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The State and Economic Risk

Best Cases of 'The Three Worlds of Welfare Capitalism': The Netherlands, United States, and West Germany*

By Bruce Headley**, Robert E. Goodin***,
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Summary

*Arguably, in the decade 1985-94, The Netherlands, the United States, and West Germany were 'best cases'-best economic performers-in Esping Andersen's (1990) **Three Worlds of Welfare Capitalism**. The three types of state have the same goals but prioritize them differently. The liberal state (the United States) prioritizes economic growth and efficiency and targets welfare benefits only to those in greatest need. The corporatist state (Germany) gives high priority to stability, especially household income stability. The social democratic state (The Netherlands) claims high priority for reducing poverty and inequality. In this period The Netherlands achieved the best performance on the welfare goals it prioritized and equaled the other two states on the goals to which they gave priority. This result suggests that there is no sharp trade-off between equity and efficiency in modern welfare-capitalist states. The paper is based on three panel studies: the American Panel Study of Income Dynamics (PSID), the German Socio-Economic Panel (GSOEP) and the Dutch Socio-Economic Panel (SEP).*

1. Introduction

Probably the most influential book on welfare states in recent years is Gosta Esping-Andersen's *The Three Worlds of Welfare Capitalism* (1990). Esping-Andersen coined the term 'welfare-capitalist state' in recognition of the fact that all western countries tax and spend 30 to 60 percent Gross Domestic Product (GDP) and spend over half the money on social policy or 'the welfare state'. Esping-Andersen's three types of state have much the same goals but prioritize them differently. The liberal state, of which the United States is

our example, prioritizes economic growth and efficiency, avoids work disincentives, and means tests benefits only to those in greatest need. The corporatist state — our example being West Germany — also seeks economic growth and efficiency, but gives high priority to social stability, especially household income stability. The social democratic state — our example is The Netherlands — shares the above goals but gives high priority to reducing poverty and income inequality.

It is reasonable to suggest that in the last 10 to 15 years these three countries have been the *best cases* of their type of welfare-capitalist state, particularly in terms of economic performance. In so far as they are 'best cases', they provide a fair comparison of the merits and limitations of the three 'types', insight into how best to manage modern political economies, and what the trade-offs are between efficiency, equity and other desiderata.

The United States is usually cited as the prototypical liberal state and in the last 15 years has had a better economic growth rate and higher employment growth than other western liberal states, namely Australia, Canada and Switzerland (OECD 1996a). West Germany is the classic corporatist state and has had better economic growth than other large corporatist countries, namely France and Italy, although not quite as good as two small countries, Austria and Belgium. The Netherlands is classified by Esping-Andersen as a social democratic state in terms of its policy priorities, although Christian Democrats have been more influential in government than Social Democrats. His reason for regarding The Netherlands as social democratic is that it has a highly redistributive tax-transfer system, although, unlike Sweden (the prototypical social democratic case), it does not invest heavily in job training programs intended to maintain high levels of employment. The

* More detailed results will be given in *The Real Worlds of Welfare Capitalism*, Cambridge, CUP, 1999 (in press).

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advantage of including The Netherlands in this study is that in recent years it has clearly been the best economic performer of the social democratic countries of Northwestern Europe. It has had a higher growth rate than Sweden, Norway, and Denmark and, unlike them, a rising employment rate (OECD 1996a).

It is sheer luck that the United States, West Germany and The Netherlands happen to be the three countries for which long-running panel surveys are available. We are thus able to assess the medium term performance of these three 'best cases', which also, incidentally, happen to be the three biggest economies of their type. What economic and welfare outcomes have they delivered and what can be learned about trade-offs between efficiency and equity?

In analyzing the panel data sets, we start with the expectation that the United States has performed best in achieving the goals of economic growth and rising living standards to which it gives priority. Similarly, we expect West Germany to have performed best in achieving household income stability, and The Netherlands to have done best in reducing poverty and income inequality. In so far as countries perform best only in pursuing their 'own' priorities, this may suggest sharp trade-offs among goals. If, on the other hand, one country achieved high performance levels on all goals, this might indicate that the trade-offs involved are not severe.

2. Methods

The American Panel Study of Income Dynamics (PSID) and the German Socio-Economic Panel (GSOEP) are described elsewhere in this volume. The Dutch Socio-Economic Panel (SEP) is less familiar. It began in 1984 with about 11,000 respondents in 4,000 households, and has since been enlarged to around 5,000 households. As in the German panel, all household members aged 16 and over are interviewed annually. Variables in the Dutch SEP have been recoded to make them comparable with the PSID-GSOEP Equivalent file.

Our aim was to analyse the same ten years of welfare state performance for all three countries. In practice we have not quite achieved this. The paper covers 1985-94 for The Netherlands and West Germany, but 1984-93 for the United States; PSID data for 1994 being not yet available. This minor time mismatch probably does not affect results. Each country had nine years of economic growth and one year of negative or very low growth (1991 in the United States, 1992 in The Netherlands, and 1993 in West Germany).

Measures

Much of our analysis requires measures of household pre-government (i.e., market) and post-government (i.e., disposable) income, and then of redistribution by government. Pre-government income includes household labor income, asset income, private transfers and owner-occu-

piers' imputed net rent (not available in the SEP). Post-government income is derived by adding government pensions and benefits to pre-government income and then subtracting direct taxes. No account is taken of benefits-in-kind (except for food stamps in the United States), nor of indirect taxes. Redistribution of income by government is given by:

$$\text{governmental redistribution percent} = \frac{\text{pre-government income} - \text{post-government income}}{\text{pre-government income}} \times 100.$$

This formula can be widely applied. For example, governmental reduction of income inequality is simply inequality measured in pre-government incomes minus post-government inequality, divided by pre-government inequality and multiplied by 100.

Both pre- and post-government incomes have been adjusted for household needs, using the International Experts' equivalent scale which involves division by the square root of household size. It has been shown that, within a wide range, choice of equivalence scale does not significantly affect rankings of countries in terms of their standard of living, poverty or income inequality (Atkinson, Rainwater, and Smeeding 1995; Buhmann et al. 1988; Coulter, Cowell, and Jenkins 1992).

Poverty

In Western countries poverty is almost always defined in relative rather than absolute terms. Among academic commentators and social policy makers, poverty has come predominantly to refer to relative poverty, 'relative deprivation' or, more recently, 'social exclusion' (Runciman 1966; Jordan 1996). Survey research has shown, similarly, that people see themselves and are seen by others as poor and excluded from a mainstream lifestyle if their incomes are below about 50 percent of median income in the society in which they live (Rainwater 1974; van Praag et al. 1982).

Our main measure of relative poverty is the conventional OECD one: a person is defined as poor if his/her post-government equivalent income is less than 50 percent of median post-government equivalent income. The percentage of the population below the poverty line, so calculated, is the 'poverty rate'. To give a more complete account of poverty one also needs data on the poverty gap; the average amount by which those who are poor fall below the poverty line. However, reports of very low incomes in surveys are notoriously unreliable. Frankly, we found poverty gap estimates generated from the three panels hard to credit. So we omit them.

Income Inequality

Two measures of income inequality are used: the Theil-0 coefficient (the mean logarithmic deviation) and the decile

ratio. The Theil-0 coefficient has two advantages: it is particularly sensitive to changes at the bottom end of the distribution and it is mathematically decomposable.¹ The decile ratio is attractively straightforward and captures much of what we need to know for international comparisons (Atkinson and Micklewright 1992). It is simply the income of people in the 90th percentile divided by the income of people in the 10th percentile.

Social Stability and Social Integration

Our measures of social stability relate to income stability, family stability and employment stability. Measures of income stability are the coefficient of variation and 'minmax.' The coefficient of variation in a family's income over ten years is the standard deviation of annual incomes divided by the mean. A second, cruder measure which we have called 'minmax' just divides a family's lowest equivalent income in the decade by its highest. The higher the minmax ratio, the greater is income stability.

Two measures of family stability used here are the number of changes in household head in ten years and the divorce rate. Clearly, not all changes of household head are due to adverse events — repartnering produces a change just as marital separation does — but all changes indicate family instability.

Corporatist welfare states are particularly concerned that male household heads of working age be integrated into the workforce through stable full-time employment. Our measure of stable full-time employment is the number of years out of ten people worked for 30 or more hours per week. A second measure of social integration is the percentage of wives/female partners who stay home and who have children under age 16. In practice, we classify these women as housewives if they do so themselves and if they work less than ten hours a week.

3. Results

We now compare the performance of the three countries, dealing first with the priorities of liberal welfare-capitalist states, then social democratic priorities, then corporatist.

Liberal Priorities

Neo-classical economic theory, as interpreted and acted on by liberal welfare-capitalist states, proposes the virtuous cycle of efficiency as shown in Figure 1. The end results of economic efficiency are high economic growth and rising living standards. The start of the cycle is the work incentive effect of low replacement rates. Replacement rates are said to be low if the income people receive when they are not working is a low proportion of their normal market income. This in turn discourages welfare dependency and is expected to promote higher employment levels than would otherwise occur.

Our first expectation or hypothesis is that the liberal state, the United States, had higher economic growth than the other two countries (see Table 1). It is widely believed that American economic growth has outstripped European in recent years. In fact, the American population grew faster, and when this is adjusted, it transpires that West German and Dutch GDP per capita grew at an annual rate of 1.9 percent, while the American rate was about 10 percent lower at 1.7 percent.

A second expectation, following from the first, was that Americans recorded higher increases in their material standard of living, measured by equivalent incomes, than Germans and Dutch people (see Table 2).

¹ To increase reliability the top and bottom 1 percent of incomes were omitted.

Figure 1

A Virtuous Cycle of Efficiency

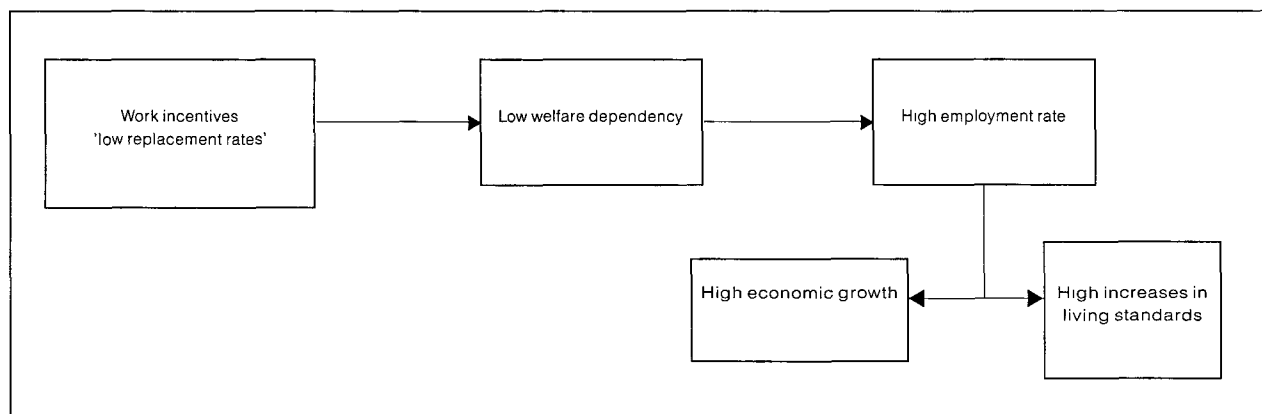


Table 1
Economic Growth in the Three Worlds: Average Annual Rates, 1985 to 1994^{a)}
(in percent)

	Real GDP Growth	Population Growth	Real GDP Growth Per Capita
United States	2.6	0.9	1.7
West Germany	2.7	0.8	1.9
The Netherlands	2.5	0.6	1.9

a) OECD (1996a). All figures are arithmetic means for 1985-94.
Source: OECD.

Far from having the fastest rising living standards in this decade, the United States recorded the lowest increases. A good rate of national economic growth simply did not flow through to the benefit of ordinary people. Median equivalent income only increased 1.5 percent compared with 15 percent in West Germany and 16 percent in The Netherlands. Only 53 percent of the American sample were better off at the end of the period than the beginning, compared with two-thirds in The Netherlands and 70 percent in West Germany. It is noteworthy that in all three countries living standards increased much less in the second five years of the decade than the first. There was a recession in the early 1990s, whereas the late 1980s were a period of unbroken growth. Also, in this latter period West Germany was experiencing the costs of unification, and the Dutch government was imposing strict wage restraint, partly in order to qualify for European Monetary Union. American living standards, measured by median equivalent income, actually declined by 5.4 percent.

Given that the outcome measures of economic efficiency just examined do not show the liberal welfare-capitalist system to be superior, it could be argued that the other liberal efficiency expectations relating to replacement

Table 2
Increases in Real Living Standards^{a)}
(in percent)

	Increase in Median Equivalent Income 1985-94	Percent of Sample Better Off 1985-94
United States ^{b)}	1.5	53.0
West Germany	14.7	69.9
The Netherlands	16.4	66.5

a) Results are net of inflation. — b) United States is 1984-93.
Source: PSID, GSOEP, SEP.

rates, welfare dependency and employment levels, have lost importance. The presumed causes of efficiency matter less if the presumed effects do not occur. Be this as it may, we now look at replacement rates, which, if high, are presumed to have work disincentive effects.

Table 3 shows net (after tax, after transfer) replacement rates in 1994 for single earner households in which the head becomes unemployed after previously receiving average production worker (APW) earnings. As expected, the table demonstrates that Americans receive lower net benefits from the state than Germans or Dutch, regardless of family circumstances. In the case of the very long-term unemployed (60 months), American benefits are only 17 percent of previous earnings compared with 71 percent in West Germany and 80 percent in The Netherlands. In short, the American system is designed to avoid work disincentives and has a fairly high level of target efficiency as far as households headed by people of working age are concerned. German, and particularly Dutch replacement rates are much more generous and have quite low target efficiency, bringing some households well above the poverty line (OECD 1996b).

The next link to be examined in the presumed chain of economic efficiency runs between low replacement rates and 'welfare dependency'. Our measure of welfare dependency is whether or not a household's main source on income is the state. Table 4 shows percentages of households headed by people of prime working age (25-59) and percentages of all households who were dependent on state benefits (social insurance and/or social assistance).

Among households headed by people of working age — the group that matters most from an efficiency standpoint — the United States has a slightly lower rate of dependency on state benefits than West Germany, but much lower than The Netherlands. It is interesting that corporatist West Germany (a male breadwinners' welfare state?) manages to keep almost as many prime age households off state benefits as the United States. However, if the age group is extended to cover households headed by people aged 16 to 64 (i.e., all heads who potentially could work), then the difference between the United States and West Germany increases. It increases still more, as Table 4 indicates, if all households are included, although the relatively high dependency rates in West Germany and The Netherlands partly reflect the presence of more old people in Europe.

Our final efficiency expectation relates to employment rates, which are expected to be higher in a liberal regime than in corporatist or social democratic regimes. Indeed they are. OECD (1996b, p. 190) and panel data indicate that Americans aged 16 to 64 work approximately one-third more hours per person per year than Germans or Dutch people. This is a huge difference and might be read as largely accounting for the fact that, in absolute terms, American GDP per capita is about one-third higher than German or Dutch. Furthermore, the American employment

Table 3

**Net Replacement Rates for Single Earner Households in 1994:
Replacement Rates at the Average Production
Worker Level of Earnings
(in percent)**

	United States	West Germany	The Netherlands
First Month of Unemployment, No Social Assistance			
Couple, no children	60.0	60.0	77.0
Couple, two children	68.0	71.0	77.0
Couple, two children, housing benefits	68.0	78.0	84.0
Sixth Month of Unemployment Including Social Assistance			
Couple, two children, housing benefits	17.0	71.0	80.0
Source: OECD (1996b, p. 31).			

rate has risen in the last 15 years, whereas the West German rate has fallen, and the Dutch has risen from a low rate and has now overtaken the German (OECD 1996b, p.186). Unemployment rates have moved in parallel. The American and Dutch rates have fallen, whereas the West German has risen.

The conclusion to this section on 'liberal priorities' has to be that economic growth in the three 'best case' countries was fairly similar, but ordinary people benefitted much less in the United States, despite working much harder. The evidence is of course not conclusive but it does not support the liberal 'virtuous cycle of efficiency'.

Social Democratic Priorities

According to Esping-Andersen, social democratic welfare-capitalist states try to reduce poverty and income inequality by (1) keeping market or pre-government incomes relatively equal ('wage solidarity') and (2) using the tax-transfer system to redistribute income in favor of low income households. Table 5 compares the performance of the three governments in reducing short- (one year), medium- (five year) and long-term (ten year) poverty (see Table 5).

The most remarkable results here relate to medium and long-term poverty, which matter a great deal more than

Table 4

**Welfare Dependency? Households Whose Main Income Source Was State Benefits:
Years Out of Ten, 1985-94^{a)}
(in percent)**

	Years Out of Ten			Total
	None	1 to 4 Years	5 to 10 Years	
Head Aged 25 to 59				
United States	87.2	8.5	4.4	100.0
West Germany	85.0	10.1	4.9	100.0
The Netherlands	75.1	12.2	12.7	100.0
All Households				
United States	74.1	13.2	12.7	100.0
West Germany	62.8	15.5	21.7	100.0
The Netherlands	56.3	14.3	29.4	100.0
a) United States is 1984-93. Source: PSID, GSOEP, SEP.				

Table 5

**Pre- and Post-Government Poverty and Governmental Redistribution:
Short-, Medium-, and Long-Term^{a)}**
(in percent)

	Short-Term		Medium-Term		Long-Term
	1985	1994	1985-89	1990-94	1985-94
The Netherlands					
Pre-government	20.9	20.7	16.2	18.2	15.4
Post-government	4.5	7.5	1.1	1.4	0.5
Redistribution	78.5	63.8	93.2	92.3	96.8
West Germany					
Pre-government	25.3	27.0	22.6	23.5	21.2
Post-government	8.7	10.9	6.2	7.1	5.8
Redistribution	65.6	59.6	72.6	69.8	72.6
United States					
Pre-government	21.0	22.5	18.7	20.6	16.9
Post-government	17.3	17.8	14.7	16.3	13.0
Redistribution	17.6	20.9	21.4	20.9	23.1
^{a)} United States is 1984-93 (1984, 1993, 1984-88, 1989-93). Source: PSID, GSOEP, SEP.					

short-term. In The Netherlands only 0.5 percent of the sample had an income which averaged over ten years made them poor.² This is compared with 5.8 percent in West Germany and 13.0 percent in the United States. Those who would have been poor on the basis of their pre-government (mainly market) incomes — 96.8 percent — were transferred out-of-poverty by the Dutch state. This is compared with 72.6 percent in West Germany and only 23.1 percent in the United States.

Whatever time period we take, the Dutch government achieves lower pre-government and post-government poverty rates and does more redistribution than the German and American governments. It is important to recognize that German post-government poverty and redistributive effort is much closer to the Dutch pattern than the American; the corporatist state does much more to relieve poverty than the liberal one. These results are confirmed when alternative poverty lines are used. Using a more 'generous' line, set at 60 percent of median equivalent income, sharpens the contrast between The Netherlands and West Germany, with the former country now appearing to do substantially more to relieve poverty (Headey, Goodin, Muffels, and Dirven 1997). A 40 percent poverty line leaves the international relativities unaffected.

Space does not permit a detailed analysis of poverty in different sections of the community, but it is important to realize that poverty reduction by government appears

much less dramatic if the old are excluded from analysis. For example in 1990-94, excluding households headed by people aged 60 and over, the Dutch government reduced poverty by 60 percent, the German by 20 percent and the American by 1 percent (1989-93). The Dutch government sharply reduces poverty among all types of households. The American government only helps a substantial proportion of the aged, and the German government mainly removes aged people and single parent households from poverty. It goes almost without saying that blacks are over-represented among the post-government poor in the United States, and foreigners (guest-worker households) in West Germany.

One of the most important and surprising findings of the first great panel study, the PSID, was that poverty is much less long term and less recurrent than is usually supposed. What was true of the United States — and was at first thought to be a case of American exceptionalism — has proved to be even more true of European countries (see Table 6).

In The Netherlands only 0.9 percent of the sample were poor more than half the time in this decade, and only 0.1 percent were poor every year. In West Germany 3.5 percent were poor more than half the time and in the United

² That is, they fell below half of median equivalent income for the decade 1985-94.

Table 6

Recurrence of Poverty, 1985-94^{a)}
(in percent)

Years in Poverty	The Netherlands	West Germany	United States
Never poor	77.8	76.3	63.3
1 to 5 times poor	21.3	20.2	23.8
6 to 9 times poor	0.8	2.6	8.8
10 times poor	0.1	0.9	4.1
Total	100.0	100.0	100.0

a) United States is 1984-93.
Source: PSID, GSOEP, SEP.

States 12.9 percent. In the United States long-term poverty is increasing. In the first decade of the panel only 2.1 percent were poor every year (Duncan et al. 1984).³ In 1984-93 the figure was 4.1 percent. As has often been pointed out, a corollary of the finding that relatively few people are long-term poor is that far more people than might be expected are occasionally poor. In this decade, close to a quarter of Dutch and Germans and over a third of Americans were poor at least once. In fact many people who started the decade with middle class incomes experienced poverty.

Table 7 gives us another perspective on the duration of poverty by showing how long spells of poverty typically lasted. The first column for each country shows the percentage of spells which would still have been continuing after one year, two years — if people had been forced to rely on

their pre-government (market) incomes. The second column shows the length of actual post-government poverty spells, and the third column shows the percentage reduction in spells due to the intervention of government.

It is clear that post-government poverty spells are much shorter in The Netherlands than in West Germany or the United States. Only 34.4 percent of Dutch poverty spells are still continuing after a year and 14.9 percent after three years. In West Germany and even more in the United States, poverty spells last much longer. A second crucial point relates to pre-government spells. In contrast to post-government spells, these are a good deal shorter in the United States than in The Netherlands or West Germany.

³ Using a definition of poverty close to the OECD one.

Table 7

How Long Do Spells of Poverty Last? How Much Difference Does Government Make?^{a)}
(in percent)

Spells Still Continuing After	The Netherlands			West Germany			United States		
	Pre-Government	Post-Government	Redistribution	Pre-Government	Post-Government	Redistribution	Pre-Government	Post-Government	Redistribution
1 year	66.1	34.4	48.0	66.7	48.6	27.1	61.7	59.6	3.4
2 years	58.1	19.4	66.6	55.0	34.4	37.5	46.4	42.5	8.4
3 years	49.9	14.9	70.1	49.8	25.8	48.2	38.1	33.5	12.1
4 years	46.3	10.6	76.2	46.6	20.9	55.2	33.0	28.6	13.9
5 years	42.3	—	—	40.2	16.7	58.5	29.5	24.6	16.8
6 years	39.9	—	—	37.8	14.3	62.2	26.8	22.3	16.8
7 years	39.0	—	—	36.3	11.5	68.3	26.0	20.8	20.0
8 years	—	—	—	33.8	11.1	67.2	25.6	19.8	22.7
N of spells	1,080	730	—	2,564	1,815	—	5,141	5,473	—
Percent censored	47.4	20.1	—	47.3	27.4	—	38.5	35.5	—

a) The units of analysis are spells of poverty not people. United States is 1984-93.
Source: PSID, GSOEP, SEP.

Table 8

**Post-Government Income Inequality:
Decile Ratios^{a)}**

	The Netherlands	West Germany	United States
1985	2.8	3.3	5.1
1994	3.2	3.4	5.7
1985-89	2.4	2.9	4.8
1990-94	2.7	3.1	5.2
1985-94	2.4	2.8	4.6

^{a)} United States is 1984-93 (1984, 1993, 1984-88, 1989-93).
Source: PSID, GSOEP, SEP.

For example, in the United States only 38.1 percent of pre-government spells were continuing after three years, compared with 49.9 percent in The Netherlands and 49.8 percent in West Germany. So what appears to be going on is that the American labor market does a relatively good job of moving people out of poverty, operating in combination with low benefits (low replacement rates) which cut out after a relatively short period (see Table 3). In The Netherlands comparatively few people escape poverty through the labor market, the government transfers most out.

Income Inequality

Compelling evidence on differences in income inequality is given by decile ratios (see Table 8).

Clearly, disposable income inequality is distinctly lower in The Netherlands than West Germany and much higher in the United States. Clearly, too, in all three countries ine-

quality is increasing (cf. 1990-94 with 1985-89). Also note that it is lower in all three countries, the longer the time period under consideration. This is primarily because market incomes fluctuate and therefore tend to equalize over time.

The next table compares the impact of governments on inequality, focusing just on households headed by people under age 60. The reason for this restriction is that, in all three countries, retired people are fairly well catered to by social insurance programs, which may or may not be regarded as redistributive depending on whether one emphasizes their contributory aspect or their compulsory taxation aspect (see Table 9).

We find the usual pattern: post-governmental income inequality is somewhat lower in the medium and long-term in The Netherlands than West Germany and much higher in the United States than the European countries. The pattern occurs because market incomes are more equal in the European countries and because governments redistribute more. It is noteworthy that inequality increased in all three countries in the second half of the decade.

The clear conclusion in relation to social democratic priorities is that the Dutch government achieves lower poverty rates and lower levels of inequality than the German government, which in turn reduces poverty and inequality much more than American government. These international differences are particularly marked in regard to medium and long-term poverty and inequality, which most people would regard as more important than short term.

Corporatist Priorities

Historically, the methods which corporatist welfare-capitalist states have used to achieve their priorities of social stability and social integration have been to (1) run

Table 9

**How Much do Governments Reduce Inequality? Theil-0 Coefficients
Households with Heads Under Age 60^{a)}**

	The Netherlands			West Germany			United States		
	Pre-Government	Post-Government	Redistribution Percent	Pre-Government	Post-Government	Redistribution Percent	Pre-Government	Post-Government	Redistribution Percent
1985	0.294	0.085	71.1	0.350	0.094	73.1	0.439	0.166	62.2
1994	0.356	0.102	71.3	0.413	0.124	70.0	0.470	0.222	52.8
1985-89	0.184	0.049	73.4	0.152	0.068	55.3	0.256	0.144	43.8
1990-94	0.233	0.063	73.0	0.153	0.081	47.1	0.262	0.164	37.4
1985-94	0.173	0.046	73.4	0.115	0.063	45.2	0.212	0.137	35.4

^{a)} United States is 1984-93 (1984, 1993, 1984-88, 1989-93).
Source: PSID, GSOEP, SEP.

separate social insurance funds for separate occupational status groups in order to maintain household income close to normal market income in circumstances where the main breadwinner cannot work (income stability), (2) ensure full-time employment for male breadwinners, (3) keep families together, discourage divorce and family break-up, and (4) keep mothers of dependent children in the home rather than the workforce.

The first row of Table 10 shows 'minmax' ratios and coefficients of variation in annual equivalent incomes for all households in 1985-94. (It will be recalled that the 'minmax' ratio is simply the lowest income for the decade divided by the highest.) The lower segment of the table then gives the same measures for households who experienced different levels of disruption in the period.

Income stability is much greater in West Germany and The Netherlands than the United States. This is true whether one focuses on all households or on households which experienced one or more changes of household head. More detailed analysis (not given here) shows that greater stability in the European countries is primarily due to government (the welfare state) and not due to market incomes being more stable. An important point is that Dutch income stability is just as high as German. The social democratic state performs as well in this regard as the corporatist one.

In all three countries income instability is strongly associated with frequency of change in household head. Such changes are much more common in the United States than in the European countries; a phenomenon which corporatists would regard as indicating a lack of 'social integration', while liberals might see it as indicating individual 'choice'. In the United States, 24.5 percent of the sample experienced at least one change of household

head in this decade and 7.1 percent experienced two or more changes. In West Germany 18.8 percent experienced one or more changes and 1.8 percent two or more. The equivalent Dutch figures were 9.9 percent and 3.6 percent. In all three countries family break-up was much higher among people in the bottom half of the income distribution.

A second indication of family break-up and lack of social integration (or 'choice?') is given by divorce rates. These ran at 2.0 per thousand population in West Germany during this period, at 2.4 per thousand in The Netherlands, and 4.4 per thousand in the United States.

Our final measures of the achievement or nonachievement of corporatist priorities relate to the percentage of men of prime age in full-time jobs and to whether mothers of dependent children stay home (see Table 11).

Contrary to corporatist hopes, German men averaged 8.1 years of work — the lowest rate for these three countries — and American men rated highest at 8.8 years. The differences between the countries are not large, although it should be noted that American performance looks better still if the prime age group is defined more broadly (e.g., 16 to 64 years).

Corporatist policy makers used to prefer mothers with dependent children to stay at home. This preference is now in doubt, but the German system of split taxation encourages it. In any event, West Germany in this decade had slightly more mothers staying home than The Netherlands and many more than the United States. In 1989, a nonrecession year halfway through our period, 68.1 percent of German partnered mothers worked less than ten hours a week, compared with 65.1 percent in The Netherlands and only 33.4 percent in the United States.

Summarizing this section on corporatist priorities, we have found that West Germany and The Netherlands rated

Table 10

Income Stability, 1985-94: Median 'Minmax' Ratios and Coefficients of Variation^{a)}

	The Netherlands		West Germany		United States	
	Minmax Percent	Coefficient of Variation	Minmax Percent	Coefficient of Variation	Minmax Percent	Coefficient of Variation
All households	53.3	0.20	53.5	0.20	44.0	0.26
0 change of head	55.5	0.19	55.5	0.19	47.9	0.23
1 change	40.4	0.29	40.8	0.27	33.4	0.35
2 changes	42.3	0.28	34.0	0.35	27.7	0.38
3 changes	32.2	0.33	20.2	0.49	25.1	0.42
4 changes	—	—	9.1	0.63	26.9	0.41
5 changes	33.3	0.38	—	—	15.0	0.51
6 changes	—	—	—	—	14.5	0.82

^{a)} United States is 1984-93.
Source: PSID, GSOEP, SEP.

Table 11
**Social Integration, 1985-94: Prime Age Males
 (Aged 25 to 29) in Full-Time Jobs^{a)}**
 (in percent)

	The Netherlands	West Germany	United States
All 10 years	66.1	45.9	62.9
6 to 9 years	7.7	39.0	6.4
1 to 5 years	18.7	12.3	28.3
0 years	7.5	2.8	2.4
Total	100.0	100.0	100.0
Average years F/T	8.3	8.1	8.8

^{a)} The United States is 1984-93.
 Source: PSID, GSOEP, SEP.

about the same on all measures. The United States rated lower, except with regard to the percentage of prime age men in full-time work.

4. Discussion

This paper has reviewed economic and welfare outcomes in 'best cases' of the three types of welfare capitalism. Arguably, these best cases provided a fair comparison of the three types of welfare-capitalist system and it is from them that we can learn and borrow most for policy development.

The expectations assessed in the paper were based on the idea that each type of welfare capitalist state would perform best in pursuing its 'own' economic and welfare priorities, and less well in regard to the priorities of other states. Many of our expectations turned out to be incorrect. Why? Because the Dutch state performed best in pursuing its own priorities and was at least equal to the other two states on (nearly all of) their priorities. The economic perfor-

mance of the three countries appears to have been about the same. They have had similar growth rates and all run open economies-open to world trade, exporting successfully and so forth. Where they differ is in achievement of 'softer' welfare goals and particularly in relation to the social democratic priorities of reducing poverty and inequality.

How did the Dutch state achieve its priorities in relation to poverty and inequality? The distinctive feature of the Dutch tax-transfer system, compared with the American and German, is that universal social assistance programs much reduce poverty and inequality. Heavier reliance on social insurance (social security) in the United States and West Germany results in less redistribution.

The performance of the Dutch state shows that it is possible to achieve good economic growth and run a fairly generous welfare state. It can be argued that, in recent years, Dutch welfare/equity gains have been achieved without serious efficiency costs. Forcing low-skilled people back into the labor force in order to avoid welfare dependency, American style, may contribute little to economic growth. However, it is important to recognize that the strong economic performance of The Netherlands in the last ten years has required tight wage restraint, backed by the unions, employers and government, and has been accompanied by some reduction in numbers on disability pensions, and a move towards making employers pay some of the cost of colluding to transfer less efficient employees to the welfare system (Hemerijk and van Kersbergen 1997).

Our final point, demonstrated by panel studies far more than cross-sectional studies, has to be that the social democratic and corporatist welfare states work as advertised. Viewed over five or ten years, they substantially redistribute incomes and so greatly reduce poverty and inequality, which are much lower over five or ten years than on an annual basis. They also work effectively to stabilize household incomes when adversity strikes. Welfare states are great feats of social engineering; achievements of the twentieth century to be proud of, not to be slowly whittled away.

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