poor Law reflected the needs of sick people, and the levels of sickness reflected the lack of public health provision.<sup>273</sup> In the absence of one kind of provision, people in need had to be diverted towards another. This became part of the received wisdom of the administration: the same logic prevailed in the Beveridge Report, which 'assumed' health services and policies for full employment as necessary conditions for the successful operation of social insurance.<sup>274</sup>

### ***III.2.c.iv. The provision of welfare commits governments to redistribution.***

Governments may be committed to redistribution as a matter of principle: if there is a general social objective of social justice, however it is understood, then governments are responsible for it. Redistribution is intrinsic to the maintenance of social protection (► [II.4.d](#)), and governments, once they have become responsible for the provision of welfare, must inevitably be concerned with distributive issues. In so far as they are providing welfare themselves, they are altering the distribution of resources, and by their actions they come to bear a responsibility for the distributive consequences.

There are two principles here - social justice, and social protection - and potentially they may conflict. In both cases, there is an initial presumption in favour of equality,

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<sup>269</sup> R M Titmuss, 1974, *Social Policy: an introduction*, London: Allen and Unwin.

<sup>270</sup> S G Checkland, E Checkland (eds), 1974. *The Poor Law Report of 1834*, Harmondsworth: Penguin.

<sup>271</sup> A Digby, 1978, *Pauper palaces*, London: RKP.

<sup>272</sup> I Anstruther, 1973, *The scandal of the Andover workhouse*, London: Geoffrey Bles.

<sup>273</sup> S E Finer, 1952, *The life and times of Sir Edwin Chadwick*, London: Methuen.

<sup>274</sup> W Beveridge, 1942, *Social insurance and allied services* Cmd 6404, London: HMSO.

because fair dealing implies equality unless there are reasons to the contrary (► [II.4.c.iii](#)). However, the general objective of social justice implies a concern with distributive outcomes overall. By contrast, the requirement to deal fairly with people usually refers specifically to the sphere of activity in which the government is engaged. (An example is the distribution of health care provision<sup>275</sup>.) Social justice cannot be achieved just by ensuring that social services act equitably, because an equitable approach in one sphere which fails to address inequities elsewhere may produce inequitable results overall. It may even reinforce those inequities (► [II.4.a.i](#)).

## THE WELFARE STATES

### *III.2.d. The welfare states are simply institutional forms of social protection.*

The 'welfare states' of developed countries were based, in most cases, on the existing patterns of social protection which had been generated through collective social action. The Bismarckian scheme of social insurance, the model for Germany and much of continental Europe, drew directly on the experience of workers' organisations in order to provide a model of stable finance and membership.<sup>276</sup> In several countries, the state complemented or supplemented the provision made by mutual aid organisations.<sup>277</sup> In others, notably the United Kingdom, it took them over: despite the Beveridge report's concern to protect the scope of action of the Friendly Societies<sup>278</sup>, the desire for a uniform national scheme led to the obliteration of differences. But the Beveridge scheme was still represented, at the time of its introduction, as a form of mutual insurance, and of national solidarity:

“The scheme as a whole will embrace, not certain occupation and income groups, but the entire population. Concrete expression is thus given to the solidarity and unity of the nation, which in war have been its bulwarks against aggression and in peace will be its guarantees of success in the fight against individual want and mischance.”<sup>279</sup>

The Beveridge report became a symbol of the kind of societies the Allies were fighting for - it was dropped by parachute into occupied territory<sup>280</sup> - and it was profoundly influential in the reconstruction of post-war Europe. The post-war welfare states represented the extension of state activity into a field previously dominated by the mechanisms of collective action: the formal institution of social protection as a social responsibility.

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<sup>275</sup> C Propper, R Upward, 1991, *Need, equity and the NHS: the distribution of health care expenditure 1974-1987*, Bristol: School for Advanced Urban Studies; and see J Pereira, 1993, *What does equity in health mean?*, *Journal of Social Policy* 22(1) 19-48.

<sup>276</sup> W J Mommsen, 1981, *The emergence of the welfare state in Britain and Germany*, Beckenham: Croom Helm.

<sup>277</sup> Baldwin, 1990.

<sup>278</sup> Beveridge, 1942.

<sup>279</sup> Cmd. 6550, 1944, *Social insurance*, London: HMSO, p.6.

<sup>280</sup> J-J Dupeyroux, 1989, *Droit de la sécurité sociale*, Paris: Dalloz, p 72n.

### *III.2.d.i. Social protection exists without the state.*

The welfare states came late to the principle of social protection, and many have been based on developed systems run by existing institutions. Often these have been linked to the industrial process; the formal basis of welfare provision commonly rests on institutions founded and paid for by employers, employees or some combination of the two<sup>281</sup>. Their foundation, and their legitimacy, rests in the legitimacy of their actions.

Historically, the development of the welfare states has followed a pattern reflected in this book's argument: social protection precedes state intervention. Welfare has not been imposed from above, but constructed on the foundations of preexisting systems. Douglas Ashford - whose analysis is strongly centred on state activity - describes the process in these terms:

“First, the liberal refuge of private or charitable assistance proved totally inadequate. Second, the private insurers learned ... that many serious social problems exceeded the capacity of actuarially sound insurance. Third ... professional groups were gradually co-opted into national social security programmes. Fourth, the agricultural sector ... received the protection of the state ... before substantial aid went to urban dwellers.”<sup>282</sup>

The main qualification to make about this description concerns the third point.

Professional groups were 'co-opted', but that term might be taken at face value to imply that their schemes were simply swallowed up by state schemes. In France, professional groups retained a complex system of 'special' and 'complementary' régimes. In Germany, higher income earners were left out of basic coverage. In Sweden, schemes became “selective by occupational experience”<sup>283</sup>. 'Co-option' depended on a process of bargaining and compromise, but it did not lead to the extinction of existing arrangements.

The pattern of development has not been the same in every country, and in some developing and recently developed nations there has been a conscious and deliberate attempt to emulate the welfare states by the introduction of state-sponsored schemes. India made a determined effort in the period after independence to introduce insurance coverage, though the intermittent nature of formal employment in many parts of the country hindered progress.<sup>284</sup> Jordan introduced a national insurance scheme, from almost no foundation, in the course of less than ten years<sup>285</sup>. [Jordan has also, by an interesting coincidence, been able to reduce poverty, inequality and infant mortality since that process began, despite a fall in national income.<sup>286</sup>] These are much closer than the major industrial countries to an

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<sup>281</sup> Baldwin, 1990; Esping-Andersen, 1996.

<sup>282</sup> Ashford, 1986, p.107.

<sup>283</sup> S Ringen, 1989, *The possibility of politics*, Oxford: Clarendon Press, p 13.

<sup>284</sup> S Hasan, 1969, *Social security in India: limited resources, unlimited needs*, in S Jenkins, 1969, *Social security in international perspective*, New York: Columbia University Press; J Midgley, 1984, *Social security, inequality and the Third World*, Chichester: Wiley.

<sup>285</sup> A Ata, 1987, *Jordan*, in J Dixon (ed), *Social welfare in the middle east*, Beckenham: Croom Helm.

<sup>286</sup> United Nations Development Program, 1997, *Human Development Report*, Oxford: Oxford University Press, pp 8, 73, 162.

ideal type of welfare state imposed from above by government, though there is every reason to defend the legitimacy of their action.

**III.2.d.ii. *There is more than one kind of welfare state.***

The idea of the welfare state is an ambiguous one. I have used the term to refer to the formal institution of social protection, but involvement of this kind has become so extensive, and so widespread, that the term 'welfare state' does little to distinguish modern industrial states from each other. Although the idea refers to welfare provided by the state, it is also used to refer to an ideal model of provision. In this ideal, welfare is provided comprehensively, for every citizen. Asa Briggs, in a classic essay on the British welfare state, identified three principal elements. These were a guarantee of minimum standards, including a minimum income; social protection in the event of insecurity; and the provision of services at the best level possible.<sup>287</sup> This has become identified, in practice, with the 'institutional' model of welfare described first by Wilensky and Lebeaux<sup>288</sup>, and developed by Titmuss<sup>289</sup>: the key elements are social protection, and the provision of welfare services on the basis of right.

This model is closely associated with the British welfare state; other countries have represented the welfare state in different ways. Sweden can be seen as another ideal form of 'welfare state', offering institutional care in the sense that it offers universal minima to its citizens.<sup>290</sup> It goes further than the British welfare state in its commitment to social equality. Titmuss's 'institutional-redistributive' model, which combines the principles of comprehensive social equality with egalitarianism, can be seen as an idealised version of these objectives. Social protection is not necessarily associated with equality; the French and German systems offer differential protection according to one's position in the labour market. The Swedish system has many of the same characteristics.<sup>291</sup> However, the importance of equality - sometimes identified with 'solidarity', in the sense of organised co-operation - is considerable. The model of this is the 'solidaristic wage policy' advocated in the 1970s by the labour movement, which emphasised improving standards, limited differentials, and redistribution.<sup>292</sup> These policies are sometimes referred to as 'social-democratic'<sup>293</sup>; they can equally be seen as socialistic in their emphasis on collective action and egalitarian redistribution. There has however been a liberal backlash against these

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<sup>287</sup> A Briggs, 1961, The welfare state in historical perspective, *European Journal of Sociology*, 1961 vol 2, pp.221-258.

<sup>288</sup> H Wilensky, C Lebeaux, 1965, *Industrial Society and Social Welfare*, New York: Free Press.

<sup>289</sup> Titmuss, 1974.

<sup>290</sup> S Olsson, 1987, Towards a transformation of the Swedish welfare state, in R Morris, N Gilbert, M Sherer (eds) *Modern welfare states*, Brighton: Wheatsheaf.

<sup>291</sup> S Ringen, 1989, *The possibility of politics*, Oxford: Clarendon Press, p.13.

<sup>292</sup> D Robinson, 1972, *Solidaristic wage policy in Sweden*, Paris: OECD.

<sup>293</sup> A Gould, 1996, Sweden: the last bastion of social democracy, in V George, P Taylor-Gooby (eds) *European welfare policy: squaring the welfare circle*, Basingstoke: Macmillan.

policies in Sweden, which has attempted to distance welfare provision from their principles.<sup>294</sup>

Germany provides a third approach to welfare.<sup>295</sup> The post-war German settlement was based on the idea of a 'social state', sometimes rendered as a 'social market economy'. The first, central principle was that social welfare would most effectively be furthered through economic development, and that the structure of social services had to reflect that. This principle is represented most clearly in the close relationship of services to one's position in the labour market; social benefits are earnings-related, and those without work records may find they are not covered for important contingencies. Less clear, but probably even more important, is the general concern to ensure that public expenditure on welfare is directly compatible with the need for economic development and growth. Second, the German economy, and the welfare system, developed through a corporatist structure.<sup>296</sup> This principle was developed by Bismarck from existing mutual aid associations, and remained the basis for social protection subsequently.<sup>297</sup> Social insurance, which covers the costs of health, some social care and much of the income maintenance system, is managed by a system of independent funds. Third, there is a strong emphasis on the Catholic principle of "subsidiarity".<sup>298</sup> This principle means different things to different people, but is taken in Germany to mean both that services should be decentralised or independently managed, and that the level of state intervention should be residual - that is, limited to circumstances which are not adequately covered in other ways. Higher earners are not covered by the main social insurance system, but are left to make their own arrangements. The key characteristics of the German system are represented by Lenoir, by contrast with the welfare state of the UK, as socio-professional social insurance; a decentralised administration; financed by social contributions on salary, subject to a ceiling, with proportionate social benefits; and obligatory only for people below the ceiling.<sup>299</sup> The German and British systems are often represented as fundamental alternatives:

'History shapes law and institutions appropriate to each nation, but which always refers to one logic or another: social insurance based on solidarity between members of professional groups, or national social security founded on solidarity between citizens.'<sup>300</sup>

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<sup>294</sup> A Gould, 1993, *The end of the middle way?*, in C Jones (ed) *New perspectives on the welfare state in Europe*, London: Routledge.

<sup>295</sup> J Clasen, R Freeman (ed), 1994, *Social policy in Germany*, Hemel Hempstead: Harvester Wheatsheaf; R Lawson, 1996, *Germany: maintaining the middle way*, in V George, P Taylor-Gooby (eds) *European welfare policy: squaring the welfare circle*, Basingstoke: Macmillan.

<sup>296</sup> G A Ritter, 1983, *Social welfare in Germany and Britain*, Berg.

<sup>297</sup> G Rimlinger, 1971, *Welfare policy and industrialisation*, New York: John Wiley; J Alber, 1986, *Germany*, in P Flora (ed), *Growth to limits*, Berlin: de Gruyter; E Rosenhaft, 1994, *The historical development of German social policy*, in Clasen, Freeman 1994.

<sup>298</sup> D Jarré, 1991, *Subsidiarity in social services in Germany*, *Social Policy and Administration* 25(3).

<sup>299</sup> D Lenoir, 1994, *L'Europe Sociale*, Paris: Editions la Découverte.

<sup>300</sup> B Majnoni d'Intignano, 1993, *La protection sociale*, Editions de Fallois.

A different approach again is offered by the United States. The US is often presented as a liberal, residual welfare state, but the situation is more complex. The system is federal, and although the interventions of State governments have tended to be limited, there are exceptions: two states, Minnesota and Hawaii, currently have state-wide health systems. The initiatives of the federal government, which have been restricted by law and convention, have often been developed as special 'programs' rather than as developed services. There is a patchwork of provision, which varies considerably according to locality and the circumstances of the person in need. The system is, then, pluralistic rather than residual; although the role of government tends to be limited, there are areas of welfare provision (like coverage of health care and education) which are relatively wide-ranging. There is, equally, a very substantial level of provision on a corporate, occupational basis.<sup>301</sup> Klass describes the dominant model of welfare as a form of 'decentralised social altruism'<sup>302</sup>; collective action is extensive, but it is localised, communitarian and based in narrowly defined circumstances.

### *III.2.d.iii. The welfare states elude classification.*

Gøsta Esping-Andersen has classified the main welfare régimes as being social democratic, liberal-residual, and corporatist.<sup>303</sup> Social democratic régimes, most nearly represented here by Sweden, have a commitment to welfare, with universal rights. The corporatist régimes, represented by Germany, are characterised by state influence in provision, rather than the direct provision of services by the state itself. Liberal régimes, represented by the United States, are residual, limiting the role of the state and depending to the greatest degree on the economic market. This kind of classification is useful - it helps to show something of the range and diversity of schemes adopted by democratic governments. At the same time, there are important reservations to make about it (► Method); none of these welfare states can be represented as a consistent, monolithic system with a single approach to policy.

Esping-Andersen's classification is one of several. Leibfried, for example, distinguishes the Scandinavian welfare states, including Sweden, Norway and Denmark; Bismarckian systems, mainly Germany and Austria; Anglo-Saxon countries, including the US, UK and Australia; and the 'Latin Rim' of Spain, Portugal, Greece and Italy, which offer 'rudimentary' welfare.<sup>304</sup> Palme, writing about pensions, distinguishes four models: 'residual', the model in the UK, US and France; 'citizenship', represented by Australia and Denmark, which extend rights for everyone; 'work-merit', represented by Germany, in which welfare is related directly to a person's position in the labour market; and

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<sup>301</sup> D Stoesz, H Karger, 1991, The corporatisation of the US welfare state, *Journal of Social Policy* 20(2).

<sup>302</sup> G Klass, 1985, Explaining America and the welfare state, *British Journal of Political Science* 15 pp 427-450.

<sup>303</sup> Esping-Andersen, 1990.

<sup>304</sup> S Leibfried, 1991, *Towards a European Welfare State?*, Bremen: Zentrum für Sozialpolitik.

'institutional' welfare, represented by Sweden, which offers benefits as of right, at a high level.<sup>305</sup> Each of these classifications is initially plausible on its own terms - and each puts some countries together in different combinations; there is no agreement on the basis of the different categories. This happens, in part, because some countries are particularly difficult to classify: Denmark, Ireland<sup>306</sup> and Australia<sup>307</sup> occupy different places in the literature, according to the aspects of their systems which are identified. But it also happens, more fundamentally, because welfare systems are complex and diverse. In many comparisons, there are likely to be both consonances and differences between the systems which are being compared; the identification of family resemblances between different countries depends heavily on interpretation.

The theoretical framework laid out in this book identifies only the similarities between welfare states; it does not explain their diversity. The development of particular forms of welfare depends on a range of historical, social, and political factors which are distinctive to particular welfare states, and a general theory cannot address them. Peter Baldwin makes the case that different types of explanation are needed for different problems. Social explanations address broad issues of relationships and interest formation; political, state-centred interpretations of the welfare states address issues of formulation and implementation.<sup>308</sup> Both approaches help to give a fuller understanding of the subject.

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<sup>305</sup> J Palme, 1990, Models of old-age pensions, in A Ware, R Goodin (eds) Needs and welfare, London: Sage.

<sup>306</sup> E McLaughlin, 1993, Ireland: Catholic corporatism, in A Cochrane, J Clarke (eds) Comparing welfare states, London: Sage; M Cousins, 1997, Ireland's place in the worlds of welfare capitalism, *Journal of European Social Policy* 1997 7(3) pp 223-235.

<sup>307</sup> B Cass, J Freeland, 1994, Social Security and Full Employment in Australia, in J Hills, J Ditch, H Glennerster (eds.) Beveridge and social security, Clarendon Press, Oxford; F Castles, 1994, Comparing the Australian and Scandinavian Welfare States, *Scandinavian Political Studies* 17(1) pp. 31-46.

<sup>308</sup> Baldwin, 1990, p.47.

## III.3 SOCIAL POLICY

### III.3. Welfare is promoted and maintained through social policy.

*III.3.a. Social policies should aim to enhance welfare.*

III.3.a.i. Social policy is a moral activity.

III.3.a.ii. There is a moral duty to enhance welfare.

III.3.a.iii. Social policy should enhance both personal and social welfare.

*III.3.b. Social policies serve many purposes.*

III.3.b.i. The focus is both personal and social.

III.3.b.ii. Social policy cannot adequately be described in ideological terms.

*III.3.c. Social protection is not always illegitimate; but nor is it always legitimate.*

III.3.c.i. Social services can be beneficial or destructive.

III.3.c.ii. They can be liberating, or oppressive.

III.3.c.iii. Social policy must be judged in its context.

## THE PROMOTION OF WELFARE

### III.3.a. Social policies should aim to enhance welfare.

The 'social policy' of a government is the set of measures and approaches it adopts in relation to social protection and the provision of welfare. The suggestion that social policy should increase welfare may seem so obvious as to be hardly worth discussing: the general principle that states have the duty to promote welfare has been accepted for centuries. The central argument is, simply enough, that welfare is a good, and that government exists to do good things for people; other supplementary arguments are based on obligations towards people in need, and on the rights of citizens.

There are, however, several grounds on which the proposition might be objected to. There is a view that social policy itself cannot be a legitimate activity, a position which has already been discussed. It is possible to argue that social policy is not necessarily about welfare at all, and might have different aims altogether. And the case may be made that social policy should not enhance welfare, but may justifiably detract from it.

The argument that social policy is not about welfare has more substance than is immediately obvious, because social policy is not just about welfare. Social policy is a moral activity (► [II.3.d](#)), but what is right is not necessarily what is good (► [I.4.b.ii](#)). We educate children in the hope that it will benefit them, but if it does not, that is not a very good reason for not doing it. We educate them because it is the right thing to do. Even if we thought it would make them miserable instead, it would not be a good reason not to educate them.



The argument that social policy may justifiably detract from welfare, is an important one. Social policy can use sticks, as well as carrots. This occurs most usually in the context of a conflict of interests: that a person or group has to suffer for the benefit of other people. Behaviour which is thought of as undesirable - like discrimination, insanitary behaviour, marital discord, unregulated trade, even being bad neighbours - can be curbed.

### ***III.3.a.i. Social policy is a moral activity.***

The core element in these arguments is that social policy involves some kind of moral judgment. This proposition is not self-evident, because although parts of the activity are concerned with moral issues, parts are not. The provision of food or housing are not seen as moral activities: why should welfare be different? The answer rests in the nature of policy - the idea that governments take decisions about the nature and pattern of provision. When the same is true of food or housing, they become moral issues, too. The effect of policy decisions is that governments make a choice to affect outcomes or methods. By doing so, they accept some responsibility for those outcomes or methods. (This position is not distinctive to government. If a commercial firm or cartel has sufficient power to affect outcomes and procedures, such as the operation of a whole market, it takes on moral responsibilities, too.)

There is a corollary to this argument: moral responsibility extends beyond the scope of deliberate policy. Any social action has the potential to activate moral principles, and the deliberate intention to act morally is not required before it happens. Isolated actions become precedents; actions in particular cases become general rules, because of the need to act consistently. The acceptance of responsibility for injury to soldiers in wartime - a policy which it would be difficult for any government to resist morally - was at the root of many policies for disabled people: in the UK, the Blind Person's Act of 1920<sup>309</sup>, or in the US the establishment of the Veterans' Administration, which provides medical care for nearly a tenth of the population.<sup>310</sup> Once liability for soldiers is accepted, it is difficult to resist the acceptance of liability for civilians who are in essential occupations; liability for some civilians, and not others, implies an invidious distinction; and so it goes. This is one of the reasons for the progressive expansion of responsibility of governments.

### ***III.3.a.ii. There is a moral duty to enhance welfare.***

Morality has been closely identified with welfare: the basis of the utilitarian argument is that morals are based in actions which lead to people being better off. There is a general moral obligation to improve welfare. This obligation is strongest to those to whom one is closest socially; it weakens as people become more socially distant (► [I.3.a.i](#)).

This is not, of course, the only moral obligation that people are subject to, and there are many cases where welfare is outweighed by other considerations. Criminal justice is generally founded, not just on welfare, but on the idea of punishment - the returning of evil for evil. But there is also a welfare approach, geared to the reintegration and rehabilitation

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<sup>309</sup> J Brown, 1984, *The Disability Income System*, London: Policy Studies Institute, pp 15-16.

<sup>310</sup> S Jonas, 1986, *Health care delivery in the US*, Springer.

of the offender in society. Welfare considerations apply, then, even where other contradictory principles run counter to promotion of welfare.

### ***III.3.a.iii. Social policy should enhance both personal and social welfare.***

Welfare is not a simple, monolithic concept, and the statement that social policies should enhance welfare is potentially ambiguous. Personal welfare can be pursued to the detriment of social welfare, and vice-versa.

Both personal and social well-being are good things (by definition), and both are included in the general proposition that government should try to do good things. But there are additional principles at work. In the case of personal welfare, the central argument is based in individual rights. People who do not experience well-being as individuals are probably not going to experience well-being at all.

Social welfare is both an aspect of personal welfare, because people are part of a society, and a form of well-being in its own right. The welfare of a society encompasses social integration (the opposite of exclusion) and economic development, which is also a precondition for welfare. A failure to consider social welfare, then, can undermine some important aspects of personal welfare.

## **FUNCTIONS OF SOCIAL POLICY**

### **III.3.b. Social policies serve many purposes.**

Social policy, and the social services - the organised institutions of the welfare states - serve many more purposes than the provision of welfare. Because social services relate to the conduct of individuals and groups, they can be adapted to a range of policies. In a previous book, I outlined six basic categories: providing for needs, remedying disadvantage, changing behaviour, developing potential, maintaining circumstances and producing disadvantage.<sup>311</sup> Each of these categories has been discussed at some point of this argument. Only providing for needs and developing potential are unequivocally committed to the enhancement of welfare. The maintenance of social circumstances may serve to protect people, and to make them secure, but it may also trap them in unsatisfactory conditions. Remedying disadvantage is about redistribution: it pursues the advantage of some at the disadvantage of others. This will usually enhance welfare, though I have noted some exceptions. Producing disadvantage is similarly about redistribution, though the emphasis here falls more squarely on making some people worse off.

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<sup>311</sup> P Spicker, 1993, *Poverty and social security: concepts and principles*, London: Routledge.

### ***III.3.b.i. The focus is both personal and social.***

Social policies can be addressed to individuals or to social groups. The needs of individuals are met through personal provision; the needs of society through instrumental measures like economic development or education for employment. Maintenance for individuals is achieved by social insurance, or other forms of social protection; maintenance for a society implies policies for 'reproduction' (► [I.2.b.iv](#)), ensuring that one generation succeeds another, that children are socialised, that the economy is stable and that traditions and codes are continued. Remedying the disadvantage of individuals can be done by compensating people for their poor position - as in compensation for disability, or compensatory education - or seeking to change them through treatment or cure of a condition. Remedying disadvantage in a society is done through policies for equality or social justice. However, social policies are not only benevolent: some are designed to reduce welfare. The most obvious example are policies that punish individuals who have broken rules - restraining criminal conduct, or imposing penalties for not working. At the social level, the welfare of some groups has been held back deliberately by régimes which have wished to foster social division: an example was the apartheid régime in South Africa, which distinguished welfare provision for recipients according to their racial status.

### ***III.3.b.ii. Social policy cannot adequately be described in ideological terms.***

The language in which social policy is discussed rarely gives a sense of the diversity and complexity of social policy in practice. Social policy, and the welfare states, combine some politically sensitive and highly charged issues with a vast hinterland of miscellaneous measures, and a level of practical detail which no-one can really hope to master; specialists in the subject tend to focus on limited areas within the field as a whole. People need to simplify - to find a formula which will help them to make sense of the tangled whole. Much of the commentary on the subject is driven, in consequence, by ideological perceptions of the field. An ideology is a set of inter-related values and beliefs; ideologies of welfare are often represented as pre-constructed systems of views and opinions.<sup>312</sup> Even if people do not buy all their ideas in bulk, discourse on welfare is often channelled into predictable, well-worn ruts. Debates at the political level are reflected in the pattern of popular discourse, and opinions are expressed in terms of a limited set of 'moral repertoires'.<sup>313</sup> The discussion of 'welfare' in the US, for example, commonly focuses on financial benefits and dependency, not on social security or health care<sup>314</sup>; social welfare in France is dominated by the concept of 'solidarity'<sup>315</sup>; discourse in the UK, fifty years after

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<sup>312</sup> J Clarke, A Cochrane, C Smart, 1987, *Ideologies of welfare*, London: Hutchinson; V George, P Wilding, 1994, *Welfare and ideology*, Hemel Hempstead: Harvester Wheatsheaf.

<sup>313</sup> H Dean, 1998, Popular paradigms and welfare values, *Critical Social Policy* 55, 18(2) pp. 131-156.

<sup>314</sup> S Schram, 1995, *Words of welfare*, Minneapolis: University of Minnesota Press.

<sup>315</sup> P Spicker, 1998, Exclusion and Citizenship in France, in M Mullard, S Lee (ed) *The politics of social policy in Europe*, Edward Elgar.

the abolition of the Poor Law, is still dominated by the question of what the welfare state does for the poor.<sup>316</sup>

One of the most important insights to be gained from the preceding sections is the understanding that social policy cannot be described adequately in these ideological terms. It is neither exclusively benevolent, nor unremittingly illiberal. This should not be surprising: social policy is complex, and the effects of policy may be contradictory or ambiguous.

## LEGITIMATE AND ILLEGITIMATE ACTIVITY

### III.3.c. Social protection is not always illegitimate; but nor is it always legitimate.

Much of the debate about social welfare begins from the question whether government intervention can ever be legitimate. This is the position, in different ways, of critics on both right and left of the political spectrum. On one hand, there are ultra liberals, who argue that any government intervention is coercive, and liable to disrupt desirable social processes<sup>317</sup>; on the other, there are marxists and quasi-marxists who argue that welfare states are fatally compromised by their role in an exploitative, capitalist system of economic production.<sup>318</sup> Both of these positions are flawed - they are based in inadequate, distorted views of society, misunderstandings of the political process, and fallacious accounts of the development of welfare - but I have discussed them both at length in previous work<sup>319</sup>, and I am not able to deal with them in the course of this argument without serious digression.

Governments can act improperly, and there are several examples of governments doing evil things through their social policies. Social policies can be racist, inhumane, even murderous. In Nazi Germany, social policy was a primary means through which ideas of race and nation were realised, with a powerful emphasis on eugenics. The 1933 law to prevent hereditarily sick offspring provided for compulsory sterilisation of a range of hereditary conditions, including Huntington's Chorea, blindness, deafness, physical malformation, and feeble-mindedness, as well as people with other less obviously inherited disorders, including epilepsy, schizophrenia, manic depression, and severe alcoholism.<sup>320</sup> Grunberger notes that

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<sup>316</sup> S Becker, 1997, *Responding to poverty*, London: Longman.

<sup>317</sup> H Spencer, 1851, *Social Statics*, London: John Chapman.

<sup>318</sup> e.g. J Saville, 1975, *The welfare state: an historical approach*, in E Butterworth, R Holman, *Social welfare in modern Britain*, Glasgow: Fontana; N Poulantzas, 1978, *State, power, socialism*, London: NLB; C Offe, 1984, *Contradictions of the welfare state*, London: Hutchinson.

<sup>319</sup> e.g. Mullard, Spicker, 1998.

<sup>320</sup> P Weindling, 1989, *Health, race and German politics between national unification and Nazism 1870-1945*, Cambridge: Cambridge University Press, pp 522-525.

“By the outbreak of the war, 375000 people (including 200,000 feeble minded, 73,000 schizophrenics, 57,000 epileptics and nearly 30,000 alcoholics) had been sterilised, the vast majority of them involuntarily.”<sup>321</sup>

Ultimately, this programme was linked in with medical killing, which Weindling describes as 'a pilot scheme for the holocaust'<sup>322</sup>.

It is clear enough, however, that social policy can be a legitimate activity. If legitimate governments pursue the welfare of their citizens (► [III.2.a](#)), if the object of government is the welfare of the people (► [III.2.a.i](#)), and if governments have to protect the rights of their citizens (► [III.2.b.ii](#)), social protection is a legitimate concern of government. It is arguably the most legitimate concern many of them have. The case for it in these terms is at least as strong, and perhaps stronger, than the case for foreign policy or defence, which liberals accept as legitimate functions of the state.<sup>323</sup>

Social policy can be legitimate or illegitimate. The important question to address - a question which, in different ways, is disregarded both by the New Right and by marxists - is whether it is legitimate in the circumstances in which it is applied.

### ***III.3.c.i. Social services can be beneficial or destructive.***

The idea that social services can be beneficial is fundamental to much of the argument of this book, and it does not really require extensive examination at this stage. If the effects of exchange, collective action or pooled risk are beneficial, then so are the actions of social services.

The idea that social services can be destructive, by contrast, has been very little considered. If social services have the power to change social relationships, they must have the power to change relationships negatively as well as positively. Destruction implies, not just that they can change relationships, but that in certain cases they can extinguish them. A contentious example is the question of whether social policy undermines relationships in the family. The accusation that it might has commonly been made, both from the political left (who have condemned policies like the household means test for its effect on family support<sup>324</sup>) and the political right (who have argued that benefits have led to a massive increase in illegitimacy and abandonment of families by irresponsible fathers<sup>325</sup>). Difficult as these claims are to resolve, because they refer to issues with multiple causes, they are basically empirical questions. There is some evidence that unemployment and economic marginality disturb family relationships<sup>326</sup>, but it has not been possible to distinguish the influence of benefits within this pattern. There is a related moral issue - whether the structure of social policies should penalise people for adopting socially valued behaviour,

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<sup>321</sup> R Grunberger, *A Social History of the Third Reich*, Penguin 1974, p.288.

<sup>322</sup> Weindling, 1989, p 548.

<sup>323</sup> e.g. Nozick, 1974; N P Barry, 1987, *The new right*, Beckenham: Croom Helm.

<sup>324</sup> M Bruce, 1968, *The coming of the welfare state*, London: Batsford, pp 273-4.

<sup>325</sup> N Dennis, G Erdos, 1992, *Families without fatherhood*, London: Institute of Economic Affairs.

<sup>326</sup> R Lampard, 1994, *An examination of the relationship between marital dissolution and unemployment*, in D Gallie, C Marsh, C Vogler (eds) *Social change and the experience of unemployment*, Oxford University Press.

or reward them for doing things which are disvalued. There is some reason to suspect that social protection is being blamed for the effects of the conditions it is designed to alleviate.

There is much better evidence of social policy acting destructively. At the turn of the century, the predominant belief relating to mental disorder was that it stemmed from 'degeneracy', or biological inadequacy. Degeneracy was identified with mental retardation, but it was held to be the source of a range of social problems, including mental illness, crime, illegitimacy, and dependency on welfare.<sup>327</sup> Part of the response to this was eugenics, or selective breeding, fulfilled in the policies of fascism. The eugenics movement had an extensive influence in other areas, however; the terms on which people were incarcerated in institutions, and the types of institutions they were placed in, were directly influenced by eugenic ideas. Mental institutions, which held both mentally ill people and those with learning disabilities, were built to contain people, not to cure them. The purpose of the institutions was to isolate degenerates from the community, and that is what they did - cutting people off from society, so that they had no contact or relationships outside the closed institution.<sup>328</sup> The legacy of this policy, actively pursued in the 1920s and 1930s, continues to be the source of the problems of institutions in the present day.<sup>329</sup>

Social services can, then, be destructive of social relationships. The examples considered here and in the previous section indicate that they may even be designed to be destructive.

### ***III.3.c.ii. They can be liberating, or oppressive.***

The argument that social policy can deny freedom should be familiar. If action to benefit others restricts their choice of action - even the choice to do things which are damaging to themselves or others - freedom has been restricted. Social welfare is often paternalistic - putting people's welfare before their independence of action. Soyer argues for the 'right to fail'; people need to be able to go wrong if they are ever to learn what is right.<sup>330</sup> From both left and right, intervention through social welfare meets with a chorus of disapproval. To the right wing, it represents an unwarranted interference in people's liberty<sup>331</sup>; to the left, it reveals welfare as a mechanism of control and oppression<sup>332</sup>.

These criticisms underestimate the extent to which social policies can enhance freedom. Freedom is a triadic relationship, involving not only the absence of restraint, but the power to act, and the ability to choose (► [II.2.c.i](#)). Resources are crucial for freedom, because without resources people are unable to exercise choice. Poverty denies freedom, and the relief of poverty protects people against it.

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<sup>327</sup> D Wright, A Digby (eds), 1996, *From idiocy to mental deficiency*, London: Routledge.

<sup>328</sup> W Wolfensberger, 1975, *The origin and nature of our institutional models*, Syracuse, NY: Human Policy Press; D Wright, A Digby (eds), 1996, *From idiocy to mental deficiency*, London: Routledge.

<sup>329</sup> D Cohen, 1988, *Forgotten millions*, London: Paladin; K Jones, 1993, *Asylums and after*, London: Athlone.

<sup>330</sup> D Soyer, 1975, *The right to fail*, in F McDermott (ed.), *Self-determination in social work*, London: Routledge and Kegan Paul.

<sup>331</sup> e.g. Hayek, 1944.

<sup>332</sup> e.g. H Dean, 1991, *Social security and social control*, London: Routledge.

There is a fine moral balance to be struck. The same policies can, in different circumstances, have contradictory effects. Intervention is permitted which is likely to increase freedom. Compulsory education gives people the independence and power to act; if it is not compulsory, those likely to be denied the benefits of education are precisely those most likely in the future to be denied other freedoms. Compulsory detention for psychiatric patients has as its objective the restoration of a person to a fully functioning, autonomous state. These interventions cease to be justifiable when they infringe freedom: education becomes indoctrination, or compulsory detention becomes institutionalisation. These measures can increase freedom, but they also have, at the same time, the potential to reduce it.

***III.3.c.iii. Social policy must be judged in its context.***

Policies cannot be judged *in vacuo*. If the same policy can be used for good or ill, it is not necessarily the content of the policy which determines its legitimacy. Intentions are clearly important: there is not much wrong with encouraging children to be fit, but that does not extend to Strength through Joy. Equally, social policies are sometimes based in difficult choices, which justify means that might otherwise seem illegitimate: examples are the isolation of the carriers of infectious disease, or the provision of contraceptives to young children.

The outcomes of policy have to be considered. The field which social policy deals with is complex, and policies commonly generate a range of unintended effects, both positive and negative, which have to be considered before a policy can meaningfully be assessed. Well-intentioned policies can prove disastrously harmful: 'community care', the discharge of psychiatric patients into an unsupported environment, springs to mind.<sup>333</sup> It is more difficult to argue that policies which are manifestly ill-intentioned may still have some beneficial effects, because it sounds like a defence of the indefensible: clearly, the policies of Nazism were very popular, partly because of the economic benefits they generated, but it is hardly a justification for the process.

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<sup>333</sup> P Bean, P Mounser, 1993, *Discharged from mental hospitals*, Basingstoke: Macmillan, ch 2; A Lurigio, D Lewis, 1993, *Worlds that fail: a longitudinal study of urban mental patients*, in P Baker, L Anderson, D Dorn (eds) *Social Problems*, New York: Wadsworth; J Ritchie (chair), 1994, *Report of the inquiry into the care and treatment of Christopher Clunis*, London: HMSO.

## III.4 STATE ACTION

### III.4. The welfare states have a wide range of options through which social policies can be pursued.

*III.4.a. States can do things which other associations cannot.*

III.4.a.i. States establish rules.

III.4.a.ii. Governments coerce.

III.4.a.iii. Governments subsidise and provide.

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*III.4.c. The welfare states have come to set the terms on which social protection is delivered.*

III.4.c.i. Welfare is delivered through many channels.

III.4.c.ii. The welfare states build on other forms of social protection.

III.4.c.iii. The action of the state must be seen in the context of existing provision.

III.4.c.iv. The promotion of welfare requires the interweaving of state provision with other forms of solidaristic support.

*III.4.d. The approach to policy affects its nature.*

III.4.d.i. Outcomes can be realised in many ways.

III.4.d.ii. Methods and processes can influence outcomes.

III.4.d.iii. The choice of methods cannot fully be distinguished from the purposes of policy.

*III.4.e. Welfare strategies can be assessed by common criteria.*

## THE STATE AND SOCIAL POLICY

### III.4.a. States can do things which other associations cannot.

Much of the argument of the first part of this book was based in the networks of relationships which characterise modern societies, including both informal networks and formal associations. States are like formal associations, and they can do many things which other formal associations can do, but they also have a capacity for action beyond that of other organisations. The core of this capacity lies in legitimate authority, which makes it morally possible for governments to bind and direct the actions of others.



### ***III.4.a.i. States establish rules.***

A legal system, Hart argues, needs two types of rules. Primary rules are the rules by which laws can be made: they include rules of recognition, change and adjudication. Rules of recognition make it possible to identify what is a rule, and what its status is in law. Rules of change provide procedures by which laws can be introduced, changed, or adapted. Rules of adjudication determine the ways in which rules can be judged to apply. Secondary rules are the substantive laws.<sup>334</sup>

The most basic role of the state is the establishment of the rules under which services operate. Beyond this, states commonly move, through substantive laws, to regulate the patterns of behaviour of organisations. This is done through a combination of legal restraints prohibitions and conditional requirements, generally supplemented by some of the other measures described in following sections. Although the power of the state is often seen as coercive, and states can coerce individual citizens, states are not generally in a position to coerce organisations, because formal organisations can be dissolved rather than comply. The process is more typically one in which government agencies try to persuade, educate, encourage, push, threaten, bluster or browbeat agencies into doing the kinds of things that the government wants them to do. In other words, it is a matter of politics rather than of law, and in this respect the actions of the state are not necessarily distinguishable from those of other social institutions.

### ***III.4.a.ii. Governments coerce.***

The most basic tools which governments have to change behaviour are prohibition and coercion: they can pass a law which says that people must not do something (like performing surgical operations when not qualified to do so, dropping litter, or taking drugs), or that they must do something (like support their families, clean the street outside their homes, or send their child to school). The existence of this kind of law is very much taken for granted, so much so that it would be possible to suppose that the action of government is always coercive; voluntary exhortations carry the veiled implication that if they do not work, stronger measures may follow. But there are reservations to make. Given the choice, governments in the liberal democracies are often disinclined to use coercive forms of law. Prohibition and coercion do not always work; some laws are openly flouted, others are bent (like vehicle speed limits). Governments have learned to use prohibitions, not in the expectation that they will be obeyed, but in the hope that they will make a difference to behaviour. An example is the prohibition, in Sweden, of hitting children. No-one seriously believes that parents will stop hitting children completely because a law has been passed; but the law acts as a way of helping to change attitudes, and as a way of ensuring that parents who damage children seriously cannot try to excuse themselves by saying (as they do in other countries) 'I didn't mean to do it so hard'.

Social protection may involve elements of compulsion. Some of the issues have been considered in previous sections: compulsion may be employed to avoid undesirable actions (► [I.4.c.i](#)), to impose moral action (► [I.4.c](#)), to avoid the problems of the 'free rider' (► [I.3.b.iii.\(1\)](#)), in the imposition of a regulatory framework (► [III.4.a.i](#)), or in the imposition

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<sup>334</sup> H L A Hart, 1961, *The concept of law*, Oxford: Oxford University Press

of minimum standards. The acknowledgement that governments coerce in such circumstances may seem to concede one of the principal criticisms made by ultra-liberals: that state action, whether it is meant for good or ill, is necessarily an infringement of individual liberty.<sup>335</sup> That is a misrepresentation of the issues. Liberty is not licence: coercion by the state may restrict activities which are not permitted. Coercion may enhance liberty; this is a central argument for compulsory education, and for many other minimum standards, such as standards in health and housing. Coercion can be used to protect some people from the actions, or inactions, of others: employers may have to be compelled to offer facilities for their employees, producers to offer minimum standards to consumers, and parents can be compelled to take action on behalf of their children. And the coercive nature of the action may not result from the state, but from society. The image of the state as uniquely coercive is misleading: organisations (like industrial firms or unions), religious bodies, neighbourhoods and families also coerce people. All that government does is to formalise it. The central moral issue about coercion - an issue which is often regrettably overlooked - is not whether it should ever take place, but whether the coercion is legitimate.

#### ***III.4.a.iii. Governments subsidise and provide.***

Governments may also intervene through measures intended to provide services. They can do this in three main ways: provision, purchasing of services, and subsidy and incentive. Provision means that states provide services themselves. Public housing, national health services or state education are obvious examples. Purchasing services implies that the state accepts responsibility for ensuring provision - and that, in the last resort, the state will be bound itself to provide - but that the service can be obtained from another agency. The basic argument for purchasing, rather than providing, is that independent services are better able to provide services than the state is. This applies in circumstances where competition drives prices down, requiring producers to be more efficient, but it does not always apply, and there are circumstances where states can achieve economies denied to the private sector. The private sector can duplicate facilities; it can shore up prices artificially, especially where entry to the market by other providers is difficult; it can suffer diseconomies of scale. This is most notably the case in the provision of health services, where publicly provided services have proved to be cheaper than the private sector.<sup>336</sup>

Subsidy consists of a financial inducement to act in a particular way, in the form of a contribution towards revenue or reduction in costs. This can be designed as a reward for certain kinds of behaviour, as a compensation for costs (as in the case of subsidies for child care), or as an incentive to undertake different types of action, a point which will be returned to shortly. Subsidies change the conditions under which markets operate, and they are a key method of shifting patterns of behaviour in desired directions.

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<sup>335</sup> Hayek, 1944.

<sup>336</sup> OECD, 1992, *The reform of health care*, Paris: OECD.

#### *III.4.a.iv. Governments persuade.*

Altering patterns of behaviour seems, at first, to be easy: all one has to do is to pass a law. The reality is very different. People can often be directed to do things they were going to do anyway, like having fewer babies, working for pay or continuing their education. People are much less eager to do things they were not going to do, and policies for natalism (to encourage the birth rate), encouraging women to return to the home, or giving up alcohol have not been conspicuously successful. Seriously radical policies, like the attempt to dissolve the Catholic Church in revolutionary France, or to abolish the institution of marriage in the Soviet Union, are unlikely to work, because people are not going to abandon long-established relationships and responsibilities overnight. Most measures which are taken by governments are necessarily taken at the margins, because a broader, wider-ranging approach to change risks being destructive or ineffective.

In many cases, change is attempted not by coercion, but by persuasion. Propaganda, exhortation and directed education tend to be limited in their effectiveness, though there are some striking exceptions: the effect of health education in the US has had a notable effect in reducing the incidence of heart disease.

The primary persuasive measures used by governments are incentives and disincentives. Incentives are much misunderstood in the literature of social policy, and in popular discourse. The assumption is that if people are paid to do something, they will be inclined to do it, and that if they are not paid, they will not.<sup>337</sup> This is a confusion between two different kinds of argument: arguments about psychological responses to stimuli, and arguments about economics. The psychological argument, taken on its own, is a good one: people who do things in response to certain stimuli can often be relied on to do them again when the stimuli are repeated. This means that those people who respond to financial inducements will often do so again. It does not mean that everyone will respond in the same way to the same stimulus.

The economic argument is more complex: it has three component elements. The first is that what people do in aggregate is predictable, in a way that what they do as individuals is not. When people are taken in aggregate, differences tend to cancel each other out, so that what results is an 'average' reaction. Often, it is a partial reaction: many people will not respond at all. That, however, is not a problem for a government which is trying to produce aggregate, rather than individual, effects.

Second, the behaviour of the average individual is based on the maximisation of utility. This depends on a balance of factors; incentives have to be placed in context. People's behaviour depends on the relative costs and benefits of different options. An incentive changes relative costs or benefits; it does not override every other factor. Unemployment benefit is not an 'incentive' to be unemployed, any more than a death grant is an 'incentive' to become dead.

Third, and arguably most important, the economic analysis of incentives is based on marginal analysis. Marginal analysis focuses on how people respond to changes in circumstances which are already determined. The idea of 'elasticity' refers to the propensity of an aggregate population to respond to different conditions. Elasticity can, in some cases, be zero. No financial inducement is going to get people to chop their heads off or eat their

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<sup>337</sup> C Murray, 1984, *Losing Ground*, New York: Basic Books.

grandmothers - at least, not in any large numbers. Economics may be a dismal science, but it is not as cynical as some people seem to assume. There is no assumption that people must respond directly to financial stimuli.

When governments offer incentives, what they are doing is trying to shift aggregate behaviour in a particular direction - trying to get more people into work, getting more people to provide residential homes, to get fewer people to travel by car, and so forth. What they are not doing (or what they should not be doing) is to assume that every single person will respond. Subsidies and tax reliefs are used as a means of altering the calculations made by a provider about financial viability of a project - the effect of increased revenue from a programme is to reduce costs. The same is true of disincentives: increasing the costs of an operation through taxation, or reducing benefits, will usually affect the marginal behaviour of some people (while penalising others).

#### ***III.4.a.v. Governments plan.***

Governments cannot usually determine outcomes directly, because too many effects of policy are unintended; but they can test policies, monitor them, and evaluate their outcomes. They can accept those policies which produce desired effects and reject others, until they begin to approximate the outcomes which they want to bring about. The government is not unique in its ability to plan and map social consequences, but it is uncertain that anyone else has an interest in doing so, and in practice the field has been left to governments - sometimes, admittedly, in conflict with other policies which are pulling in a different direction. The idea of 'corporatism', in which government proceeds in conjunction with a set of social partners who are drawn into the process of government, has flourished because this kind of arrangement seems overall to work at the behest of government.<sup>338</sup> But government does not need to direct the actions of the other agencies; it needs only to work around them, interrelating its activity with theirs, in order to produce something like the desired effect.

## **PROVISION BY THE STATE**

### **III.4.b. The state operates differently from the market.**

The state has a role as provider as last resort (► [III.2.c.ii](#)); its activities extend beyond that role (► [III.2.c.iii](#)); and, no less important, government may seek legitimately to further the principle of social justice (► [III.2.c.iv](#)). Each of these propositions implies that the state will, at least, be concerned with people who are excluded - with sectors of the population who are not otherwise covered. This has direct implications for welfare provision: the conditions under which the state provides welfare are different from the operation of welfare provision in non-state sectors, and in particular from the economic market. Economists usually apply to the state the criteria they would apply to an economic monopoly: on one hand, the lack of incentive to efficiency provided by competition, on the

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<sup>338</sup> M Harrison, 1984, *Corporatism and the welfare state*, Aldershot: Gower

other the lack of choice and inability to exit on the part of consumers, which places them in a weak position when it comes to demanding improvements.<sup>339</sup> These criticisms are sometimes appropriate, but they are not the whole story; the criteria by which states operate are different from those of commercial concerns, and differences in motivation lead to differences in action.

***III.4.b.i. The supply and demand for services provided by the state are interdependent.***

In a conventional economic analysis, the supply of services and the demand for them are treated largely as independent factors which can be brought into balance (or 'equilibrium') under certain conditions. When state social services are considered, however, supply and demand are interdependent. Partly, this may happen because the state determines both factors as a matter of policy: the demand for education is illustrative. It also happens because both supply and demand are a function of needs and aspirations, whether social or the aggregated needs of different people, and indeed of policy. They increase and diminish together; arguably they develop in parallel. The general experience of state services is that an increase in supply leads directly to an increase in demand, as people come to realise that a service is available which can meet their needs or wishes. Conversely, the effect of limiting the scope of services, or of strict rationing, is deterrence: demand may continue to outstrip supply, but the visible level of demand will usually fall, because people do not present their needs.

This leads, potentially, to some distortions in the response to need. Social protection can come to favour particular sectors or groups in the population, like civil servants or workers in public utilities. Governments which provide for certain needs can create a constituency of recipients, with a vested interest in maintaining a relative advantage over non-recipients. (An example might be the special long-established privileges accorded to blind people relative to others with disabilities.) In extreme cases, this may take the form of clientelism.

***III.4.b.ii. The provision of services is not determined by cost.***

Similarly, in a conventional economic analysis, the behaviour of the firm is primarily determined by the issue of profit. State expenditure on social services is constrained by total cost, which can be seen as analogous to the profit motive, but it is only a constraint, not the primary motivation; there is no strong incentive to minimise total costs. When governments do attempt to reduce expenditure in the name of economy, they generally face the 'paradox of targeting', that the effect of reducing coverage is to leave them with people with greater needs, and so to increase their average costs.<sup>340</sup> The role of the state as a provider of last resort means that when the relative costs of a service increase, an increasing residual demand is likely to be experienced by the state: for example, the effect of generally increasing costs in medical care may be to increase the demand for health care from the state.

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<sup>339</sup> Glennerster, 1997, pp 28-9.

<sup>340</sup> M Keen, 1991, Needs and targeting, London: Institute for Fiscal Studies.

Democratic governments do, however, have a common inducement to act in particular ways, and that is the pursuit of electoral advantage. This is usually seen positively: it is one of the principal routes through which governments are encouraged to respond to social needs.<sup>341</sup> But the electoral cycle can also limit the government's time-horizon, prompting short-term planning; the geographical dimensions of the electoral process might lead to distortion in the allocation of resources; the agendas which the government addresses are liable to be dominated by public and media attention, rather than the long-term interests of a society.<sup>342</sup>

#### ***III.4.b.iii. State provision cannot be efficient.***

If the state has to make provision in the last resort, it has to provide for cases which commercial or mutual aid organisations would not provide for. These are liable to be people with lower resources, greater needs, or greater demands. The general effect is to increase the unit costs - that is, the average cost of dealing with each person. Commercial firms, and even mutuals, have the option of adverse selection, or 'cream skimming' (► [II.3.b.i](#)); governments do not. State production is efficient if, and only if, service objectives happen to coincide with the quantity required for efficiency. This is hardly likely to happen, unless efficiency is elevated above other objectives. Provision by the state is inefficient, because the purpose of state provision is to do something else.

#### ***III.4.b.iv. There are other reasons for provision by the state.***

There are several reasons, apart from the delivery of social protection, why states have become involved in welfare provision. One is the adoption of universal standards. The basic argument for universality is an argument for consistency: that people should not be treated differently unless there are relevant differences between them. Minimum standards may be considered requisite for individual rights, freedom, or social justice: an example is the introduction of universal elementary education for children.

Another reason for intervention is social control. Allowing independent agencies the use of compulsion can be problematic. Control may be appropriate where one person has to be controlled to protect the rights of another, which is the case in the protection of children from abuse; because the person for whom provision is being made is subject to control, as in the care of prisoners; or as a means of promoting autonomy, which is a central element of arguments for the compulsory detention of mental patients and for compulsory education.

Third, governments have found economic benefits in their engagement in welfare provision. There may be economies of scale. The UK National Health Service has proved to be substantially more economical than many liberal systems<sup>343</sup>; Italy's introduction of a

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<sup>341</sup> J Schumpeter, 1967, Two concepts of democracy, in A Quinton (ed.), Political philosophy, Oxford: Oxford University Press.

<sup>342</sup> D Weimer, A Vining, 1989, Policy analysis: concepts and practice, Englewood Cliffs, NJ: Prentice Hall, ch 6.

<sup>343</sup> Organisation for Economic Cooperation and Development, 1990, Health care systems in transition, Paris: OECD.

national system was prompted in part by the desire to achieve similar economies, though subsequently its effectiveness has been challenged from the ideological right.<sup>344</sup>

## **THE PRODUCTION OF WELFARE**

### **III.4.c. The welfare states have come to set the terms on which social protection is delivered.**

Governments have a wide range of methods to choose from, which include many measures short of direct coercion. The exercise of direct control by the state is unusual, if only because it requires a level of knowledge and commitment of resources which is beyond the capacity of most agencies. The process of planning can, of course, be based on the kinds of measures already considered - regulation, subsidy, provision, coercion and incentive - among others. For the most part, though, planning is based not on the application of coercive power, but on a process of negotiation and bargaining about outcomes - seeing what can be done, and by what means.

Ironically, this can be difficult in practice to distinguish from the state control of welfare provision. If the outcomes of the welfare system are the outcomes chosen by the state, it comes to the same thing in practice. The important difference is a difference both of method, and of principle. The welfare states govern welfare provision; but they did not impose it, and they do not necessarily provide it.

#### ***III.4.c.i. Welfare is delivered through many channels.***

Welfare is provided in many ways. Conventionally, the distinction is usually made between welfare provided by the state or the public sector, the private sector, voluntary organisations and informal care; but this can be extended at some length.

There is a wide range of public sector policies: Titmuss distinguished social welfare, the provision of social services, from fiscal welfare, which is welfare through the tax system.<sup>345</sup> There are other channels through which welfare can be distributed: the state can make provision as an employer (and in a developed welfare state, government is liable to be one of the largest employers in an economy); the tax system can be used as a means of redistribution or subsidy; the legal system also redistributes resources and makes provision, generally on a compensatory basis. Mutual aid can be distinguished from commercial activity on one hand, and voluntary activity on the other.

The complexity of the system is added to by the high degree of cross-fertilisation between the different channels. Public finance can be used for private or voluntary provision, voluntary finance can be used for public provision, and so forth. This has been

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<sup>344</sup> M Niero, 1996, Italy: right turn for the welfare state?, in V George, P Taylor-Gooby (eds) European welfare policy: squaring the welfare circle, London: Macmillan; E Granaglia, 1997, The Italian National Health Service and the challenge of privatisation, in MIRE, Comparing social welfare systems in Southern Europe, MIRE.

<sup>345</sup> Titmuss, 1963.

represented as a 'mixed economy' of welfare.<sup>346</sup> There are different forms of public, corporate, commercial, charitable, and mutualist finance, while provision can be made through the state, the voluntary sector, mutual aid and informal care. Most of the combinations which are possible have been tried at one time or another.

#### ***III.4.c.ii. The welfare states build on other forms of social protection.***

Social protection has grown from a range of sources. The processes which are developed through collective action do not address every area of concern (► [II.3.b.i](#)); residual elements have to be tackled by government (► [III.2.c.ii](#)); and there is consequent pressure on governments to expand the range of their activity (► [III.2.c.iii](#)). This helps to explain one of the central issues in understanding the development of welfare: the emphasis given in different accounts to state or society. If the argument outlined here is correct, both are likely to be true. It is possible to construct accounts of the process which emphasise the scope of collective action at the same time as others which emphasise the role of the state. However, the balance between different forms of action varies, and depends on the circumstances of each society.

In many countries governments came to address the issues of social protection only when collective social services were already partly, or even wholly, formed. The choice these governments faced was either to build on what existed, by accepting and supplementing its provision; to take the existing provision over; or to replace it with their own mechanism.<sup>347</sup> France and the Netherlands, in different ways, generally opted for the first approach; the UK took the second, at least for health services; the former communist states opted for the third. The third option is arguably more common than this suggests; social security in Britain largely took over from the existing friendly societies, despite Beveridge's explicit attempts to protect their position.<sup>348</sup> Ashford, while recognising the importance of independent organisations within the political process, describes welfare states as 'submerging' independent action.<sup>349</sup> Democratic governments have a tendency to think of themselves as being in charge, whether or not this is the formal arrangement, because they are legitimately in authority and independent or voluntary agencies are not; it is one of the vices which goes with democratic elections.

This seems to imply that the welfare states might drive out independent provision. Perhaps surprisingly, this has proved not to be the case. Rein and van Gunsteren, reviewing pension arrangements, found that just as there was no case in which a shift to private and independent sources could eliminate state provision, there was no case in which state provision had taken over completely from independent sources.<sup>350</sup> The reason for the

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<sup>346</sup> K Judge, M Knapp, 1985, Efficiency in the production of welfare: the public and private sectors compared, in R Klein, M O'Higgins (eds), *The future of welfare*, Blackwell, Oxford.

<sup>347</sup> S Davies, 1997, Two conceptions of welfare: voluntarism and incorporationism, in E Paul, F Miller, J Paul (eds) *The welfare state*, Cambridge: Cambridge University Press.

<sup>348</sup> H E Raynes, 1960, *Social security in Britain*, London: Pitman; Beveridge, 1942.

<sup>349</sup> D Ashford, 1986, *The emergence of the welfare states*, Oxford: Blackwell, ch 3.

<sup>350</sup> H V Gunsteren, M Rein, 1984, The dialectic of public and private pensions, *Journal of Social Policy*, 14(2) pp 129-150.



first part of this finding is clear enough: it stems from the inability of markets to cover the population, and the role of the state as a provider of last resort. The reason for the second part is more perplexing, because it does not have to be true; it seems primarily to testify to the strength of these other arrangements as a basis for social protection.

***III.4.c.iii. The action of the state must be seen in the context of existing provision.***

The purpose of policy is not necessarily to produce a particular effect - it may be, for example, to institute procedures, or to establish moral principles. However, welfare is concerned with outcomes, and social policy is likely to be designed for welfare. The outcomes of any measure are produced not by the action of the state alone, but by the conjunction of state activity with the effect of other forms of personal and collective action. The value of benefits is the value of the total package received, less any costs which are applied. This is easiest to apply to financial benefits, but it equally applies to other kinds of care package: for example, the value of a 'social bath', provided at home by state services, can only be part of a range of services designed to maintain independence in one's own home.<sup>351</sup> Services which are provided in isolation may be seriously ineffective: people discharged from institutions are sometimes rehoused in isolated accommodation with no basic services or support, and the arrangement rapidly collapses. Conversely, there is a risk that services will over-provide, because some other form of provision has already been made: the best example I can think of from my research work is that of an old lady with dementia who was having two breakfasts delivered. Effective help is help which produces desired outcomes, and it is only possible to produce desired outcomes consistently if one knows what the outcome will be.

***III.4.c.iv. The promotion of welfare requires the interweaving of state provision with other forms of solidaristic support.***

The view which this prompts of the policy making process is not one in which the welfare state determines all the production of welfare. What happens, rather, is that policy makers determine outcomes, assess what is needed to achieve those outcomes, and consider alternative methods by which this can be done.

In a seminal book, Michael Bayley argued that the contribution made by the welfare state itself to the issue he was considering - the care of mentally handicapped people in the community - was marginal, relative to the enormous demands made of families and informal carers. Bayley argued for the 'interweaving' of state and other provision; the state could act most effectively by considering the difference it would make.<sup>352</sup> This concept was at the root of many changes in welfare provision in the 1980s and 1990s, most particularly the policy of 'community care'.

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<sup>351</sup> J Twigg, 1997, Deconstructing the 'social bath': help with bathing at home for older and disabled people, *Journal of Social Policy* 26(2) pp 211-232.

<sup>352</sup> M Bayley, 1973, *Mental handicap and community care*, London: Routledge and Kegan Paul.

## WELFARE STRATEGIES

### III.4.d. The approach to policy affects its nature.

It is possible to treat social policy as a 'black box'. The black box is a scientific method, in which process is ignored; all that is considered is what goes in, and what comes out. This technique has made it possible to compare very different systems, particularly in the field of social security: the Luxembourg Income Study compares the total impact of income packages in different countries on distribution, ignoring benefit rules and concentrating instead on their effects.<sup>353</sup>

The main alternative to this approach is expressed by Esping-Andersen, who argues that the methods and processes which are used to distribute benefits are an important element of social protection systems.<sup>354</sup> Methods and processes determine the character of the system; quite apart from their distributive impact, there is a profound difference in the experience of benefit receipt in residual and insurance-based systems. They also affect the policy itself, both because they condition the kinds of issues which subsequently arise, and because methods are assumed to define objectives. Empirically, as Esping Andersen notes, there is a strong connection between residual systems and a limited commitment to welfare expenditure. (The connection is not general, and the reasons for it are in any case disputed. Many commentators argue that residual systems are poor systems, and that the effect of residual welfare is to create stigmatising divisions which make welfare provision unacceptable.<sup>355</sup> Andries has argued, by contrast, that residual benefits are politically the most firmly founded, and the reason why less money is spent on them is that politicians who want to spend less money are still forced to accept the rationale for residual benefits even if they reject other forms of social protection.<sup>356</sup>)

#### III.4.d.i. Outcomes can be realised in many ways.

Although social policy is not necessarily directed to any end, the commitment to develop welfare tends to imply that certain ends should be pursued, and are likely to be. But there are many different ways to develop welfare, as there would be for any other kind of objective. This broad pattern of policy can be seen as a 'welfare strategy'. A welfare strategy is a set of interrelated policies, adopted on the basis of a common aim or set of approaches. The most common welfare strategies concern broad issues like economic development, redistribution, social protection and the development of solidarity. These issues, which can be pursued singly or in combination, can be tackled in several ways. Particular measures - strategic interventions - can be seen as part of a general strategy, as a

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<sup>353</sup> T M Smeeding, M O'Higgins, L Rainwater (eds) 1990, *Poverty, inequality and income distribution in comparative perspective*, New York: Harvester Wheatsheaf.

<sup>354</sup> G Esping-Andersen, 1990, *The three worlds of welfare capitalism*, Cambridge: Polity.

<sup>355</sup> R M Titmuss, 1974, *Social Policy: an introduction*, London: Allen and Unwin; P Townsend, 1976, *Sociology and social policy*, Penguin, Harmondsworth.

<sup>356</sup> M Andries, 1996, *The politics of targeting: the Belgian case*, *Journal of European Social Policy* 6(3) pp 209-223.

contribution to it, and even as a way to deal with the whole issue. It may seem naive to rely on a single method of intervention for a comprehensive strategy - it is more typical for governments in developed countries to introduce a package of measures - but there are examples, such as economic development under Stalin.<sup>357</sup> (Whether it works is another issue.) More commonly, where a particular method is selected, it is believed to be a key to other issues. In economics, this is widely practised, through the use of single instruments like the interest rate or the exchange rate. The approach has been influential in social work through systems theory, where change can be brought about by key intervention within a specific sub-system.<sup>358</sup>

Strategic intervention is multi-dimensional. The values which inform policy constitute one dimension; the focus of policy (the intended recipient group) is another dimension; the means by which policy is pursued (such as regulation, provision and subsidy) is another. Policy formation, finance, service delivery and the role of users all have claims to be considered as dimensions in their own right. The range of permutations is large, and the outcomes are complex. Interventions, which can themselves be very diverse, are not certain to be internally consistent, let alone consistent with each other.

#### ***III.4.d.ii. Methods and processes influence outcomes.***

The methods and processes by which social policies are implemented - issues like administration, finance, and service delivery - clearly do matter. From the perspective of the policy maker, they intervene between the formation of policy and the production of results: they can be seen as a form of inefficiency, diluting the application of effort, but equally they can acquire a life of their own, forcing services down routes which the policy makers never intended. Lipsky points to the importance of 'street-level bureaucrats', who make decisions at the lowest levels of agencies. These decisions become, effectively, the policy and practice of that agency.<sup>359</sup> From the perspective of the recipient of services, these practices become part and parcel of the service itself; the administrative process, accessibility, the experience of rationing and the say which the user has in the outcomes cannot be distinguished from the policy.

#### ***III.4.d.iii. The choice of methods cannot fully be distinguished from the purposes of policy.***

By the same argument, the method which is adopted has to be considered as part of the policy. Theoretically and practically, it is quite possible to achieve objectives by ignoring process, concentrating instead on final outcomes, but this is potentially very inefficient, because inputs may not yield proportionate outputs.

Outcomes are directly affected by process. Inequalities in the receipt of health care, for example, are attributable to a range of procedural factors, including (amongst many others) perceptions of need, perceptions of provision, access to health care, the location of

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<sup>357</sup> A Nove, 1964, Was Stalin really necessary?, London: Allen and Unwin.

<sup>358</sup> B Compton, B Galaway, 1973, Social work processes, Homewood Ill: Dorsey; M Payne, 1991, Modern social work theory, London: Macmillan.

<sup>359</sup> M Lipsky, 1980, Street level bureaucracy, London: Sage.

service provision, and the quality of service delivered.<sup>360</sup> Racial disadvantage in public housing has been attributed to the initial status of minority ethnic groups, the effect of adverse policy decisions, access to the housing list, assumptions made about family size and needs, the operation of allocations schemes, and discrimination by officials.<sup>361</sup> These factors are cumulative - none of them substantially explains the problems in itself - and mutually reinforcing. Only a detailed analysis of procedural issues can show how and why policy fails to produce the desired outcomes.

## ASSESSING SOCIAL POLICY

### III.4.e. Welfare strategies can be assessed by common criteria

Despite the differences in the welfare states, and differences in strategy, the argument of this book points to a set of evaluative criteria which can be applied to any welfare strategy. Four main areas have been identified in which the operation of the welfare state can be assessed. They are:

- (a) *The impact of policy on material welfare, including the relief of poverty and material security.* The welfare state is not focused exclusively on issues of poverty; if anything, its obligations to those who are poor may be weaker than obligations to others (► [II.1.c.ii](#)). It is, however, concerned with welfare (► [III.2.a](#)) and with social protection (► [II.3.a.ii](#)), which means that issues of need, poverty and material security are central to its functions.
- (b) *The relationship of the welfare state to the economy, and economic development.* Economic development is a precondition for welfare (► [II.2.a](#)) and governments have to promote it (► [III.2.b.i](#)). At least one of the leading models of the welfare state depends on its relationship to the economy (► [III.2.d.ii](#)).
- (c) *The influence of social policy on social relationships, including social cohesion and exclusion.* Social protection has been founded in concerns with solidarity (► [II.2.b.iii](#)) and social cohesion (► [II.3.a.ii](#)). Social policies may be focused on the problems of exclusion, which are otherwise liable to deny welfare (► [II.1.b.ii](#)). At the same time, there is some ambiguity surrounding issues of social cohesion (► [III.2.b.iii](#)), and some of the debates about the legitimacy of government action centre on the potentially negative effects of policies for welfare on social relationships (► [III.3.c.i](#)).
- (d) *The effects of the welfare state on social justice, including economic and social inequality.* Issues of inequality have a direct bearing on welfare (► [II.4.c](#)). The concept of justice is restricted in its scope (► [II.4.e.i](#)), but within a particular society it

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<sup>360</sup> P Townsend, N Davidson, M Whitehead, 1988, *Inequalities in health*, Harmondsworth: Penguin.

<sup>361</sup> D Smith, A Whalley, 1975, *Racial minorities and public housing*, London: Political and Economic Planning; J Henderson, V Karn, 1984, *Race, class and the allocation of public housing in Britain*, *Urban Studies*, vol. 21.; Commission for Racial Equality, 1989, *Racial discrimination in Liverpool City Council*, London: CRE.

has important implications for the distribution of resources (► [II.4.b](#)) and so for the impact of social policy; governments have a responsibility for the distributive consequences of their actions (► [III.2.c.iv](#)).

These criteria encompass issues both of method and of outcomes, judged not just by the effects of state intervention but by overall outcomes in the social system.

# SUMMARY OF THE ARGUMENT

## I. PEOPLE AND SOCIETY

### I. People live in society, and have obligations to each other.

#### I.1. The person

*I.1. People live in society.*

People in society

*I.1.a. People live with other people.*

I.1.a.i. People in society are interdependent.

I.1.a.ii. Social interaction follows common patterns.

The nature of the personal.

*I.1.b. People are defined by their social relationships.*

I.1.b.i. The personal is the social.

I.1.b.i.(1) Personal differences are largely not explicable in terms of biology.

I.1.b.ii. The 'individual' is a myth.

Social obligations

*I.1.c. Social relationships generate obligations between people.*

I.1.c.i. Interdependence implies reciprocity.

I.1.c.ii. Each person must have regard to others.

I.1.c.ii.(1) If I am not for myself, who will be for me?

I.1.c.ii.(2) If I am only for myself, what am I?

I.1.c.ii.(3) If not now, when?

I.1.c.iii. Obligations have to be counterbalanced with rights.

#### I.2. Society

*I.2. Social relationships are patterned and structured.*

Collective action

*I.2.a. People form groups.*

I.2.a.i. Social groups are defined by a pattern of relationships within the group.

I.2.a.i.(1) Social groups are not defined by relationships beyond the group.

I.2.a.ii. People have relationships with groups.

I.2.a.iii. Groups may have relationships with other groups.

I.2.a.iv. Group action is collective action.

Society and social relationships

*I.2.b. A society is made up of social networks.*

- I.2.b.i. Social cohesion is a function of the strength of social relationships.
- I.2.b.ii. Society is constantly changing.
- I.2.b.iii. Social relationships are patterned, rather than fixed.
- I.2.b.iv. Societies reproduce themselves.

Social structure.

*I.2.c. Societies have a structure.*

- I.2.c.i. The social structure is unequal.
  - I.2.c.i.(1) Social relationships are gendered.
  - I.2.c.i.(2) Class shapes social relationships, and is shaped by them.
- I.2.c.ii. Social structures convey a sense of social division.
  - I.2.c.ii.(1) The main divisions in modern societies relate to 'race', ethnicity and nationality.
- I.2.c.iii. Where societies are divided, ties of obligation still remain.

### **I.3. Solidarity**

*I.3. Solidarity is intrinsic to society.*

Solidarity: altruism and social responsibility

*I.3.a. Altruism is founded in solidarity*

- I.3.a.i. Responsibility diminishes with social distance.
- I.3.a.ii. Social obligations extend to strangers.
- I.3.a.iii. Helping others is basic social conduct.

Mutual aid

*I.3.b. People who act rationally act collectively.*

- I.3.b.i. Mutual aid benefits the participants.
- I.3.b.ii. Collective action increases the potential of each person.
- I.3.b.iii. Individual interests can conflict with collective action.
  - I.3.b.iii.(1) Free riders may be compelled to participate in collective action.
  - I.3.b.iii.(2) Collective action does not have to be compulsory.
- I.3.b.iv. Collective action and mutual aid develop spontaneously in society.

Cohesion and exclusion

*I.3.c. Solidarity is an integral aspect of social cohesion.*

- I.3.c.i. Collective action defines a community.
- I.3.c.ii. Collective action is exclusive as well as inclusive.
- I.3.c.iii. Exclusion prevents social integration.
- I.3.c.iv. Exclusion limits social cohesion.

Social responsibility and social borders

*I.3.d. Obligations may extend beyond borders*

- I.3.d.i. Solidarity is local and national.
- I.3.d.ii. Social responsibility is not confined to national boundaries.

### **I.4. The moral community**

*I.4. People and communities have to act morally.*

Moral rules

*I.4.a. People are bound by moral rules.*

I.4.a.i. Moral ideas form rules of action.

I.4.a.ii. Moral rules are social norms.

The social construction of morality

*I.4.b. Moral rules are socially constructed.*

I.4.b.i. Moral norms are complex, and sometimes contradictory.

I.4.b.ii. The morality of an action cannot be judged by its consequences.

I.4.b.iii. Morality is not rational.

Deviance and control

*I.4.c. Morals justify intervention in other people's lives.*

I.4.c.i. Societies control undesirable behaviour.

I.4.c.ii. Deviance is a breach of social rules.

I.4.c.iii. Deviance implies exclusion.

Moral approaches to social action

*I.4.d. Where there are social relationships, there are moral relationships.*

I.4.d.i. Morals govern personal and social life.

I.4.d.ii. The morality of collective action depends on the nature of the action.

The moral community

*I.4.d.iii. Societies also have moral obligations.*

I.4.d.iv. Societies have obligations to their members.

I.4.d.v. Societies have obligations to non-members.

I.4.d.vi. Societies have obligations to other societies.

I.4.d.vii. Societies have obligations to previous generations.

I.4.d.viii. Societies have obligations to future generations.

I.4.d.ix. Societies can be moral agents.

## **II. WELFARE**

### **II. Welfare is obtained and maintained through social action.**

#### **II.1 The nature of welfare**

*II.1. People have needs, which require a social response.*

Welfare

*II.1.a. Well-being requires certain needs to be met.*

II.1.a.i. Needs are socially constructed.

II.1.a.ii. Needs go beyond the essentials for survival.

II.1.a.iii. Well-being requires more than the satisfaction of needs.

II.1.a.iv. Social groups also experience well-being, or the lack of it.

Poverty and exclusion

*II.1.b. Welfare is vitiated by poverty and exclusion.*

II.1.b.i. Poverty is the converse of welfare.



- II.1.b.ii. Exclusion denies well-being.
- II.1.b.iii. Poverty and exclusion are moral issues.

Responding to need

*II.1.c. Needs present obligations to other people.*

- II.1.c.i. Society defines the acceptable minimum.
- II.1.c.ii. The obligation to people who are poor and excluded is often weak.
- II.1.c.iii. The response to poverty and exclusion must be social.

## **II.2 The preconditions for welfare**

*II.2. People have economic and social rights.*

Economic development

- II.2.a.i. Welfare depends on economic development.*
- II.2.a.ii. Economic development requires an appropriately structured economy
- II.2.a.iii. Welfare also requires the avoidance of poverty.

Basic security

*II.2.b. Security is concerned with welfare in the future, as well as the present.*

- II.2.b.i. Change implies insecurity.
- II.2.b.ii. Those who are most vulnerable to insecurity are those who are poorest.
- II.2.b.iii. Social insecurity requires social protection.

The structure of rights

*II.2.c. Rights are essential to welfare*

- II.2.c.i. Freedom is a precondition for well being.
- II.2.c.ii. Political protection is required to guarantee welfare.
- II.2.c.iii. Economic and social rights are preconditions for well-being.
- II.2.c.iv. Rights exist.

## **II.3 Social protection**

*II.3. Social protection is necessary to secure welfare.*

Social protection

*II.3.a. Social protection is necessary for welfare.*

- II.3.a.i. Social protection requires collective action.
- II.3.a.ii. Social protection is based in solidarity.
- II.3.a.iii. Social protection should be as comprehensive as possible.

The limits of the market

*II.3.b. Markets are insufficient to guarantee welfare*

- II.3.b.i. Solidaristic obligations do not guarantee comprehensive social protection.
- II.3.b.ii. Markets are liable to exclude those in need.
- II.3.b.iii. Markets may also have undesirable social effects.

The social services.

*II.3.c. Social protection requires social services.*

II.3.c.i. Social services provide welfare.

II.3.c.ii. Social services do not have to be provided through collective action.

II.3.c.iii. Social services develop in a social context.

The moral basis of welfare provision

*II.3.d. Social protection, and social services, are moral activities.*

II.3.d.i. Collective action for welfare is morally informed.

II.3.d.ii. Collective action is subject to moral conflicts.

## **II.4 Welfare and redistribution**

*II.4. Welfare implies redistribution.*

Welfare in society

*II.4.a.i. The provision of welfare reflects the values of the society in which it takes place.*

II.4.a.ii. Neutral actions can have biased consequences.

II.4.a.ii.(1) Action which takes account of social conditions can reinforce them.

II.4.a.ii.(2) Action which fails to take account of social conditions is liable to be inequitable.

II.4.a.iii. There are no neutral outcomes.

Social justice

*II.4.b. Social justice is a distributive principle.*

II.4.b.i. The principle of justice is a principle of consistency.

II.4.b.ii. Justice is not welfare.

Inequality

*II.4.c. Welfare is limited by social disadvantage*

II.4.c.i. Inequality is disadvantage in a social context.

II.4.c.ii. The structure of social relationships implies disadvantage.

II.4.c.iii. Justice begins with equality.

II.4.c.iv. Inequalities which are not justifiable must be redressed.

Redistribution

*II.4.d. Social protection is redistributive.*

II.4.d.i. Redistribution is intrinsic to solidarity.

II.4.d.ii. The distribution of resources is a matter of convention.

II.4.d.iii. Redistribution is part of the rules of the game.

Redistribution between societies

*II.4.e. There are related obligations to people in other countries.*

II.4.e.i. Justice, equality and redistribution are only applied in specific social contexts.

II.4.e.ii. The scope of obligations to people in other countries is limited.

### III. THE STATE AND WELFARE

#### III. The welfare state is a means of promoting and maintaining welfare in society.

##### III.1 The role of the state

*III.1. "Government is a contrivance of human wisdom to provide for human wants."*

###### The nature of government

*III.1.a.i. Government is a form of collective action.*

III.1.a.ii. Collective action by government is similar to other forms of collective action.

III.1.a.iii. States provide a framework for political action.

###### The state and society

*III.1.b. The state is a part of society.*

III.1.b.i. Government relates to a political community.

III.1.b.ii. Government can act to maintain or change society.

###### Legitimate authority

*III.1.c. Governments rely on authority.*

III.1.c.i. The legitimacy of government derives from the morality of its actions.

III.1.c.ii. The purpose of government is to serve the interests of its citizens.

##### III.2 The Welfare States

*III.2. The welfare states provide social protection.*

###### The state and welfare

*III.2.a. Legitimate governments protect the welfare of their citizens.*

III.2.a.i. *Salus populi suprema est lex.*

III.2.a.ii. Democratic governments secure welfare.

###### Securing welfare

*III.2.b. Governments have to secure the preconditions for welfare*

III.2.b.i. Governments have to foster economic development

III.2.b.ii. Governments have to protect the rights of their citizens.

III.2.b.iii. Governments have to promote social cohesion and basic security.

###### The provision of welfare

*III.2.c. Someone has to provide social protection.*

III.2.c.i. It doesn't have to be done by government.

III.2.c.ii. In the last resort, government has the duty by default.

III.2.c.iii. The provider of last resort has to offer more than the last resort.

III.2.c.iv. The provision of welfare commits governments to redistribution.

The welfare states

- III.2.d. The welfare states are simply institutional forms of social protection.*
- III.2.d.i. Social protection exists without the state.
- III.2.d.ii. There is more than one kind of welfare state.
- III.2.d.iii. The welfare states elude classification.

### **III.3 Social Policy**

*III.3. Welfare is promoted and maintained through social policy.*

The promotion of welfare

- III.3.a.i. Social policies should aim to enhance welfare.*
- III.3.a.ii. Social policy is a moral activity.
- III.3.a.iii. There is a moral duty to enhance welfare.
- III.3.a.iv. Social policy should enhance both personal and social welfare

Functions of social policy

- III.3.b. Social policies serve many purposes.*
- III.3.b.i. The focus is both personal and social.
- III.3.b.ii. Social policy cannot adequately be described in ideological terms.

Legitimate and illegitimate activity

- III.3.c. Social protection is not always legitimate; but nor is it always illegitimate.*
- III.3.c.i. Social services can be beneficial or destructive.
- III.3.c.ii. They can be liberating, or oppressive.
- III.3.c.iii. Social policy must be judged in its context.

### **III.4 State action**

*III.4. The welfare states have a wide range of options through which social policies can be pursued.*

The state and social policy

- III.4.a. States can do things which other associations cannot.*
- III.4.a.i. States establish rules.
- III.4.a.ii. Governments coerce.
- III.4.a.iii. Governments subsidise and provide.
- III.4.a.iv. Governments persuade.
- III.4.a.v. Governments plan.

Provision by the state

- III.4.b. The state operates differently from the market.*
- III.4.b.i. The supply and demand for services provided by the state are interdependent.
- III.4.b.ii. The provision of services is not determined by cost.
- III.4.b.iii. State provision cannot be efficient.
- III.4.b.iv. There are other reasons for provision by the state.

The production of welfare

*III.4.c. The welfare states have come to set the terms on which social protection is delivered.*

III.4.c.i. Welfare is delivered through many channels.

III.4.c.ii. The welfare states build on other forms of social protection.

III.4.c.iii. The action of the state must be seen in the context of existing provision.

III.4.c.iv. The promotion of welfare requires the interweaving of state provision with other forms of solidaristic support.

Welfare strategies

*III.4.d. The approach to policy affects its nature.*

III.4.d.i. Outcomes can be realised in many ways.

III.4.d.ii. Methods and processes influence outcomes.

III.4.d.iii. The choice of methods cannot fully be distinguished from the purposes of policy.

Assessing social policy

*III.4.e. Welfare strategies can be assessed by common criteria.*

## AFTERWORD

The idea of developing a general theory was drawn from two other books. One is Keynes's *General theory of employment, interest and money*<sup>362</sup>. The other is Hans Kelsen's *General Theory of Law and State*<sup>363</sup>, which I read many years ago at college. I was not very impressed with Kelsen's work at the time, and I did not refer back to it until after I had largely finished the first draft, but in retrospect I can see some resemblances. My book is, I hope, easier to read, and anyway it has better jokes.

I can identify two main theoretical influences on the book. One has been learning about social policy in France, where many of the ideas in this book - including solidarity, exclusion and the concept of the social network - are commonplace. The second has been the work of Bill Jordan, who has made a series of attempts to root welfare systems in an understanding of social processes rather than political action. He argues that society is based as much in collaboration as in conflict, and that welfare systems emerged through the resolution of these contradictory processes.<sup>364</sup> I discussed some of these points with him at a formal debate some years ago at a Social Administration Association conference. Although I was sympathetic to his emphasis on reciprocity and cooperation, and I think I have shifted further in that direction in the intervening time, I was concerned that he seemed to base social obligation and action solely at the individual level. My attempt to reconcile our positions is, in many ways, fundamental to the argument of this book.

The book's structure was initially intended to follow the pattern of Wittgenstein's *Tractatus Logico-Philosophicus*<sup>365</sup>. I found it too difficult to express everything I wanted to say in this format, partly because I was dealing with inter-related phenomena which had no clear lexical ordering, and partly because I was concerned to ground the theory in practical examples. For discussion and illustration, then, I reverted to a more general discussion of those propositions. The result is, I think, quite distinctive; I am sure there must be a book out there which has the same structure, but I do not know what it is.

There are three main tests for theoretical writing. The first is clarity. I have tried to choose language which is simple and direct. This is difficult to do, and I may not have been successful all the way through the book. The ideas I am dealing with are not simple, but if I have done the job properly, they will at least be comprehensible. Of course, this approach has its disadvantages: people who can understand an argument can probably see more easily what is wrong with it. Far too many readers in social science assume that arguments which are impenetrable must be profound; they are much more likely to be badly written.

The second test is organisation. This book develops a framework for understanding the welfare state. It is a general theory; I have not tried to cover every important issue in discussions of the welfare state. Many of the subjects are treated very briefly, when they

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<sup>362</sup> J M Keynes, 1936, *The general theory of employment, interest and money*, London: Macmillan.

<sup>363</sup> H Kelsen, 1945, *The General Theory of Law and State*, Cambridge, Mass: Harvard University Press.

<sup>364</sup> B Jordan, 1987, *Rethinking welfare*, Oxford: Blackwell.

<sup>365</sup> L Wittgenstein, 1922, *Tractatus Logico-Philosophicus*, London: Routledge and Kegan Paul, 1961.

could have been dealt with at much greater length (and have been in my other writing). This is dictated by the structure of the argument. Extended discussion of specific points runs the risk of distorting perspective, or breaking the chain of the argument.

The third test is the strength of the argument. I have tried to strengthen the argument mainly by emphasising the relationship between its parts, and that is unconventional. I have not undertaken a review of other people's work, for reasons I explained at the outset; if I had, this would have been a very different kind of book. However, I have written a fair amount of work of this kind in the past. *Principles of Social Welfare* considers a range of normative concepts, including issues like rights, justice, freedom and democracy.<sup>366</sup> *Social Policy in a Changing Society*, written with Maurice Mullard, considers ideological positions, including Marxism, liberalism, conservatism and socialism, as well as a range of views about the way society is changing, including postmodernity, globalization and critical theory.<sup>367</sup> Anyone who wants to consider these other issues can look at these books instead.

Much of my career as a writer has been spent pummelling elderly theories into submission. There comes a point where a reader is entitled to ask, 'but what would you put in their place?' This book is an answer to that question. It is not genuinely original: I have been writing, teaching and researching in social policy for nearly twenty years, and it draws heavily on the work I have previously done. Nevertheless, I think I can safely say that this book is not like any other book in social policy.

I have several people to thank for comments on drafts of the book. Hartley Dean, John Veit-Wilson, Brian Smith, Lin Ka, Martin Hewitt, Joanna Poyago-Theotoky, John Dixon and Dominique Chauwin commented on various drafts. There are so many pitfalls in this kind of enterprise that it is unlikely we will have spotted them all, but the book has been greatly improved by their criticisms.

Paul Spicker

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<sup>366</sup> P Spicker, 1988, *Principles of social welfare*, London: Routledge.

<sup>367</sup> M Mullard, P Spicker, 1998, *Social policy in a changing society*, London: Routledge.

# Moral economies of the welfare state: A qualitative comparative study

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## Abstract

This paper uses innovative democratic forums carried out in Germany, Norway, and the United Kingdom to examine people's ideas about welfare-state priorities and future prospects. We use a moral economy framework in the context of regime differences and the move towards neo-liberalism across Europe. Broadly speaking, attitudes reflect regime differences, with distinctive emphasis on reciprocity and the value of work in Germany, inclusion and equality in Norway, and individual responsibility and the work-ethic in the UK. Neo-liberal market-centred ideas appear to have made little headway in regard to popular attitudes, except in the already liberal-leaning UK. There is also a striking assumption by UK participants that welfare is threatened externally by immigrants who take jobs from established workers and internally by the work-shy who undermine the work-ethic. A key role of the welfare state is repressive rather than enabling: to protect against threats to well-being rather than provide

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benefits for citizens. UK participants also anticipate major decline in state provision. In all three countries there is strong support for continuing and expanding social investment policies, but for different reasons: to enable contribution in Germany, to promote equality and mobility in Norway, and to facilitate self-responsibility in the UK.

### **Keywords**

Attitudes, moral economy, welfare state, Europe, immigration, democratic forum, inequality, neo-liberalism

## **Introduction**

Although there is broad societal support for state-organised welfare institutions (Svallfors 2012), there is also a continuing debate about how much state intervention is necessary and desirable and about priorities for welfare-state reform. Austerity measures and fiscal crisis, changes in the labour market and demographic structure, and the shift from 'passive' welfare to activation and social investment provoke vigorous debates about the future of welfare (for example, Pierson 2001; Hemerijk 2013; van Kersbergen and Vis 2014). A shift towards more neo-liberal economic and social policies has been underway in Europe at national and European-Union levels (Mau 2015). This involves a reduction in state intervention, tight constraints on spending, the expanded use of markets and of private services, and stronger emphasis on work-incentives in social security. Although the changes in the institutional architecture of the European welfare state have been studied in detail, much less is known about how people think about various policy options for the future. Issues of social acceptance are crucial for the stability of existing welfare institutions and for the political and social conflicts surrounding welfare-state restructuring.

A considerable literature demonstrates that attitudes to state welfare are influenced by self-interest and socio-economic group membership, but that social values and institutional frameworks also play a part (Fong 2001; Blekesaune and Quadagno 2003; Roosma et al. 2016; van Oorschot et al. 2017). We use the moral economy approach, which centres on the role of moral assumptions and justifications in the understanding of welfare interventions and posits a mixture of motives in which both self-interest and other normative concerns play their part (Booth 1994; Mau 2003; Sayer 2000; Sachweh 2012). We also use the regime approach to differentiate between institutional frameworks, and an innovative democratic forum methodology to generate data. We compare three national cases (United Kingdom, Germany, and Norway) that are representative of different welfare-state regimes.

The paper falls into five sections dealing with the theoretical background and research questions, methodology, the specific issues tackled in the research, our data, and discussion and conclusions.

## **The moral economy approach and the regime framework**

The notion of moral economy was developed by EP Thomson (1971, 1991) to refer to 'a traditional consensus on crowd rights' (Götz 2015, 147) in the 17th century initially stemming from feudal rights and obligations. He argued that this was replaced by market principles of individual exchange as part of the transition to modernity, paralleling Polanyi's account of the 'Great Transformation' (1944) and the displacement of an embedded morality governing economic relationships. More recent approaches challenge this dichotomous view of history and see moral principles as having a continuing influence, embedded within market transactions and influencing conceptions of interest and utility (Götz 2015; Bowles 2016). A number of scholars have applied the notion to analyse welfare-state attitudes (Booth 1994; Mau 2003; Svallfors 2006; Sayer 2000, Sachweh 2012). The question of 'Who should get what?' within the welfare-state context is closely related to commonly held ideas about fair distributions of burdens and benefits. The

central point is that it is not simply individual self-interest that shapes welfare-state attitudes but a range of moral principles and assumptions, including desert, merit, and rights based not simply on payment, equality, and need. Moral concerns provide an important motivational reference for individual actions and preferences and institutional settings act as mediators and facilitators for individual moral points of view (Rothstein 1998). The advantage of the approach is its breadth; it acknowledges the significance of normative frameworks, but accepts that these may vary in different contexts. This openness allows us to examine patterns of attitudes and their relationship to values in different welfare states and explore the way individual views on the welfare state relate to a moral foundation.

We start out from the welfare-state regime typology (Esping-Andersen 1990) in categorising western welfare states and investigate how far attitudes reflect regime type. The regime approach distinguishes conservative, social democratic and liberal ideal types, the first characterised by reciprocity and the assumption that contribution and entitlement should be governed by labour market status, the second by commitment to equal citizenship and the third by its greater emphasis on market principles. Neo-liberal discourses currently predominate in framing policy debates about welfare intervention and inequality across Europe. We take account of this shift by examining how far neo-liberal ideas have been taken up by the citizens in the three countries in question.

Neo-liberalism stresses, at a practical level, the value of markets as systems for sharing and using dispersed information (von Hayek 1973), and in ideology, the doctrine that self-interest governing market exchange is a full and sufficient ethic in itself (Harvey 2007). It has had the strongest effect on policy in the more liberal-leaning UK (Blyth 2013). The Thatcher government (1979–1990) consciously pursued a neo-liberal agenda, with major privatisations of social housing and top-up pensions, increased stringency in social spending, and the introduction of market systems in the health services, social care, and schooling (Crouch 2011). The Blair government pursued a market socialist ‘third way’ agenda, using the market throughout the state sector but seeking to develop activation and social investment in social security to expand individual opportunity. Since 2010, Conservative-led governments have pursued spending and tax cuts at the same time as a balanced budget and further expanded the role of the private commercial sector (Taylor-Gooby 2013).

The German welfare state, in contrast, did not experience such a harsh attack on its core institutions (for an overview see Heuer and Mau 2017). Although changes such as benefit reductions and increased co-payments were introduced in the 1980s and 1990s, the basic architecture of a corporatist status-maintenance-oriented welfare-state model remained intact. The government even introduced a new pillar, long-term care insurance in the mid-1990s. During the 2000s, however, the Red-Green government implemented major reforms. These included a voluntary but state-subsidized private pension scheme (‘Riester-Rente’), lower (future) replacement rates and a needs-based basic pension for those without sufficient entitlements. The so-called ‘Hartz-reforms’, a comprehensive package of labour market and unemployment benefit changes (Eichhorst and Marx 2011), led to fierce political conflict and great disappointment among left-leaning voters and SPD members. The reforms – very much in line with the market-liberal critique of Germany – facilitated the creation of a low income sector, lowered benefit levels, put greater pressure on the unemployed and moved Germany towards greater individual responsibility. Social investment and training measures have also been strengthened.

Despite its nature as a small, open European economy subject to international economic pressures, Norway retains a stable social democratic welfare state. Cost containment emerged in the late 1970s in response to pressures from international competition and population ageing, but did not involve a shift towards neo-liberalism. Instead, the general trend is toward restructuring rather than retrenchment (Sørvoll, 2015). The huge oil revenues have buffered against economic shocks (Andersen et al. 2017; Hippe and Berge 2013). A major public pension reform was implemented in 2011, incentivising later retirement and automatic benefit adjustments to limit costs as life-expectancy increases. Unlike Swedish reforms, the Norwegian programme did not transfer a substantial portion of risk to individuals, nor did it introduce compulsory private saving. Market-based solutions have been more prominent with regard to

services, especially in the use of private providers in early childcare and to some extent elderly care, although funding is mainly public. There is a strong belief across the political spectrum that health and care services should be universally accessible. In addition, social investment in education, vocational training and labour market activation continues to be heavily emphasised (Schoyen, 2016). Thus neo-liberalism has advanced further in the UK and has made considerable inroads in Germany and is evident in Norway but has made much less progress there.

Using a simple framework that distinguishes among desert, equality and need as distributional principles (Miller 1976), we suggest, following the regime approach, that attitudes will be embedded in a reciprocal value system that stresses desert earned by contribution in the corporatist case, and that equality in entitlement and in progressive taxation will predominate for the social democratic and basic need for liberal welfare states. Corresponding to these normative principles, we argue that the main threats giving rise to social tensions will be access to welfare through ability to pay rather than contribution in the corporatist system, departure from equal citizenship through the market or through privilege in social democracy, and gaining 'something for nothing' outside market exchange in the liberal system. Neo-liberalism imports a further normative framework, drawing on individualism and self-interest, and embeds this in institutional changes involving the extension of markets, the private sector, and state spending cuts. Quantitative survey analysis indicates that welfare-state attitudes are linked, but only loosely, to regime membership (Svallfors 1997; Arts and Gelissen 2001; Jæger, 2006). The regime framework gives us a starting point for examining the relationship among attitudes, normative framework and institutions, but one that does not predetermine the outcome. We anticipate that neo-liberal ideology will play a part in shaping attitudes, especially in the UK, and that there will be a tension between self-interested ideas and desert, equality, and need in our data.

This leads to the following research questions:

- How do underlying assumptions about basic principles of desert, equality, and need relate to public attitudes to benefits and services and to tax-payment and welfare-state finance?
- How does the spread of neo-liberalism affect people's ideas and how does that differ between countries?
- How can future priorities be understood in terms of these assumptions?

## **Method: Democratic forums**

We use democratic forums in the three welfare states to examine how people understand the issues, the problems they identify, and what they think should be done about them. So far as we know, this method has not previously been used in welfare-state attitude research. The democratic forum approach derives from concerns about the limitations of conventional social science methodology (Goerres and Prinzen 2012) and also from interest in more participative approaches in democratic theory (for example Dryzek 2010). In democratic forums, unlike structured surveys and focus groups, the discussion is primarily framed by participants, whereas researchers play a more passive role. The main objective is to allow people to express their concerns and views, facilitate debate, and encourage deliberation in an open and tolerant context and allow participants to wrestle with different policy options. There may be injections of relevant information, but these are on issues that the group requests and are provided by independent experts.

The approach is appropriate for our study because forums allow participants much greater control over the way in which issues are defined, discussed and linked than do other methods (Wakeford 2007; Narayan et al. 2009). In this, it parallels the openness to different normative frameworks of moral economy. It allows researchers to examine the concerns expressed by people, their framing of issues, and the justifications given more directly than do pre-formulated questions in a structured survey. The forums do not permit representative sampling, and so offer an imprecise guide to the distribution of opinions, but help us to identify patterns of reasoning. Although they cannot be directed to consider

specific aspects of an issue according to a researcher's system of priorities, they show how members of the public frame their opinions and link beliefs and values within groups that are large enough to include many of the political cleavages in the population (see Burchardt 2012 and Taylor-Gooby 2015 for more detail).

Our study is comparative and covers Germany, the UK, and Norway. In each country, we asked between 34 and 36 democratic forum participants to discuss the likely future development of the welfare state during the next 25 years and the policies that should be pursued to address the issues they identified. In our forums (perhaps best thought of as 'mini-publics' – Grönlund et al. 2014), we ensured that equal numbers of women and men, older and younger and higher- and lower-income people were included, and also a balance of ethnic minority and employed, self-employed, and unemployed people. We employed different research agencies (IPSOS-Mori in Germany, TNS in Norway, and the UK) to carry out recruitment and conduct the forums but attended as observers. The specifications for the forums (recruitment, setting, and so on) were largely standardized across all three cases. Participants were paid for attendance (100 Euros for day 1 and 180 Euros for day 2 in Germany, NOK 7000 for each day in Norway, and £75 in the UK). The fieldwork took place in September and October 2015 (in the UK crucially before the additional politicisation of immigration surrounding the Brexit vote).

The democratic forums consisted of a mix of plenary sessions and smaller group discussions (to facilitate participation) and extended over 2 days, with a 2-week break in between. On the first day the topic for discussion was defined in the opening plenary session: 'the main objective of this two-day forum is to discuss the priorities of the [country's] government in terms of benefits and services in 25 years' time, i.e. in 2040'. In the final session, participants were asked to generate a list of bullet points for a report to government on priorities for benefits and services in 2040. The requirement for the group to arrive at specific priorities was included to give participants a point to the discussion and promote engagement and movement towards positions on which people agreed. The participants determined the content of the report. Thus the final plenary was the stage of discussion at which a degree of consensus was reached or at which disagreements were made explicit.

All discussions were audio- and video-recorded and observers were present throughout. The sessions were transcribed and coded with a unified coding-system developed through repeated reading from the distribution and contribution principles we initially associated with the different regimes. The research generated a large volume of material in the 90 hours of discussion (four one-and-a-half hour plenaries and 12 two-hour break-out groups over two days) in each of three countries. We used NVivo to structure and organize the material and employed framework analysis (Ritchie et al. 2003). This is an iterative process of identifying the main attitudinal themes in relation to each topic and then examining their relationship in the discussion.

In the analysis we paid particular attention to data from the final plenary, because this is where participants summed up the outcome of their two days of discussion and moved towards consensus. Our analysis also draws on the minority views expressed in the group discussions and on disagreements within them. This approach enables us to focus on the participants' common understandings of how society works and their beliefs about the future after they had the opportunity to discuss and arrive at shared priorities.

## **The issues addressed in the research**

In the opening plenary, the participants were asked to select five issues they perceived as the major challenges for the future of the welfare state, which would be further discussed in the breakout groups during the two days. After some deliberation participants in all three countries identified inequality (especially in the labour market), inter-generational issues (especially pensions), and immigration as major issues. In addition, participants mentioned the cost and finance of the welfare state and education. The participants were given the opportunity to request information, which we provided between days 1 and 2 using government statistics as a neutral source. This covered demographic trends, inequality,

immigration, welfare-state income and spending, and education and employment patterns. At the end of the second day we asked each of the break-out groups to present policy priorities for discussion at a final plenary session.

The priorities chosen in the different countries and the reasons given for them cast light on two kinds of issues: how people see their own society; the way in which it is developing and the problems that exist now or are likely to emerge; and also what they think should be done to address them. Underlying these priorities and their justification is the normative system that constitutes people's moral economy. We chose two areas in which public discussion is most vigorous – inequality and work, and immigration – for more detailed analysis. These are areas in which regime principles might be expected to generate different normative judgements on policy, but in which neo-liberal discourse implies a common movement towards acceptance of inequality and the work-ethic and also of open labour markets.

These areas are foci of expert and public debate. Many writers (for example Pierson 2001; Palier 2010) argue that most western welfare states face pressures in both inequality and work, and immigration, although Norway with its substantial oil revenues has been better able to address demands. Pressures in the world of work as a result of new technology, more intense international competition, and the decline of trade-union power is leading both to dualisation (especially in Germany (Emmenegger et al. 2012)) and moves to enhance flexibility (most notably in the UK, with sharp cut-backs in union rights, rapid growth of precarious employment, and a general weakening of state regulation of the labour market (Jessop 2002; Crouch and Streeck 2013, Ch. 1)). This is associated with growing income inequality, most marked in the UK (WID 2017). All three countries have experienced high immigration in recent years, especially Germany (OECD 2016a, 2016b). Inequality, compounded by austerity cutbacks (Farnsworth and Irving 2011), has been at the centre of public debate in Germany (Kuhn 2013) and in the UK, where there is a distinctive focus on income gaps between benefit claimers and workers rather than rich and poor (Larsen 2016). Anti-immigration politics is relevant in all three countries, perhaps most strongly in Germany (especially because of the decision to admit more than a million Middle Eastern refugees and asylum-seekers in 2015) with the rise of the 'Alternative for Germany' party. It is fuelled in the UK by repeated government pledges to reduce the annual rate from the 'hundreds to the tens of thousands' (Conservative Manifesto 2015) and contributed to the Brexit vote in 2016. In Norway, the populist right Progress Party, which advocates tougher migration controls, entered government in 2013.

We now move on to examine how participants in our democratic forums discussed these issues, focusing on the moral economy frameworks that inform discussions and on their influence on ideas about future priorities, following the research questions.

## Findings

The area of clearest agreement across all three countries concerns work and inequality, identified as a major issue, particularly for young people. The most widely favoured policy response involves social investment, including training, education and childcare, to expand the workforce and improve its quality. It is noteworthy that German and Norwegian discussion of immigration focuses primarily on state-led integration whereas that in the UK centres on regulation and exclusion.

### *Inequality and work*

In all the countries, democratic forum participants recognise problems in four areas: inequality at both top and bottom end; unfair treatment of some of the workers; lack of opportunity, especially at the bottom; and difficulties in regulating and taxing multi-national companies. The distinctive national features are that the Germany discourse includes greater normative emphasis on the dignity of work and concerns about an expanding low-income sector with more 'working poor': work should be rewarded appropriately. Norwegian comments also reflect this theme, but include repeated concerns

about equality and weakly regulated multi-national companies. In the UK, there is a strong normative concern with individual responsibility and a framing of unemployed people and immigrants as threats (the former because, as participants understood it, over-generous unemployment benefits undermine willingness to work; the latter because they either compete for jobs or live off state benefits). UK participants appear to have little awareness of the exceptional inequality in their country.

The stress on the value and dignity of work and the importance of reward according to reciprocity was evident in Germany. This statement from the spokeswoman for a discussion group in the final plenary attracted widespread agreement: ‘Our goal with regard to work and occupation was that work should always be worth it and achievement must also be worth it.’

During the group discussions, people expressed their dissatisfaction with recent developments at the labour market. Though people appreciated lower unemployment, they were concerned with questions of justice and precarity:

[...]the state should make sure everyone can live from the work they do...getting rid of these chain contracts or limited time contracts (man, self-employed, 55); minimum wage or equal pay for equal work... women receive significantly less pay for the same work (man, higher income, 24).

[...] the main problem is that there are people who work 40 hours a week and whose work is not really appreciated or rewarded (man, self-employed, 55)

There were also more general concerns about inequality. People complained about the growing rift between rich and poor:

For those who earn very little, they see it as unfair, and for those with a lot of money...’ (man, low-income, 48).

‘They also think it’s unfair.’ [laughter] (woman, high income, 24)

There was also a sense that globalisation and technological change disproportionately benefit higher status groups. However, a number of participants opposed higher taxes on wealth, as opposed to top-end incomes, and this policy did not command agreement at the final plenary. In contrast, there was strong support across the break-out groups for so-called social investment policies.

[...] I’d say it begins with education, so that’s most important. Qualification through education (man, higher income, 30)

‘Fair/equal educational opportunities’ was in fact the only proposal to command immediate and universal assent in the final plenary.

The inequality of educational opportunities is seen as a problem across all groups, and people expect the state to provide for good education for all.

In Norway, discussions about work and inequality focused on progressive taxation of the rich and lifting the wages of those at the bottom-end of the income distribution to reduce inequalities, and on social investment:

[...] my solution is the tax model to take away the high tops (woman, retired, 71)

[...] the low-paid should [...] have a wage increase if possible (woman, middle income, 39)

Education [...] leads to jobs [...] and perhaps less inequalities [...] it will even things out wage-wise (woman, higher income, 45)

We had many discussions, but what we all agreed on was that education is the cornerstone for future (man, high-income, 30; reporting group discussions at the final plenary)

There is also recognition (as in Germany) that how someone's work is treated shows how society values that person and their contribution: as one respondent put it: *'work and pay is a measure of value to society'*.

A minority of participants in the group discussions opposed progressive taxation because they wished to *'incentivize entrepreneurship'* (woman, middle income, 44) and *'because the motive power for innovation is inequality'* (man, middle income, 42), but these arguments for inequalities were not shared and not supported in the final plenary.

The striking feature of the UK forums was the way in which, although issues of opportunity and equality emerged, the discussion tended to be dominated by unemployment and immigration and the importance of individual responsibility in line with liberal market principles (plenary statements):

[... It is] not the responsibility of government, but the responsibility of the individual themselves [...] to get off their backsides and do something... (woman, low income, 26)

Instead of just getting jobseekers allowance, they should... work for their jobseekers (woman, housewife, 33)

[...] Reduce immigration [...] there will be more jobs to go 'round (man, high income, 50)

Conversely, some people saw immigrants as more likely to be a burden through unwillingness to work rather than as effective competitors for jobs:

[... There are] a lot more people out of work because... foreign people coming in... they're gonna go straight on the dole (woman, unemployed, 49).

Inequalities were entirely acceptable, justified by the market:

Yes, but I don't have a problem if somebody is going to work and they are earning the money and the company they're working for is prepared to pay them an extortionate amount of money, okay... why shouldn't they take that home? (woman, low income, 40);

But why then should they be paying a monstrous amount of tax? (man, higher income 43);

Exactly! It's their money (woman, low income, 40)

Overall the stress was on individual responsibility and work:

[...] people in work should always be on 25 per cent more than people on benefits (woman, low income, 39).

I've worked my way up... people who sit on their butts don't want to educate themselves (man, low income, retired);

Hear, hear. (woman, low income 45);

... and moan about the people who are getting richer (man, low income, retired).

This approach seems to be linked to a different way of thinking about work and inequality from that in Germany and Norway. As one participant in the final plenary summed it up to widespread agreement:

The divide isn't between the rich and the poor... the divide is between the working class and the benefits people. That's where the divide is (woman, 45–54, low income);

This view was not limited to those on low incomes:

It's literally . . . there's going to be a war soon among us in this country . . . I'm going out there working hard and someone is just sitting there, not doing anything, earning more than what I'm earning in my wages . . . (man, 45–54, higher income)

Nonetheless, there was widespread recognition of inequality, as shown by these comments from the opening plenary (speakers not identified):

. . . increasing daily I think, from what I see;

. . . the rich [are] getting richer and the poor [are] getting poorer;

. . . if you look at the gap [between rich and poor], the gap is huge

In the UK, most participants saw the fact that the incomes of claimants (they believed) were close to those of workers as more unfair than the rich/poor gap.

Some participants also voiced strong concerns about the lack of labour market opportunities for those prepared to work. This view gained ground through the two days. In the final plenary, the spokesperson for one discussion group argued, to general agreement, for:

More apprenticeships and education - applied qualifications (man, middle income, 36)

Another spokesperson pointed out that such social investment can contribute to economic progress as well as individual success:

So that's where our idea of . . . having more government funding and tax incentives to provide that apprenticeship so more higher skilled workers . . . one of the big issues with unemployment at the minute is, to get a job a lot of companies require experience, if you haven't got that experience then you can't get employed and you don't gain skills . . . (man high income, 49)

Thus the basic concerns were about individual responsibility to provide for oneself without using state benefits, with strong attacks on benefit scroungers and a fear that immigrants would displace natives who wished to work. People also saw an interventionist role for the state in preparing school-leavers for employment.

Although there are clear national differences in the conceptual frameworks surrounding work and inequality (that work as a social value should be respected in Germany, that there should be greater equality in Norway, and the primacy of the work-ethic in the UK), there are also commonalities in concern about inequality, about poor conditions of work for some groups and about footloose multinational companies. Social investment through training and education is also endorsed by almost all participants across the countries, but for rather different reasons, stressing qualifications and contribution in Germany, equality and social mobility in Norway, and individual opportunity in the UK. Again, overall patterns fit normative frameworks loosely linked to regime type rather than the pressures identified earlier, which might direct attention more to inequality and precarity in the UK. The emergence of a less secure group of low-paid workers in Germany may be reflected in the emphasis on the importance of valuing work as a contribution to society.

## *Immigration*

There are major differences in the responses of participants in the different countries to immigration, with the least welcoming being the UK. Participants in all three countries distinguished refugees from economic migrants, and believed that the former group should be welcomed. Participants in Germany



valued humanitarian immigration (refugees, asylum seekers), but also stressed integration through work, language-training and education. In Norway, the debate centred on integration. In the UK, the main themes were entry restrictions and the curtailing of the rights of immigrants once they had entered.

In Germany, although a large majority sees (humanitarian) immigration as acceptable, a number of participants expressed concerns. On the one hand, some people were sceptical whether integration can be achieved, given the lack of skills of many immigrants, language problems and cultural differences; on the other, some lower-class people in particular were concerned about the pressure on jobs:

[T]here's no work for Germans anyway[,] so how are we supposed to have job positions for these people?- it will all fall apart (man, lower income, 70)

However, most participants emphasized the importance of integration through language, training and work, and this dominated the final plenary. People saw the government as responsible for providing better means for successful integration and invoked the norm of reciprocity in regard to migrants who are required to behave according to the rules and support themselves. A number of middle-class participants pointed at potential integration problems and repercussions on the native population, but saw these as mainly affecting lower classes.

A similar discussion was pursued in Norway, with greater emphasis on '*quicker integration*' (woman, middle income, 53) and a recognition of the value of immigration '*because we need manpower*' (man, higher income, 31, with approving responses). A number of those involved anticipated that immigration would rise even further in the future. Several participants criticised the barriers to immigration as evidence of racism in break-out groups:

In Norway we are a bunch of bloody racists, excuse me for saying (woman, higher income, 44)

Concerns about immigrants becoming a burden on welfare were raised in one break-out group:

Many people don't take jobs because the social benefits are so good that there is no need to work (woman, retired, 65+)

These concerns were only voiced by a small minority and did not figure in the final plenary.

Some participants also referred to the individual responsibility of immigrants to learn the language and make efforts to integrate themselves. The final plenary focused on measures to improve integration.

... important to integrate everyone regardless. For example, through language teaching, working life, Norwegian culture (woman, mid-income, 26)

UK attitudes were coloured by negative perceptions of immigration – that immigration is a threat to the employment of nationals (see earlier), is a burden on benefits and brings in new competitors for housing and other resources:

The amount of unemployment is going to increase [...] you've more unskilled, unemployable people coming in (woman, housewife, 33)

Why should someone who comes here get cash immediately? (man, middle income, 29)

Immigration was seen as a major source of social tension:

There's going to be a lot more people coming in, and there's going to be a lot more people getting annoyed... there's going to be a lot more riots... a lot more trouble and conflict (woman, full-time education, 24)

A final plenary spokesperson summed up the feeling to general approval:

Obviously, if we keep going on as we are now, there'll be a lack of housing and space to house people. [...] It puts a strain on the NHS. [...] We're not the Promised Land, you know (woman, retired, 68);

You allow immigration more and more and more, the Government have to spend more money on benefits for them instead of putting the money into education and social care and other kind of stuff (man, lower income, 32)

There was almost unanimous agreement on bullet points for the UK report for a low-immigration cap, a strict points system, and restrictions on access to benefits and social provision.

In Germany and Norway, the debate tends in practice to focus on integration following high rates of immigration, argued for in terms of reciprocity, through work contribution in Germany and through equal treatment and concern for racist discrimination (although this is in fact relatively low) in Norway. Relatively few people express anti-immigrant sentiments. There is also recognition of the value of immigrant workers and their potentially growing importance as a partial solution to the imbalance of population ageing. In the UK, the dominant theme is disquiet, and immigrants are seen primarily as threatening the interests of nationals although there is some recognition of the needs of refugees and sympathy for them. Immigrants are seen both as a burden on the benefit system (although their benefit rights are in fact already restricted, apart from European Union citizens in work) and as undercutting nationals in the labour market. A strong work commitment might fit the ethic of individual responsibility, but support for anti-immigrant sentiment appears to cut across the liberal ideology of the free market in labour. Attitudes in this area follow the anticipated national normative patterns but go beyond them, most notably in the UK.

## Discussion and conclusions

We draw together the material from the forums in relation to our research questions about how underlying principles of desert, equality and needs and of self-interest can be understood in terms of moral economy, how this relates to priorities, and how the countries depart from ideal types and are influenced by neo-liberalism.

In some areas, the views expressed by the majority of the participants in each country, which form the basis for the consensus agreed in the final plenary, clearly rest on the desert, equality and needs framework associated with the various regimes. The neo-liberal values associated with inequality and market exchange also figure, but in practice gain little support in the way our participants understood social policy.

Although the trend towards greater inequality is recognised in all three countries, approaches differ. German forum members mostly argue that current inequalities damage the principle of appropriate reward for work and wish to see greater reciprocity in the relationship between wages and contribution. In Norway, the predominant suggestion is for higher progressive taxation and higher wages for low earners. The view that inequality provides incentives for greater effort is restricted to a small minority. The UK differs. Although participants are certainly aware of growing income inequality, their focus is much more on moral divisions between responsible workers and workshy benefit claimers. The outcome is a determination to counter these threats by imposing strict conditions on claimers, moving towards workfare, and by strict immigration controls. Thus, the neo-liberal values of inequality and individual responsibility do not seem to be heavily endorsed except in the more liberal-leaning UK.

In relation to immigration, German participants recognise the need for demographic rebalancing, although there are some minority concerns about competition for jobs and about cultural differences and tensions. The strongest view is that immigrants should be integrated through education, training and access to work so that they may contribute like other citizens. In Norway, integration is the leading theme and there are real concerns about inequality and discrimination. The UK again differs. Immigrants

are seen as both a burden on the economy and as hard-working competitors, ousting nationals from their jobs. Both views lead to strong demands to cut immigration to protect nationals.

These attitudes fit the moral economies posited above reasonably well. They also indicate that the shift toward neo-liberalism in political ideology and policy remains a top-down project and has not achieved substantial changes in popular attitudes except in the UK. German attitudes are underpinned by a normative system that stresses desert and reciprocity as the basis for contribution and entitlement although unpaid work (for example much of child and elder care) is not respected as earning desert. In Norway, equality is central to the debate. The UK is an outlier in this area as in much else, and follows the liberal market ideals of individual responsibility and limited state intervention focused strictly on need.

Attitudes depart from this framework in three ways.

First, a number of issues are recognised across all three states, in some cases calling for similar solutions and in others, for different ones. The growth in income inequality and precarity at the bottom, difficulties in controlling multi-national companies, demographic ageing, and the recent rise in immigration are all discussed. The first three items (income inequality, multi-national companies, and ageing of the population) suggest an awareness of the international context of neo-liberal policy-making. However many participants, especially in the UK, are ill-informed about the details of these developments and are misled by national media (see Larsen 2016). Participants in all three countries support greater restrictions on multi-national companies, cutting against the UK's market-centred logic. Similarly UK attitudes to immigration do not follow a market pattern, which would suggest an open labour market. It is a particular interpretation of the self-interest of nationals, especially those with lower skills, that leads people to wish to exclude immigrants.

Secondly, and following from this, the prioritisation of worker/benefit claimer divisions and immigration issues in the UK is unusual. In relation to the former, the cleavage between workers and workshy claimers rather than rich and poor leads to a focus on workfare. This fits the individual responsibility aspect of a liberal market approach, with only the harshest need recognised for state assistance and limits to state intervention, but does not include any recognition that benefit claimers might be claiming because appropriate jobs are simply unavailable, or that dependants are penalised by such cuts, or that wage support might be more effective than benefit cuts in maintaining a worker/claimant differential while tackling poverty. It also explains why relatively high levels of inequality are tolerated by most people. It follows the neo-liberal emphasis on inequality and on the market as determining rewards. The work-ethic informs policy ideas in Germany and Norway but is nuanced by values of reciprocity and equality and social cohesion.

And for immigration, the UK idea that immigrants are simultaneous burdens on the welfare state and competitors for jobs raises unacknowledged issues of contradiction. There is little discussion of immigrants' economic contribution. Finally, the determination by the majority to restrict immigration stringently seems at variance with the valuing of market freedom, which should respect the work commitment seen as characteristic of many immigrants. Immigrants are seen primarily as a threat to the self-interest of denizens, not as potential workers to be integrated.

Thirdly, ideas about what might be called state capability are also important. Whether or not government is seen as capable of implementing the necessary policies is relevant to policy priorities and judgements. The view that the UK government would be unable to provide worthwhile state pensions or even a National Health Service in a quarter-century, expressed by some UK participants to general assent, contrasts with the approach of the German and Norwegian groups. Although problems are recognised in these countries, the general consensus is that they can be tackled if appropriate measures are implemented. From one perspective, pessimism about state sustainability fits a neo-liberal free market/small state logic, but it conflicts with ideas about the potential effectiveness of government in relation to other challenges, such as immigration and benefit restrictions. However, most UK participants seem to see the unsustainability of the welfare state as to do with bad management, as more or less inevitable, and as regrettable, rather than as the freedom envisaged by neo-liberals like Friedman (1962).

Taken together, these points lead to four main conclusions.

Firstly, the democratic forum approach is an effective means of exploring welfare-state attitudes in Europe. Although the work produces findings that could be generated in different ways, it does bring out emphases in attitudes and allows researchers to examine attitude formations that might not be predicted by theory and hence investigated in pre-structured surveys.

Secondly, the pattern of attitudes fits loosely with the regime approach that is extensively used in welfare-state research. It also points to some of the ways in which the attitudes expressed differ from the regime ideal type as delineated above. Most participants respond to the expansion of neo-liberal approaches in European countries by emphasising the contrary values of desert and equality, whereas it is only in the UK that individual responsibility and inequality predominate. The drive towards neo-liberalism in policy ideas is not generally reflected in attitudes.


Thirdly, the work brings out the cultural differences between the UK and the other countries examined: liberal individualist ideology dominates to the extent that the benefit claimer/non-claimer distinction is seen as of greater moral importance than the rich/poor division (helping to explain why exceptional levels of inequality are tolerated). Shifts towards privatisation and means-testing across central areas of state welfare are accepted. The recent moves towards greater neo-liberalism are accepted.

Fourthly, the issue of state capability emerges onto the agenda. Most discussion of attitudes to the state simply assumes that governments are and will be able to manage the challenges that face them. The real issue is whether they can mobilise political support for their policies. In the UK, many people seem to believe that it is simply impossible for government to maintain pensions and health care at any decent level.

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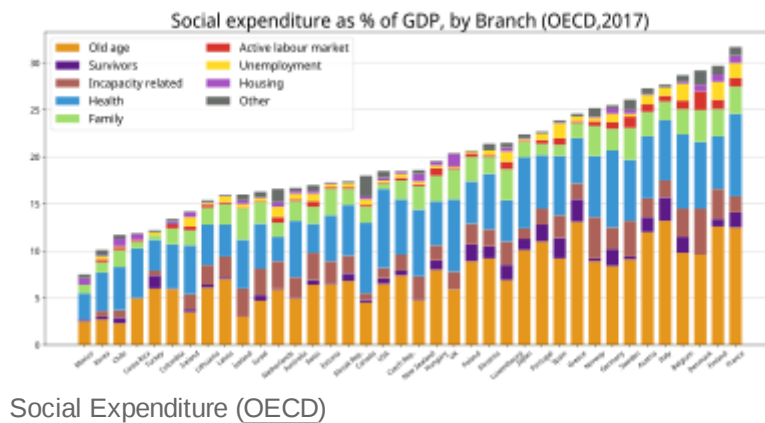
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# Welfare state

The **welfare state** is a form of government in which the state protects and promotes the economic and social well-being of its citizens, based upon the principles of equal opportunity, equitable distribution of wealth, and public responsibility for citizens unable to avail themselves of the minimal provisions for a good life.<sup>[1]</sup> Sociologist T. H. Marshall described the modern welfare state as a distinctive combination of democracy, welfare, and capitalism.<sup>[2]</sup>



As a type of mixed economy, the welfare state funds the governmental institutions for health care and education along with direct benefits given to individual citizens.<sup>[3]</sup> Early features of the welfare state, such as public pensions and social insurance, developed from the 1880s onwards in industrializing Western countries.<sup>[4]</sup>

World War I, the Great Depression, and World War II have been characterized as important events that ushered in expansions of the welfare state,<sup>[4]</sup> including the use of state interventionism to combat lost output, high unemployment, and other problems. By the late 1970s, the contemporary capitalist welfare state began to decline, in part due to the economic crisis of post-World War II capitalism and in part due to the lack of a well-articulated ideological foundation for the welfare state.<sup>[5]</sup>

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## **Etymology**

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The [German](#) term *sozialstaat* ("social state") has been used since 1870 to describe state support programs devised by German *sozialpolitiker* ("social politicians") and implemented as part of [Otto von Bismarck's](#) conservative reforms.<sup>[6]</sup>

The literal English equivalent "social state" did not catch on in Anglophone countries.<sup>[7]</sup> However, during the Second World War, Anglican Archbishop [William Temple](#), author of the book *Christianity and the Social Order* (1942), popularized the concept using the phrase "welfare state".<sup>[8]</sup> Bishop Temple's use of "welfare state" has been connected to [Benjamin Disraeli's](#) 1845 novel *Sybil: or the Two Nations* (in other words, the rich and the poor), where he writes "power has only one duty – to secure the social welfare of the PEOPLE".<sup>[9]</sup> At the time he wrote *Sybil*, Disraeli (later a prime minister) belonged to [Young England](#), a conservative group of youthful [Tories](#) who disagreed with how the [Whigs](#) dealt with the [conditions of the industrial poor](#). Members of Young England attempted to garner support among the privileged classes to assist the less fortunate and to recognize the [dignity of labor](#) that they imagined had characterized England during the Feudal Middle Ages.<sup>[10]</sup>

## **History**

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### **Ancient**

#### **India**

Emperor Ashoka of India put forward his idea of a welfare state in the 3rd century BCE. He envisioned his *dharma* (religion or path) as not just a collection of high-sounding phrases. He consciously tried to adopt it as a matter of state policy; he declared that "all men are my children"<sup>[11]</sup> and "whatever exertion I make, I strive only to discharge debt that I owe to all living creatures." It was a totally new ideal of kingship.<sup>[12]</sup> Ashoka renounced war and conquest by violence and forbade the killing of many animals.<sup>[13]</sup> Since he wanted to conquer the world through love and faith, he sent many missions to propagate Dharma. Such missions were sent to places like Egypt, Greece, and Sri Lanka. The propagation of Dharma included many measures of people's welfare. Centers of the treatment of men and beasts founded inside and outside of the empire. Shady groves, wells, orchards and rest houses were laid out.<sup>[14]</sup> Ashoka also prohibited useless sacrifices and certain forms of gatherings which led to waste, indiscipline and superstition.<sup>[13]</sup> To implement these policies he recruited a new cadre of officers called Dharmamahamattas. Part of this group's duties was to see that people of various sects were treated fairly. They were especially asked to look after the welfare of prisoners.<sup>[15][16]</sup>

However, the historical record of Ashoka's character is conflicted. Ashoka's own inscriptions state that he converted to Buddhism after waging a destructive war. However, the Sri Lankan tradition claims that he had already converted to Buddhism in the 4th year of his reign, prior to the conquest of Kalinga.<sup>[17]</sup> During this war, according to Ashoka's Major Rock Edict 13, his forces killed 100,000 men and animals and enslaved another 150,000. Some sources (particularly Buddhist oral legends) suggest that his conversion was dramatic and that he dedicated the rest of his life to the pursuit of peace and the common good.<sup>[18]</sup> However, these sources frequently contradict each other,<sup>[19]</sup> and sources soundly dated nearer to the Edicts (like *Ashokavadana*, circa 200 BCE at the earliest) describe Ashoka engaging in sectarian mass murder throughout his reign, and make no mention of the philanthropic efforts claimed by later legends. The interpretation of Ashoka's dharma after conversion is controversial, but in particular, the texts which describe him personally ordering the massacre of Buddhist heretics and Jains have been disputed by some fringe Buddhist scholars. They allege that these claims are propaganda, albeit without historical, archaeological, or linguistic evidence. It is unclear if they believe the entire *Ashokavadana* to be an ancient fabrication, or just the sections related to Ashoka's post-conversion violence.<sup>[20][21]</sup>

## China

The Emperor Wen (203 – 157 BCE) of Han Dynasty instituted a variety of measures with resemblances to modern welfare policies. These included pensions, in the form of food and wine, to all over 80 years of age, as well as monetary support, in the form of loans or tax breaks, to widows, orphans, and elderly without children to support them. Emperor Wen was also known for a concern over wasteful spending of tax-payer money. Unlike other Han emperors, he wore simple silk garments. In order to make the state serve the common people better, cruel criminal punishments were lessened and the state bureaucracy was made more meritocratic. This led to officials being selected by examinations for the first time in Chinese history. <sup>[22] [23]</sup>

## Rome

The Roman Republic intervened sporadically to distribute free or subsidized grain to its population, through the program known as *Cura Annonae*. The city of Rome grew rapidly during the Roman Republic and Empire, reaching a population approaching one million in the second century AD. The population of the city grew beyond the capacity of the nearby rural areas to meet the food needs of the city.<sup>[24]</sup>

Regular grain distribution began in 123 BC with a grain law proposed by Gaius Gracchus and approved by the Roman Plebeian Council (popular assembly). The numbers of those receiving free or subsidized grain expanded to a high of an estimated 320,000 people at one point.<sup>[25][26]</sup> In the 3rd century AD, the dole of grain was replaced by bread, probably during the reign of Septimius Severus (193-211 AD). Severus also

began providing olive oil to residents of Rome, and later the emperor Aurelian (270-275) ordered the distribution of wine and pork.<sup>[27]</sup> The doles of bread, olive oil, wine, and pork apparently continued until near the end of the Western Roman Empire in 476 AD.<sup>[28]</sup> The dole in the early Roman Empire is estimated to account for 15 to 33 percent of the total grain imported and consumed in Rome.<sup>[29]</sup>

In addition to food, the Roman Republic also supplied free entertainment, through ludi (public games). Public money was allocated for the staging of ludi, but the presiding official increasingly came to augment the splendor of his games from personal funds as a form of public relations. The sponsor was able to cultivate the favor of the people of Rome.<sup>[30]</sup>

The concept of states taxing for the welfare budget was introduced in early 7th century Islamic law.<sup>[31]</sup> Zakat is one of the five pillars of Islam and is a mandatory form of 2.5% income tax to be paid by all individuals earning above a basic threshold to provide for the needy. Umar (584–644), leader of the Rashidun Caliphate (empire), established a welfare state through the Bayt al-mal (treasury), which for instance was used to stockpile food in every region of the Islamic Empire for disasters and emergencies.<sup>[32]</sup>

## Modern

Otto von Bismarck established the first welfare state in a modern industrial society, with social-welfare legislation, in 1880s Imperial Germany.<sup>[33][34]</sup> Bismarck extended the privileges of the Junker social class to ordinary Germans.<sup>[33]</sup> His 17 November 1881 Imperial Message to the Reichstag used the term "practical Christianity" to describe his program.<sup>[35]</sup> German laws from this era also insured workers against industrial risks inherent in the workplace.<sup>[36]</sup>

In Switzerland, the Swiss Factory Act of 1877 limited working hours for everyone, and gave maternity benefits.<sup>[36]</sup> The Swiss welfare state also arose in the late 19th century; its existence and depth varied individually by canton. Some of the programs first adopted within the Cantons of Switzerland were emergency relief, elementary schools, and homes for the elderly and children.<sup>[37]</sup>

In the Austro-Hungarian Empire, a version was set up by Count Eduard von Taaffe a few years after Bismarck in Germany. Legislation to help the working class in Austria emerged from Catholic conservatives. Von Taffe used Swiss and German models of social reform, including the Swiss Factory Act of 1877 German laws that insured workers against industrial risks inherent in the workplace to create the 1885 Trade Code Amendment.<sup>[36]</sup>

Changed attitudes in reaction to the worldwide Great Depression of the 1930s, which brought unemployment and misery to millions, were instrumental in the move to the welfare state in many countries. During the Great Depression, the welfare state was seen as a "middle way" between the extremes of communism on the left and unregulated laissez-faire capitalism on the right.<sup>[3]</sup> In the period following World War II, some countries in Western Europe moved from partial or selective provision of social services to relatively comprehensive "cradle-to-grave" coverage of the population. Other Western European states did not, such as the United Kingdom, Ireland, Spain and France.<sup>[38]</sup> Political scientist Eileen McDonagh has argued that a major determinant of where welfare states arose is whether or not a country had a historical monarchy with familial foundations (a trait that Max Weber called patrimonialism); in places where the monarchic state was viewed as a parental steward of the populace, it was easier to shift into a mindset where the industrial state could also serve as a parental steward of the populace.<sup>[39]</sup>

The activities of present-day welfare states extend to the provision of both cash welfare benefits (such as old-age pensions or unemployment benefits) and in-kind welfare services (such as health or childcare services). Through these provisions, welfare states can affect the distribution of wellbeing and personal autonomy among their citizens, as well as influencing how their citizens consume and how they spend their time.<sup>[40][41]</sup>

## Analysis

Historian of the 20th Century fascist movement, Robert Paxton, observes that the provisions of the welfare state were enacted in the 19th century by religious conservatives to counteract appeals from trade unions and socialism.<sup>[42]</sup> Later, Paxton writes "All the modern twentieth-century European dictatorships of the right, both fascist and authoritarian, were welfare states... They all provided medical care, pensions, affordable housing, and mass transport as a matter of course, in order to maintain productivity, national unity, and social peace."<sup>[42]</sup> Adolf Hitler's National Socialist German Workers' Party expanded the welfare state to the point where over 17 million German citizens were receiving assistance under the auspices of the National Socialist People's Welfare by 1939.<sup>[43]</sup>

When social democratic parties abandoned Marxism after World War II, they increasingly accepted the welfare state as a political goal, either as a temporary goal within capitalism or an ultimate goal in itself.<sup>[42]</sup>

A theoretical addition from 2005 is that of Kahl in their article 'The religious roots of modern policy: Catholic, Lutheran and Reformed Protestant traditions compared'. They argue that the welfare state policies of several European countries can be traced back to their religious origins. This process has its origin in the 'poor relief' systems, and social norms present in Christian nations. The example countries are categorized as follows: Catholic - Spain, Italy and France; Lutheran - Denmark, Sweden and Germany; Reformed Protestant - Netherlands, the UK and the USA. The Catholic countries late adoption of welfare benefits and social assistance, the latter being splintered and meagre, is due to several religious and social factors. Alms giving was an important part of catholic society as the wealthy could resolve their sins through participation in the act. As such, begging was allowed and was subject to a greater degree of acceptance. Poverty was seen as being close to grace and there was no onus for change placed onto the poor. These factors coupled with the power of the church meant that state provided benefits did not arise until late in the 20th century. Additionally, social assistance wasn't done at a comprehensive level, each group in need had their assistance added incrementally. This accounts for the fragmented nature of social assistance in these countries.<sup>[44]</sup>

Lutheran states were early to provide welfare and late to provide social assistance but this was done uniformly. Poverty was seen as more of an individual affliction of laziness and immorality. Work was viewed as a calling. As such these societies banned begging and created workhouses to force the able-bodied to work. These uniform state actions paved the way for comprehensive welfare benefits, as those who worked deserved assistance when in need. When social assistance was delivered for those who had never worked, it was in the context of the uniform welfare provision. The concept of Predestination is key for understanding welfare assistance in Reformed Protestant states. Poor people were seen as being punished, therefore begging and state assistance was non-existent. As such churches and charities filled the void resulting in early social assistance and late welfare benefits. The USA still has minimal welfare benefits today, because of their religious roots, according to Kahl.<sup>[44]</sup>

Also from 2005, Jacob Hacker stated that there was "broad agreement" in research on welfare that there had not been welfare state retrenchment. Instead, "social policy frameworks remain secure."<sup>[45]</sup>

## Forms

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Broadly speaking, welfare states are either universal, with provisions that cover everybody; or selective, with provisions covering only those deemed most needy. In his 1990 book, *The Three Worlds of Welfare Capitalism*, Danish sociologist Gøsta Esping-Andersen further identified three subtypes of welfare state models.<sup>[46]</sup>

Since the building of the decommodification index is limited<sup>[a]</sup> and the typology is debatable, these 18 countries could be ranked from most purely social-democratic (Sweden) to the most liberal (the United States).<sup>[47]:597</sup> Ireland represents a near-hybrid model whereby two streams of unemployment benefit exist: contributory and means-tested. However, payments can begin immediately and are theoretically available to all Irish citizens even if they have never worked, provided they are habitually resident.<sup>[48]</sup>

Social stigma varies across the three conceptual welfare states. Particularly, it is highest in liberal states, and lowest in social democratic states. Esping-Andersen proposes that the universalist nature of social democratic states eliminate the duality between beneficiaries and non-recipients, whereas in means-tested liberal states there is resentment towards redistribution efforts. That is to say, the lower the percent of GDP spent on welfare, the higher the stigma of the welfare state.<sup>[49]</sup> Esping-Andersen also argues that welfare states set the stage for post-industrial employment evolution in terms of employment growth, structure, and stratification. He uses Germany, Sweden, and the United States to provide examples of the differing results of each of the three welfare states.<sup>[49]</sup>

According to Evelyne Huber and John Stephens, different types of welfare states emerged as a result of prolonged government by different parties. They distinguish between social democratic welfare states, Christian democratic welfare states, and "wage earner" states.<sup>[50]</sup>

According to the Swedish political scientist Bo Rothstein, in non-universal welfare states, the state is primarily concerned with directing resources to "the people most in need". This requires tight bureaucratic control in order to determine who is eligible for assistance and who is not. Under universal models such as Sweden, on the other hand, the state distributes welfare to all people who fulfill easily established criteria (e.g. having children, receiving medical treatment, etc.) with as little bureaucratic interference as possible. This, however, requires higher taxation due to the scale of services provided. This model was constructed by the Scandinavian ministers Karl Kristian Steincke and Gustav Möller in the 1930s and is dominant in Scandinavia.<sup>[46]</sup>

Sociologist Lane Kenworthy argues that the Nordic experience demonstrates that the modern social democratic model can "promote economic security, expand opportunity, and ensure rising living standards for all ... while facilitating freedom, flexibility and market dynamism."<sup>[51]</sup>

American political scientist Benjamin Radcliff has also argued that the universality and generosity of the welfare state (i.e. the extent of decommodification) is the single most important societal-level structural factor affecting the quality of human life, based on the analysis of time serial data across both the industrial democracies and the American States. He maintains that the welfare state improves life for everyone, regardless of social class (as do similar institutions, such as pro-worker labor market regulations and strong labor unions).<sup>[52][b]</sup>

## **By country or region**

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### **Australia**

Prior to 1900 in Australia, charitable assistance from benevolent societies, sometimes with financial contributions from the authorities, was the primary means of relief for people not able to support themselves.<sup>[53]</sup> The 1890s economic depression and the rise of the trade unions and the Labor parties during this period led to a movement for welfare reform.<sup>[54]</sup>

In 1900, the states of New South Wales and Victoria enacted legislation introducing non-contributory pensions for those aged 65 and over. Queensland legislated a similar system in 1907 before the federal labor government led by Andrew Fisher introduced a national aged pension under the Invalid and Old-

Aged Pensions Act 1908. A national invalid disability pension was started in 1910, and a national maternity allowance was introduced in 1912.<sup>[53][55]</sup>

During the Second World War, Australia under a labor government created a welfare state by enacting national schemes for: child endowment in 1941; a widows' pension in 1942; a wife's allowance in 1943; additional allowances for the children of pensioners in 1943; and unemployment, sickness, and special benefits in 1945.<sup>[53][55]</sup>

## Canada

Canada's welfare programs<sup>[56]</sup> are funded and administered at all levels of government (with 13 different<sup>[56]</sup> provincial/territorial systems), and include health and medical care, public education (through graduate school), social housing and social services. Social support is given through programs including Social Assistance, Guaranteed Income Supplement, Child Tax Benefit, Old Age Security, Employment Insurance, Workers' Compensation, and the Canada/Quebec Pension Plans.<sup>[57]</sup>

## France

After 1830, French liberalism and economic modernization were key goals. While liberalism was individualistic and laissez-faire in Britain and the United States, in France liberalism was based instead on a solidaristic conception of society, following the theme of the French Revolution, *Liberté, égalité, fraternité* ("liberty, equality, fraternity"). In the Third Republic, especially between 1895 and 1914 "Solidarité" ["solidarism"] was the guiding concept of a liberal social policy, whose chief champions were the prime ministers Leon Bourgeois (1895–96) and Pierre Waldeck-Rousseau (1899-1902).<sup>[58][59]</sup> The French welfare state expanded when it tried to follow some of Bismarck's policies.<sup>[60][61]</sup> Poor relief was the starting point.<sup>[62]</sup> More attention was paid to industrial labour in the 1930s during a short period of socialist political ascendancy, with the Matignon Accords and the reforms of the Popular Front.<sup>[63]</sup> Paxton points out these reforms were paralleled and even exceeded by measures taken by the Vichy regime in the 1940s.

## Germany

Some policies enacted to enhance social welfare in Germany were Health Insurance 1883, Accident Insurance 1884, Old Age Pensions 1889 and National Unemployment Insurance 1927. Otto von Bismarck, the powerful Chancellor of Germany (in office 1871–90), developed the first modern welfare state by building on a tradition of welfare programs in Prussia and Saxony that had begun as early as in the 1840s. The measures that Bismarck introduced – old-age pensions, accident insurance, and employee health insurance – formed the basis of the modern European welfare state. His paternalistic programs aimed to forestall social unrest and to undercut the appeal of the new Social Democratic Party, and to secure the support of the working classes for the German Empire, as well as to reduce emigration to the United States, where wages were higher but welfare did not exist.<sup>[64][65][66]</sup> Bismarck further won the support of both industry and skilled workers through his high-tariff policies, which protected profits and wages from American competition, although they alienated the liberal intellectuals who wanted free trade.<sup>[67][68]</sup>

During the 12 years of rule by Adolf Hitler's Nazi Party the welfare state was expanded and extended to the point where over 17 million German citizens were receiving assistance under the auspices of the Nationalsozialistische Volkswohlfahrt (NSV) by 1939, an agency that projected a powerful image of caring and support.<sup>[43]</sup>

## India

The Directive Principles of State Policy, enshrined in Part IV of the Indian Constitution reflects that India is a welfare state. Food security to all Indians are guaranteed under the National Food Security Act, 2013 where the government provides food grains to people at a very subsidised rate. There are public health insurance schemes, social aid to families and new mothers, free school meals, pension schemes and unemployment benefit schemes run both at the federal and the state level. As of 2020, the government's expenditure on social security and welfare (direct cash transfers, financial inclusion, health insurance, subsidies, rural employment guarantee), was approximately ₹1,400,000 crore (US\$190 billion), which was 7.3 percent of gross domestic product (GDP).<sup>[69]</sup>

## Latin America

Welfare states in Latin America have been considered as "welfare states in transition",<sup>[70]</sup> or "emerging welfare states".<sup>[71]</sup> Welfare states in Latin America have been described as "truncated": generous benefits for formal-sector workers, regressive subsidies and informal barriers for the poor to obtain benefits.<sup>[72]</sup> Mesa-Lago has classified the countries taking into account the historical experience of their welfare systems.<sup>[73]</sup> The pioneers were Uruguay, Chile and Argentina, as they started to develop the first welfare programs in the 1920s following a bismarckian model. Other countries such as Costa Rica developed a more universal welfare system (1960s–1970s) with social security programs based on the Beveridge model.<sup>[74]</sup> Researchers such as Martinez-Franzoni<sup>[75]</sup> and Barba-Solano<sup>[76]</sup> have examined and identified several welfare regime models based on the typology of Esping-Andersen. Other scholars such as Riesco<sup>[77]</sup> and Cruz-Martinez<sup>[78]</sup> have examined the welfare state development in the region.

About welfare states in Latin America, Alex Segura-Ubiergo wrote:

Latin American countries can be unequivocally divided into two groups depending on their 'welfare effort' levels. The first group, which for convenience we may call welfare states, includes Uruguay, Argentina, Chile, Costa Rica, and Brazil. Within this group, average social spending per capita in the 1973–2000 period was around \$532, while as a percentage of GDP and as a share of the budget, social spending reached 51.6 and 12.6 percent, respectively. In addition, between approximately 50 and 75 percent of the population is covered by the public health and pension social security system. In contrast, the second group of countries, which we call non-welfare states, has welfare-effort indices that range from 37 to 88. Within this second group, social spending per capita averaged \$96.6, while social spending as a percentage of GDP and as a percentage of the budget averaged 5.2 and 34.7 percent, respectively. In terms of the percentage of the population actually covered, the percentage of the active population covered under some social security scheme does not even reach 10 percent.<sup>[79]</sup>

## Middle East

Saudi Arabia,<sup>[80][81][82]</sup> Kuwait,<sup>[83]</sup> United Arab Emirates,<sup>[84]</sup> and Qatar have become welfare states and elaborate subsidies exclusively for their own citizens.

## Nordic countries

The Nordic welfare model refers to the welfare policies of the Nordic countries, which also tie into their labor market policies. The Nordic model of welfare is distinguished from other types of welfare states by its emphasis on maximizing labor force participation, promoting gender equality, egalitarian and extensive

benefit levels, the large magnitude of income redistribution and liberal use of the expansionary fiscal policy.<sup>[49]</sup>

While there are differences among the Nordic countries, they all share a broad commitment to social cohesion, a universal nature of welfare provision in order to safeguard individualism by providing protection for vulnerable individuals and groups in society and maximizing public participation in social decision-making. It is characterized by flexibility and openness to innovation in the provision of welfare. The Nordic welfare systems are mainly funded through taxation.<sup>[85]</sup>

## People's Republic of China

China traditionally relied on the extended family to provide welfare services.<sup>[86]</sup> The one-child policy introduced in 1978 has made that unrealistic, and new models have emerged since the 1980s as China has rapidly become richer and more urban. Much discussion is underway regarding China's proposed path toward a welfare state.<sup>[87]</sup> Chinese policies have been incremental and fragmented in terms of social insurance, privatization, and targeting. In the cities, where the rapid economic development has centered, lines of cleavage have developed between state-sector and non-state-sector employees, and between labor-market insiders and outsiders.<sup>[88]</sup>

## Sri Lanka

Sri Lanka's welfare programs focus on free universal health care, free universal secondary education and free tertiary education which was started as part of state welfare in the 1930s and 1940s. In 1995, the government started the Samurdhi (Prosperity) program aimed at reducing poverty, having replaced the Jana Saviya poverty alleviation programme that was in place at the time.<sup>[89]</sup>

## United Kingdom

About the British welfare state, historian Derek Fraser wrote:

It germinated in the social thought of late Victorian liberalism, reached its infancy in the collectivism of the pre-and post-Great War statism, matured in the universalism of the 1940s and flowered in full bloom in the consensus and affluence of the 1950s and 1960s. By the 1970s it was in decline, like the faded rose of autumn. Both UK and US governments are pursuing in the 1980s monetarist policies inimical to welfare.<sup>[90]</sup>

The modern welfare state in the United Kingdom began operations with the Liberal welfare reforms of 1906–1914 under Liberal Prime Minister H. H. Asquith.<sup>[91]</sup> These included the passing of the Old-Age Pensions Act 1908, the introduction of free school meals in 1909, the Labour Exchanges Act 1909, the Development and Road Improvement Funds Act 1909, which heralded greater government intervention in economic development, and the National Insurance Act 1911 setting up a national insurance contribution for unemployment and health benefits from work.<sup>[92][93]</sup>

The People's Budget was introduced by the Chancellor of the Exchequer, David Lloyd George, in 1909 to fund the welfare reforms. After much opposition, it was passed by the House of Lords on 29 April 1910.<sup>[94][95]</sup>



The minimum wage was introduced in the United Kingdom in 1909 for certain low-wage industries and expanded to numerous industries, including farm labour, by 1920. However, by the 1920s, a new perspective was offered by reformers to emphasize the usefulness of family allowance targeted at low-income families as the alternative to relieving poverty without distorting the labour market.<sup>[96][97]</sup> The trade unions and the Labour Party adopted this view. In 1945, family allowances were introduced; minimum wages faded from view. Talk resumed in the 1970s, but in the 1980s the Thatcher administration made it clear it would not accept a national minimum wage. Finally, with the return of Labour, the National Minimum Wage Act 1998 set a minimum of £3.60 per hour, with lower rates for younger workers. It largely affected workers in high turnover service industries such as fast food restaurants, and members of ethnic minorities.<sup>[98]</sup>

December 1942 saw the publication of the *Report of the Inter-Departmental Committee on Social Insurance and Allied Services*, commonly known as the Beveridge Report after its chairman, Sir William Beveridge. The Beveridge Report proposed a series of measures to aid those who were in need of help, or in poverty and recommended that the government find ways of tackling what the report called "the five giants": Want, Disease, Ignorance, Squalor, and Idleness. It urged the government to take steps to provide citizens with adequate income, adequate health care, adequate education, adequate housing, and adequate employment, proposing that "[a]ll people of working age should pay a weekly National Insurance contribution. In return, benefits would be paid to people who were sick, unemployed, retired, or widowed." The Beveridge Report assumed that the National Health Service would provide free health care to all citizens and that a Universal Child Benefit would give benefits to parents, encouraging people to have children by enabling them to feed and support a family. The report stressed the lower costs and efficiency of universal benefits. Beveridge cited miners' pension schemes as examples of some of the most efficient available and argued that a universal state scheme would be cheaper than a myriad of individual friendly societies and private insurance schemes and also less expensive to administer than a means-tested government-run welfare system for the poor.

The Liberal Party, the Conservative Party, and then the Labour Party all adopted the Beveridge Report's recommendations.<sup>[99]</sup> Following the Labour election victory in the 1945 general election many of Beveridge's reforms were implemented through a series of Acts of Parliament. On 5 July 1948, the National Insurance Act, National Assistance Act and National Health Service Act came into force, forming the key planks of the modern UK welfare state. In 1949, the Legal Aid and Advice Act was passed, providing the "fourth pillar"<sup>[100]</sup> of the modern welfare state, access to advice for legal redress for all.

Before 1939, most health care had to be paid for through non-government organisations – through a vast network of friendly societies, trade unions, and other insurance companies, which counted the vast majority of the UK working population as members. These organizations provided insurance for sickness, unemployment, and disability, providing an income to people when they were unable to work. As part of the reforms, the Church of England also closed down its voluntary relief networks and passed the ownership of thousands of church schools, hospitals and other bodies to the state.<sup>[101]</sup>

Welfare systems continued to develop over the following decades. By the end of the 20th-century parts of the welfare system had been restructured, with some provision channelled through non-governmental organizations which became important providers of social services.<sup>[102]</sup>

## United States

The United States developed a limited welfare state in the 1930s.<sup>[103]</sup> The earliest and most comprehensive philosophical justification for the welfare state was produced by an American, the sociologist Lester Frank Ward (1841–1913), whom the historian Henry Steele Commager called "the father of the modern welfare state".

Ward saw social phenomena as amenable to human control. "It is only through the artificial control of natural phenomena that science is made to minister to human needs" he wrote, "and if social laws are really analogous to physical laws, there is no reason why social science should not receive practical application such as have been given to physical science."<sup>[104]</sup> Ward wrote:

The charge of paternalism is chiefly made by the class that enjoys the largest share of government protection. Those who denounce it are those who most frequently and successfully invoke it. Nothing is more obvious today than the single inability of capital and private enterprise to take care of themselves unaided by the state; and while they are incessantly denouncing "paternalism," by which they mean the claim of the defenseless laborer and artisan to a share in this lavish state protection, they are all the while besieging legislatures for relief from their own incompetency, and "pleading the baby act" through a trained body of lawyers and lobbyists. The dispensing of national pap to this class should rather be called "maternalism," to which a square, open, and dignified paternalism would be infinitely preferable.<sup>[105]</sup>

Ward's theories centred around his belief that a universal and comprehensive system of education was necessary if a democratic government was to function successfully. His writings profoundly influenced younger generations of progressive thinkers such as Theodore Roosevelt, Thomas Dewey, and Frances Perkins (1880–1965), among others.<sup>[106]</sup>

The United States was the only industrialized country that went into the Great Depression of the 1930s with no social insurance policies in place. In 1935 Franklin D. Roosevelt's New Deal instituted significant social insurance policies. In 1938 Congress passed the Fair Labor Standards Act, limiting the work week to 40 hours and banning child labor for children under 16, over stiff congressional opposition from the low-wage South.<sup>[103]</sup>

The Social Security law was very unpopular among many groups – especially farmers, who resented the additional taxes and feared they would never be made good. They lobbied hard for exclusion. Furthermore, the Treasury realized how difficult it would be to set up payroll deduction plans for farmers, for housekeepers who employed maids, and for non-profit groups; therefore they were excluded. State employees were excluded for constitutional reasons (the federal government in the United States cannot tax state governments). Federal employees were also excluded.

By 2013, the U.S. remained the only major industrial state without a uniform national sickness program. American spending on health care (as a percent of GDP) is the highest in the world, but it is a complex mix of federal, state, philanthropic, employer and individual funding. The US spent 16% of its GDP on health care in 2008, compared to 11% in France in second place.<sup>[107]</sup>

Some scholars, such as Gerard Friedman, argue that labor-union weakness in the Southern United States undermined unionization and social reform throughout the United States as a whole, and is largely responsible for the anemic U.S. welfare state.<sup>[108]</sup> Sociologists Loïc Wacquant and John L. Campbell contend that since the rise of neoliberal ideology in the late 1970s and early 1980s, an expanding carceral state, or government system of mass incarceration, has largely supplanted the increasingly retrenched social welfare state, which has been justified by its proponents with the argument that the citizenry must take on personal responsibility.<sup>[109][110][111]</sup> Scholars assert that this transformation of the welfare state to a post-welfare punitive state, along with neoliberal structural adjustment policies and the globalization of the U.S. economy, have created more extreme forms of "destitute poverty" in the U.S. which must be contained and controlled by expanding the criminal justice system into every aspect of the lives of the poor.<sup>[112]</sup>















Other scholars such as Esping-Andersen argue that the welfare state in the United States has been characterized by private provision because such a state would better reflect the racial and sexual biases within the private sector. The disproportionate number of racial and sexual minorities in private sector jobs with weaker benefits, he argues, is evidence that the American welfare state is not necessarily intended to improve the economic situation of such groups.<sup>[49]</sup>

## Effects

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### Effects of welfare on poverty

Empirical evidence suggests that taxes and transfers considerably reduce poverty in most countries whose welfare states constitute at least a fifth of GDP.<sup>[113][114]</sup>

Country	Absolute poverty rate (1960–1991) (threshold set at 40% of U.S. median household income) <sup>[113]</sup>		Relative poverty rate (1970–1997) <sup>[114]</sup>	
	Pre-welfare	Post-welfare	Pre-welfare	Post-welfare
 Sweden	23.7	5.8	14.8	4.8
 Norway	9.2	1.7	12.4	4.0
 Netherlands	22.1	7.3	18.5	11.5
 Finland	11.9	3.7	12.4	3.1
 Denmark	26.4	5.9	17.4	4.8
 Germany	15.2	4.3	9.7	5.1
 Switzerland	12.5	3.8	10.9	9.1
 Canada	22.5	6.5	17.1	11.9
 France	36.1	9.8	21.8	6.1
 Belgium	26.8	6.0	19.5	4.1
 Australia	23.3	11.9	16.2	9.2
 United Kingdom	16.8	8.7	16.4	8.2
 United States	21.0	11.7	17.2	15.1
 Italy	30.7	14.3	19.7	9.1

### Effects of social expenditure on economic growth, public debt and education









Researchers have found very little correlation between economic performance and social expenditure.<sup>[115]</sup> They also see little evidence that social expenditures contribute to losses in productivity; economist Peter Lindert of the University of California, Davis attributes this to policy innovations such as the implementation of "pro-growth" tax policies in real-world welfare states,<sup>[116]</sup> nor have social expenses contributed significantly to public debt. Martin Eiermann wrote:

According to the OECD, social expenditures in its 34 member countries rose steadily between 1980 and 2007, but the increase in costs was almost completely offset by GDP growth. More money was spent on welfare because more money circulated in the economy and because government revenues increased. In 1980, the OECD averaged social expenditures equal to 16 percent of GDP. In 2007, just before the financial crisis kicked into full gear, they had risen to 19 percent – a manageable increase.<sup>[117]</sup>

A Norwegian study covering the period 1980 to 2003 found welfare state spending correlated negatively with student achievement.<sup>[118]</sup> However, many of the top-ranking OECD countries on the 2009 PISA tests are considered welfare states.<sup>[119]</sup>

### **Social expenditure as a percentage of GDP**

The table below shows social expenditure as a percentage of GDP for OECD member states in 2018:

<b>Nation</b>	<b>Social expenditure (% of GDP)<sup>[120]</sup></b>	<b>Year<sup>[c]</sup></b>
 <a href="#">France</a>	31.2	2018
 <a href="#">Belgium</a>	28.9	2018
 <a href="#">Finland</a>	28.7	2018
 <a href="#">Denmark</a>	28.0	2018
 <a href="#">Italy</a>	27.9	2018
 <a href="#">Austria</a>	26.6	2018
 <a href="#">Sweden</a>	26.1	2018
 <a href="#">Germany</a>	25.1	2018
 <a href="#">Norway</a>	25.0	2018
 <a href="#">Spain</a>	23.7	2018
 <a href="#">Greece</a>	23.5	2018
 <a href="#">Portugal</a>	22.6	2018
 <a href="#">Luxembourg</a>	22.4	2018
 <a href="#">Japan</a>	21.9	2015
 <a href="#">Slovenia</a>	21.2	2018
 <a href="#">Poland</a>	21.1	2018
 <a href="#">United Kingdom</a>	20.6	2018
 <a href="#">Hungary</a>	19.4	2018
 <a href="#">New Zealand</a>	18.9	2018
 <a href="#">Czech Republic</a>	18.7	2018
 <a href="#">United States</a>	18.7	2018
 <a href="#">Estonia</a>	18.4	2018
 <a href="#">Australia</a>	17.8	2016
 <a href="#">Canada</a>	17.3	2017
 <a href="#">Netherlands</a>	16.7	2018
 <a href="#">Latvia</a>	16.2	2018
 <a href="#">Lithuania</a>	16.2	2018
 <a href="#">Israel</a>	16.0	2017
 <a href="#">Switzerland</a>	16.0	2018
 <a href="#">Iceland</a>	16.0	2018
 <a href="#">Ireland</a>	14.4	2018
 <a href="#">Turkey</a>	12.5	2016
 <a href="#">South Korea</a>	11.1	2018
 <a href="#">Chile</a>	10.9	2017

## Criticism and response

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Early conservatives, under the influence of Thomas Malthus, opposed every form of social insurance "root and branch". Malthus, a clergyman for whom birth control was anathema, believed that the poor needed to learn the hard way to practice frugality, self-control and chastity. Traditional conservatives also protested that the effect of social insurance would be to weaken private charity and loosen traditional social bonds of family, friends, religious and non-governmental welfare organisations.<sup>[121]</sup>

On the other hand, Karl Marx opposed piecemeal reforms advanced by middle-class reformers out of a sense of duty. In his *Address of the Central Committee to the Communist League*, written after the failed revolution of 1848, he warned that measures designed to increase wages, improve working conditions and provide social insurance were merely bribes that would temporarily make the situation of working classes tolerable to weaken the revolutionary consciousness that was needed to achieve a socialist economy.<sup>[d]</sup> Nevertheless, Marx also proclaimed that the Communists had to support the bourgeoisie wherever it acted as a revolutionary progressive class because "bourgeois liberties had first to be conquered and then criticised".<sup>[123]</sup>

In the 20th century, opponents of the welfare state have expressed apprehension about the creation of a large, possibly self-interested, bureaucracy required to administer it and the tax burden on the wealthier citizens that this entailed.<sup>[124]</sup>

In 2012, political historian Alan Ryan pointed out that the modern welfare state stops short of being an "advance in the direction of socialism. [...] [I]ts egalitarian elements are more minimal than either its defenders or its critics think". It does not entail advocacy for social ownership of industry. Ryan further wrote:

The modern welfare state, does not set out to make the poor richer and the rich poorer, which is a central element in socialism, but to help people to provide for themselves in sickness while they enjoy good health, to put money aside to cover unemployment while they are in work, and to have adults provide for the education of their own and other people's children, expecting those children's future taxes to pay in due course for the pensions of their parents' generation. These are devices for shifting income across different stages in life, not for shifting income across classes. Another distinct difference is that social insurance does not aim to transform work and working relations; employers and employees pay taxes at a level they would not have done in the nineteenth century, but owners are not expropriated, profits are not illegitimate, cooperativism does not replace hierarchical management.<sup>[125]</sup>

In 2017, historian Walter Scheidel argued that the establishment of welfare states in the West in the early 20th century could be partly a reaction by elites to the Bolshevik Revolution and its violence against the bourgeoisie, which feared violent revolution in its own backyard. They were diminished decades later as the perceived threat receded. Scheidel wrote:

It's a little tricky because the US never really had any strong leftist movement. But if you look at Europe, after 1917 people were really scared about communism in all the Western European countries. *You have all these poor people, they might rise up and kill us and take our stuff.* That wasn't just a fantasy because it was happening next door. And that, we can show, did trigger steps in the direction of having more welfare programs and a rudimentary safety net in

response to fear of communism. Not that they [the communists] would invade, but that there would be homegrown movements of this sort. American populism is a little different because it's more detached from that. But it happens roughly at the same time, and people in America are worried about communism, too – not necessarily very reasonably. But that was always in the background. And people have only begun to study systematically to what extent the threat, real or imagined, of this type of radical regime really influenced policy changes in Western democracies. You don't necessarily even have to go out and kill rich people – if there was some plausible alternative out there, it would arguably have an impact on policy making at home. That's certainly there in the 20s, 30s, 40s, 50s, and 60s. And there's a debate, right, because it becomes clear that the Soviet Union is really not in very good shape, and people don't really like to be there, and all these movements lost their appeal. That's a contributing factor, arguably, that the end of the Cold War coincides roughly with the time when inequality really starts going up again, because elites are much more relaxed about the possibility of credible alternatives or threats being out there.<sup>[126]</sup>

## See also

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- Constitutional economics
- Corporate welfare
- Economic security
- Fifth power
- Flexicurity
- Free rider problem
- Happiness economics
- Hidden welfare state
- Involuntary unemployment
- Guaranteed minimum income
- Nanny state
- Social policy
- Social protection
- Social stratification
- State Socialism (Germany)
- Unintended consequences
- Welfare capitalism
- Welfare economics
- Welfare reform
- Welfare state in the United Kingdom

### Models

- European social model
- Social programs in the United States
- Third Way

### Transfer of wealth

- Cloward–Piven strategy
- Transfer payment

### Housing

- Council house
- Housing estate
- Public housing
- Subsidized housing

## Notes

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- a. According to the French sociologist Georges Menahem, Esping-Andersen's "decommodification index" aggregates both qualitative and quantitative variables for "sets of dimensions" which fluid, and pertain to three very different areas. These characters involve similar limits of the validity of the index and of its potential for replication. Cf. Menahem 2007.
- b. See also "this collection of full-text peer-reviewed scholarly articles on this subject" (<http://benjaminradcliff.com/scholarly-articles/>) by Radcliff and colleagues (such as "Social Forces," "The Journal of Politics," and "Perspectives on Politics," among others)
- c. For social expenditure figures.
- d. "However, the democratic petty bourgeois want better wages and security for the workers, and hope to achieve this by an extension of state employment and by welfare measures; in short, they hope to bribe the workers with a more or less disguised form of alms and to break their revolutionary strength by temporarily rendering their situation tolerable."<sup>[122]</sup>

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## External links

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### Data and statistics

- OECD
  - Health Policy and Data: Health Division ([http://www.oecd.org/department/0,2688,en\\_2649\\_33929\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/department/0,2688,en_2649_33929_1_1_1_1_1,00.html))
  - OECD – Social Expenditure database (SOCX) (<http://www.oecd.org/els/social/expenditure>)
  - Figures on wages and benefit systems in various OECD member states (<http://www.oecd.org/els/socialpoliciesanddata/benefitsandwagescountryspecificinformation.htm>)
- Contains information on social security developments in various EC member states from 1957 to 1978 ([https://archive.today/20130620195520/http://aei.pitt.edu/view/euar/Development\\_of\\_the\\_Social\\_Situation.html](https://archive.today/20130620195520/http://aei.pitt.edu/view/euar/Development_of_the_Social_Situation.html))
- Contains information on social security developments in various EC member states from 1979 to 1989 ([https://archive.today/20130620195548/http://aei.pitt.edu/view/euar/Social\\_Developments.html](https://archive.today/20130620195548/http://aei.pitt.edu/view/euar/Social_Developments.html))
- Contains information on social assistance programmes in various EC member states in 1993 ([https://web.archive.org/web/20140116101718/http://aei.pitt.edu/31986/1/COM\\_\(93\)\\_531\\_final.pdf](https://web.archive.org/web/20140116101718/http://aei.pitt.edu/31986/1/COM_(93)_531_final.pdf))
- Contains detailed information on the welfare systems in the former Yugoslav republics (<http://library.fes.de/pdf-files/bueros/sofia/08711.pdf>)
- The impact of benefit and tax uprating on incomes and poverty (UK) (<http://www.jrf.org.uk/sites/files/jrf/2194-benefits-taxation-poverty.pdf>)

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