

THE OXFORD HANDBOOK OF
THE WELFARE
STATE



The University of Bremen's Transformations of the State Collaborative Research Centre (TranState) served as the institutional, intellectual, and administrative home for the preparation of this Handbook. Funded by the *Deutsche Forschungsgemeinschaft* (German Research Foundation), TranState is made up of about a hundred researchers from all disciplines of the social sciences and all stages of career development.

TranState defines the multifaceted modern state in four intersecting dimensions: *resources*, or control of the use of force and revenues; *law*, or jurisdiction and the courts; *legitimacy*, or the acceptance of political rule by the populace; *welfare*, or the facilitation of economic growth and social equality. This Handbook focuses on the welfare dimension. Oxford University Press has now asked TranState to serve as home base for another book in the Handbook series, this time taking a wide-angle, multidimensional view of the state and how it has developed under globalization.

THE OXFORD HANDBOOK OF

THE WELFARE
STATE

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ADLs	Activities of daily living
AEI	American Enterprise Institute, Washington, DC (1943 ff.; http://www.aei.org)
AFDC	Aid to Families with Dependent Children, USA (1935–1997; now TANF)
ALMP	Active labour market policies (1990s ff.)
ATTAC	The international anti-globalization network ATTAC (1998 ff.; Action pour une Taxe Tobin d’Aide aux Citoyens = Association for the Taxation of Financial Transactions for the Aid of Citizens; http://www.attac.org/)
BRIC	Brazil, Russia, India, & China
CCT	Conditional cash transfer programme
CEE	Central and Eastern European
CEPAL	Comisión Económica Para América Latina y el Caribe, Santiago, Chile (= ECLAC; 1948 ff.; http://www.eclac.org/)
CPF	Central Provident Fund, Singapore (1955 ff.; http://mycpf.cpf.gov.sg)
CPS	Centre for Policy Studies, London (1974 ff.; http://www.cps.org.uk/)
CV	Coefficient of variation
CWED	Comparative Welfare Entitlements Dataset (http://www.sp.uconn.edu/~scruggs/wp.htm)
DC	Defined contribution
DRG	Diagnosis related group
ECJ	European Court of Justice, Luxembourg (1952 ff.; http://curia.europa.eu)
ECLAC	Economic Commission for Latin America and the Caribbean, Santiago, Chile (= CEPAL; 1948 ff.; http://www.eclac.org/)
ECM	Error correction models
EFTA	European Free Trade Association, countermovement to founding the EEC [EU] in 1957 (1960 ff.; http://www.efta.int/)
EITC	Earned Income Tax Credit, USA (also EIC; 1975 ff.; in UK: Working Tax Credit)
EPL	Employment protection legislation
ESA	Event structure analysis
ESF	European Social Fund, Brussels (EU; 1957 ff.; http://ec.europa.eu/employment_social/esf/index_en.htm)
EU	European Union as of Maastricht Treaty 1992, Brussels (EEC [European Economic Community] or EC [European Community]; 1957–1992; http://europa.eu/index_en.htm)

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EUR	The Euro currency (also €; accounting currency 1999–2001; in circulation as of 2002, 2009 in 16 Member States)
Eurostat	Statistical Office of the European Communities [European Union], Luxembourg (1953 ff.; http://ec.europa.eu/eurostat)
GATS	General Agreement on Trade in Services (1995 ff.; under WTO; see http://www.wto.org/)
GATT	General Agreement on Tariffs and Trade (1947 ff.; see now WTO http://www.wto.org/)
GDP	Gross Domestic Product
GNP	Gross National Product
GP	General (medical) practitioner, UK
GPA	Global Program on AIDS, UN (but see also WHO; 2001 ff.; http://www.un.org/ga/aids/ungassfactsheets/html/fssgcall_en.htm and http://www.unaids.org/en/default.asp)
HMO	Health Maintenance Organization, USA
HRS	Health and Retirement Study, USA (http://hrsonline.isr.umich.edu/)
IBRD	International Bank for Reconstruction and Development = World Bank (WB), Washington, DC (1946 ff.; with IMF one of the two Bretton Woods institutions founded in 1944; http://www.worldbank.org/)
ICSID	International Center for the Settlement of Investment Disputes, Washington, DC (1966 ff.; WB founded arbitration institution devoted to investor-state dispute settlement; http://icsid.worldbank.org/ICSID/)
IDA	International Development Association, Washington, DC (1960 ff.; grant-making or interest free credit-providing branch of the WB; via http://www.worldbank.org/)
IEA	Institute for Economic Affairs, London (1955 ff.; http://www.iea.org.uk/)
IFC	International Finance Corporation, Washington, DC (1956 ff.; member of WB Group, financing investment in private sector in developing countries; http://www.ifc.org/)
IFI	International financial institutions
IGO	International governmental organizations
ILO	International Labour Organization [and Office], Geneva, Switzerland (1919 ff.; http://www.ilo.org/)
IMF	International Monetary Fund, Washington, DC (1944 ff. http://www.imf.org/)
INGO	International non-governmental organizations
IO	Intergovernmental organizations
ISI	Import substitution industrialization
ISSP	International Social Survey Programme (1984 ff.; http://www.issp.org/)
KMT	Kuomintang, China
LDC	Less developed country
LDP	Liberal Democratic Party, Japan
LIS	Luxembourg Income Study, Luxembourg (1983 ff.; http://www.lisproject.org/)

LTC	Long-term care
MIGA	Multilateral Investment Guarantee Agency, Washington, DC (1988 ff.; WB Group; http://www.miga.org/)
MLSG	Minimum Living Standard Guarantee, China (and South Korea)
NDC	Notional defined contribution
NHI	National health insurance
NHS	National Health Service, UK (1948 ff.; http://www.nhs.uk)
NICS	Newly industrialized countries
OECD	Organization for Economic Co-operation and Development, Paris (1961 ff.; dates back to Marshall Plan 1948–1951; http://www.oecd.org)
OMC	Open Method of Coordination, EU (Lisbon Strategy; 2000 ff.)
OPEC	Organization of Petroleum Exporting Countries, Vienna (1960 ff.; http://www.opec.org)
PAYG	Pay as you go
PPP	Purchasing power parity
QCA	Qualitative comparative analysis
SCIP	Social Citizenship Indicators Programme (http://www.snd.gu.se/sv/catalogue/series/55)
SD	Standard deviation
SERPS	State Earnings-Related Pension Scheme, UK (1978–2002; replaced 2002 by State Second Pension)
SHARE	Survey of Health, Ageing and Retirement in Europe (http://www.share-project.org/)
SOCX	Social Expenditure Data Set (OECD; http://www.oecd.org/els/social/expenditure)
SOE	State-owned enterprise
TANF	Temporary Assistance for Needy Families, US (1997 ff.)
TRIPS	Trade-related Aspects of Intellectual Property Rights (1994 ff.; under WTO; see http://www.wto.org/)
TSCS	Time-series cross-section
UN	United Nations, New York (1945 ff.; http://www.un.org)
UNDP	United Nations Development Program, New York etc. (1965 ff.; http://www.undp.org/)
UNESCO	United Nations Educational, Scientific and Cultural Organization, Paris (1946 ff.; http://portal.unesco.org/)
USD	US Dollars (US\$)
WB	World Bank; Washington, DC (1946 ff.; see also IBRD; with IMF one of the two Bretton Woods institutions founded in 1944; http://www.world-bank.org/)
WHO	World Health Organization, Geneva, Switzerland (1948 ff.; http://www.who.int/en/)

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- WTC Working Tax Credit, UK (2003 ff., predecessor 1999–2003 WFTC with ‘F’ standing for families; see also EITC, USA)
- WTO World Trade Organization, Geneva, Switzerland (1993 ff.; <http://www.wto.org>)
- US AID United States Agency for International Development, Washington, DC (1961ff.; originates with Marshall Plan 1948–1951; <http://www.usaid.gov/>)

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PREFACE

STEPHAN LEIBFRIED

In November of 2006, Dominic Byatt of Oxford University Press approached me about editing a volume on the welfare state for the Oxford Handbook series. He was imagining a ‘genuinely agenda-setting book’ that would encompass political science, sociology, social policy, and economics. It should be the ‘most authoritative survey and critique of work on the welfare state’. A tall order indeed! The welfare state as a subject of study is as colossal as the giants of Want, Disease, Ignorance, Squalor, and Idleness it is charged with eradicating (Beveridge 1942: pt. 7). A colleague and I had just finished assembling and writing an introduction to a reference collection of classic reprints that covered the post-World War II history of welfare state theory, and it weighed in at over 2,000 pages (Leibfried and Mau 2008*a, b*). There was an abundance of cutting-edge new work on the welfare state, both empirical and theoretical, and it was this that Dominic wanted to see addressed in a Handbook of less than 950 pages . . . Daunting as it was, I took up his challenge. After all, welfare states engage over half of state expenditures in the OECD world—and Beveridge’s five giants are still alive and kicking.

My first move was to enlist Frank Castles, who is not only an expert on the welfare states and on the states *in toto* of many nations, large and small, but also a talented editor, known for making the work of scholars from diverse lands available to a wider audience. The two of us then set out to build a compatible but multifaceted team: Jane Lewis, who represents the best of the English social policy and social history tradition and could also, on occasion, remind us that gender matters; Herbert Obinger, one of Germany’s leading young scholars in comparative political economy, with whom Frank and I both had a long history of collaboration (see, for example Obinger et al. 2005*a*); and Chris Pierson, a political theorist with a wide-angle view and an appreciation for the national diversity of welfare state agendas, with whom Frank had successfully co-edited a teaching text on the welfare state (Pierson and Castles 2000, rev. 2006). The five of us come from diverse disciplines, but we share the conviction that an understanding of the development of the welfare state and its contemporary manifestations can only be achieved by considering the similarities and differences among nations. The *Oxford Handbook of the Welfare State*, which we have worked on together for nearly three years, bears the hallmarks of its progenitors: it covers a broad field, and its approach is interdisciplinary and, above all, *comparative*.

A number of staff members from both the Transformations of the State Collaborative Research Centre (TranState) and the Centre for Social Policy Research at the

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University of Bremen have played essential roles in bringing this project to fruition. Monika Sniegs of TranState managed the website, the manuscripts, and the editorial team—especially *me*. She and I were aided by our Bremen student assistants Jessica Haase, Stefanie Henneke and Lisa Adler. Peter Boy and Markus Modzelewski set up the website that allowed us and the contributors to stay abreast of each other's progress and bring some consistency and cohesion to the volume. Jana Wagner, Hendrik Steven, Matthias Schuchard, and Melike Wulfgramm turned the forty-eight individual chapter bibliographies into a single, consistent, verified, and much more useful bibliography at the end of the Handbook. Susan Gaines helped with revisions of the introductory material and provided translations of bibliographic entries, and Wolfgang Zimmermann (wozi@wozi.de) designed the jumble of stamps on the dust jacket. Janis Vossiek undertook the time-consuming citation analysis that we relied on in Chapter 1.

On the part of all five editors, I wish to thank the Deutsche Forschungsgemeinschaft (German Research Foundation) and the University of Bremen, which provide funding for TranState and its international collaborations. This book has set the stage for *The Oxford Handbook on Transformations of the State*, which will examine how the evolution from closed to open economies in the decades since World War II has affected the defining characteristics of developed Western nation states (Leibfried and Zürn 2005; Hurrelmann et al. 2008).

We have many other debts of gratitude. Thanks go to Jacobs University Bremen for financing a sabbatical semester for Herbert Obinger. The Hanse Institute for Advanced Studies provided us with a meeting place in northern Germany and made it possible for editors from Australia, the United Kingdom, and Germany to engage in something more than virtual encounters. The Hanse, located in the city of Delmenhorst and directed first by Gerhard Roth and now by Reto Weiler, granted generous fellowships to Frank Castles and Chris Pierson, allowing them to dedicate time to editing and rewriting the articles—no trivial task, given that many of the authors were writing in English as a second language.

We are, of course, grateful to all of the scholars whose contributions made this volume possible, with particular thanks to Bernhard Ebbinghaus, Marius Busemeyer, and Rita Nikolai who stepped in to supply missing chapters at very short notice, and to Maurizio Ferrera and John Stephens, who helped us to revise and improve some of the chapters. Axel West Pedersen also gave generously of his time and expertise in a moment of need. We also wish to thank the Schwaneberger Verlag, which gave us access to their Michel stamp catalogues when we were gathering material for the book cover, as well as the many colleagues who directed us to stamps with welfare state themes, particularly Klaus Petersen, for the Scandinavian stamps, and Barbara Darimont, who researched and hunted down the Chinese stamps for us. Obtaining copyright permissions from postal authorities and artists would have been impossible without the help of Dongmei Liu and Yang-Yifan at the Max Planck institute for Welfare Law in Munich, and Jianan Xu of the China Post Group's Department of International Cooperation; Claire Moulin-Doos, for the French stamps; Aurelia Ciacchi, for the Italian ones; and Ayumi und Hisashi Fukawa, for the Japanese

stamps. Last, but far from least, we would like to thank our editors at Oxford University Press. The commissioning editor, Dominic Byatt, not only generated the idea for this project, but also provided practical support and encouragement as we framed the chapters, solicited authors, and began editing. The copy editor, Tom Chandler, did a phenomenal job of removing the many inconsistencies and glitches that plagued this multi-country, multi-author, and multi-editor behemoth, and did so with great courtesy and good humour.

In recent years, as nations around the world have struggled to contain or shrink their welfare states—at a time when we need, more than ever, to analyse the effects of reform on social rights and equality—academic interest in the welfare state seems to have waned or become more abstract and theoretical in the disciplines that traditionally addressed its nuts and bolts. To varying degrees in different countries, empirical and institutional economists have turned to other issues or have been marginalized, historians have lost interest, sociologists have gone post-modern, legal scholars have found better-funded research topics, and, in Britain, the home of the study of ‘social administration’, social policy has often had to fight for its place in the academy. The studies described in this volume defy this trend, employing a wide range of approaches, from just about every discipline in the social sciences.

T. H. Marshall noted in 1949 that ‘in the twentieth century, citizenship and the capitalist class system have been at war’ (1964*b*: 84). He also noted that ‘the wars of religion have been succeeded by the wars of social doctrine’ (1964*c*: 61). These wars rage on. In this volume, we have covered the major lines of conflict since the 1970s and identified many of the challenges for the future—challenges that we hope policy makers and scholars of the welfare state will meet head on. In the twenty-first century, citizenship finds itself at war with both national and *global* capitalist systems, and it is likely to take sustained national and international efforts to level the playing field and keep Beveridge’s giants at bay.

NOTE ON THE JACKET ILLUSTRATION

STEPHAN LEIBFRIED

In order to highlight the comparative, international nature of this volume's essays, we wished to illustrate the book jacket with symbols of welfare states from all over the world. The welfare state has been little celebrated on most national icons such as flags, state seals, coins and bank notes, but many nations have issued postage stamps that honour welfare state founders or champion social policies and ideals. This may have to do with the fact that in many countries the post office once served as a state bank, making pension and unemployment payments and issuing revenue stamps to record the payment of contributions. Perhaps tellingly, most of the postal stamps we found with welfare state themes were special commemorative stamps: even in countries whose welfare states developed hand in hand with nationhood—Germany, Australia, New Zealand, and Uruguay—welfare motifs were not among the core national icons selected for regular issue stamps.

While hunting for stamps to adorn the book jacket, I noticed that the welfare motifs used fall into five distinct categories, roughly corresponding to the types of protagonists in welfare state development. *International* welfare motifs have appeared on many nations' stamps, often in recognition of some event, like the World Social Summit in Copenhagen in 1995, or a United Nations special observance, such as the International Women's Year, the Year of Older Persons, or the Year for the Eradication of Poverty. The United Nations also issues its own postal stamps with these themes, as do the International Labour Organization (ILO) and the World Health Organization (WHO). The latter has been especially successful in popularizing its yearly health themes, and its members also tend to issue their own stamps for the WHO's yearly campaigns.

Stamps celebrating the anniversaries of welfare state *institutions* such as social insurance and pension insurance began to appear after World War II. Many nations have issued commemorative stamps in honour of the *founders and architects* of their welfare states. There are German stamps depicting Chancellor Otto von Bismarck, and Uruguayan ones of President José Batlle y Ordoñez, both nineteenth-century nation builders and pioneers of the welfare state—though Batlle's role is now largely forgotten outside of Latin America (cf. Mesa-Lago 1978: 70–112; Papadopoulos 1992; see chapter 44). Of the twentieth-century welfare state founders and reformers, President Franklin D. Roosevelt and his Secretary of Labour, Frances Perkins, are both honoured on American stamps. And of the post-World War II reformers and founders, Chancellor Konrad Adenauer appears on German stamps, Prime Minister

Einar Gerhardsen on Norwegian ones, and Tommy Douglas, who founded the Canadian health system, is honoured on Canadian stamps. Interestingly, though we associate the welfare state with these leaders, many of them are also known for nation building or post-World War II economic reconstruction, and the stamps—with the exception of a single Roosevelt stamp—do not specifically recognize their contributions to social policy. Notably missing from the line-up of founders' stamps are William Beveridge—recognized as the father of the National Health Service in the United Kingdom—and New Zealand's first Labour Party Prime Minister, Michael Joseph Savage, who introduced a comprehensive cradle-to-grave welfare state in the 1930s, which served as inspiration for the post-war welfare state reform on the other side of the world (ILO 1949).

Examples of *other individuals* whose work has had far-reaching consequences for welfare state cultures include the German protestant minister, Johann Hinrich Wichern; reformist doctors like Arvo Ylppö, who founded child care clinics in Finland, and Julius Tandler, who introduced industrial hygiene in Austria; agitators for social reform like the unionist Ferdinand Hanusch and the Catholic reformer Karl Freiherr von Vogelsang in Austria; and the American unionist Samuel Gompers, who was instrumental in setting up the ILO. Most of these figures are recognized only in the nations where they worked, but there are a number of Catholic heroes of social welfare, like the Albanian nun, Mother Theresa, who are honoured on stamps around the world.

Non-state instruments of social policy comprise the fifth and most varied category of postage stamp motifs that I identified. There are stamps that pay tribute to children's clinics, hospitals, medical associations, nurses, accident prevention and protection measures, and, of course, the International and national Red Cross. In Finland, even day-care centre anniversaries, women's support groups, and a novel have commemorative stamps. (The novel is Väinö Linna's trilogy *Under the North Star* (1959–62 [2001–3]), which helped set the stage for the introduction and acceptance of a Scandinavian type welfare state in Finland). In China, where near-universal health insurance is now being introduced, there is a series of stamps depicting the barefoot itinerant doctors who have long served the rural poor. Another series indirectly highlights China's default policy of individual savings in lieu of a comprehensive pension system: these stamps celebrate the one-child family planning policy, which has led to an ageing population that can no longer rely on traditional means—family—but has an unbelievably high savings rate that is 50 per cent of GDP. Public awareness campaigns have also made use of postage stamps to call attention to social and health issues such as child and youth welfare, AIDS, cancer, polio, and tuberculosis. Controlling the spread of tuberculosis was one of the first grand successes of public health, and the theme appears frequently on stamps from various countries, but for some reason it completely dominates Finnish stamps between 1946 and the mid 1970s.

In comparing stamps from different nations, I also noticed that they reflected some of the major regional differences in welfare state cultures. Education and housing are prevalent stamp themes in Southeast Asia and so China, where social

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policies emphasize these aspects of welfare more than in twentieth-century Western welfare states (Rieger and Leibfried 2003: 255 ff.). Since the 1990s, the countries of Eastern Europe have produced far fewer welfare state commemorative stamps than any other region of the world, perhaps because welfare provision was part of the communist system that these countries rejected and they have not had time to reconstruct (but see Chapter 46). One does, in fact, find stamps celebrating a return to pre-communist social insurance systems in some Eastern European countries (e.g. Lithuania, 2006). In Latin America and Southern Europe, as well as parts of Eastern Europe, the stamps frequently depict Saint John Bosco or other Catholic Saints who were known for their work with the underprivileged and epitomized the Church's formal and informal contributions to national welfare states. Scandinavia's stamps have a strong focus on the provision of health and other services, whereas stamps from continental Western Europe are more likely to focus on welfare state institutions and funds and on their founders. Worker protection and industrial hygiene was a starting point for many countries' welfare states, and, accordingly, seems to be a common early theme for stamps around the world. Regional treatments of more recently recognized welfare state issues like gender, race, age, or other types of discrimination that might produce unequal life chances are, however, quite varied.

Historically, relations between nation states have played a significant role in the development of many welfare states, and this is also evident in some of the stamps. Both Switzerland and tiny Liechtenstein issued commemorative stamps for the fifty-year anniversary of their pension insurance systems (AHV), as Liechtenstein had adopted it from the Swiss. Uruguay, with its large population of Italian immigrants, has a commemorative stamp for the *Ente Nazionale Assistenza Sociale*, an Italian welfare programme for expatriots around the world. Ireland honoured the centennial of the founding of its pension system—in Britain—with a commemorative stamp in 2008. This created some controversy in Britain, where the centennial was not similarly recognized, and there were outcries of discrimination from the Welsh community, as the founder of the pension system, Prime Minister Lloyd George, was a Welsh statesman. We might note, however, that the British postal system has generally done little to honour the founding of its model welfare state, with the exception of a four-stamp series issued to celebrate the fifty-year anniversary of the National Health Service in 1998 (a 50 pence commemorative coin was also issued for the occasion). Neither William Beveridge, who designed the system, nor Aneurin Bevan—another Welshman—who insured its enactment, are acknowledged with their own stamps. (They are, however, included on a couple of privately issued covers designed to accompany the 1998 NHS stamps.)

A number of public-awareness and health campaigns in the Americas have involved continent-wide actions, wherein the participating nations issue their own stamps around themes such as 'the fight against poverty', 'education for all', and the 'campaign against hunger'. Though the European Union plays a significant role in its member states' welfare policies (see Chapter 23) and might well benefit from public awareness of that role, none of the member states have issued stamps that attest it and the EU itself is not authorized to issue stamps.

My brief sojourn in the world of stamps revealed a colourful, international array of welfare state themes and icons—too many to be included in the jumble portrayed on the book jacket of this Handbook. Stamps with such themes appear to have been on the increase since the 1960s—an increase that, ironically, has continued uninterrupted through the 1990s and 2000s, a period when welfare state expansion in most regions stopped and threats of retrenchment dominated political rhetoric (see Chapter 38). During this period, postal services in some countries were privatized, perhaps weakening the role of stamp imagery as a statement of national sentiment. And yet, the societal consensus that built the effective welfare states of the 1950s and 1960s is still honoured, and the ills of hunger, poverty, discrimination, lack of education, inadequate housing, and ageing societies are maintained in the public eye by the images chosen for postage stamps.

Listed below are the country, year of issue, and a brief description for each of the stamps that appear on the cover, spine and inside flaps. The artists and copyright holders are acknowledged at the end of each entry. Every effort was made to identify and contact each of them for permissions; we would be grateful for notification if there are any omissions so that they can be corrected in future printings or editions. We would also like to express our thanks to graphic designer Wolfgang Zimmermann (wozi@wozi.de) for so graciously offering us his advice and expertise.

AUSTRIA 1986: Julius Tandler [1869–1936] industrial hygienist. (Portrait by Otto Zeiler, reproduced here courtesy of Marianne Siegl; stamp © Austria Post)

BELGIUM (1) 1966: celebrating the 75 years of Papal *encyclicals* on social issues that began with the *Rerum Novarum*; (2) 2007: one of a series honouring Belgian scholars, with Philippe Van Parijs and the image from the cover of his book on the basic income philosophy, *Real Freedom for All*, Oxford University Press, 1995. (2, Els Van de Vyvere; all © Belgian Post)

BRAZIL (1) (on the spine) 1981: 60th anniversary of the Ministry of Labour; (2) 1986: a national campaign for the prevention of workplace accidents; (3) 2005: ‘Fight against Poverty – Cisterns’, emphasizing the role of accessible clean water. (1, Joana Bielschowsky; 2, Jô Oliviera; 3, Fernando Lopes; all © Ministry of Communications)

CHINA (1) 1973: from the ‘Barefoot Doctor’ series, honouring country doctors; (2) 1983: from a series promoting the one-child family planning policy. (All © China Post Group)

DENMARK 1988: 40 years of the World Health Organization. (Boye Willum Wilumsen; © *Post Danmark A/S*)

FRANCE (1) 1985: honouring Victor Hugo [1802–1885], from the annual series on famous personages; (2) 1989: allegory for equality, celebrating the bicentenary of the French Revolution. (1, Jacques Jubert; 2, Claude Duras and Roger Druet; all © *La Poste*)

GERMANY (1) 1965: honouring Chancellor Otto von Bismarck [1815–1898]; (2) 1989: 100 years of Social Insurance; (3) 1992: honouring Chancellor Konrad Adenauer

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[1876-1867] (1, Rudolf Gerhardt; 2, Erwin Poell; 3, Hans Günter Schmitz; all © *Bundesministerium der Finanzen*)

ICELAND 1994: United Nations International Year of the Family (© Iceland Post Ltd.)

ITALY (1) 1998: commemoration of Mother Theresa [1910–1997] and her work in Calcutta; (2) 1990: centenary of Labour Day (1, M. Temo; 2, E. Donnini; all © *Posteitaliane, Filatelia*)

JAPAN 1969: 50th anniversary of the International Labour Organization (© Japan Post)

KOREA 1983: The Day of the Teacher (© Korea Post)

NETHERLANDS 1975: in recognition of International Women’s Year (© TNT Post Netherlands)

NORWAY 1997: one of a series with Finn Graff’s caricatures of Prime Minister Einar Gerhardsen [1897–1987] (© *Posten Norge AS*)

NEW ZEALAND 1993: ‘The Great Depression’ from the series ‘Emerging Years—1930s’ (Ross Jones; © New Zealand Post)

SAN MARINO 2007: the European Union’s Year of Equal Opportunities for All (Daniela Longo; © *AASFN*)

SPAIN 2007: ‘Education for All’ (© *La Sociedad Estatal Correos y Telegrafos S.A.*)

SWEDEN 1976: ‘workers’ safety’ (Olle Kåks; © Sweden Post Stamps)

SWITZERLAND 1998: 50th anniversary of AHV, Switzerland’s pension system (Marianne Brügger; © *Die Schweizerische Post*)

UNITED KINGDOM (1) 1998: ‘1,700,000 prescriptions dispensed every year’, from a series celebrating the 50th anniversary of the National Health Service; (2) 1970: from a series commemorating the centenary of Charles Dickens’ [1812–1870] death, shows George Cruikshank’s frontispiece of the 1838 edition of *Oliver Twist* (All © Royal Mail Group Ltd.)

UNITED NATIONS 1954: 35th anniversary of the International Labour Organisation (© United Nations Postal Administration, New York)

URUGUAY 2003: centenary of the presidency of the father of the Uruguayan welfare state, José Batlle y Ordoñez [1856–1929] (Alejandro Muntz; © *Correos Uruguayo*)

UNITED STATES (1) 1945: one of four in commemoration of President Franklin Delano Roosevelt [1882–1945]; (2) 1980: honouring Frances Perkins [1882–1965]; (3) 1985: 50th anniversary of the Social Security Act; (4) 1998: FDR’s New Deal Programs, from the series ‘1930s Celebrate the Century—Depression, Dust Bowl, and a New Deal’ (1, 2 © Smithsonian Institute National Postal Museum; 3, 4 © United States Postal Service)

VATICAN 1960: hospitality and acceptance for migrants (Grassellini; © *Poste Vaticane*)

CHAPTER 1

INTRODUCTION

FRANCIS G. CASTLES
STEPHAN LEIBFRIED
JANE LEWIS
HERBERT OBINGER
CHRISTOPHER PIERSON

THE SCOPE OF THIS HANDBOOK

THE twentieth century is often portrayed as one of extremes (Hobsbawm 1994). Its first half witnessed the rise of totalitarian regimes, two world wars and more than a few genocides. The second half was characterized by the spread of democracy, unprecedented economic wealth and, in consequence, a degree of well-being and a guarantee of social rights arguably unknown in human history. In retrospect, however, this is largely a ‘Western’ story, since war, starvation, dictatorship, and impoverishment remained the norm throughout the twentieth century and beyond for millions of people living in other parts of the world (Cornia 2004). This bifurcated development has many causes. Unquestionably, though, one of the major reasons for the successful Western trajectory is connected to a mostly European invention of the late nineteenth century, which today is referred to as the welfare state—or *Sozialstaat*, *l’état providence*, *verzorgingsstat*, *estado providencia* or *sociale* or *del bienestar* or *social de derecho*, *stato sociale* or *del benessere*, *estado de bem-estar-social*, *folkhemmet*, *fukushikokka* (社会福利国家), *shèhuì fúli guójiā* (Pinyin simplified characters 社会福利国家, traditional characters 社會福利國家)—but which developed to its fullest extent after World War II.

This Oxford Handbook takes stock of the ‘state of the welfare state’ from a comparative perspective (Amenta 2003), a perspective vital both for demonstrating the huge variability of welfare state forms and trajectories of development as well as

providing the basis of a methodology for understanding the factors contributing to that variability—and also for understanding the corridors laid out to bound such variability in the many *Atlantic* and other *Crossings* (Rodgers 1998) of reform ideas in academia and politics. The Handbook is designed to cover all the relevant aspects of the modern welfare state and to summarize the state of the art in contemporary welfare state research. In eight Parts, it sheds light on the philosophical justifications underlying the welfare state, the approaches, methods, and disciplinary perspectives of comparative social policy research, the historical development and driving forces of the welfare state, its past achievements, contemporary challenges, and likely future developments.

Such a comprehensive endeavour inevitably requires an international and interdisciplinary division of labour. This volume consists of forty-eight chapters written by scholars from diverse disciplinary backgrounds. The fact that the welfare state is, in essence, a European invention (Flora 1986–7: vol. 1, xii), which, in addition, has experienced its greatest proliferation and expansion in north-western Europe, explains the strong presence of European scholars in contemporary welfare state research. In contrast to the dominance of American scholars in political science (cf. Goodin and Klingemann 1998) and other social science disciplines, this volume brings together scholars from many countries and achieves an arguably better balance between the English-speaking and continental European worlds of scholarship.¹

An analysis of the almost 1,900 entries in the Handbook bibliography also reveals a quite different balance amongst the English-speaking nations from that in political science. Although hardly decisive, since Oxford and Cambridge University presses publish in the United States as well as in the United Kingdom, both of these publishers, with more than a hundred citations each, markedly outscore the most strongly represented American university presses, Chicago and Princeton, with twenty and thirty citations respectively. Moreover, UK publishers specialising in social policy topics, like Routledge, Palgrave Macmillan, and Edward Elgar, are referenced more frequently than any American publishers.

The study of the welfare state is not only a much less American dominated topic than political science, but is also probably more bookish and certainly more so than economics, with some 65 per cent of citations in the bibliography referring to books and book chapters and only a little less than 30 per cent to journal articles. American journals are well represented, with the *American Political Science Review*, *World Politics*, and *Comparative Political Studies* most cited, but they are again outscored or rivalled by journals of UK origin, with the *Journal of European Social Policy* and the *Journal of Social Policy* leading the way and journals with an explicit social policy focus being almost exclusively of UK provenance. Finally, though, if our analysis of citations truly represents the state of our knowledge base, it should be noted that contemporary welfare state research is actually a very cross-disciplinary affair, with

¹ Perhaps illustrative of this national diversity is that the single most-cited text in the Handbook is by a Danish scholar who teaches in Spain, and that the scholar with the most cited works is an Australian whose most recent teaching post was in Scotland.

only about one-fifth of journal citations being clearly identifiable as having an explicitly social policy focus.

A very important point to emphasize is that the strong UK presence revealed by our citations analysis is one of sources more than of authorship. On the whole, European scholars seeking the broadest audience for their research on welfare state topics go to British-based journals and publishers, with the Oxford and Cambridge presses probably seen as the key to the widest dissemination of new findings. The citations analysis reveals that only about 5 per cent of the sources in this Handbook are to books and articles in languages other than English, but the authorship of work in this area is far more internationally diverse than this statistic suggests. It is this which makes the strong presence of a wide European authorship of this Handbook so vitally important. Although, inevitably, the Handbook has a strong automatic citation bias for English language works and against works available in other languages, and ‘only a small sample of the best national literatures on the welfare state . . . is accessible in English’ (Leibfried and Mau 2008b: vxxi), through its more diverse authorship, it taps into this diversity of national literatures more fully than would otherwise be possible.² We further wish to point out that, in this volume, we seek also to look beyond even this OECD boundary, identifying recent developments in other parts of the world where the welfare state is of a more recent vintage and is confronted with peculiar challenges (Part VII).

ORIGINS OF THE WELFARE STATE

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The origins of the Western welfare state (Part II) date back to the last quarter of the nineteenth century and are closely associated with the deep societal, economic, and political transformations taking place at that time. This *Great Transformation* (Polanyi 1957 [1944]) included industrialization and the rise of capitalism, urbanization, and population growth. On the one hand, these fundamental changes undercut the traditional forms of welfare provision offered by family networks, charity organizations, feudal ties, guilds, municipalities, as well as churches and led, in consequence, to a massive pauperization which was so impressively described by Friedrich Engels in his analysis of the situation of the working class in England (Engels 1975

² How much of an iceberg phenomenon the English literature on foreign nations is can be most easily demonstrated in the German case. There is a massive analytical project on sources of the founding period of the welfare state from 1867 to 1914 presently comprising 25 volumes (Tennstedt et al. 1978 ff.) and a similarly massive, and now completed, analytical plus source documentation project for the period 1945 to 1994, comprising 11 analytical and 10 documentary volumes (BMA and BA 2001–2009). None of this is available in the English language. Naturally there are also many other German analyses of the welfare state—like Kaufmann’s cited in this introduction—which are unavailable in English. However Kaufmann (2010) will remedy this.

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[1845]), by Charles Dickens in works such as *Oliver Twist* (1849/50) and *Great Expectations* (1860/1), and in some of the novels of Honoré de Balzac in his series *La comédie humaine* (1896 ff. [1829 ff.]), by Émile Zola (1885) as part of his 1871 to 1893 series *Les Rougon-Macquart. Histoire naturelle et sociale d'une famille sous le Second Empire*, and by Victor Hugo in *Les misérables* (2008 [1882]). On the other hand, the gains in productivity resulting from industrialization provided the resources necessary to cope with the emerging 'social question'. In political terms, the second half of the nineteenth century witnessed the formation of nation states, secularization (with fierce conflicts over jurisdiction in social and educational affairs between the Catholic Church and liberals in continental Europe), an unusually long period of peace, and, finally, the spread of civil rights and mass democracy, putting in place the institutional basis for the political articulation of ever-increasing social needs (Rimlinger 1971; Alber 1982). Political and economic ideas also underwent substantial change, with liberalism developing a strand more ready to accept legislation designed to enable the individual to reach his or her potential and an increasingly wider body of economic theory ready to admit the possibility of raising taxes in order to permit state spending on social programmes (broadly, for national variants on these themes, see Rimlinger 1971: 35ff.³). The counter-movement to Polanyi's *Great Transformation* (1944) gave rise to collective organization initially along class lines and fashioned a growing labour movement which itself became an important driver of welfare state consolidation.

While all the nations of Western Europe—and a few European offshoots in North America and the Antipodes—were affected by these fundamental transformations, the political responses to these common challenges and the moral purposes in providing more or less 'welfare' differed in many ways. Thus we find remarkable diversity with respect to the timing of welfare state consolidation, policy goals (whether to provide a safety net for the few, to work towards optimal provision for all, or simply to maintain the status quo), the precise forms of institutional solutions in terms of financing mechanisms, programme type and administration, the public-private mix, the type of intervention (provision of transfers vs. regulatory social policy), and national trajectories of welfare state building, i.e. whether social programmes were enacted from top-down (as in the authoritarian monarchies in Europe) or emerged from bottom-up (as in the democracies of the New World plus Switzerland). In the United States, which was early in moving towards a democratic suffrage, social provision nevertheless tended to be imposed from above in the hope of forging a nation out of immigrants, mainly via public education (Heidenheimer 1981, 2004; Hega and Hokenmaier 2002; see also Chapter 34).

This diversity can be attributed to significant differences in national political contexts, which have, in their turn, been shaped by different legacies in terms of state and nation building (Rokkan 1999), distinctive national political cultures (particularly in terms of the degree of trust in the state and its capacity to solve

³ For exemplary studies of these developments in one country, in Britain, see Collini (1991) and Daunton (2001, 2002).

problems), differences in societal cleavage patterns, actor-constellations, and the pressure of socio-economic problems. However, even this list of factors explaining the emergence and diversity of the welfare state is far from exhaustive. Peter Baldwin (1990: 36–7) has noted that there is hardly a variable which has not been regarded as influential in this respect: ‘Industrialisation, free trade, capitalism, modernisation, socialism, the working class, civil servants, corporatism, reformers, Catholicism, war—rare is the variable that has not been invoked to explain some aspect of its development’, to which list might be added the governmental apparatus necessary for the administration of social programmes, particularly at the local level and a whole intragovernmental division of labour which is massively different in unitary and federal states (Obinger et al. 2005a). In fact, there is neither a specific configuration of socio-economic variables triggering welfare state consolidation nor is welfare state building related to a particular group of actors. Rather, the counter-movement against unregulated capitalism consisted of actors from across the entire political spectrum (Polanyi 1957 [1944]: 147).

Looking back at this founding period of the welfare state from the vantage point of the early twenty-first century, what stands out is that these early beginnings of state social policy coincided with what we now recognize as the ‘first era of globalization’ commencing in the 1870s and brought to an abrupt end with the declaration of war in 1914 (see inter al. James 1996: 1–26, 2001; Bayly 2004; Rieger and Leibfried 2003: 19f.). Creating a social insurance system for blue collar workers in the 1880s was perceived by welfare state founders like Bismarck as providing Germany with a competitive advantage over England through what we might now describe as a programme of social investment aimed at promoting ‘endogenous growth’. The British bought into this view, feeling their former position as ‘workshop of the world’ was profoundly challenged by developments elsewhere in Europe (Hennock 1987, 2007).

It is not surprising then that welfare state theorizing has mainly been inductive (Kaufmann 2001, 2003b) and that the welfare state was almost at the peak of its development by the time that modern welfare state theories identifying the inputs and actors consequential for welfare state growth (see Part IV) were formulated from the 1950s onwards. There is, however, one exception to this rule that theorizing had to await the mature development of the welfare state, and it is, arguably, no coincidence that the first (functionalist) generation of modern welfare state theories strongly built on this tradition of reasoning. Already at the time of its inception, numerous social scientists attributed the emergence of the welfare state to the fundamental changes in society and economy brought about by industrialization. Amongst them, German economist Adolph Wagner, a leading *Kathedersozialist*, argued in 1893 that the far-reaching changes in economy and society would generate increasing levels of state intervention and rising public expenditure. On this basis, he predicted the transformation of the nineteenth-century night watchman state into a ‘*Cultur- und Wohlfahrtsstaat*’ (Wagner 1893, 1911).

Wagner’s Law of a ‘growing public’ sphere (Lindert 2004) turned out to be a powerful prediction. The rise of the welfare state during the course of the twentieth century was impressive as was the concomitant growth and transformation of the

public sector. In the nineteenth century, the state had been substantially a warfare state, with military spending amounting to 25 per cent of total public expenditure. Public social expenditure, by contrast, was a residual spending item equivalent to only about 5 per cent of public expenditure or less than 1 per cent of GDP in most nations (Lindert 2004: 171–2; Cusack 2007: 105). By the first decade of the twenty-first century, however, spending priorities had been entirely turned upside down: Today, on average, in the long-standing OECD member states, with average public expenditure of around 40 per cent of GDP, more than half of that total expenditure is absorbed by the welfare state, while the military now occupies a residual position similar to that of the welfare state in the late nineteenth century (see Castles 2006). This empirical shift from the ‘warfare’ to the ‘welfare state’ was accompanied by an intellectual climate change in the social sciences and in the wider public discourse only rarely explored in any scholarly depth (see Kaufmann 2003*b*).

However, this growth in the size of the state, in terms of both spending and the numbers of people it employs, together with its more interventionist role occurred in spurts and assumed quite different trajectories in different countries. Governments may finance social provision, directly provide welfare services as well as cash benefits, and/or regulate provision made by the third or private sectors. Different countries have committed to different roles for the state at different periods in time. A first period of expansion occurred between the two world wars (Rimlinger 1971; Alber 1982). The devastating social repercussions of World War I were a triggering event, but the transformation also had important political sources. Democratization followed the collapse of the imperial empires in Europe. Extensions to the franchise provided underprivileged sections of society with a voice and gave the parties of labour and an emergent Christian presence in party politics access to the corridors of power for the first time. And first efforts to internationalize social policy were already under way with the establishment of International Labour Organization (ILO) in 1919.⁴ In many countries, the Great Depression put an end to this first

⁴ The official rationale for the establishment of such an organization already connected the idea of a sustainable peace with a just and effective international social policy and recognized the need to tame the new global competition. The Versailles Treaty of 28 June 1919 stated in the introduction to Part XIII on ‘Labour’ ‘Whereas the League of Nations has for its object the establishment of universal peace, and such a peace can be established only if it is based upon social justice; And whereas conditions of labour exist involving such injustice, hardship, and privation to large numbers of people as to produce unrest so great that the peace and harmony of the world are imperilled; and an improvement of those conditions is urgently required: as, for example, by the regulation of the hours of work, including the establishment of a maximum working day and week, the regulation of the labour supply, the prevention of unemployment, the provision of an adequate living wage, the protection of the worker against sickness, disease and injury arising out of his employment, the protection of children, young persons and women, provision for old age and injury, protection of the interests of workers when employed in countries other than their own, recognition of the principle of freedom of association, the organisation of vocational and technical education and other measures; Whereas also the failure of any nation to adopt humane conditions of labour is an obstacle in the way of other nations which desire to improve the conditions in their own countries; The HIGH CONTRACTING PARTIES, moved by sentiments of justice and humanity as well as by the desire to secure the permanent peace of the world, agree to the following: . . .’ (<http://avalon.law.yale.edu/imt/partxiii.asp>; see Herren 1992)

phase of welfare state expansion. In some of them, like Britain and Australia, this represented merely a conservative turn, but in others the effects were cataclysmic. Against a backdrop of dramatic economic slowdown, some of the countries of continental Europe made major benefit cutbacks, reinforcing political crisis, and, in a number of cases, contributing to the downfall of democratic regimes.⁵ In a few countries, however, economic stagnation was an impetus to social policy transformation. In the United States, the crisis was the prelude for welfare state take-off, while, in Scandinavia, the same economic events were the precursor of a move towards a new—and, arguably, more advanced—stage of welfare state development.

POST-WORLD WAR II DEVELOPMENT

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World War II once again made the warfare state the first priority, but, like its dreadful Great War predecessor, the end of the war provided the impetus for further social policy expansion. But note, for the first time, it was also a war in which the idea of welfare was presented as part of *casus belli* and as a reason why the war should be seen as a just war. Two of the eight war aims in the Atlantic Charter of 14 August 1941, which Roosevelt and Churchill agreed on in Ship Harbour, Newfoundland, concerned social welfare, specifically ‘securing, for all, improved labor standards, economic advancement and social security’ (point 5) and ‘that all men in all the lands may live out their lives in freedom from fear and want’ (point 6). ‘Social security’ now became the grand international slogan (Kaufmann 2003c). The Beveridge Plan of 1942 is justly famous as one of the founding documents of the modern welfare state, but much less well known is the fact that there were also Nazi counter-plans for a new kind of welfare state after assumed victory (Recker 1985). At this tipping point of European history, the warfare and the welfare state were ideologically fused into one.

The catastrophe of war and the subsequent commitment to establish a new and internationally sanctioned order which would protect peace and security had a major impact on post-war welfare state development. War itself can be ‘locomotive of change’ enhancing and building new forms of social solidarity (Titmuss 1950; Goodin and Dryzek 1995) and making state intervention and the funding to finance it more acceptable in the ensuing peace (Peacock and Wiseman 1961). Moreover, the need for economic reconstruction after World War II was a profound stimulus to economic growth and provided resources for welfare state expansion on an

⁵ The fate of the welfare state under Nazism and Fascism is not as well researched as the founding and post-World War II periods. Good national or English language syntheses are largely missing: presently, on Germany, see Mason (1993, 1995), Recker (1985), and Aly (2008); and, on Italy, Cherubini and Piva (1998), De Grazia (1992), and Quine (2002).

unprecedented scale. And the ‘Cold War’, starting in 1947, if not already in 1945, instigated a competition of economic systems and further supported ambitions to outcompete the Eastern block in terms of welfare performance. This is the period which, in retrospect, has sometimes been described, with a mixture of hindsight and nostalgia, as a ‘golden age’ both of economic and of welfare state development. War and the economic displacement it caused had once again created enormous social needs to which nations were now better able to respond, given the centralization of tax powers enacted during wartime and the sustained economic growth initiated by post-war reconstruction. Moreover, a commitment to prevent war ever again causing such physical, economic, and social destruction was a driving force for European integration, which was promoted in the initial post-war period as a mechanism for preventing future conflicts through increased economic integration and trade.

Although increased trade integration was the leitmotif of future European economic development, the massive growth of the welfare state during the so-called *trentes glorieuses* (1945–74) took place against the backdrop of relatively closed economies. Since exit options for mobile factors of production were low in the initial period of the post-war settlement, there was considerable room for redistribution and this was exploited by governments of all partisan complexions. ‘Liberalism’ could then be ‘embedded’, mostly in a lasting fashion—and even the United States could see itself, at first, as catching up with the European Joneses, and not, as in the period from the 1980s onwards, as standing against the European welfare tide in a kind of principled ‘exceptionalism’ (see Glazer 1998). The experience of war and depression paved the way for the emergence of a—however brittle in some countries—Keynesian consensus justifying policies that promoted high levels of employment and high tax and expenditures levels, as well as nourishing the notion that government intrusion in economic and social affairs was imperative for stabilizing demand and the business cycle in capitalist economies. Distributional conflicts were mitigated by a comparatively symmetric balance of power between the interest organizations of labour and capital and by exceptionally high rates of economic growth. Partisan competition as well as system competition in a world now divided by an Iron Curtain further fuelled welfare state expansion. Under these circumstances, social benefits were everywhere significantly raised, existing programmes were extended to cover new groups of beneficiaries and entirely new schemes adopted (see Part V describing trajectories of development of expenditures and revenues as well as a wide range of separate social programmes). As a consequence, welfare state coverage as well as spending levels rose dramatically with important impacts on policy outcomes including a decrease in inequality and poverty, the guarantee of social rights and macroeconomic performance (see Part VI).

Despite this massive expansion, however, the institutional differences laid down in the era of welfare state consolidation persisted or were transformed into new ones. Hence, Western nations took different routes to and through welfare state modernity (Therborn 1995*b*; Castles 1998*a*). In contrast to the claims of functionalist accounts in the 1950s, 1960s, and into the mid-1970s, no marked convergence occurred as these countries became wealthier. This holds true for social expenditure and welfare state

institutional patterns alike. Thus the United States remained a residual provider of welfare, preserving insurance-based benefits for particular groups deemed to be deserving (in the main older people), and failed to develop major state services (particularly health care)—the latter leading to ever deeper conflict and political impasse around issues of national health reform (Marmor and Oberlander 2009). At the other end of the spectrum, the Scandinavian countries used the full range of tax and insurance-based benefits and public services. In light of these persisting cross-national dissimilarities, welfare state research has devoted a substantial intellectual effort to identifying the character of these variations and their sources. Among the various classifications suggested in the literature, Esping-Andersen's (1990) typology of welfare regimes is unquestionably the most important. The historical origins, achievements and vulnerabilities of these welfare regimes, as well as of other 'families of nations' both within and without the OECD-area, constitute the topic of Part VII.

CRITIQUES AND CHALLENGES

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In the 1970s and early 1980s, the 'golden age' of welfare capitalism began to falter, and the 'silver age' began to dawn (Taylor-Gooby 2002; Chapter 6 below). Deteriorating economic performance in the wake of the oil shocks and the failure of many governments to cope with emergent stagflation led to—a renewed—scepticism concerning the role of the state in society and economy. As a consequence, the welfare state was increasingly critiqued from almost every point on the political spectrum. Conservatives complained about ungovernability in general (Crozier et al. 1975), while liberals lamented inefficiencies and paternalism. Certainly, though, the most influential critiques—in terms of real world political consequences—were those articulated by theories of *neoliberalism* and a newly morally engaged conservatism (see Chapter 4 below), the ideas of which gained more and more importance over time. In influential conservative—*New Right*—critiques of American attempts to address the issue of poverty in the post-war era, Charles Murray (1984) launched a powerful attack on the moral hazard of welfare policies, making a case for the abolition of welfare benefits in the US, while Lawrence Mead (1986) also attacked the provision of welfare, but argued for much greater conditionality in their administration—the beginnings of the idea of 'welfare-to-work'. In this account, and in the pincer movement of both economists and political scientists—some inspired by the neoliberal ideas of Hayek (1944; Plickert 2008)⁶ and Friedman (2003[1962]) and

⁶ Hayek was awarded the Nobel Prize in 1974, but the Nobel Committee did a careful balancing act and made him share the award with Gunnar Myrdal, one of the leading architects of the Swedish Social Democratic welfare state. Hayek did allow some minimalist room for state intervention for welfare: '[W]e must, of course, not forget that there are in a modern community a considerable number of

others persuaded by the logic of rational choice theories, which cast doubt on who really benefited from social policies—state intervention was increasingly seen as part of the problem rather than as a tool for overcoming macroeconomic imbalances or for social amelioration (documented and confronted by Goodin 1988). *Post-materialists* argued that a growing welfare state bureaucracy undermined individual autonomy and the institutions of civil society (Beck 1999), while feminists perceived the welfare state as an institution underpinning and freezing traditional gender relations (Fraser 1994b), *Marxists*, as they had at previous stages of capitalist development, identified an emergent contradiction, arguing that capitalism had ceased to be viable without the welfare state but that, at the same time, the very growth of the welfare state undermined the logic of capitalist accumulation, producing a so-called ‘crisis of crisis management’ to cite Gough (1979; see also Offe 1984; O’Connor 1973; Klein 1993).

Arguably, though, the most influential critique—in terms of its real-world political consequences—was that articulated by theories of neoliberalism (see Part I), the ideas of which gained more and more importance over time. An ideological climate change was in the making (Le Grand 1997): commentators and politicians in many countries urged that more attention be paid to the responsibilities as opposed to the rights of individuals, particularly the responsibility to engage in the labour market. Such calls resulted in policies that often tended to the punitive in the United States, while Western Europe developed more enabling ‘activation’ strategies, albeit that, in the Nordic countries, the welfare state had from the first been built firmly on conditionality and the work/welfare relationship. Two decades of unrelenting intellectual attack along these lines increasingly challenged the optimistic faith in the beneficial effects of big government on which the post-war welfare state consensus had rested. Increasingly the aspiration was to replace states with markets—or, where that was not possible, with ‘quasi-markets’ (Le Grand 1999). With the first moves being made in the English-speaking countries, neoliberal ideas soon spread across the globe.

This process was accelerated and reinforced by international organizations such as the World Bank and the International Monetary Fund and triggered a major rethinking of the role of the state in economic and social affairs (Deacon et al. 1997), minimally counterbalanced by international social institutions such as the International Labour Organization and the World Health Organization and by UN World Social Summits as in 1995. ‘Rolling back the state’ to its core functions was more and more seen as offering major comparative advantages in an international political economy which had undergone a fundamental transformation (Scharpf 2000b). This transformation had occurred in several stages. The collapse of the Bretton Woods financial system

services which are needed, such as sanitary and health measures, and which could not possibly be provided by the market for the obvious reason that no price could be charged to the beneficiaries or, rather, that it is not possible to confine the benefits to those who are willing or able to pay for them’ (1980 [1947]: 111). Myrdal (1957) was one of the first scholars to systematically consider the interaction of open or closed economies and welfare-state building. However, he still shared the majority opinion that welfare states could only fully develop in closed economies.

and the economic slow-down resulting from the two oil price shocks in the 1970s began the process. The 1980s witnessed deregulation and internationalization of capital markets and an ever-increasing trade liberalization. The collapse of communism in 1989 was a geopolitical event that seemed to confirm the neoliberal view that public intrusion in economic affairs leads to inefficiencies. The 1990s witnessed the emergence of a truly 'global' economy and could build on significant progress in European integration with the formation of the Single European Market and later European Monetary Union, with a European 'common currency' from 2002. Finally, eastwards enlargement of the EU from 2004 onwards anchored a considerable disparity in wealth across EU member states and created new opportunities to remove business and capital to low wage countries.

Taken together these external changes had far-reaching consequences for advanced welfare states. The deepening of European integration not only imposed constraints on fiscal and monetary policy, which precluded the practice of traditional Keynesian macroeconomic policies at the national level, it also created 'semi-sovereign' welfare states which became embedded in an emerging multilevel social policy regime (Leibfried and P. Pierson 1995). At the same time, it is clear that 'the policy-making capabilities of the Union have not been strengthened nearly as much as capabilities at the level of member states have declined' (Scharpf 1994: 219), thereby precluding a supranational Keynesianism practiced at the European level. More generally, the second era of economic globalization setting in since the 1970s increased competition between nation states for footloose capital and intensified pressures on national social standards. Enhanced exit options for capital imposed tighter limits for taxation and redistribution and also led to a newly asymmetric balance of power between labour and capital. It also led to an ideological climate shift contrasting radically with that of the era of nineteenth-century globalization. Now there is a marked tendency to perceive social investment as a dead weight on the economy rather than as a factor providing a boost off the starting blocks in 'a race to the top'. In a nutshell, the transformation of the international political economy decreased the autonomy and sovereignty of the nation state—but did not support the evolution of functionally equivalent higher authorities at the international level.

That economic conditions were no longer as propitious for domestic welfare state development is uncontested. Actual impacts are, however, more open to question. Effects of increasing trade are by no means all negative. Trade is an important source of economic growth which may generate the fiscal resources necessary for the viability of the welfare state in the long run. In this view, the major challenge to mature welfare states is to find an optimal adjustment strategy that is able to reconcile the trinity of economic imperatives generated by globalization—liberalization, flexibilization, deregulation—with solidarity. Retrenchment is not inevitable and its progress is a highly contentious theme of the literature (see discussions in Parts V and VI), with several contributions to this Handbook arguing strongly that the idea that globalization has simply unleashed a 'race to the bottom' in social provision lacks empirical foundation.

In addition to these external challenges, mature welfare states have also been confronted with a set of domestic challenges closely connected to societal modernization and structural economic change. Although they are less frequently the stuff of political debate, it is possible that these other ‘unseen’ changes are even more important for changes in the character of welfare provision than are changes in the international political economy (P. Pierson 1998). Moreover, they are changes in large part generated by the welfare state itself (Kaufmann 1997). One important challenge results from the transition from industrial to post-industrial economies (Iversen and Cusack 2000). The rise of the tertiary sector in the post-war period created three major problems: first, the productivity of the service sector was lower than that of industry. As a result, both the rate of growth of the economy and of wages has been reduced with negative feedback effects on public revenues. Western governments have experienced growing difficulty in financing generous cash benefits and public services, where a reduction in labour costs tends to threaten the quality of the service, which in turn has electoral consequences. Second, gains in employment in the private service sector can only be achieved at the expense of higher inequality unless the public sector exercises a compensatory function (Scharpf 2000a). Hence, some scholars diagnosed a ‘trilemma of the service economy’ characterized by a trade-off between employment growth, income equality, and sound state finances (Iversen and Wren 1998).

Structural change in the economy in combination with intensified international regime competition has triggered fundamental changes in labour markets. The pressure to raise productivity levels and the transition towards a post-industrial information society have raised skill requirements. Huge numbers of low-skilled jobs have either been destroyed or else relocated to low-wage economies. Higher flexibility requirements as well as increased labour market-participation by women have led to the spread of atypical employment forms such as part-time work, temporary work, or fixed-term employment. These were forms of employment for which existing welfare states were not well designed. Rising female labour market participation is important in other ways, casting doubt on the assumption that, in families, men would take primary responsibility for earning and women for care. Measures to reconcile paid employment with unpaid family work have been expanded in Western welfare states since the mid-1990s. Given the general desire to increase employment rates, the challenge for the welfare state has been to provide sufficient social services for children and frail elderly people. In some countries, particularly the United States, an externalization to the market is seen as an appropriate solution that is also affordable due to the availability of low wage migrant labour. In addition, societal modernization has undercut the welfare production capacity of families. Divorce rates, the number of births out of wedlock and, hence, the number of lone parent households have increased. The erosion of traditional family forms and changes in the contributions men and more particularly women make to families have generated new social risks and needs. For example, poverty has demographically spilled downwards from elderly people to single parents and families with many children, and the process of family change has increased the demand for social care.

Two other domestic challenges are of relevance. The first is demographic. Life expectation has significantly increased over the past decades and there is much evidence that the welfare state has in part caused what is basically a positive development through its provision of improved health care services, although higher standards of living are clearly the most important factor. Fertility rates have declined rapidly, but this is a trend with many other causes including innovations in contraceptive technology, individualization, and the mounting opportunity costs of family formation, primarily for women. The consequences of these demographic changes—which will fully unfold as the ‘baby boomers’ retire in the coming decades—are quite clear: the ‘greying’ of society directly affects the most expensive programmes of the welfare state, i.e. pensions, health and long-term care, and will therefore require greater financial resources in the future. Along with the decline in fertility, this means that the size of the economically active population is diminishing so that the age group of the 20–60-year-olds will have to bear an ever-increasing financial burden.

The second further challenge is the growing ethnic heterogeneity of Western societies. The immediate post-war period was characterized by relatively high levels of ethnic homogeneity in Europe (Therborn 1995*b*). Labour migration and the influx of refugees have reversed this situation from the 1960s onwards. Migration may have various impacts on the welfare state. It creates new needs resulting from a higher incidence of poverty among immigrants, it requires efforts to improve social inclusion, but may also help to attenuate the demographic pressure of ageing—at least for a transitory period. A more recent debate focuses on the possible impacts of growing ethnic heterogeneity on solidarity and redistribution. The argument is that the ethnically homogeneous nation state provided a set of common values and a political setting—a sort of political community—which was able to achieve legitimacy for a redistributive regime among its members. According to some scholars growing ethnic heterogeneity will reduce this solidarity and drive Europe towards a more American-style social policy (Alesina and Glaeser 2004; but see Banting and Kymlika 2006*a* and Chapter 19 below).

In sum, the challenges and risk patterns of post-industrial societies today are very different from those of the industrial societies that historically were the main reference point for the era of welfare state construction and consolidation. Old welfare states meet new social risks and the discrepancy between outdated social regulations and new challenges is an important site for welfare state adaptation with a view to finding a new balance between more traditional forms of social compensation and the more recent emphasis on social investment (Armingeon and Bonoli 2006).

As was the case with the external changes, all these domestic challenges affect different national welfare states in different ways (Esping-Andersen 1996*a*; Scharpf 2000*a*). To a significant degree, the extent of each nation’s vulnerability to these forces of transformation can be related to variations in existing welfare and production regimes and the extent of their coordination with other public policy areas such as education or fiscal policy. Given cross-nationally varying vulnerabilities and records of success, it comes as no surprise that the advanced democracies have

responded quite differently to these challenges. Moreover, cross-national differences in the adjustment pathways adopted have been further influenced by the impact of welfare state patterns on political reform capabilities (see Parts V and VI).

A synopsis of the external and domestic challenges to mature welfare states reveals the following picture: the shift to a predominantly service economy and economic globalization entail tighter constraints on public revenues, while societal modernization and changes in the economic structure produce mounting social needs, new risk patterns, and new priorities for social policy intervention, with education and social service provision on top of the list. Moreover, shrinking public revenues and rising pressures on public expenditure constitute a situation of what Paul Pierson (1998) calls ‘permanent austerity’, which must be managed by nation states whose sovereignty and autonomy have declined significantly in the wake of globalization and European integration, without international authorities able to pick up the slack. Thus, though social policy has already become more inter-, trans-, and supra-national in character during recent decades, and all the signs suggest that these are trends which will continue, the instrumentalities of effectiveness still need to be achieved.

THE SHAPE OF THINGS TO COME

These future developments are addressed in the final part of this handbook (Part VIII). Is the welfare state as we have come to know it in the era since World War II sustainable in face of the challenges we have described above? And what of other challenges? In Part VII of the volume, apart from examining the variety of welfare models in OECD countries, we look also to the developing world and examine recent trends of social policy development in East Asia, Latin America, Eastern Europe, and the former Soviet Union. But what of countries in Africa, South Asia, and the Middle East, where social policy institutions remain vestigial and economic and demographic prospects are still more dire? And these are challenges couched in conventional terms of the availability of greater economic resources to finance new roles for a more caring state. What if the real challenge for the medium and long term is that of securing social amelioration and greater social justice in a world in which the possibility of economic growth is constrained by global warming?

This Handbook was written and edited in an unfolding global financial and economic crisis, beginning in March 2008 and getting into full swing in September of that year. In that crisis we saw a climactic change in the role of the state, a change that had been building for some years into the new Millennium: the state was forcibly brought back in, first in slowly freezing privatization or reconsidering nationalization, then in state anti-terrorism activities after 9/11/2001, . . . and then in building public dams against the rising crises after 9/08, dams that were built nationally and

to some extent also supranationally at the EU level and coordinated at G8 to G20 levels and by some of the global institutions of the Bretton Woods era. We have seen a political growing together crossing the borderlines of the OECD-world, with BRIC-states taking on a new role, i.e. Brazil, Russia, India, and China. The state issue is at stake amongst other things in creating strong international anti-crisis regulation and in making it stick across the board—a movement which, for the moment, seems to work only against tax havens. Welfare state issues light up here and there like comets in the skies, with some heads of state favouring the introduction of a ‘social market economy’ in the OECD-world and beyond, while others focus on unemployment or on preventing international big business (and, particularly, banking) breakdown as their major priorities. Still others like Benedict XVI, in a social encyclica on *caritatas in veritate* (2009)—but, for the first time in history, without an original Latin source—dwell with high international visibility on the sins of the recent past and now critique capitalism’s unrestrained overindulgence and excesses.

A closer look at what triggered the present crisis points us to the pivotal impact of housing (see Chapter 33 above): to a United States, that has seen home ownership as the bedrock of the American Dream (Jensen 1996, 2003), but has failed to find a way to deliver low cost public housing for its working classes and which relied instead on subsidizing and encouraging private provision, increasingly by any and all means, looking the other way—and, thus, without proper oversight. So, in a sense, we have an incomplete American national welfare state noted in so many contexts in this Handbook combined with an unfit banking system and flabby regulatory oversight as a proximate causal nexus for much that has unfolded since 2008 (Hellwig 2009). Tony Judt once noted: ‘European post-1945 history has crystallized into a system of security that provided safety against all collisions, any unexpected turns . . . Europeans need to realize this epoch has ended. For a variety of reasons broad popular participation in education and prosperity is not a political priority anymore. What comes instead is unclear, what can be preserved is uncertain—but we have left an epochal safe haven’ (in Leibfried and Mau 2008b: xi; see also Judt 2005). What Judt notes for Europe holds for the OECD-world in general and also, to some extent, the wider world beyond.

It is likely that all these issues will have to be faced in a new geopolitical context as the United States grapples with its dependence on its main creditor, China. There are many who predict the global transfer of power from the United States to China—but a transfer of that magnitude has never before been achieved peacefully. Hoping for the contrary, we need to forge a new social contract for the twenty-first century and it must be more supranational, more global than ever. To do so we need to be fully informed about the welfare web in which we are already enmeshed. Only, thus, can we make sense of the experiences crystallized in these institutions, its layers upon layers of moral economies—rather than deconstructing them blindly, as we have often done since the 1970s.