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Conceptual framework for analysis of welfare state developments

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1. Introduction

Developments in the past three decades have spawned an extensive debate about future welfare state prospects in an environment of financial pressure from lower economic growth, demographic change and globalisation. Internationally, the welfare state has been subjected to attempts at containment, and retrenchment. There is general agreement in the literature that changes in the ends and means of the welfare state have occurred. However, consensus on the impact of these changes has proven elusive, with some studies concluding that there has been retrenchment, while others point to restructuring or recasting, or alternatively, resilience. Several commentators have argued that the welfare state has successfully withstood attempts at retrenchment (Mishra, 1990; Barr, 1992; Pierson, 1994, , 1996; Saunders, 1998; Timonen, 2003), while others contend there has been substantial retrenchment (Karger, 1991; Bryson, 1992; Pelizzon and Casparis, 1996; Leonard, 1997; Davidson, 2000; McMahon, 2000; Jamrozik, 2001).

The welfare state was an integral component of the capitalist system that constituted government intervention to ameliorate market outcomes, attempting to: (a) expand social rights and reduce inequality (Bryson, 1992; Barr, 1993; Jamrozik, 2001); (b) deliver social justice (Goodin and Dryzek, 1987); and (c) facilitate social solidarity and freedom (Barr, 1993). It is essential to combine economic and political analysis to study welfare state developments since the ends and means are determined by collective decisions regarding whose needs should be addressed and in what manner, thus:

> We make a false and misleading distinction if we assume that social policy can be understood in a non-political vacuum, without reference to political developments. … Choice between social options is essentially a political choice, and social policy receives its proper dimensions when related to the political system (Fraser, 1984:240).

This paper outlines an analytical framework to examine welfare state developments. Section 2 defines the welfare state in the context of goals and instruments, stressing that the post-war welfare state was qualitatively different to previous welfare provision, based on the unequivocal undertaking by governments to intervene in market outcomes to ensure a politically determined minimum standard of welfare for citizens. Despite simultaneous development and common core elements, individual welfare states also exhibit substantial variation attributable to the legacy of disparate philosophical outlooks, historical and political developments. Normative issues integral to the development of national social policies are reflected in the design of welfare policies discussed in Section 3.

Parsimonious models of welfare state regimes have been developed so that individual countries may be categorised according to scope, range, quality, instruments, financing methods and redistributive characteristics. Section 4 outlines a selection of these models and examines the philosophical differences inherent in the diversity of welfare provision. Section 5 provides an overview of the major theories regarding welfare state development: the logic of industrialisation and the power resources or class struggle thesis, contextualising the development of the welfare state in industrial countries. Section 6 defines welfare state retrenchment, discusses political impediments to retrenchment, and strategies adopted to overcome these obstacles.

2. What is the Welfare State?

Defining the welfare state is a somewhat difficult task if the focus is the substantial cross-country variation exhibited. In order to understand the welfare state phenomenon it is necessary to use an historical materialist method; to study it in its historical and political context, to reveal the underlying economic and political driving forces that gave rise to the welfare state in a particular period.

Marshall (1973:257) asserted it was not possible to "construct an ideal model of the Welfare State, in all its complex totality, and use it as a standard against which to measure achievements of particular societies." Definitions range from minimalist statements such as "state responsibility for securing some basic modicum of welfare for its citizens" (Esping-Andersen, 1990:18), to the all-encompassing "commitment to full employment, comprehensive, universalistic and adequate social security; and high-quality public services for all" (Gould, 1993:237).

Teeple (1995) contends that social reforms constituted an attempt to contain conflict emanating from contradictory class interests, defining the welfare state as:

> …a capitalist *society* in which the state has intervened in the form of social policies, programs, standards, and regulations in order to mitigate class conflict *and* to provide for, answer, or accommodate certain social needs for which the capitalist mode of production in itself has no solution or makes no provision. (Teeple, 1995: 15, emphasis in original)

Briggs (1961: 228) highlights the extent to which the welfare state overrides market forces in capitalist societies:

> A "welfare state" is a state in which organized power is deliberately used in an effort to modify the play of market forces in at least three directions - first, by guaranteeing individuals and families a minimum income irrespective of the market value of their work or their property; second, by narrowing the extent of insecurity by enabling individuals and families to meet certain "social contingencies" (for example, sickness, old age and unemployment) which lead otherwise to individual and family crises; and third, by ensuring that all citizens without distinction of status or class are offered the best standards available in relation to a certain agreed range of social services.

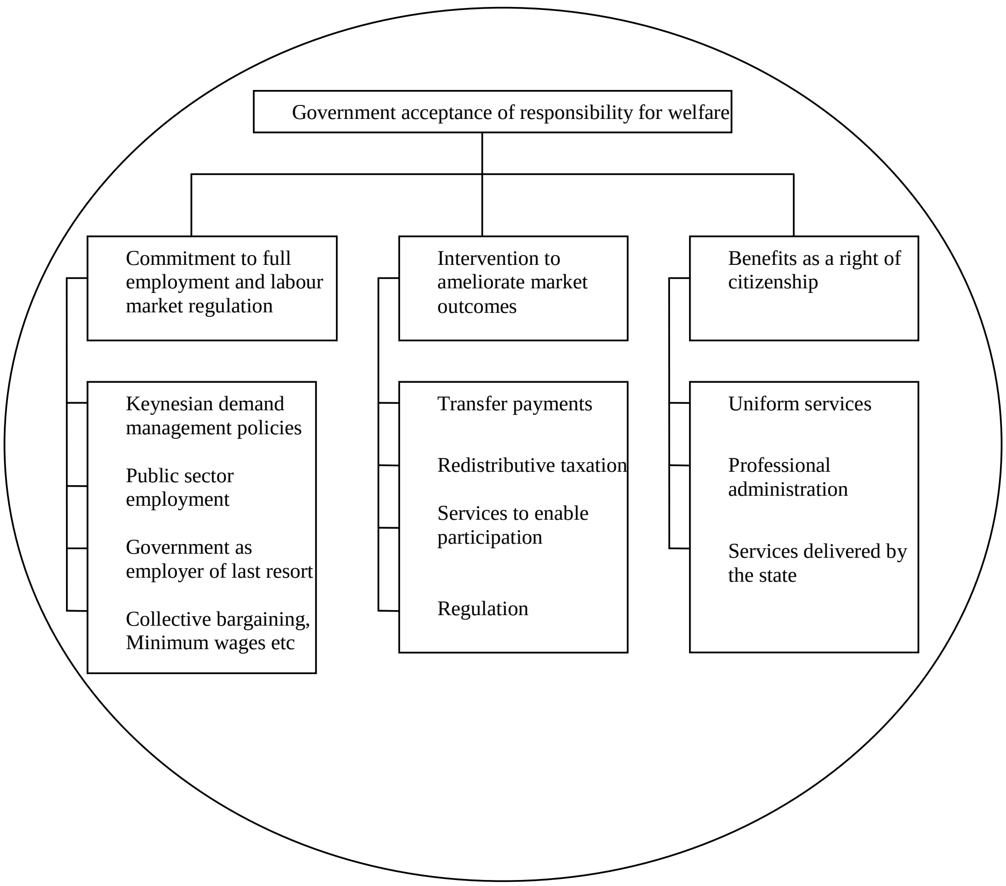
Most commentators situate the emergence of the welfare state in the 1940s, during and immediately after World War II (see, Youngson, 1976; see, Esping-Andersen and Korpi, 1984; Jones, 1990; Pierson, 1991; Teeple, 1995; Wicks, 1995), recognising that it represented a definitive break with previous welfare provision "in terms of the underlying principle of social rights to income and welfare independently of the market" (Esping-Andersen and Korpi, 1984: 202).

The major concepts underpinning the welfare state as well as the policy tools used to achieve these objectives are depicted in Figure 1. Fundamentally, the welfare state signified government acceptance of responsibility for the welfare of citizens, reflected in the new role for economic policy enunciated in the Beveridge report: "The State alone can ensure that at all times unsatisfied needs are clothed with purchasing power, so as to turn them into effective demand [for] goods and services" (Williams and Williams, 1987: 39). Similarly, Mishra (1990:18) contends: "the general principle behind the welfare state was that governments both could and should assume responsibility for maintaining a decent minimum standard of life for all citizens." There is general agreement in the literature that the welfare state was a synthesis of

Keynesian economics and Beveridge's social policy, with access to benefits and services provided as a right (Mishra, 1984; Clarke, Cochrane and Smart, 1987; Cass and Freeland, 1994; Jamrozik, 2001).

The first major feature of the welfare state was government commitment to maintaining high levels of employment, coupled with labour market regulation in the form of minimum wages, hours of work, and injury insurance, to curtail exploitation and ensure sufficient labour supply (Levine, 1988; Mishra, 1990; Teeple, 1995). Assuming primary economic importance after World War II was the pursuit of international economic stability, dependent upon successful implementation of aggregate demand policies to facilitate full employment, price stability, and international trade and finance (Mishra, 1990; Stoesz and Midgley, 1991; Gladstone, 1995). In addition, a new international financial framework was established to facilitate reconstruction and international trade.

Figure 1 Characteristics of the Welfare State



Social policy constituted the second element of the welfare state. Policies to meet essential needs (Levine, 1988; Abel-Smith, 1994), maintain living standards (Mishra, 1990), or redistribute income, wealth and power (Stoesz and Midgley, 1991) operated through transfer payments, subsidies and taxation. Contrasting previous arrangements, the welfare state included extensive provision of public services (Gladstone, 1995), predominantly provided on a universal basis (Mishra, 1990; Stoesz and Midgley, 1991) and delivered by the public sector (Gilbert, 1995). Thirdly, access to welfare state services was provided as a citizenship right, through state funded services, professionally and impartially administered, rather than discretionary assistance that was the hallmark of earlier charity based arrangements.

These three interdependent components of the welfare state combined to enhance economic growth, provide a healthy, educated workforce, and legitimate the system by providing benefits as a right of citizenship. High levels of economic growth facilitated full employment, simultaneously providing taxation revenue for delivery of formal welfare programs, and reducing need for social services (Stilwell, 2000: 29). Concurrently, welfare provision supported full employment; directly, by expanding employment opportunities particularly in the public sector, and indirectly, through transfer payments that supported aggregate demand.

2.1 Full Employment

The importance of the commitment to full employment cannot be overstated, it "was a truly epoch-making development" (Youngson, 1976:153). After decades of deprivation in the form of depression and world war, it represented an essential precondition for rebuilding the international economic system:

> The maintenance of international equilibrium requires sustained action, and the international interest commands that all countries fulfil their full employment obligations in such a way as to help others to maintain theirs. (UN, 1949: 8)

The commitment to full employment expressed in the United Nations Charter was evident in all advanced capitalist countries after the war (Whiteside, 1995; Jamrozik, 2001). In Full Employment in a Free Society, Beveridge emphasised that his 1942 report on Social Security constituted the beginning of a program to slay the 'five giants' - want, disease, ignorance, squalor and idleness - explicitly acknowledging that successful implementation of the social program was predicated on the achievement of full employment, which he defined as a situation where there are more jobs vacant than unemployed people (Beveridge, 1944: 18, 160, 274). These sentiments were reiterated in the White Paper released in England the same year, committing the government to maintaining a high and stable level of employment, which represented "acceptance by the State of a new responsibility to the individual" (Beveridge, 1944: 38). Moreover, Harris (1994) emphasises that full employment was not only the primary method of poverty reduction but also essential to underpin the financial viability of the social security system.

In Australia, the 1945 White Paper, *Full Employment in Australia*, stated that the government owed the Australian people full employment which, according to Labor Prime Minister Chifley, would mean that reliance on the formal welfare state would diminish over time (Castles, 1988). Sweden's 27 point plan released in 1944 stressed the commitment to full employment (Bryson, 1992; Ginsburg, 1992; Cass and Freeland, 1994; Timonen, 2001), just distribution, efficiency and democracy in industry (Furniss and Tilton, 1977: 126). The United States Employment Bill of 1946 contained only a minimalist commitment to full employment in contrast to President Roosevelt's comprehensive pledge in the 1944 Economic Bill of Rights (Furniss and Tilton, 1977). A constitutional amendment in 1954 obliged the Norwegian government to ensure "every able-bodied person can earn a living by his labour" (Bryson, 1992: 114-115).

The major strategies for ensuring full employment were Keynesian fiscal and monetary policies including counter-cyclical capital works programs, and public sector employment. Scharpf and Schmidt (2000) outline substantial national differences in full employment policies but declare them to be functionally equivalent solutions. The policy focus in England was on Keynesian policies, specifically expanding and contracting public investment to compensate for fluctuations in private investment, combined with interest rate variations to stimulate private investment (Beveridge, 1944; Cass and Freeland, 1994; Scharpf and Schmidt, 2000b).

A similar policy of counter-cyclical public capital expenditure was pursued in Australia in conjunction with attempts to stimulate private investment by maintaining low interest rates and controls over bank lending (Coombs, 1994). In addition, social security benefits were expected to stimulate aggregate expenditure due to the higher propensity to consume of lower income groups (Black, 1984). Attainment of full employment in both Australia and New Zealand was assisted by the protection of secondary industries (Scharpf and Schmidt, 2000a). The United States focused on development of natural resources, public works and support of mass purchasing power (Roosevelt, 1945). Despite very low levels of public ownership in the United States, government consumption spending supported private sector employment.

Scharpf and Schmidt (2000b) assert that the full employment commitment of Continental Europe was weaker than elsewhere, but Keynesian demand management policies were widely used in the 1960s. In the immediate post-war period Germany and Austria focussed on economic growth but unemployment remained high due to the influx of labour from other parts of Europe. Keynesian policies were not adopted in Germany (Shonfield, 1965) or Austria until the late 1950s (Esping-Andersen and Korpi, 1984).

In Sweden, recognition of the formal welfare state's dependence on full employment resulted in an obligation, as well as a right to work (Timonen, 2001: 50). Eichengreen and Iversen (1999: 126) contend that mildly counter-cyclical fiscal policies in Scandinavian countries were accompanied by "investment policy based on low interest rates and public savings", while private investment was further influenced in Sweden by the requirement that businesses deposit part of their surplus into public investment funds that were used during downturns (Eichengreen and Iversen, 1999).

Expansion of welfare state services increased public sector employment throughout the industrialised world. By 1970 public sector employment accounted for between 5.5 per cent and 15.1 per cent of total employment in OECD-18 countries. The nationalised industry sector was large in France, Italy, Austria and Britain (Dore, Lazonick and O'Sullivan, 1999; Eichengreen and Iversen, 1999). In stark contrast to mass unemployment in the 1920s and 1930s, unemployment rates remained low in all OECD-18 countries in the post-war period, with the exception of the United States, Canada and Italy, and declined in several countries between 1950 and 1960.

Studies of the political economy of the welfare state stress the importance of the interaction of the welfare state with the labour market. Governments in most countries altered distribution through legislation relating to employment protection, minimum wages and employment conditions, combined with recognition of workers' rights to organise. Centralised wage setting mechanisms were of primary importance to both economic and social policy. In several European countries tripartite corporatist arrangements determined wage increases while improvements in welfare benefits, or the 'social wage' were granted in return for wage restraint delivered by trade unions (Heidenheimer, Heclo and Adams, 1990; Huber and Stephens, 2001).

2.2 The Formal Welfare State

The instruments of formal welfare state intervention, transfer payments, provision of services, and taxation policies, were not new. What was new in the post-war period was comprehensive coverage and coordination to ensure improvements in social justice. The common characteristics of these interventions are summarised in this section.

Transfer payments were available for those unable to participate in the market economy, either temporarily or permanently, due to age, disability, family responsibilities or unemployment. In many countries, contributory social insurance benefits covered those in employment while a residual program of social assistance supported the remainder of the population. A major innovation in the post-war period was the extension of eligibility to the entire population (or at least the working population in the case of social insurance). Benefit rates were usually higher than before the war and often indexed to compensate for cost of living increases (Heidenheimer, Heclo and Adams, 1990). Despite the common trend toward universalisation, the level of income support varied considerably between countries. For example, in 1972 old age pension rates ranged from less than 20 per cent of average earnings in Australia, Canada, Japan and the United States, to 44 per cent in France and 51 per cent in Germany (OECD, 1976).

The second and perhaps most striking difference from earlier welfare provision was the comprehensive provision of services, particularly education, health and housing, and, in some countries, a range of caring and community services. Public expenditure on education in OECD-18 countries increased from 3.2 per cent of GDP in the early 1960s to 4.9 per cent in the mid 1970s. In the 1950s comprehensive high schools were introduced in some previously class-based education systems in Europe, including Sweden, the United Kingdom and Germany (Heidenheimer, Heclo and Adams, 1990). Expansion in the number of universities and students also provided opportunities for social mobility as the number of working class students increased. For example, in Germany the share of university places occupied by working class students increased from only 4 per cent in 1953 to 15 per cent by the late 1970s (Heidenheimer, Heclo and Adams, 1990).

Health expenditure increased even more rapidly, due to expansion of comprehensive health services. The public share of total health expenditure in OECD-18 countries increased from 60 per cent in 1960 to 75.4 percent in 1975. In Britain and Sweden the health system was financed through tax revenue, while European countries such as France, Germany and the Netherlands relied on public health insurance, and the United States used private health funds (Heidenheimer, Heclo and Adams, 1990). In addition to education and health the welfare state provided a plethora of services, including, public housing, childcare, aged care and community services.

Taxation constituted the third prong of the formal welfare state, including direct taxes in the form of personal and company income taxes, and indirect taxes such as sales and value added taxes. Tax revenue increased from around 25 to 33 per cent of GDP in the mid 1950s to 35 to 50 per cent by the mid 1980s (Heidenheimer, Heclo and Adams, 1990). Redistribution objectives were achieved by progressive taxation.

2.3 Rights of Citizenship

The major conceptual underpinning of the welfare state was that benefits were delivered as a right of citizenship (Marshall, 1973; Dale, 1981; Williams and

Williams, 1987; Mishra, 1990; Glennerster, 1991; Baldwin, 1994; Macintyre, 1999). In particular, provision of benefits as a right differentiated the welfare state from previous provision as a form of charity or public benefice (Wilensky, 1975; Goodin, 1988). Elaborating the Economic Bill of Rights in the State of the Union address in 1944, US President Roosevelt emphasised that everyone regardless of race or class was entitled to:

> …a useful and remunerative job … [paying] enough to provide adequate food and clothing and recreation … a decent home … a good education … adequate medical care … [and] protection from the economic fears of old age, sickness, accident, and unemployment. (Roosevelt, 1944)

Similarly, British Labour politician Aneurin Bevan declared: "[h]omes, health, education and social security, these are your birthright" (Briggs, 1961: 227).

Rights were not unconditional and varied considerably between countries. As outlined above, contributory social insurance constituted the primary means of support for those unable to participate in the labour market, except in Australia and New Zealand where social insurance was not adopted. Payments were given in return for prior contributions and viewed as a right rather than a dole (Baldwin, 1994; Deacon, 1995). The advantage of the citizenship right to social insurance was that decisions about eligibility were automatic and the means-test was eliminated (Heidenheimer, Heclo and Adams, 1990), marking a decisive break with the stigmatised poor law tradition. However, sections of the population outside the workforce were excluded.

Widespread service provision enhanced de-commodification, since services were removed from the market.[2] As well as direct provision of welfare services most governments ensured access and equity in relation to essential services such as water, gas and electricity, which were frequently owned and operated by the public sector, complete with community service obligations and subsidies for low income earners.

Implementation of these general principles resulted in considerable international variation in coverage and generosity. Administration was generally entrusted to large, often public sector, bureaucratic organisations. The shortcomings of bureaucracy in service delivery are well known and revolve around the inability of large organisations to respond appropriately to individual or community needs (Sturgess, 2001). Rigid, centrally determined rules can become the major focus rather than outcomes, and prevent local solutions to unique circumstances. Notwithstanding these criticisms, several positive aspects of bureaucratic organisations facilitated welfare provision. A professional public sector administered social policies: interpreting rules and regulations governing entitlements and payment rates; ensuring uniform service delivery; evaluating program adequacy and effectiveness; and recommending policy changes. Contrasting previous welfare provision by charitable organisations, the welfare state machinery ensured that, in the main, beneficiaries in similar circumstances achieved similar outcomes. Thus, judgements of worthiness or preferential treatment based on personal connections was eliminated and replaced with entitlements administered dispassionately (Sturgess, 2001).

Increasing universality of services enhanced equity of access in contrast to previous arrangements where access was often restricted to selected groups. In addition, state funding of services such as health care ensured uniform service standards for the entire population, with the notable exception of the United States where private health care continues to dominate. Public sector accountability constituted another important aspect of professional program delivery. Administrative procedures facilitated scrutiny of both the management of public funds, and decisions relating to the treatment of individuals and groups. In addition, rights were safeguarded by the operation of review and appeal mechanisms, including referral to independent tribunals.

2.4 Functions of the Welfare State

This review of the essential characteristics of the welfare state highlights the fact that it is inextricably linked to the market and the political process. The welfare state was not based on a comprehensive design to maximise individual welfare: it explicitly accepted the primary role of market mechanisms but intervened to modify market outcomes to make the system more just (Marshall, 1973; Dale, 1981; Mishra, 1984).

Marxian analysis contends that the welfare state is constrained by the ideological dominance of the market economy that involves individuals in specific social relations. Privately owned means of production are used to generate profit. Workers freely exchange their labour-power for wages, fostering widespread acceptance of the idea that people should work for a living because participation in the labour market produces a fair outcome for all. As Taylor-Gooby (1981: 54) explains:

> Issues tend to be recognised from a standpoint which takes the individual perspective of the market for granted. A powerful ideological tendency acts to hinder people realising their interests as class interests. Issues again tend to be thought about in a way that takes the institutions of capitalism and the limited role of the state in relation to them as a given.

The appearance of freedom and equality in the wage bargain legitimises reluctance to provide support for the able-bodied poor and the necessity to prove worthiness to qualify for assistance. It also conceals the exploitative nature of the employment relationship. As Marx explained, the material basis of the capitalist system is the extraction of surplus value from workers. The working day can be divided into two parts: a) necessary labour time, that part of the working day necessary for the reproduction of labour-power; and b) surplus labour time, the remainder of the working day for which the worker is not paid; where production represents surplus value (Marx, 1976).

O’Connor’s (1973) seminal work, *The Fiscal Crisis of the State*, proposed that state economic intervention served a twofold function; facilitation of capital accumulation and legitimation of the system. In relation to accumulation, O'Connor (1973) explains that socialisation of costs of production through ‘social capital’ expenditures increases productivity thereby enhancing capital accumulation. Social capital is divided into two components. First, ‘social investment’ expenditure on infrastructure increases productivity. Secondly, ‘social consumption’ expenditure on health and education lowers labour reproduction costs (O'Connor, 1973). In addition, ‘social expenses’ such as transfer payments, policing expenses and the like are not directly productive but maintain social harmony or legitimise the system (O'Connor, 1973).

Subsequent contributions to the literature have closely followed O’Connor’s analysis, identifying accumulation, reproduction of labour, legitimation and social control as functions of the welfare state (Gough, 1979; Dale, 1981; Mishra, 1984; Macintyre, 1999). Reproduction of labour power is assisted by the provision of transfers, education, health and services that produce a fit and educated workforce (Gough, 1979; Macintyre, 1999). Further, Gough (1979) claims government contributions assist accumulation; directly through expenditures on government contracts, and indirectly through transfer payments that increase aggregate demand. Burchill (2000: 284) contends that government policies, and consequently the "proper functioning of the democratic process" are constrained by the need to be "compatible with business-capitalist interests". The legitimation function of the welfare state is generally fulfilled by delivery of programs in response to demands by the working class (Gough, 1979; Dale, 1981), thereby enhancing social cohesion and social justice (Mishra, 1984). Legitimation is also enhanced by the provision of employment and economic security, as well as through political democracy and individual liberties (Mishra, 1984).

However, liberty and democracy are tempered by the final, controversial, welfare state function, social control. According to Gough (1979:11), radical critics of the welfare state in the 1960s claimed "social work, the schools, housing departments, the probation service, social-security agencies-all were seen as means of controlling and/or adapting rebellious and non-conforming groups in society to the needs of capitalism." In particular, education reinforces attitudes to work and disciples young people in preparation for the labour market (Bowles and Gintis, 1976; Gough, 1979). Social control aspects of the welfare state have become increasingly important in recent decades with increased insistence on behaviour modification as a prerequisite for welfare receipt.

Table 1 Welfare State Benefits and Costs

	Benefits	Costs
Individuals/ Households (Working class)	Reduces reliance on the market Provides access to services Income redistribution through transfer payments and in kind benefits	Imposes social control Taxes and social security contributions
Companies (Capitalist class)	Socialisation of production costs Increases profits Social control	Taxes De-commodification effects reduce ability to discipline the workforce

Thus, the role of the welfare state is complex, encompassing economic, political and social implications. Table 1 summarises the impact of state provision of welfare from a broad class perspective. As outlined above, corporate sector profits are boosted by the socialisation of costs of infrastructure and the reproduction of labour power, such as health and education. Additional benefits include direct grants, taxation exemptions or concessions and assistance such as industry protection. Offsetting these benefits, businesses contribute to welfare state funding through taxation. The welfare state has a contradictory effect on the ability of firms to exercise control over the workforce. In the first instance subordination of welfare to the market enhances work incentives, since benefits delivered through social insurance schemes are restricted to those with prior workforce participation. Offsetting this effect is the opportunity afforded to individuals to reduce market reliance for the satisfaction of welfare needs.

Gough (1979: 12) claims that the welfare state is contradictory because it "simultaneously embodies tendencies to enhance social welfare … and tendencies to repress and control people, to adapt them to the requirements of the capitalist economy." For individuals the welfare state reduces reliance on market outcomes to determine welfare and social participation. In particular, access to health care, housing and personal services directly enhances welfare, while education can facilitate social mobility. Similarly, income is redistributed through transfer payments and in-kind services. In return individuals contribute through various forms of direct and indirect taxation, including income tax, social security contributions and goods and services taxes. However, welfare beneficiaries are subjected to various forms of behavioural control as a precondition for access to benefits.

In addition, it is necessary to remain cognisant of the fact that individuals and groups enjoy differential benefits. Many analysts contend that the welfare state provides disproportionate benefits to more affluent groups due to greater utilisation of health, education, and tax concessions (Le Grand, 1987b; Gilbert and Gilbert, 1989; Bryson, 1992; Gladstone, 1995; McMahon, 2000), but these benefits are not always obvious because they are not widely recognised as welfare policies and beneficiaries are not viewed as dependent (Bryson, 1992; Travers, 1998).

3. Issues in Comparative Analysis

Comparative welfare state literature is dominated by analysis of public social expenditure expressed as a percentage of GDP as a measure of welfare effort. Welfare state proponents have advocated that low-spending countries, denoted laggards, should emulate the higher expenditure of welfare state leaders. However, the shortcomings of using aggregate social expenditure as a measure of welfare effort are well-documented (Kewley, 1973; Gough, 1979; Jones, 1985; Esping-Andersen, 1990; Castles and Mitchell, 1991). Since the purpose of welfare expenditure is to ameliorate market outcomes, it is evident that social expenditure is only part of the equation. An assessment of market outcomes is an essential starting point, including income distribution from employment and the level of unemployment to determine the extent of need in society, and hence the appropriate redistribution measures (Castles, 1985:). As Kewley (1973: 563-64) indicates:

> In countries with full employment, high standards of living and fairly equal distributions of income, the need for such subsidies may be relatively less, and accordingly may appear as a relatively small ratio to gross national product. Other things being equal, is a country that incurs high social security expenditure because of high rates of unemployment and endemic health problems more advanced in social security than another country that spends a lower proportion of its gross national product on social security because it is more favourably placed in these matters? It is very difficult to make judgements of 'high' or 'low' in relation to social security expenditures without taking into account the whole demographic, social, economic and institutional structure.

Thus, spending comparisons that fail to consider these factors can lead to perverse conclusions. For example, social security transfer expenditure for both Denmark and New Zealand represented a similar proportion of GDP in 1973 but the unemployment replacement rate in New Zealand was only 22 per cent of the average wage compared to 64 per cent in Denmark (Huber and Stephens, 2001: Tables A.3 and A.9). Similar distortions may be observed with regard to variations over time within a single country. Gough (1979: 91-93) cautions against automatically equating increased social expenditure with welfare improvements, pointing out that in situations of rising need “the social services may have to keep on running in order simply to stand still.” This factor is of particular relevance when considering variations in expenditure on transfer payments between periods with considerable differences in economic or demographic variables. The often-quoted example of the first Thatcher government in the UK (1979-1984) illustrates this point. Despite cuts to benefit rates, unemployment expenditure increased by over 45 per cent due to the recession in the early 1980s (Le Grand and Winter, 1987). In this instance higher expenditure occurred despite reduced welfare commitment.

Two further issues underscore the importance of extending the analytical horizon. First, aggregate expenditure comparisons ignore tax concessions although the welfare impact of these benefits is arguably identical to transfer payments and fail to take account of taxes on transfer payments (Le Grand, 1987a; Esping-Andersen, 1990; Heidenheimer, Heclo and Adams, 1990; Castles and Mitchell, 1991; Taylor-Gooby, 2001a, 2001b). Secondly, qualitative differences are not distinguishable using aggregate social expenditure data. In other words, there is an implicit assumption that social expenditure is homogenous; all social expenditure produces equivalent benefits to society. However, Esping-Andersen contends that:

> If what we care about is the strength of social rights, equality, universalism, and the institutional division between market and politics, social-spending levels may camouflage more than they reveal. (1990:106)

Similarly, Pierson (1994; 2000) declares that examining expenditure levels fails to reveal changes in the structure of benefits, and possibly conceals the long-term consequences of policy changes. The impact of issues pertaining to the design of welfare programmes is discussed below.

3.1 Welfare System Design

Specific dimensions of welfare provision are determined politically, as part of the class struggle (Heidenheimer, Heclo and Adams, 1990), through normative societal judgements about the scope, level and type of benefits, target groups, service delivery and funding arrangements (Clarke, Cochrane and Smart, 1987; Taylor-Gooby, 2001a). Any consideration of the welfare state must be prefaced by consideration of the concept of need, for societal recognition of need gives rise to decisions to provide collective welfare (Dale, 1981; Taylor-Gooby, 1981; Abel-Smith, 1994). This represents normative rather than objective decision-making, as Titmuss (1974:132) emphasises:

> There is no escape from value choices in welfare systems. The construction of any models or the elaboration of any theories which have anything to do with 'policy' must inevitably be concerned with 'what is and what might be'; with what we (as members of a society) want (the ends); and with how we get there (the means).

Thus, the welfare state expanded as states of deprivation were recognised as warranting social provision. Similarly, assistance may be withdrawn if new judgements determine that intervention is no longer appropriate or ‘deserved’. Need, viewed as a socially determined prerequisite for welfare intervention, explains wide variations in the scope of welfare systems in different countries, and indeed, in the same country in different time periods.

An examination of individual welfare states attests to the unique characteristics of social policy in each country. All advanced countries provide assistance for those unable to participate in the market due to old age, sickness or disability, unemployment or caring responsibilities, as well as core services such as education and health. However, there are significant variations in the range of benefits and services, selectivity or universality of coverage, generosity and duration of benefits. Some countries provide a comprehensive range of services such as health care, housing and childcare in addition to transfer payments while others provide only minimal, short-term protection for citizens. For example, in contrast to other welfare states, the US does not provide a universal public health system, limiting public health assistance to Social Security (Medicare) and welfare (Medicaid) recipients. Similarly, the US does not provide family allowances and joins Australia as the only other advanced country without paid maternity leave. The remainder of this section discusses specific choices involved in social policy design and the associated welfare implications.

Payments and services may be provided on either a selective or universal basis. Selective services, with eligibility determined by means-testing, usually provide meagre benefits accompanied by stigma and are generally considered inferior, (Bryson, 1992). Esping-Andersen (1990: 20) contends that means-tested benefits, or "a reformed poor-relief tradition hardly qualifies as a welfare-state commitment", while Bryson (1992) links the choice of selective benefits to attempts to maintain work incentives by discouraging reliance on welfare. In contrast, universal programs afforded as a right are recognised as facilitating social solidarity and conferring equality of status since all citizens benefit irrespective of circumstances (Castles and Mitchell, 1991).

Transfer payments, taxation expenditures and 'in kind' benefits constitute major instruments, and reflect goals of welfare state policies. Issues considered in designing transfer payments are the basis of eligibility, level of benefit and method of financing. Eligibility for social insurance schemes is conditional on prior labour market participation and contributions, with both contributions and payments generally earnings-related. They maintain income differentials since they are designed to maintain living standards and ensure social participation during periods outside the labour market, but are not redistributive. Eligibility based on citizenship is usually restricted to less generous, means-tested, tax financed, social assistance programs, designed to alleviate poverty while minimising negative impacts on incentives for market participation. Such benefits can generate poverty traps due to high effective marginal tax rates (EMTRs) caused by the combination of taxation and withdrawal rates for earned income (Wicks, 1995). Flat-rate benefits are primarily designed to provide a safety net or to alleviate poverty. Importantly, transfer payments encourage labour market participation since social insurance programs are conditional on previous work, and, in the case of social assistance, payments are minimal.

Tax expenditures are functionally equivalent to transfer payments and include: tax concessions for dependants, mortgage interest payments, superannuation contributions, health insurance premiums, education and training expenses, preferential tax rates and negative gearing. Moreover, tax concessions are regressive because they provide larger benefits to high-income earners, impacting negatively on the redistributive effort of the welfare state (Kewley, 1973; OECD, 1976).

The major choices regarding the third method of welfare provision, 'in-kind' services, include whether these will be provided on a selective or universal basis; delivered by the public, private, or non-profit sectors; the level of service; and finally, whether the service will be free of charge or based on partial or total cost recovery. Provision of essential services free of charge has traditionally been recognised as conferring full citizenship rights and fulfilling the welfare state objectives of equity, equality and social justice.

Public perceptions of legitimacy are influenced by financing methods. Non-contributory benefits granted as a right of citizenship and financed from general taxation can be viewed as an expression of social solidarity. However, such benefits are generally minimal, restricted to the poor, and consequently more vulnerable to retrenchment. Despite a sometimes tenuous link between accumulated contributions and subsequent benefits, social insurance benefits are considered an 'earned' right due to employer and/or employee contributions. The perception of entitlement, combined with participation by large sections of the population provides protection against retrenchment attempts (Heidenheimer, Heclo and Adams, 1990).

The issue of public sector involvement in welfare services has two separate components, public funding, and public delivery. Public funding decisions are predicated on the inability of the market to deliver adequate services due to market failure. For example, Barr (1993) argues that almost all the assumptions of perfect competition fail in the case of health, therefore market determination of the level and distribution of health services is not unambiguously the most efficient solution. In particular, there are technical problems associated with private medical insurance, combined with imperfect information due to the complex technical nature of health care and the inability to anticipate the amount of care needed.

Critics of the public sector point to potential oversupply due to the political influence of interest groups seeking bureaucratic expansion (Barr, 1993). However, OECD data suggest similar problems exist when private spending decisions determine the level of services. Despite greater reliance on private medical care, the United States recorded the highest health expenditure in the OECD in 2000: 13.1 per cent of GDP compared to 10.7 per cent for second placed Switzerland, and 7.7 per cent for the UK (OECD, 2003). Moreover, market determined service levels impact negatively on equity by providing greater access to higher income earners (Barr, 1993).

Barr (1993) argues that the decision to fund services publicly is separate from the decision to deliver them publicly, the latter being a technical decision that should be determined by assessing which method is most efficient in achieving policy objectives such as social justice. Historically, public delivery of services was the predominant method of providing services in many countries throughout the post-war period, but has declined in recent years with implementation of policies such as quasi-markets and contracting out to the private or non-profit sectors.

4. Welfare State Regimes

Several models of welfare state regimes have been developed in an attempt to simplify comparative analysis, which Esping-Andersen (1990: 20) explains:

> is an approach that forces researchers to move from the black box of expenditures to the content of welfare states: targeted versus universalistic programs, the conditions of eligibility, the quality of benefits and services, and, perhaps most importantly, the extent to which employment and working life are encompassed in the state's extension of citizen rights.

Table 2 Welfare State Regimes

<table>
<tr><td>Titmuss
(Titmuss, 1974)</td><td colspan="2">Residual Welfare Model
a) Market and family provision
b) Social welfare institutions as last resort
c) Temporary assistance</td><td colspan="2">Industrial Achievement-Performance
a) Significant role for social welfare institutions
b) Social need-merit, work performance and productivity</td><td colspan="2">Institutional Redistributive
a) Major integrated institutions of society, providing universalist services on needs basis
c) Social equality and redistribution</td></tr>
<tr><td>Furniss and Tilton
(Furniss and Tilton, 1977)</td><td colspan="2">Positive State
a) Government-business collaboration for economic growth
b) Social insurance on actuarial principles
c) Ensures work discipline</td><td colspan="2">Social security State
a) Government-business collaboration for growth
b) Full employment-public employment as last resort
c) Guaranteed minimum as a right</td><td colspan="2">Social Welfare State
a) Full employment, govt-union cooperation
b) Solidaristic wage policy
c) Social policy aims-equality, redistribution of income</td></tr>
<tr><td>Mishra
(Mishra, 1981)</td><td colspan="2">Residual
a) Minimal state responsibility
b) Limited range, mainly means-tested services, low benefits, covering a minority of the population
c) Low % of GDP spent on services
d) Coercive orientation of service-clients low status
e) Primary role for non-statutory agencies in welfare</td><td colspan="2"></td><td colspan="2">Institutional
a) Extensive range of services, to majority of population, citizenship basis
b) Acceptance of State responsibility for meeting needs
c) Medium level of benefits
d) Medium % of GDP spent on services
e) Secondary role for non-statutory agencies in welfare</td></tr>
<tr><td>Esping-Andersen
(Esping-Andersen, 1990)</td><td colspan="2">Liberal Welfare State
a) Dominated by market
b) Benefits: means-tested and stigmatised, or
c) Modest universal transfers, or
d) Modest social-insurance
e) Examples: USA, NZ, Canada, Australia</td><td colspan="2">Conservative/Corporatist
a) Uphold existing class and status differentials
b) Few redistributive effects
c) Examples: Austria, France, Germany, Italy</td><td colspan="2">Social Democratic
a) Promote equality of highest standards
b) Universal earnings-related insurance
c) Commitment to full employment
d) Examples: Scandinavian countries</td></tr>
<tr><td>Castles and Mitchell
(Castles and Mitchell, 1991)</td><td>Liberal
a) Low benefits and benefit equality
b) Political dominance of right
c) Low trade union density
d) Ireland, Japan, Switzerland, USA,</td><td colspan="2">Conservative
a) High social expenditure and low benefit equality
b) Low trade union density
c) Germany, Italy, Netherlands, France, Austria</td><td colspan="2">Non-Right Hegemony
a) High benefit levels and high equality
b) High trade union density
c) Political dominance by left parties
d) Belgium, Denmark, Norway, Sweden</td><td>Radical
a) Low benefit levels - high degree of equality
b) High trade union density
c) Political dominance by parties of the right
d) Australia, NZ, UK, Canada, and Finland.</td></tr>
<tr><td>Leibfried
(2000)</td><td>Anglo-Saxon
a) Residual welfare
b) Welfare as last resort
c) Welfare as work enforcing mechanism</td><td colspan="2">Bismark Countries
a) Subsidised exit from labour market
b) Economic development priority
c) Substitutes right to social security for right to work</td><td colspan="2">Scandinavian
a) Right to work
b) Universalism
c) State is employer of first resort
d) Subsidised entry to exit from labour market</td><td>Latin Rim
a) Rudimentary welfare state
b) Focus-entry to labour market, residualism
c) Welfare associated with religion</td></tr>
<tr><td>Huber and Stephens
(Huber and Stephens, 2001)</td><td>Liberal
a) Partial program coverage
b) Income or needs testing
c) Moderate to low replacement rates
d) Few public services
e) Passive family and labour market policy</td><td colspan="2">Christian Democratic
a) Fragmentation of entitlements-mainly employment-based
b) Emphasis on transfers
c) Moderate/ high replacement rates
d) Private or third sector delivery
f) Passive LMP</td><td colspan="2">Social Democratic
a) Universalistic
b) Comprehensive
c) Citizenship based
d) High income replacement rates
e) High levels of publicly delivered services
f) Gender equality
g) Active LMP</td><td>Wage Earner
a) Partial program coverage
b) Income testing but with high income limits
c) Moderate to low replacement rates
d) Few publicly delivered services
e) Passive LMP</td></tr>
</table>

The model elaborated by Esping-Andersen (1990) has influenced much of the succeeding work. Following Titmuss (1974), he outlined three ‘ideal’ welfare state types, ranging from minimal to comprehensive provision: the liberal, conservative, and social democratic regimes. The basic characteristics of welfare state regimes are summarised in Table 2.

4.1 The Liberal Welfare State

Several variations of what is commonly referred to as the liberal welfare state regime, encompassing primary reliance on the market and restricted coverage, have been developed. First, Titmuss' (1974) residual welfare model ascribed the role of ‘provider of last resort’ to social welfare institutions; reserved for instances where the market and family are unable to satisfy individual needs. Subsequent typologies include: the positive state of Furniss and Tilton (1977); the residual model of Mishra (1981); the liberal model of Esping-Andersen (1990), Castles and Mitchell (1991), Huber and Stephens (2001), and Scharpf and Schmidt (2000b); and the Anglo-Saxon model outlined by Leibfried (2000).

Social insurance programs based on actuarial principles are the primary focus of Furniss and Tilton’s (1977) positive state, while Mishra (1981) and Huber and Stephens (2001) emphasise means-tested benefits. Alternatively, Esping-Andersen (1990) contends that modest benefits are the defining characteristic, regardless of whether they are means-tested and stigmatised, universal transfers, or social insurance. Additional characteristics include: low spending on a limited range of social services (Mishra, 1981; Huber and Stephens, 2001); the coercive and stigmatising nature of welfare and a preference for service provision by private agencies (Mishra, 1981; Huber and Stephens, 2001); commitment to full employment, and alleviating poverty rather than maintaining living standards (Scharpf and Schmidt, 2000b).

According to Leibfried (2000) and Furniss and Tilton (1977), work enforcement is an important function, operating either through low social assistance benefit levels, or contribution requirements for social insurance eligibility. The liberal welfare state regime occurs predominantly in countries where parties of the right where incumbent for extended periods (Castles and Mitchell, 1991; Huber and Stephens, 2001).

The roots of the Liberal welfare state regime can be traced to the emergence of liberal ideology in the eighteenth century, during a period of economic, social, and political upheaval. Adam Smith and subsequent laissez-faire liberals argued that economic efficiency and maximum wealth production was a consequence of the free operation of the market, guided by the ‘invisible hand’. Within this ‘natural order’ individuals participated in the market for their present and future livelihood or relied on the support of family, friends, or private charities, with public relief, rife with moral judgements, provided as a last resort. Thus, liberalism championed freedom, accepting economic inequality and behavioural controls on those forced to seek assistance.

In short, the liberal regime is based on the neoclassical view of the primacy and efficiency of the market. Despite the existence of regular business cycles producing periods of high unemployment the implicit and sometimes explicit assumption is that the market is capable of providing for the entire population. The provision of only minimal assistance is justified by the necessity to maintain work incentives, and the stigma of individual failure remains.

4.2 The Conservative Welfare State

The conservative welfare state first elaborated by Titmuss (1974) as the industrial achievement-performance model, posits the welfare state as an adjunct to the economy, with economic performance paramount. It focuses on the link between work and welfare inasmuch as social needs are met on the basis of previous work performance. Similar characteristics are included in the social security state of Furniss and Tilton (1977), the conservative model of Esping-Anderson (1990) and Castles and Mitchell (1991), the Bismarck countries specified by Leibfried (2000), and the Christian Democratic regime outlined by Huber and Stephens (2001). High replacement rates (Huber and Stephens, 2001) and a high level of social expenditure (Castles and Mitchell, 1991) reflect state acceptance of responsibility for social welfare, which is provided as a right (Furniss and Tilton, 1977; Leibfried, 2000). Furniss and Tilton (1977) claim that there is a commitment to full employment, including public employment as a last resort, however Leibfried (2000) suggests that this regime substitutes the right to social security for the right to work. In addition, social policy reinforces the male breadwinner model, is firmly based on existing social stratification, with earnings-related benefits and little redistribution (Esping-Andersen, 1990; Huber and Stephens, 2001).

The distinctiveness of the conservative welfare state has been attributed to the influence of corporatist thought and the Catholic church (Bowen, 1947; Goodin *et al.*, 1999). Two corporatist movements, Social Catholicism and Monarchical Socialism, emerged in Germany in the latter part of the nineteenth century in response to social problems caused by industrialisation, poverty and insecurity among workers, the decline of traditional industries, and, importantly, the electoral success of the revolutionary Social Democratic Party (Bowen, 1947).

While maintaining strong support for capitalism as the most efficient and progressive form of production, both movements sought to protect traditional society from the excesses associated with industrial development, both in the form of laissez-faire capitalism and its antithesis, socialism, thereby providing justification for the "unequal apportionment of social functions, rewards, rights, duties, privileges and responsibilities" (Bowen, 1947:13). Common to all strands of corporative thought was the idea of the organic nature of society, which ensures social cohesion (Goodin *et al.*, 1999) and a well-functioning economic and social system, effectively removing class antagonisms.

Esping-Andersen (1990) explains that commodification of labour and individual competition, associated with industrialisation, challenged the moral foundations of a social order dedicated to the subordination of individual interest to the needs of society, and the maintenance of authority. Consequently, corporatism resisted the commodification of labour, advocating state intervention to prevent exploitation of workers and delivery of wage justice in the form of a living wage (Pope Leo XIII, 1942; Esping-Andersen, 1990). Corporatists advocated a combination of private charity and social legislation to cure social problems without challenging the "capitalist-individualist social order" (Bowen, 1947:110).

The significance of corporatist thought for subsequent welfare state development lies in the institutional remnants of this attempt to steer a middle course between the excesses of laissez-faire capitalism on the one hand and the threat of socialism on the other. Social welfare is based on granting social rights to groups with a 'collectively shared lifestyle', with a primary focus on labour market participation moderated by acceptance of state intervention to ameliorate market outcomes (Mückenberger, 1994). Since groups are expected to accept responsibility for the welfare of members the initial responsibility for welfare assistance rests with the family, then the wider social group, which provides a form of mutual insurance for members. Finally, there is resort to the church, voluntary associations, or the state.

While this sequence of assistance is similar to that observed in the liberal regime there are significant differences. First, the corporatist model includes group provision, whereby groups have responsibility for mutual welfare in contrast to the liberal regime reliance on charity, motivated by pity or sympathy (Goodin et al., 1999). Secondly, the dominance of contributory social insurance confers a right to welfare based on previous workforce participation and contributions (Esping-Andersen, 1990) ensuring that all are taken care of in accordance with their social position.

4.3 The Social Democratic Welfare State

The social democratic (Esping-Andersen, 1990) or institutional redistributive model (Titmuss, 1974) provides both additional rights and benefits through an integrated approach, incorporating comprehensive coverage based on social equality, universal benefits and a commitment to redistribution. In addition, the social welfare state model (Furniss and Tilton, 1977), the social democratic model (Esping-Andersen, 1990; Castles and Mitchell, 1991; Huber and Stephens, 2001), and the Scandinavian model (Leibfried, 2000), include a commitment to full employment. Moreover, this regime delivers higher levels of social expenditure and individual benefits and a secondary role for non-statutory agencies (Mishra, 1981; Huber and Stephens, 2001).

The Social Democratic welfare state is perhaps the fullest flowering of Marshall's (1973) elaboration of the evolution of citizenship; beginning with civil rights in the eighteenth century, political rights in the nineteenth century, and culminating in the twentieth century with the attainment of social rights. This regime focuses on the "socialist ideals of liberty, equality, solidarity, democracy, economic efficiency, and personal security" (Furniss and Tilton, 1977: 123). In contrast to the reluctance of both the liberal and conservative regimes to intervene in the market, the Social Democratic regime is premised on intervention for the purpose of redistribution.

The principle of social equality implies a diminution of class barriers and reduced inequality of income and wealth, providing a sharp contrast with the reinforcement of stratification produced by the means-tested and social insurance benefits of the liberal and conservative regimes (Esping-Andersen, 1990). Extensive state provision encompasses a range of generous income support policies, direct provision of services and the pursuit of full employment. Two important factors enable citizens to participate fully in economic and social activities. First, the state accepts responsibility for many functions relegated to the family elsewhere. The provision of facilities to care for children, the sick and elderly facilitates the participation of women in the labour market. Secondly, the removal of service provision from the realm of the market ensures equitable access.

In addition to the three welfare state regimes developed by Titmuss, Leibfried includes a fourth model, the Latin Rim, characterised by a rudimentary welfare state. Castles and Mitchell (1991) also include a fourth welfare state regime, the radical welfare states of Australia and New Zealand, a classification picked up by Huber and Stephens (2001) as the wage earners' welfare state, which has characteristics similar to the liberal welfare state.

4.4 Classification of individual countries

Despite the crisp delineation of the 'ideal' welfare state models outlined above, practical attempts to use this typology to classify countries are problematic for several reasons. All countries have a mixture of flat rate, earnings-related and means-tested benefits, which the literature would situate in the social democratic, conservative and liberal regimes, respectively. For example, social assistance exists in all advanced countries for those who have not contributed to social insurance schemes. Corporatist social insurance schemes, based on contributions and earnings, are found in liberal countries such as the UK and US as well as social democratic regimes such as Sweden. Features of the social democratic model are evident in the education policies of all major developed countries, in addition to universal health care in many countries. These essential differences between the regimes relate to the degree of welfare entitlement, the scope and level of benefits. Also, changes in social policy may result in a country moving from one welfare state regime to another over time (Jamrozik, 2001).

Having considered the characteristics of welfare state regimes, we can accept that there are at least three distinct 'ideal' types of welfare states within which advanced industrial countries may be classified according to the package of welfare provided. Using Esping-Andersen's typology there is general agreement that the social democratic regime closely resembles welfare provision in the Scandinavian countries, the conservative model is associated with continental Europe, and Anglo-Saxon countries are closest to the liberal regime.

5. Theories of Welfare State Development

Dominant theories regarding welfare state development attribute its emergence and expansion to either the needs of industrialisation, or the balance of power resources in society resulting from the struggle over distribution. A number of additional factors are hypothesised as influencing development including: a) institutional arrangements (Gough, 1979; Pierson, 1994; Huber and Stephens, 2001); b) World War II (Fraser, 1984; Goodin and Dryzek, 1987; Abel-Smith, 1994; Giddens, 1998; Eichengreen and Iversen, 1999); c) policy legacies (Pierson, 1994; Huber and Stephens, 2001); and d) crises (Goodin and Dryzek, 1987; McMahon, 2000). Early studies attempted to determine a single causal factor of welfare effort using expenditure as a percentage of GDP to represent welfare state development, while more recently the literature has developed in a multi-causal direction incorporating entitlements and outcomes (Huber and Stephens, 2001), and interaction effects (Esping-Andersen, 1990; Heidenheimer, Heclo and Adams, 1990) as well as expenditure. Castles (1985) stresses that social policy determination cannot be explained by a single cause, but is the outcome of complex interactions between socioeconomic and political factors.

The 'logic of industrialisation' theory, posits welfare state development as a functional outcome, or natural by-product of industrial society where the proportion of GDP allocated to social expenditure grows in accordance with economic development. The general argument is that industrialisation caused significant changes including rapid urbanisation, reduced ability to subsist without paid employment, and, to a large extent, the elimination of traditional familial and community support arrangements. Hence, state welfare provision was a necessary adjunct to development, required to compensate for increasing insecurity (Heidenheimer, Heclo and Adams, 1990).

Another aspect of the logic of industrialisation argument relates to Marxist analysis of the accumulation and legitimation functions of the welfare state discussed previously. First, the welfare state contributes to accumulation by socialising some costs of production (O'Connor, 1973; Offe, 1984). Secondly, the inherently unstable, antagonistic social relations under capitalism necessitate the provision of welfare to prevent social unrest. This aspect has been stressed by several writers in relation to specific developments, such as Bismarck's groundbreaking social insurance legislation in Germany (Bowen, 1947; Borchardt, 1973; Dilnot, 1995; Thane, 1996; 100). Of greater significance to the proposition that the welfare state phenomenon emerged at the end of the Second World War is the assertion that its creation and expansion was influenced by the threat posed to the capitalist system by the existence of the Soviet Union (Greider, 1996; Eichengreen and Iversen, 1999).

Closely related to the legitimation aspect of the logic of industrialisation theory is the power resources thesis, a class struggle perspective which proposes that public policy operates in the interests of capital unless organised labour forces change (Korpi, 1983; Heidenheimer, Heclo and Adams, 1990; Huber and Stephens, 2001). According to this theory, welfare is granted as a result of class mobilisation. However, it is important to emphasise that although the granting of welfare is a concession to the working class, the form of welfare measures is determined by the state as part of the political process and does not necessarily coincide with the demands of the labour movement (Dale, 1981).

The logic of industrialisation theory fails to explain why, in some instances, welfare developed in economically backward countries earlier than in more developed countries or why the welfare state in the most developed country, the United States, continues to lag behind most developed countries. However, the major criticism is that this fundamentally functional theory minimises the importance of the political process, or human agency, in determining policy (Heidenheimer, Heclo and Adams, 1990).

The power resources theory is generally acknowledged as the major cause of welfare state development (Gough, 1979; Dale, 1981; Castles, 1985; Goodin and Dryzek, 1987; Esping-Andersen, 1990; Huber and Stephens, 2001). Empirical studies have found support for the power resources thesis using three major variables to measure working class power: a) proxies of the political strength of parties of the left, including periods of incumbency, share of cabinet positions, and percentage of total votes; b) corporatist arrangements where the social partners influence policy decisions; and, c) trade union statistics such as trade union density or strike activity (Esping-Andersen, 1990; Huber and Stephens, 2001).

Wilensky (1975) found generosity was positively related to centralised government, working class organisation, modest rates of social mobility, low tax visibility, low levels of self-employment, and limited private welfare provision. In a study of Australian and New Zealand welfare state development, Castles (1985) cites power resources as the causal factor, finding that prior to 1910 welfare expansion was due to working class pressure on governments, while later progress was achieved primarily due to the incumbency of social democratic governments representing the interests of the working class. Similarly, in a study of OECD-18 countries, Huber and Stephens (2001) found that incumbency of social democratic governments, based on the organised power of the working and lower middle classes, was the major determinant of generous and redistributive welfare states.

Amenta and Skocpol (1989) claimed that class struggle could not explain expansion of the US welfare state during the 1960s when policies introduced were predominantly for blacks, but concede that a prerequisite for expansion in the 1930s and 1960s was a Democratic president and a Congress dominated by Democrats from areas where organised labour was strong (Amenta and Skocpol, 1989: 319). Piven and Cloward (1972) demonstrate that welfare expansion in the United States can be understood as concessions granted in the face of mobilisation of the working class, detailing the increasing militancy of the 1960s civil rights and anti-Vietnam war demonstrations.

Institutional arrangements have been identified as a major factor influencing the development of welfare states. Centralised, unicameral institutional arrangements provide governments with the opportunity to institute radical change and therefore, during the expansion phase, have been associated with more generous welfare states (Heidenheimer, Heclo and Adams, 1990; Huber and Stephens, 2001), while decentralised institutional arrangements have blocked innovations in social policy.

In addition, many commentators claim the ‘total war’ aspect of the Second World War was a catalyst for the development of the welfare state since almost the entire population was involved in the war effort, egalitarianism resulted from acceptance of wage and price controls imposed on the basis of ‘fair shares’, and civilian casualties drew attention to the inadequacies of the health system (Marshall, 1973; Titmuss, 1976; Fraser, 1984; Abel-Smith, 1994; Wicks, 1995; Giddens, 1998). Other writers such as Eichengreen and Iverson (1999) suggest that the war played a facilitating, rather than a causal role, citing the centralised structures created during the war as providing the framework for increased state intervention in the post-war period. The magnitude of war-time change is highlighted by Fraser (1984) pointing to Britain’s direction of labour, provision of school meals and milk, and the introduction of supplementary pensions in the 1940 Old Age and Widow’s Pension Act. Goodin and Dryzek (1987) discount social solidarity explanations, asserting that the extraordinary circumstances of the depression and war resulted in acceptance of the need for welfare expansion due to widespread uncertainty about the future.

Assessing developments in Australia, McMahon (2000) attributes welfare expansion since the late nineteenth century to crises; an explanation which accords with Goodin and Dryzek’s (1987) assertion that extensive welfare state expansion requires dramatic events. However, care should be exercised in linking crises with welfare developments since the existence of a crisis merely provides the situation in which political processes, involving human agency, determine outcomes. This point is highlighted by Heidenheimer (1990: 224), who points to interaction effects claiming that the consensus among comparative studies is that:

> Industrialization, and its accompanying social changes, set in motion the necessary preconditions for contemporary income maintenance policies. However the timing and content of those policies remain heavily influenced by political processes.

6. Welfare state retrenchment

Those who argue significant retrenchment has not occurred since the mid 1970s point to the fact that social expenditure has continued to increase, albeit at a slower rate, and major benefits and services have not been abolished. While public social expenditure increased significantly for most OECD-18 countries between 1980 and 2001, changes in the proportion of GDP devoted to social programs are not accurate indicators of welfare state expansion or contraction, and thus, an inappropriate measure of retrenchment. Pierson (1994) argues that analysis of retrenchment should not be restricted to short-term effects of spending cuts, pointing out that many policy changes are subject to incremental implementation, so that the full impact is not evident for many years. He insists on the examination of changes to policy structure to prevent the ‘black box’ problem identified by Esping-Andersen (1990), whereby the exclusive concentration on quantitative issues obscures qualitative changes. Pierson (1994: 15) concludes that “[r]etrenchment should be seen as a process of shifting social provision in a more residualist direction, not just as a matter of budget cuts”.

Pierson (1994) asserts that there are two types of retrenchment policies, programmatic and systemic (see Table 3). Programmatic retrenchment involves discretionary policy initiatives encompassing expenditure unrelated to variations in economic or demographic variables, along with alterations in eligibility criteria, generosity of benefits, and rights. Systemic retrenchment refers to “policy changes that alter the broader political economy and alter welfare state politics”, including reducing revenues necessary for welfare state funding, policy induced changes in public opinion, modifications to political institutions, or weakening of pro welfare state interest groups (Pierson, 1994: 15-17).

Table 3 Factors constituting welfare state retrenchment

		Measures
Programmatic Retrenchment	Spending cuts	No indexation
		Change indexation method
	Reshaping welfare programmes	Change eligibility requirements
		Provision of transitional benefits.
		Split consumer-producer coalitions
Systemic Retrenchment	Defunding	Cutting taxes
		Attempting to increase the visibility of tax
		Shifting to unsustainable sources of revenue
		Increasing non welfare state expenditure
	Change in public opinion	Increasing preferences for private provision by subsidising costs for privately provided education, health care etc
		Portray beneficiaries as undeserving to reduce public support
	Modify institutions	Centralise or decentralise political authority
		Change industrial relations institutions
	Weakening pro-welfare state interest groups	Absorb pro welfare state interest groups into the welfare state
		Privatisation
		Raise unemployment and reduce trade union power

Source: Pierson (1994).

The first aspect of programmatic retrenchment involves curtailing expenditure by direct cuts to benefit levels, suspending indexation, or changing indexation methods, such as switching from earnings- to inflation-based indexation, to erode real payments over time. Alternatively, programmatic retrenchment may involve reshaping programs by revising eligibility criteria, introducing means-testing, changing other criteria such as incapacity, or taper rates.

Systemic retrenchment involves a suite of policies designed to undermine welfare state viability. The central importance attached to balanced or surplus budgets has strengthened government arguments for the necessity to cut benefits and services. Tax cuts, especially for high income earners and corporations, combined with increased government spending in other areas such as defence, impose constraints on welfare state expenditure in the prevailing fiscal climate. In addition, the use of asset sale proceeds to fund welfare state programs while reducing taxes is unsustainable.

Eroding public support for the welfare state is important for successful retrenchment. Neo-liberal denigration of income support recipients as undeserving, pathologically dependent, lazy and morally deficient has been a feature of attacks from politicians, media organisations and think tanks (see Murray, 1984; Jordan, 1998). Attempts to undermine support for public education, health and housing programs have included funding reductions combined with financial inducements for using private alternatives, thereby gradually transforming universal programs to residual assistance for those unable to afford private alternatives. Similarly, means-testing of formerly universal programs ensures that the majority have no direct interest in defending the program against future retrenchment. In addition, opposition can be reduced by absorbing pro-welfare state groups such as charities into the state apparatus by making funding conditional on implementing government programs. Similarly, opposition by organised public sector workers can be eradicated by privatisation.

Several factors conspired to erode the pro-welfare state consensus since the economic crisis of the mid 1970s which brought into question continuing sustainability due to economic change, demographic pressures, high unemployment and changing employment patterns. Faltering economic growth and profits prompted retrenchment advocates, including international organisations such as the IMF, World Bank and OECD, to argue for minimisation of deductions from surplus value in the form of welfare benefits, to restore profitability and stimulate investment. Globalisation of production, high levels of unemployment and underemployment weakened the position of labour, boosting prospects for retrenchment. Moreover, institutional arrangements that facilitated expansion by enhancing the possibility for radical change, particularly unicameral, single party governance, also provided opportunities for retrenchment.

However, limited success of retrenchment pioneers in the 1980s, the Thatcher and Reagan administrations, generated an examination of impediments to the implementation of such programs. Several analysts have argued that retrenchment is different to expansion (Pierson, 1994; Quadagno, 1998; Taylor-Gooby, 2001a). The first limitation identified by Pierson (1994) and Mishra (1984) relates to political risks involved because sections of the community, faced with a loss of benefits, are likely to extract revenge at the ballot box. However, widespread public support for the welfare state means that opposition to retrenchment attempts will not be restricted to those directly affected. Secondly, powerful interest groups, including service users and public servants, are capable of mounting organised resistance to retrenchment policies. Finally, significant policy feedback issues can thwart government policies.

Retrenchment carries significant political risk for governments since it removes established benefits accruing to particular sections of the community (see Pierson, 1994; see Jamrozik, 2001; Taylor-Gooby, 2001a). Losses are identifiable, calculable and concentrated, and likely to result in an electoral backlash (Pierson, 1991; 1994; Butler, 1995; Quadagno, 1998; Taylor-Gooby, 2001a). For this reason some commentators have declared the welfare state ‘irreversible’ in democratic countries (Mishra, 1990; Pierson, 1991). Moreover, Pierson (2000) asserted that major welfare cuts could be counter-productive, strengthening public support and forcing governments to opt instead for negotiated consensus packages.

Despite concerted attempts to portray the welfare state as fiscally unsustainable and vilify beneficiaries, public opinion polls and mass demonstrations opposing retrenchment suggest this is a valid concern. Polling in Europe in 1990 found high levels of support for government provision of health care (98 per cent), aged care (85 per cent), support for the unemployment (75 per cent), and 74 per cent approved of government action to reduce income inequality (Mishra, 1999). Tsukada (2002) cites opinion poll findings of high levels of support for government responsibility for the aged, employment and health in Sweden, the UK, US and Norway. Moreover, support for increased expenditure on health, education and social benefits and preparedness to pay taxes actually increased during the Thatcher administration, from 32 per cent in 1983 to 61 per cent in 1995 (Mishra, 1999: 58; Taylor-Gooby, 2000; Tsukada, 2002).

In Australia, Saunders (1998) contends that support for the welfare state has declined due to preferences for lower public spending and lower taxation. However, in the late 1990s a sizable minority indicated willingness to pay higher taxes to enable spending increases for specific purposes: education (49 per cent), health and aged care (48 per cent), families in need (42 per cent), job training for the unemployed (39 per cent), and the environment (37 per cent) (Saunders, 1998). Similarly, Wilson and Breusch (2003) report that polling in Australia to establish preferences between tax cuts and increased social expenditure for the period 1987 to 2001 shows that after the election of the Howard government in 1996 there was a sharp reduction in support for tax cuts and a corresponding increase in support for additional social spending.

The second major obstacle to rolling back the welfare state relates to opposition by vested interests. Concomitant with welfare state development was the creation of producer and consumer beneficiaries; disparate groups with a common interest in resisting retrenchment attempts. Consumer groups benefit directly from income support, public education, health, housing, and community services. Producers include both public and private sector employees, including professional groups, who administer and deliver publicly funded programs.

Breaking the power of groups who support the welfare state is considered essential for successful retrenchment (Pierson, 1994; Giddens, 1998). Ferrera and Rhodes (2000: 7) state: “there are in fact powerful vested interests devoted to defending transfer-heavy welfare states and their traditional redistributive outcomes”, pointing to the importance of the efficacy of political agency in determining the possibilities for successful cuts to welfare. Pierson (1994), Dale (1981) and Gough (2000) agree that interest groups and public employees actively lobby for the maintenance of social expenditure. Viewed in this light, successful privatisation policies not only return functions to the private sector but also destroy organised opposition by public sector workers, thus making further retrenchment possible (Ferrera and Rhodes, 2000).

Policy legacies constitute the third factor restricting possibilities for successful retrenchment. The welfare state became the status quo, complete with a perception of entitlements and expectations of future benefits, particularly in countries where schemes included employee contributions (Pierson, 1994; Hemerijck and Schludi, 2000). Pierson (1994) and Scharpf and Schmidt (2000b) stress that contrary to the Bretton Woods period when governments had a high level of autonomy over economic and social policy, policy feedback has become crucial in the current period.

Given these obstacles to retrenchment, Saunders observes:

> …the way in which governments attempt to identify, publicise, negotiate and implement their welfare reforms will have an important bearing on the eventual outcomes. (Saunders, 1998: 30)

Pierson (1994) argues that, in order to succeed, governments must engage in strategies that mask the true character of reforms. The first and most important of these strategies, obfuscation, involves an attempt to manipulate information so that voters are unable to make direct connections between government policy changes and adverse consequences. Successful techniques may include freezing spending in an environment of rising costs, or altering indexation rules so that savings accrue automatically over time. Negative effects may be small initially but increase over time. Other strategies include incremental cuts to programs to minimise opposition, described by Jamrozik (2001: 267) as “death by a thousand cuts”. Alternatively voluntary programs may be implemented and then made compulsory.

Secondly, governments may implement ‘divide and conquer’ tactics to reduce the possibility of organised opposition, by targeting changes to particular groups, restricting more onerous eligibility criteria to new applicants, or introducing means tests to split consumer groups. The final strategy involves offering compensation to those adversely affected, perhaps by expanding private benefits as public provision is wound back (Pierson, 1994).

International retrenchment attempts since the mid 1970s have included both programmatic and systemic components, including reduced benefit levels and tighter eligibility criteria, along with longer-term strategies to undermine welfare state viability by undermining public opinion, coalitions of consumer and producer groups and institutional arrangements.

7. Conclusion

The post-war welfare state represented a fundamental break with previous welfare provision, incorporating employment, economic and social policy, and therefore its importance and role cannot be grasped by examining the minutiae of benefits and services (Mishra, 1984; Bryson, 1992; Wicks, 1995). All governments explicitly admitted the need to intervene in the market to ensure a high level of employment, to redistribute income, and provide services, as summarised by Taylor-Gooby (1981:163) in relation to the UK:

> …the ideology that need should take precedence and that the provision of health, education, housing and social security should be *largely* the concern of the state was strong after the second world war and influenced the

reorganization and extension of social services in the 1945-1948 period. (emphasis in original)

Significant differences between welfare states reflected societal decisions regarding generosity and comprehensiveness of welfare provision due to disparate ideological foundations, political, economic and social developments. While comparative analysis is simplified by categorisation into liberal, conservative and social democratic regimes, social provision in all countries includes aspects from each ideal type. Moreover, social policies in individual countries are not fixed over time and policy changes may result in movement closer to either the liberal or social democratic ‘ideal’ model.

Welfare state retrenchment involves a movement towards the liberal welfare state ideal type and involves programmatic and systemic attempts by governments to retreat from the commitment to welfare provision as a right of citizenship. Programmatic retrenchment includes cuts to specific programs and restricting eligibility, while systemic retrenchment undermines the future viability of the welfare state through such measures as defunding, institutional change, and eroding public support and the position of welfare state advocates. Retrenchment involves significant political risks due to continuing support for collective provision and the impact of cuts on individuals or groups. In order for successful implementation of retrenchment governments engage in strategies to minimise the visibility of cuts through obfuscation, divide and rule tactics, and incremental implementation.

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[2] De-commodification is defined as occurring “when a service is rendered as a right and when a person can maintain a livelihood without reliance on the market” (Esping-Andersen, 1990: 21-22).