EUROPEAN WELFARE STATES: EXPLANATIONS AND LESSONS FOR DEVELOPING COUNTRIES

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Abstract: This paper sketches the major explanations advanced for the institution and growth of European ‘welfare states’ in the 20th century and considers what lessons, if any, this history holds for developing countries in the 21st century. It begins with some methodological observations, notably on the ‘dependent variable problem’, i.e. what do we mean by ‘social policy’ and how do we measure it? The second part considers the major explanations put forward to account for the growth of welfare states in the West, and in Europe in particular. It identifies the four I’s which constitute the dominant explanations: Industrialisation, Interests, Institutions and Ideas. Using this framework a wide variety of factors are reviewed, including a growing proletariat and unionisation, democratisation, social democracy, nation-building, religion, Christian democracy and the idea of ‘social capitalism’, immigration and diversity, the role of ideas and policy networks in influencing progressive elites. The section concludes by turning to supra-national factors which have until recently played a minor role in explaining Western social policy but are of greater importance in the South. The last part asks what lessons, if any, this history holds for developing countries today and draws together a list of factors which would repay further research.

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INTRODUCTION: DEFINITIONS, MEASURES, PROBLEMS OF METHOD

In Britain, modern social policy can be dated from the New Poor Law Act of 1834 and the 1842 Chadwick Report on the Sanitary Condition of the Labouring Population of Great Britain. State intervention in education and social security came much later. The Prussian state introduced compulsory education earlier on, and in 1883 Bismarck introduced the world’s first health insurance programme, followed by old age pensions in 1889. The period before World War I witnessed, in Britain, the introduction of old age pensions, school meals and the first social insurance scheme. By then too a dense network of local and municipal services in health, housing and social care had covered much of Europe.

The term Wohlfahrstaat first appeared in Germany in the late 1920s and Welfare State in Britain in the early 1940s. The post-war settlement in many Western Countries cemented the place of an extensive and comprehensive social policy in modern polities. These emerging national welfare systems frequently replaced or displaced cooperative, enterprise or workers’ welfare provision: in the process they extended territorial, socio-economic and occupational coverage. Though the form of social policy differs across countries and policy domains, it is a massive feature of all Northern states in the second half of the twentieth century. Therborn (1983) defined ‘welfare states’ as those states where more than one half of all government expenditures are devoted to social policy, as opposed to the economy, the military, law and order, infrastructure and other traditional functions of the state. On this basis even the United States qualified as a welfare state in the last quarter of the twentieth century.

There has been much research into the development of social policy in Europe and the OECD over the last century. But one issue that must be faced at the start is to determine the meaning, and hence the measures, of ‘social policy’: the so-called ‘dependent variable’ problem. Following Deacon (2003a), we can distinguish the three Rs: regulation, rights and redistribution. This immediately suggests three ways of assessing the extent and nature of social policies:

1. The major legislations and regulations which modify the behaviour of private actors in order to achieve publicly-recognised goals, justified by some reference to normative values. The private actors can be individuals in households, firms and collective economic actors and groups and movements in civil society. This suggests a vast scope for social policy, though in practice it is restricted to policies designed to influence
directly something like Beveridge’s ‘Five Giants’ of Want (social protection, money transfers), Disease (health services, both preventive and curative), Squalor (housing and urban planning), Ignorance (education), and Idleness (employment policies).

2. The extent to which substantive social and economic rights (as opposed to procedural civil and political rights) are guaranteed by the state to the whole population (but note this can be qualified by residence, nationality, and citizenship). Following T.H. Marshall (1950), this identifies the differentia specifica of ‘welfare states’ as the use of state-guaranteed rights to counter the power of money or political connections. After WW2, full employment was recognised as an equivalent economic right in several countries. But how are such rights to be measured?

3. The extent to which the state, through taxation and public expenditure redistributes factor or primary incomes in a progressive direction. This entails measures of public spending, and taxation and other forms of revenue, which are easier to measure. However, they pose questions of meaning, particularly the common use of share of public ‘social expenditure’ in GDP (so-called ‘welfare effort’) as the dependent variable. Growing unemployment will, ceteris paribus, result in growing public expenditure on benefits on the unemployed; an ageing population will result in higher pension and health spending; but these expenditure trends may mask stagnation or even reversal in terms of benefits, rights or redistribution. Also, as definition (1) suggests, the state can influence welfare outcomes by regulating, mandating, taxing or subsidising private actors. Social needs can be met by a mix of institutions, something always appreciated in developing countries contexts.²

² In a study with Jin-wook Kim (2000), I calculate that in Korea, total ‘welfare’ expenditure accounted for 22% of GDP in 1997, a figure not far removed from the size of the social budget in the USA. However, only 9% was expenditure by the state, the remainder being market spending (7%), enterprise welfare (4%) and family transfers (3%). Of course, the welfare mix persists in all countries – something I return to below when introducing the welfare regime framework.
Comparative research into the development of social policy in Europe or across the OECD has studied all three of these. Another way of expressing this is to distinguish inputs, outputs and outcomes in social policy.

- Inputs refer to legislative inputs, or the expenditure of resources, whether monetary or workforce (eg spending on social protection).
- Outputs can refer to the implementation of legislation and the provision of specific services (eg coverage rates of social insurance benefits for designated groups).
- Outcomes refer to the final impact on individuals (eg poverty rates) or on societal distributions (eg level of inequality).

All three have been used as dependent variables in Western social policy research. However, the dominant focus in all three has been the direct role of the state (with the exception of employment policies, where tripartite ‘corporatist’ arrangements with business and unions often take centre-stage).

In all these definitions, social policy can be studied as a whole, or with a focus on different policy areas, such as health, education, social protection. Some, such as Kasza (2002), argue that researching specific policy areas is less misleading and avoids aggregating very different entities into a spurious overall measure. On the other hand, there are examples of complementary or substitutive impacts on welfare outcomes (as in Castles’ (1998a) cross-national study of owner-occupied housing as a functional alternative to pensions in providing security in old age), which qualify the utility of studying policy areas in isolation.

There is also an understandable search for parsimony! Yet, the wider the scope of the dependent variable, the greater the research problems (Castles 1998b:4):

- Complex policy processes are rarely likely to have singular determinants
- There is no guarantee that the factors influencing policy will be invariant over time
- There is no reason to suppose that different kinds of policy outputs will have the same determinants.
- Different policy outputs impact on different welfare outcomes in complex ways.

The dominant research methodology used has been quantitative, multi-national analysis, either over time, or across nations, or both. The usual sample of countries has been 18 or so nations that have been since WW2 industrialised, relatively affluent and democratic, comprising
the major nations of Western Europe, the states of European settlement in the New World and the Antipodes, together with Japan. These countries coincide with early, long-term membership of the OECD, with the exception of Turkey. In recent years, the previously undemocratic Spain, Portugal and Greece have been added to this group (Castles 1998b). Multiple regression analysis has been a favourite tool, despite criticisms (see Shalev 2005). The major issues are over determination, with too many variables chasing too few cases, and, to a lesser extent, multicollinearity.³

Stiller and van Kersbergen (2005) provide a useful review of research findings and problems. An overriding problem they identify is interdependence between independent variables and dependent variables. If this is the case, contrasting theoretical explanations can simultaneously be validated. Nevertheless, they and other reviewers appreciate that a comparative cross-national research within the West has yielded a cumulative growth in understanding of social policy of considerable significance, some of which is surveyed below.

EXPLANATIONS OF SOCIAL POLICIES IN THE OECD

Model 1 sets out the basic textbook model of policy making based on Easton (1965) and Hill (2003). It distinguishes three basic explanatory factors, which I shall consider in turn. Interestingly, they were developed in this historical order in the literature. In addition, I consider a fourth factor – Ideas.⁴

³ Emma Carmel reminds me that services, such as health and social care, have been less studied by such methods, due to still greater problems in identifying the dependent variable and greater intra-country variation due to local funding and provision.

⁴ There is one qualification about the survey that follows: it does not give proper weight to the influence of gender issues on the emergence of social policies, at all stages of the model. Given their significance in both the North and the South, this is a serious omission which needs addressing in a subsequent version.
Model 1: Orthodox National Policy-Making

1. Socio-economic
   Conditions?

2. Power of collective
   actors in civil society?

3. Political
   institutions?

Policy

outputs?
Welfare outcomes

+------------------------------------------------------+

4. Ideas: epistemic communities and
   policy networks

1. Societal conditions

1a. Industrialisation

These approaches, which dominated in the 1950s and 1960s, saw social policy as a consequence or correlate of industrialisation (Wilensky and Lebeaux 1958; Cutright 1965; Aaron 1967; Wilensky 1975). The dependent variable was public social expenditure as a share of GDP (SE) and the relationship was demonstrated in time series and cross sectional analysis. The conclusion was that ‘economic growth and its demographic and bureaucratic outcomes are the root causes of the general emergence of the welfare state‘ (Wilensky 1975:xiii; see also Mishra 1977; Pampel and Williamson 1989). At an accounting level it is not surprising that the share of SE rises the faster is economic growth (if such services are superior economic goods) and in response to demographic change (if the number of school-age children or pension-age elderly rise as a proportion of population).

However, several more fundamental explanations have been advanced to account for this. The first was based on Parson’s theory of functional differentiation: that as societies developed the functions traditionally performed by families and communities would be performed by new public bodies, such as sanitation agencies, health services, income support etc. But the new social policies did not displace other institutions; rather the decline of traditional forms of provision under the pressures of industrialisation and demographic change ‘called forth’ new public bodies and responsibilities (Wilensky and Lebeaux 1958; see Mishra 1977). There is some affinity here with Polanyi’s (1944) account in The Great Transformation of the ‘societal
responses’ to the social upheavals brought about by the ‘disembedding’ of markets, notably labour markets, from prior social relations. Another account, developed by myself (Gough 1979) was that industrial capitalism increasingly required public, non-capitalist responses to systemic shifts, specifically proletarianisation, technological change, the new division of labour and urbanisation. The state intervened to represent the interests of the capitalist class as a whole, which business could not undertake itself due to divisions and rivalries between different factions. All these accounts, however, could be, and were, criticised as ‘functionalist’, that is of assuming that a new social ‘need’ would necessarily be identified and met - and be met by new public institutions.

1b. Democratisation

Another school of thought interpreted social policies as a response to the modernisation of society, a concept which embraced changing class structure and new forms of popular and political representation alongside industrialisation (Flora and Heidenheimer 1981; Flora 1986-87). Interestingly democratisation has rarely been studied as a factor behind the development of welfare states, but it plays an important role in the ‘social democratic’ perspective discussed below. One exception was Hewitt (1977), who demonstrated the importance of the ‘simple democratic hypothesis’ in accounting for country differences in equality outcomes. However, Flora and Alber (1981) in a study of the introduction of social insurance programmes before WW1, demonstrated rather that it was absolutist powers such as Bismarck’s Germany, who innovated, with parliamentary monarchies lagging behind.5

1c. Religion

Others have noted the importance of dominant religion within the OECD world. This has focused on the post-Reformation division between Catholicism and Protestantism in the West (the role of religious values in Japanese development was not integrated into social policy studies until the later discourse on ‘Confucianism’ (see Jones 1993)). The nature of the impact is not simple: the Protestant acceptance of secular state power being paralleled at the end of the 19c by the new Catholic doctrines of ‘social capitalism’ and subsidiarity. Unlike socioeconomic trends,

5 The threat of social unrest and social revolution reappears again as a theme in the second set or approaches discussed below.
this refers to a largely invariant feature of different countries. Nevertheless, when measured by proportions of the population baptized into the Catholic church, it provides a powerful explanation of several persistent social policy features, such as social transfers (positive) and women working (negative) (Castles 1998b). This suggests that the influence of other faiths and related values should feature in studying the development of social policies across the much more diverse nations of the world.

1d. Race, ethnicity, diversity

The effect of this next ‘horizontal’ differentiating factors on the development of state welfare has been much less studied until very recently. Alesina and colleagues (2001) have recently returned to the long-standing debate on the ‘peculiarities of the US’ to investigate how much its ethnic and racial diversity (compared to developed European countries) accounts for its lack of state welfare. Two main arguments are advanced: that diversity undermines the national solidarity necessary to sustain expensive welfare systems, and that racial differences provide a resource that political entrepreneurs can exploit to gain support. These factors both reflect and foster divisions leading to privatised or group solutions to mitigating risk, rather than more redistributive national solutions. Undertaking a multi-factorial analysis of 56 countries (including developing countries) Alesina et al conclude that ethno-linguistic differences are not significant factors restraining SE (their dependent variable) but that racial fractionalisation is the most significant single factor. Both these findings are interesting. The insignificance of ethnic differences is striking, and supports the experience of Canada, a high-immigration country with many ethnic communities but expanding federal-state welfare.6 The great significance of racial diversity suggests that it is the combination of this with (class) inequality creating a fused race-and-class inequality which blocks the emergence of pro-social policy coalitions.

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6 Dr Carmel comments: ‘Territorial diversity is really important here – Canada (plus US, plus Germany, and Belgium) made socio-territorial compromises, of widely varying types, including measures to equalise contributions/expenditure across communities. The national territorial character of welfare states means that when the national state comes under threat (eg. secession), the welfare state can both be a lightning rod for articulation of interests and act as compensation for socio/ethno-territorial divisions and inequalities, which then contribute to national continuity and sustainability. Also note more recent tendencies to decentralisation in some European countries – notably Italy and Spain - as an alternative response to territorially articulated socio-political and socio-economic diversity’.
2) Collective actors, classes and power resources
2a. Class organisations

Theoretical and empirical critiques of modernisation theses were complemented by empirical findings, notably the exceptional trajectory of the US. These factors fostered the rise of a second set of explanations in the 1970s which moved forward one step from macro societal changes to prioritise the collective organisation and powers of major social actors, notable social classes. This is sometimes referred to as the ‘social democratic model’ (Castles 1978) but more helpfully, in my view, the ‘power resources’ or ‘democratic class struggle’ model (Korpi 1978, 1983).

The argument was that, once democracy was established, unions rights recognised in law and parties representing working class interests permitted to organise, then a decisive shift in the class balance of power occurred. Working class organisations and parties had more leverage to counter the previously natural-seeming demands of business and traditional elites. It was further argued that working class interests differed from business interests. In an original study of the cross-national policy perspectives of labour and business interests in 1881 and 1981, Therborn (1986) found (not surprisingly perhaps) the former favouring greater state economic interventions, full employment policies, universal and extensive social policies and greater fiscal redistribution and economic equality. Business organisations favoured incentives to growth, private provision plus low coverage of social benefits, and low redistribution. Putting these two arguments together the hypothesis was that the distribution of power resources between the main social classes of capitalist society determined the extent, range and redistributive effects of economic and social policies. Thus the manifest differences between the Swedish and American welfare states could be explained. Paradoxically, the interests and influence of business have been little studied until recently (see Mares 2003; Farnsworth 2004).

There were differences within this school. Different emphases were placed on the role of unions and other collective organisations, on the voting share of left political parties, and on parties’ shares of cabinet posts or their role in the executive. Castles (1978) stressed the weakness and dividedness of the Right rather than the strength of the Left as the decisive factor. Baldwin (1990) argued strongly that class coalitions have been historically important in major social policy innovations; for example, that urban-rural coalitions are likely to result in
universalist welfare states. The link between strong trade unionism and centralised, neo-
corporatist industrial relations systems has spawned another strand of analysis and explanation.

Nevertheless, the general arguments were corroborated in numerous studies (see Stiller and van Kersbergen 2005 for a good recent survey). They all had in common the premiss that ‘politics matter’. It was not so much the development and modernisation of the West that generated welfare states, but the way this was reflected in organisations within civil society, their respective powers and their representation in parliaments.

2b. Religion, Catholicism and Christian Democracy

Nevertheless, the class power resources approach could not explain the early introduction of social policies by non-class-based parties, nor the subsequent emergence of strong welfare systems in countries with relatively weak unions and social democratic parties, such as the Netherlands (Therborn 1989; Skocpol and Amenta 1986). In particular, Catholic social thinking provided a distinctive anti-socialist and anti-liberal rationale for public social policies. The principle of subsidiarity, that policies be enacted at the lowest effective social level, recognised the crucial role of family, community, workplace and church, but also advocated a significant place for local, regional and national public bodies. Thus, parallel, to the influence of Catholicism in society, noted above, there is an additional impact from the existence of Christian Democrat parties. On this basis, Christian Democrat welfare states in Europe provide very generous transfer benefits, especially to male breadwinners, but with a low commitment to full employment policies and the provision of social services (van Kersbergen 1995).

The analysis thus far influenced Esping-Andersen’s (1990) influential work on welfare regimes – see Box.
Interlude: The welfare regime synthesis

Factors 1 and 2 influenced Esping-Andersen’s (1990) analysis that there were ‘three worlds of welfare capitalism’ in the democratic member states of the OECD, not just the two poles of liberal and social democratic identified in the power resources theory. The theory of welfare regimes stemmed from the social democratic class struggle analysis, but modified this with the recognition of the distinctive contribution of Christian Democracy and etatist and corporatist traditions in Western Europe. It also argued strongly that SE was not an acceptable measure of social policy: ‘it is difficult to image that anyone struggled for spending per se’ (Esping-Andersen 1990:21).

The welfare state regime approach instead developed three distinct criteria of welfare capitalism and three sets of measures to complement it. First, there is the mix of the role of states and markets in the production of welfare – to which was added the role of households in Esping-Andersen’s later work (1999). Let us call this the ‘welfare mix’. Second, there was a new measure of welfare outcomes, which tracked the reality of social rights in a country – ‘decommodification’. This assessed ‘the degree to which individuals, or families, can uphold a socially acceptable standard of living independently of market participation’ (1990:37). In the 1999 book, this was complemented by the parallel concept of de-familialization’; ‘a de-familializing regime is one which seeks to unburden the household and diminish individuals’ welfare dependence on kinship’ (Esping-Andersen 1999:51). Third, there was the effect of these two factors on the dominant pattern of stratification in a country, measured by the degree of segmentation and inequality in different social security systems. These provide positive feedback, shaping class coalitions which tend to reproduce or intensify the original institutional matrix and welfare outcomes.

Esping-Andersen identifies three welfare state regimes in advanced capitalist countries with continual democratic histories since WW2: the liberal, conservative-corporatist and social-democratic. He summarises their characteristics as follows (Esping-Andersen 1999: Table 5.4):

**Figure 1. The Three Worlds of Welfare Capitalism**

<table>
<thead>
<tr>
<th>Role of:</th>
<th>Liberal</th>
<th>Conservative-corporatist</th>
<th>Social democratic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family</td>
<td>Marginal</td>
<td>Central</td>
<td>Marginal</td>
</tr>
<tr>
<td>Market</td>
<td>Central</td>
<td>Marginal</td>
<td>Marginal</td>
</tr>
<tr>
<td>State</td>
<td>Marginal</td>
<td>Subsidiary</td>
<td>Central</td>
</tr>
<tr>
<td>Welfare state:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dominant locus of solidarity</td>
<td>Market</td>
<td>Family</td>
<td>State</td>
</tr>
<tr>
<td>Dominant mode of solidarity</td>
<td>Individual</td>
<td>Kinship</td>
<td>Universal</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Corporatism</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Etatism</td>
<td></td>
</tr>
<tr>
<td>Degree of decommodification</td>
<td>Minimal</td>
<td>High (for breadwinner)</td>
<td>Maximum</td>
</tr>
<tr>
<td>Modal examples</td>
<td>U.S</td>
<td>Germany, Italy</td>
<td>Sweden</td>
</tr>
</tbody>
</table>

11
3). States, constitutions and political systems

By the late 1980s – early 1990s, the ‘new’ institutionalism had entered comparative research into social policy development, and indeed influenced the regime approach. However, its most notable role has been to explain the nature and blocks to reforming and cutting back developed welfare systems, as in the work of Paul Pierson (1994). This may have some relevance to developing countries, such as Latin American, but I will spend little time on it here.

More generally, this school of thought places the nature of the state and political institutions centre-stage in explaining the nature of and variations between national social policies. It thus moves along to the third box in the diagram above: accepting that socio-economic conditions and the power resources of actors influence social programmes, they must still be mediated by the decisive institutions of the state and its policy-making processes. In Skocpol’s (1985) words, this school is about ‘bringing the state back in’.

It has proved more difficult, however, to operationalise and measure significant differences in state structures and political systems in order to assess their cross-national effect in facilitating or blocking significant social policy reforms. There are two major strands which have emerged. First, following the work of Immergut (1992) and Maioni (1995), research has concentrated on the centralisation of decision-making at the summit of political systems and the extent to which the executive is insulated from parliamentary and electoral pressures. If power is dispersed and there are many veto points, then relatively small well-organised groups can block the systemic changes required radically to reform health or social security programmes (See Bonoli 2000). Thus federal systems, or constitutional separation of powers, hinder the development of welfare states; doubly so if both are present. On the other hand, parliamentary systems of government encourage party discipline and minimise special interest lobbying. The second strand emphasises the bureaucratic legacies of past social programmes; the way that public teachers and health workers, for example, or old age pensioners, can mobilise to defend and extend social programmes and benefits (Pierson 2000).

In an early synthetic and cross-national analysis, Huber et al (1993) tested the effects of these state differences on both SE, generosity of benefits, extent of redistribution and other measures of social rights. Their conclusion was that constitutional structures played an important role in explaining the contrasts between Sweden on the one side and both the US and Switzerland on the other. (But they also found that the other two ‘boxes’ remained significant:
*ceteris paribus* ageing populations and high income levels fostered higher SE. More importantly, social democracy strongly influenced de-commodification and redistribution, while Christian Democracy fostered high transfer benefits but also high unemployment).

This might now be characterised as the orthodox model of social policy in the West:

1. The development of social policy is determined by all three factors 1, 2 and 3: autonomous socio-economic and demographic trends, the relative power and organisational strengths of key collective actors in civil society, and the nature of political systems, notably the degree of centralism versus fragmentation in constitutional structures.

2. However the factors explain different aspects and measures of social policies – the dependent variable problem. These distinguish between inputs (notably public spending and taxation), policy instruments (the features of health, social security systems, employment policies etc), policy outputs (decommodification, redistribution etc) and final outcomes (such as degrees of equality).

3. Thus there is an interdependence between independent variables and dependent variables. Stiller and van Kersbergen (2005) refer to this as the matching problem, that cause and effect tend to be specified at different levels of analysis. This will require stronger causal theorising and more sophisticated methodologies in the next generation of welfare state research.

4. The 4th ‘I’: Ideas

Note, however, that this model omits one explanation once common in the 19c – the role of ideas and their influence on reforming elites. The model might be described as ‘The 3 I’s’: Industrialisation, Interests, and Institutions. But it ignores a 4th: Ideas. Hall (1989) has rigorously explored the power of ideas in policy change, while Haas (1992) has identified the role of epistemic communities: ‘a network of professionals with recognised expertise and competence and authoritative claims to policy-relevant knowledge within a domain or issue area’. Economists provided a powerful example of an epistemic community in the modern world.

In some writings this fused with previous work on policy communities, issue networks and advocacy coalitions. It was recognised that ‘learning’ was an important driver of policy change, but that this occurred when epistemic and policy-issue networks fused and reinforced
each other. These bodies have played a key role in informing reform-minded elites of the options for policy-change. While much social policy change has been in response to social pressures consequent on new social needs or social problems, reforming elites can also strive to pre-empt social unrest by policy innovation. Such ‘reform from above’ (Gough 1979) often require these policy networks and epistemic communities. However, to my knowledge there is little by way of comparative study of the effect of ideas and networks on social policy making across OECD nations (though see Goodman and Peng 1996 for Japan, Korea and Taiwan cases).

5). From national to supra-national influences on policy-making

The former accounts all have in common a focus on the individual nation state and on internal factors explaining the emergence of social policy and national welfare states. The focus was on the OECD world, and within that usually on countries with a continuous experience of some form of democratic government since soon after WW2. The external environment was the post-war settlement of the United Nations system and the Bretton Woods institutions. These posed significant constraints on economic and social policy-making, as witnessed in Britain in 1977 when the government was ordered by the IMF to cut its deficit and social spending. Nevertheless, within this framework the national Keynesian welfare state was assumed to rule with significant autonomy. This began to change with the decoupling of the dollar and the move towards monetarist and neo-liberal policies in the later 1970s. But it was the emergence of Eastern Europe from behind the Iron Curtain and the discourse and part-reality of ‘globalisation’ that fostered significant research into the role of supra-national factors on the development of national social policies.

It is possible to identify supra-national equivalents of all four national factors describe above:

a) ‘Globalisation’: relatively unplanned, autonomous supra-national and interconnected trends affecting the socio-economic environment of national policy making. The potential impacts here are wide: one study ranges over increasing global connectedness in trade, finance, production, migration, communication, culture and the environment (Held et al.

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7 The one great exception has been the influence of war on social policy – see Titmuss (1950) on the effect of World War II on the emergence of the British welfare state, and Castles (1998b) chapter 2 for some comparative comments.
One dominant trend in thinking about social policy has been the increasing openness of economies.

b) Global civil society: the organisation of interests at a supra-national level, including business, finance, labour, INGOs, social movements, pressure groups etc.

c) Global governance: the increasing role of IGOs, including the United Nations, IMF, World Bank, WTO, WHO etc, and of powerful nation states, notably the US and its agencies.

d) Global epistemic communities: increasingly interconnected policy-relevant networks and communities operating at the supra-national level

The second and fourth have been of less importance across the OECD; therefore I briefly consider only the first and fourth here

5a(i). Economic openness

This refers to the growing openness of Western economies to trade flows, investment flows, the multi-national siting of integrated production systems and financial deregulation. The dominant hypothesised impact of increasing economic openness on the welfare states of the West has been negative: retrenchment of uncompetitive welfare states, a race to the bottom in taxation, regulation, state responsibilities, social rights and redistribution (eg Mishra 1999). More specifically, greater trade competition was predicted to generate deindustrialisation and loss of unskilled jobs; greater capital flows to lead to tax competition, ‘social dumping’ and a reduced bargaining power of states and labour; and financial deregulation to a decline in states’ macro-economic policy autonomy.

Against this there is an empirical observation and a subversive counter-thesis. The empirical observation, identified first by Cameron (1978), is that SE is positively correlated with openness to trade across the OECD, and this link appears to be growing in strength (Rodrik 1998; see also Garett 1998). The counter-thesis, first advanced by Katzenstein (1985) and more systematically by Rieger and Leibfried (2003), explains this fact in terms of reverse causation: modern Western welfare states formed the vital precondition for post-war international economic liberalization, because only social policy could assume the social protection functions previously provided by tariffs and quotas. In democracies only when national individuated rights to social
benefits had been established could states seriously dismantle trade protection and open up domestic markets to foreign competition.

One of the most thorough attempts to study the impact of these factors on Western welfare states is that by Scharpf and Schmidt (2000) and their colleagues. Despite an initial view that economic globalisation would impose convergent and downward pressures their results did not support this. Rather they found that countries reacted differently to common international challenges according to their domestic institutions: countries were moving on different employment and welfare system trajectories ‘between which there was no transition path’ (see also Bowles and Wagman 1997). Slightly earlier, Esping-Andersen summarised his later work on welfare regimes: ‘the inherent logic of our three welfare regimes seems to reproduce itself’ (1999: 165).

Another important study by Pierson and colleagues (2001a) reinforces this finding; he concludes that external globalisation pressures are far less significant for contemporary welfare states than the internal pressures of ‘post-industrialism’, including ageing and declining fertility, the switch to service jobs and family instability.

Thus the evidence supporting the negative impact of economic globalisation on Western welfare states is rather thin. The conclusion, rather, is that economic globalisation pressures are usually mediated by domestic and international institutions, interests and ideas. This argument has been developed in relation to the advanced capitalist countries of the North, notably in the work of Swank (2002). Now it is appearing in research into social policy reform in the transitional countries (eg Müller 2002;2003) and the developing world (eg Mesa-Lago 2000 on Latin America and Gough 2001 on East Asia). However, others dispute that the weak impacts on powerful Northern states will be replicated, especially among small weak Southern states (Deacon 2003b).

5a(ii). Migration flows

The arguments mentioned in section 1d above are now being rehearsed in Europe (Goodhart 2004). Following Alesina et al (2001), Goodhart contends that growing migration into Europe on recent years and consequent greater cultural diversity threatens European welfare states. These require high social cohesion and a willingness to contribute to high and progressive taxes, values which are threatened by multiculturalism, or equal respect for a wide range of
peoples, values and ways of life. A regression analysis by Taylor-Gooby (2005) shows that, taking account of the usual factors noted above, diversity does have a negative impact on SE, though much less so when the US is excluded. Moreover, once the influence of left politics is taken into account the influence of diversity falls dramatically. Once again, domestic politics significantly mediate global processes, at least in Europe.

5d. Policy learning and transfer

Since at least 1907-08 when Lord Beveridge and David Lloyd George visited Germany to study the new system of state social insurance, policy learning and policy transfer from abroad have influenced national policy-making. Heclo (1974) early on developed the concept of political or policy learning and applied it to the spread of social policy ideas. Hall (1993) broadened this to ‘social learning’ and distinguished three orders of policy learning: first order influencing policy settings, second order influencing policy instruments and a third order, where policy goals are questioned and revised. These have influenced the growing literature on policy transfer: the development of programmes, policies or institutions within one jurisdiction based on the ideas and practices from another (Dolowitz et al 2000). Such transfers can vary from those imposed by fiat or by threat of heavy penalties or conditionality, to, at the other extreme, voluntary lesson-drawing. Others would emphasise the hegemonic role of dominant ideas in a world of unequal actors. Again, there is relatively little comparative work on the influence of international organisations on Western nation states. One exception is a comparison of the influence of the OECD and the EU on national employment policies (Noaksson and Jacobsson 2003). There are relatively more on the influence of the EU on member states (see eg Pochet and Zeitlin 2005). It would be fair to conclude that such policy learning, influence and transfer is believed to be important but that it has so far proved difficult to trace and directly compare.
LESSONS FOR DEVELOPING COUNTRIES

Preamble

If we take the introduction of Bismarck’s *krankenkassen* or sickness funds in 1883 as the foundation of the modern welfare state, or at least of the ‘social insurance state’, then this institution is well over a century old in Europe. It is worth spending some little time enquiring whether it has any ‘lessons’ for the developing world. Clearly, ‘lessons’ can take the form of negative warnings as much as of positive role models. In an earlier survey entitled ‘Social security in developed countries: are there lessons for developing countries?’, Atkinson and Hills (1991) concluded that there are few lessons to be drawn concerning policy recommendations, but plenty about the methods of social policy analysis. This section is written in that spirit.

A basic premise of the welfare regime paradigm is that policy proposals must be contextualised (Gough and Wood et al 2004). In particular they must take account of existing patterns of social provision, the distribution of institutional responsibility and the interests which these express and perpetuate. This does not mean that policy learning, transfer and change cannot come about. Nor does it necessarily reject applying universal principles to policy goals. But it does caution against recommending universal policy designs and instead favours context-specific proposals which take account of political economies and inherited institutions. Fundamental goals should be based on an agreed consensus on basic needs or capabilities, as are many contemporary human rights, but ‘need satisfiers’, including social policies, are more likely to be successful if adapted to local environments (Gough 2004).

In discussing European lessons we must first of all define ‘Europe’. Even if we confine ourselves to the pre-enlargement European Union of 15 members, we confront the problem that most researchers recognise different ‘welfare state regimes’ (Esping-Andersen 1990, 1999) or different ‘families of nations’ (Castles 1993) within the EU, as discussed above. Most identify four (eg Ferrera and Rhodes (2000):

- liberal: UK and Ireland
- social democratic: the Nordic countries
- continental: Germany, France, the Benelux countries and Austria
- southern: Italy, Spain, Portugal and Greece

Thus Europe is not homogenous and its lessons are plural. Indeed, Europe offers a natural and well-studied laboratory of differing social policy responses to broadly similar social
problems. Nevertheless, we can still distinguish at a macro level between the EU as a whole and other OECD regions, notably the US and Japan. The legacies and lessons on social policies in Central and Eastern Europe, including among the new member states of the EU, are regrettably not directly addressed here.

**Some European social policy lessons:**

    Rather than work through the model and analysis presented above, I distil 13 social policy lessons which strike me as important.

1. **From strong to weak.** From the start social insurance has been the dominant form of social protection in all European countries. Everywhere it began by covering state workers and manual workers in large industrial firms, gradually rippling out to include medium and small enterprises, agricultural, white-collar and service workers, the self-employed and later in some countries, even the unemployed and housewives. Thus the social insurance state proceeded from the strong to the weak. Social insurance offers an inbuilt transitional strategy. It is the opposite of today’s dominant ‘target the poor’ approach.

2. **Industrialisation.** National social policies developed in societies which were rapidly industrialising and came to fruition in the mass ‘de-ruralisation’ of the decades following the Second World War (except for Britain where it occurred a century earlier). The growth path was initially one of ‘extensive’ rather than ‘intensive’ growth. The dominant ‘political settlement’ was an exchange of Labour’s acceptance of a capitalist economy for toleration of collective representation and bargaining, social services and social protection by Capital. This welfare system was less suited to the subsequent stage of de-industrialisation, post-industrial capitalism and intensive growth from the 1970s onwards.

3. **Civil society and labour movements.** Proletarian and other struggles, trades unions and socialist parties formed a backdrop to the emergence of the welfare state throughout Europe. In many north European countries these were linked to a range of other social movements and self-help institutions, such as Friendly Societies in Britain. However, the
imprint of these movements on social policies differs according to the dominant class coalitions, the orientations of business and the propertied classes, and national state forms. But the fears of social unrest and breakdown were a constant backdrop.

4. **Democratisation.** What research there is on the origins of social insurance and allied programmes in Europe suggests that democracy was not a precondition – rather the opposite. Bismarck explicitly saw social programmes as an alternative to the vote in integrating the rapidly expanding class of industrial workers and in undermining the threats from unions and social democratic parties. However, the later democratic class struggle thesis convincingly shows the importance of democratic organisation, though more so when allied to the mobilisation of class organisations in civil society.

5. **Religion.** Europe is predominantly Christian and thus provides few opportunities for comparative study of the impact of different world religions on social policy development. Thus it is striking that the differences between Catholic and mixed Protestant–Catholic countries, and the impact of Christian Democrat parties, remain so significant. It suggests that the current research into the impact of faiths on policy in the developing world is not misplaced.

6. **Ethnic and other forms of diversity and horizontal integration.** Though a recurring theme in US research and debates, the impact of heterogeneity and homogeneity within countries in facilitating or blocking systemic state policies has not been researched in any systematic cross-national way. Yet several studies show the importance of a solidaristic values in maintaining the willingness to pay taxes and support collective nation-wide programmes (Taylot-Gooby 1996).

7. **The legacy of World War 2.** WW2 has mainly been a taken-for-granted backdrop in post-war thinking about social policy, but all agree that it marked a decisive turning point in the emergence of ‘big government’ and mature welfare states in Europe. The new total war required the full mobilisation of societies’ resources, which enhanced both social demands and state capacities, as prefigured in the impact of the American Civil War on
US veterans’ and early federal programmes (Amenta and Skocpol 1988). But there were major differences across nations, between victors and vanquished, and between those occupied or fought over and those not. The impacts of different kinds of war and major civil strife in the developing world are likely to be very different but not negligible.

8. **Constitutional structures.** The impact of constitutional structures other than democracy on social policy development is difficult to discern from research undertaken in the OECD. Research has mainly concentrated on the effects on blocking attempts to reform mature social welfare systems, in the face of institutional ‘lock-in’ and opposition from professionals and clienteles, as in Paul Pierson’s work. Cross-national research reveals complex effects of constitutional and institutional features which are hard to summarise and simplify.

9. **The productive welfare state.** This term originated in Sweden in the 1930s, recognising the contribution to modernisation and prosperity of good quality and equitable education, health care, population and family policies. It has been rediscovered in the recent period with the shift to a post-industrial economy wherein human capital assumes central importance. Thus social policies were not and are not solely about redistribution. Some policies, such as early school meals in Britain, have always been perceived as performing a productive ‘public goods’ role.

10. **Open economies and social protection.** Another lesson from Europe is that its more open economies (compared with the virtually self-sufficient continent of the USA) ‘require’ greater social protection. The statistical relationship between openness to trade and levels of social protection spending in the West amounts almost to a law. The explanation, most starkly stated by Leibfried and Rieger, is that social protection is the only alternative to trade protection, if social disintegration is to be avoided. Does economic openness thus foster the spread of social protection systems?

11. **Crowding out vs. crowding in.** Undoubtedly the escalation of the role of the state crowded out some prior forms of social provision and protection, such as friendly
societies and private hospitals. But ‘crowding in’ has also occurred. This is evident in the role the state plays as financer of the so-called Third Sector in every modern European country. My last two points comment on the enduring role of the ‘welfare mix’ in even the most advanced welfare states.

12. *Family and the household economy*. The family and household continue to play a critical role in managing the articulation of labour markets and welfare states, as well as in providing care work and managing security. The extended family and cohabitation across generations is declining much more slowly in Japan and southern Europe than in the rest of Europe. But even in such countries its capacity to provide a *generalisable* solution to the problems of insecurity or human investment is limited unless:

- the distribution of income is equitable, permitting an adequate ‘Rawlsian’ level of savings by the worst off, and/or
- substantial labour/ social mobility ensures that most families have at least one member in the protected formal sector (the *garantismo*) who can then share their benefits with other household/ family members.

13. *Labour markets and welfare states*. The ‘Golden Age’ of post-war welfare states was founded on extensive employment opportunities and a complementarity between labour markets and welfare systems. The former supplied incomes and taxes; the latter employed men and larger numbers of women in public services and moderated the employment effects of the trade cycle. Now, many see a contradiction between the two. Increased capital mobility and structural power of capital enforces greater labour market flexibility and insecurity, while high taxes and labour market regulation impede employment. This is most evident in the conservative regimes of continental Europe. However, some identify signs that the liberal regime countries (UK, Ireland) and the Nordic countries are innovating different paths to a new scenario of ‘flexicurity’ (Ferrera and Rhodes 2000). Both paths seem to require a shift from a transfer state to a services state.
Conclusion

The survey above hopefully demonstrates the utility of studying the lessons offered by over a century of history in Europe and the West. Different welfare state regimes have emerged reflecting varying constellations of background factors, national institutions, collective movements and policy discourses, which in turn have a high degree of path dependency. But in all of them, even the US, a recognisable national system of risk mitigation and compensation has been developed. Perhaps the major difference facing the developing world today is the greater influence of the global environment and supra-national institutions and discourses. However, there are two powerful counter-arguments. First, the scholarship on Northern welfare states demonstrates the over-riding importance of internal factors. Second, our work on global welfare regimes argues strongly that different institutionalised patterns across the South will also shape the nature and success of different social policy reforms (Gough and Wood 2004). Social policies recommendations must adapt to dominant welfare regimes. However I have not pursued these issues here.

On reflection the task of analysing explanations for the development of advanced social policy systems in Europe and the West, and of summarising the best research, is exceedingly ambitious! It is a task for a research team employed over a year, not for a single person over a few days. If the analysis, evidence and arguments sketched above appear fruitful, then consideration should be given to funding a more systematic study of the growth of Western welfare states and their ‘lessons’ for developing countries.
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