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**Working Paper**

## After the Golden Age: The future of the welfare state in the new global order

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*by gøsta esping-andersen*



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*by gøsta esping-andersen*

geneva, november 1994

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## preface

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The World Summit for Social Development, to be held in Copenhagen in March 1995, provides an important opportunity for the world community to focus attention on current social problems and to analyse the dimensions, roots and directions of social trends. In particular, the agenda of the Summit specifies three areas of concern: the reduction of poverty, the generation of productive employment, and the enhancement of social integration. UNRISD work in preparation for the Summit focuses on the last of these: as countries confront the seemingly intractable problems of social conflict, institutional breakdown and mass alienation, the topic of **social integration** has assumed increasing importance in public debate.

The UNRISD Occasional Paper series brought out as part of the Social Summit preparatory process takes up a range of issues relating to social integration. This paper examines the important and complex issue of welfare provision in selected regions in an era of increasing global integration. Over the past half century or more, citizens of the industrialized world have attempted to promote social justice and solidarity in part through creating the set of public programmes and policies now broadly known as the “welfare state”. Within a structure of negotiated rights and obligations, it has been possible to provide varying degrees of social protection for the unemployed, the poor, the sick, the handicapped, the very young and the old.

Global economic integration, within a free market context, now poses new challenges for the welfare state. The virtually instantaneous mobility of capital in unregulated markets seriously affects the capacity of governments to regulate national economies; competition for capital and markets increases pressure to adopt a low wage strategy, including a reduction in the cost of social benefits and weakening of labour standards; and the twin goals of maintaining acceptable levels of employment and defending the principles of equity and solidarity seem increasingly incompatible.

At the same time, the social structure of the developed countries is changing rapidly. The “model family”, built around a single male breadwinner, which stands at the centre of the welfare state model in many countries, is no longer the norm. There is a growing tendency — more in some countries than in others — for women to play an increasingly active role in the paid labour force. The industrial working class is losing importance in relation to service sector employees. The much greater occupational and life cycle differentiation that characterizes “post-industrial” society implies new risks and creates more heterogeneous needs for a great many people.

In the following paper, Gøsta Esping-Andersen explores the challenges which these and other developments pose for existing welfare state policy in various regions of the world. Drawing upon research carried out within the UNRISD programme on **The Future of the Welfare State**, he suggests that since the early 1970s we can identify four distinct patterns of response to changing economic and social conditions in the industrialized West.

Until recently, the Scandinavian countries followed a strategy of welfare state-induced employment expansion in the public sector, which brought a very high proportion of women, the young and the old into the labour force and thus reduced welfare dependency ratios. Faced with problems of slow growth, budget deficits and growing foreign competition, these governments are compelled to reduce public employment and trim generous welfare benefits. They are shifting from public employment promotion to greater reliance on private sector growth, while strengthening long-standing public commitments to training and mobility. Thus Scandinavia appears to have accepted the view that greater inequalities are unavoidable, but seeks to build in guarantees against these being concentrated in any particular social stratum, or becoming permanent across people's lifetime.

Britain, New Zealand and the United States have favoured a strategy of deregulating wages and the labour market, combined with a certain degree of welfare state erosion, which has stimulated the growth of employment at the cost of increasing poverty and polarization. Australia and Canada, in contrast, have combined liberalization with an effort to ensure that those most at risk receive increased benefits. They have enjoyed a growth of employment equal to that of the United States, but without an alarming rise in poverty.

Finally, the Continental European nations, like France, Germany or Italy, have relied increasingly upon a reduction of the labour force which has worsened unemployment and increased welfare dependency ratios — leading to a particularly serious fiscal crisis in the welfare sector. To deal with the problem, these nations may well be required to encourage more flexible employment for women and youth, and to lessen family dependence upon a single male breadwinner.

Clearly, national institutions are of central importance in shaping national responses to the challenges posed by global economic integration; and there is little reason to suppose that the future of welfare states in the industrial West will be unidimensional. Diversity seems also to be the hallmark of current efforts to design welfare policy in the newly democratic, industrial countries of East Asia, Eastern Europe and Latin America. Both low unemployment and a tradition of family-based solidarity have permitted fast growing East Asian nations to neglect development of a modern network of public support for vulnerable groups and to rely heavily on private pensions and insurance. But rapid population aging, combined with urban migration and industrial restructuring, have now placed the issue of welfare state construction firmly on the public agenda.

While East Asian countries seem likely to strengthen the role of the state in the provision of social services, Eastern European nations — as well as a number of countries in Latin America — are following an opposite path. Within a context of deep economic crisis and institutional collapse, radical market-oriented reforms have been linked to privatization of social insurance, reduction of public services, a shift toward targeted assistance and deregulation of the labour market. The Chilean experience is widely considered to be a model in this regard, although its social costs have been extremely high.

Finally, a few Latin American countries (like Brazil and Costa Rica) have taken steps toward strengthening social policy and orienting it in the direction of universalism. Nevertheless a number of macro-economic uncertainties, including the burdens of high indebtedness and (in the Brazilian case) inflation, make it difficult to sustain such policies.

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November 1994

Dharam Ghai  
Director



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## introduction

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The advanced welfare state, which became one of the hallmarks of the “Golden Age” of post-war prosperity, implied more than a mere upgrading of existing social policies in the developed industrial world. In the broadest of terms, it represented an effort to bring about economic, moral and political reconstruction. Economically, it departed from the orthodoxies of the pure market nexus and required the extension of income and employment security as a right of citizenship. Morally, it sought to defend the ideas of social justice, solidarity and universalism. Politically, the welfare state formed part of a project of nation building, affirming liberal democracy against the twin perils of fascism and bolshevism. Many countries became self-proclaimed welfare states, not so much to give a label to their social policies as to foster national social integration.

In today’s globally integrated open economies, however, many of the assumptions that guided post-war welfare state construction in the advanced industrial world seem no longer to obtain. Non-inflationary demand-led growth within one country now appears impossible; services rather than manufacturing must assure full employment; the population is rapidly aging; the conventional family, relying on the male breadwinner, is in decline; and the life course is both changing and diversifying. Such structural shifts challenge traditional social policy thinking.

Chronically high unemployment in Europe, like rising inequality and poverty in North America, is a symptom of what many believe is the underlying dilemma in today’s open economies: a basic trade-off between employment growth and generous egalitarian social protection. Heavy social contributions and taxes, high and rigid wages, and extensive job rights make the hiring of additional workers prohibitively costly and the labour market too inflexible. Pointing to the North American “job miracle” of the 1980s, which occurred against the backdrop of declining wages, weakened trade unions and labour market deregulation, neo-liberals advocate privatization of welfare, a return to targeted rather than universal benefits, and the acceptance of greater earnings differentiation. The Chilean experience serves as a model for the less rich nations in general, and the ex-communist countries in particular.

On the other hand, critics of the neo-liberal view hold that the social costs of relying on the market are too high and imply clear polarization between winners and losers. To deal with the trade-off between jobs and inequality, these critics propose a “social investment” strategy. Rather than welfare roll-backs, they prefer a redirection of social policy in favour of active labour market programmes, training, life-long learning and “putting people back to work” —

possibly coupled with a basic income guarantee. A shift from income maintenance towards human capital investment is a leading theme in the Clinton administration, in the European Community and also in East Asian countries.<sup>1</sup>

Debates within the “new” industrializing countries parallel those in longer established industrial nations. Since the comparative advantage of the former lies in competitive labour costs, they are reluctant to construct costly welfare state programmes. In addition many of these nations — particularly the East Asian “tigers” — face unusually rapid population aging and thus also heavy pension burdens in the coming decades.

What, then, are the prospects for the welfare state as we step into the twenty-first century? Will the advanced nations be forced to abandon their basic welfare state principles as they become increasingly post-industrial? Will the newly industrializing nations become Western-style welfare states? Given the degree of uncertainty that currently prevails, this paper will not attempt to provide conclusive answers to such questions, let alone policy prescriptions. It will, however, aim to provide a diagnosis of identifiable trends as these have been highlighted in recent studies carried out within an UNRISD research programme on The Future of the Welfare State.

## selection of regions

The UNRISD programme has considered not only the future of the old core welfare states in Western Europe, North America and the Antipodes, but also trends in welfare state development in ex-communist Eastern Europe, East Asia and Latin America.<sup>2</sup> The ex-communist nations constructed a genuine “soviet” welfare system which is now being rapidly undone. Some Latin American nations, like Argentina and Chile, have become models of neo-liberal reform. The East Asian countries match Europe in economic development but are far behind in social policy development. They currently stand at the threshold of building some form of welfare state. At present, no country outside the original core grouping can be said to have anything akin to a welfare state in the classical meaning of that word.

The selection of regions has been motivated by two concerns. First, their respective position in the new global order. For example, many of the difficulties facing the Western welfare states are linked to the new competition from East Asia, Eastern Europe and Latin America; in turn, the very success of the latter will make their traditional forms of social protection increasingly untenable. Second, each region represents a certain degree of nation clustering in terms of historical legacy, cultural, political and economic development. Most importantly, nations within each region share considerable similarities with regard to their social policy approach.

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the case for a  
convergence of  
welfare strategies:  
the challenge of  
global integration

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Integration in the world today almost automatically implies open economies. Is it, then, the case that openness will inexorably drive the original welfare states towards the lowest common denominator of social support in a fiercely competitive environment?

Certainly, openness restricts the capacity of nations to exercise autonomy in designing their own political economy. Both Australia and Sweden illustrate the erosion of national options. As Castles<sup>3</sup> shows, Australia could at one time pursue what he calls the “wage earners’ welfare state” model of job security: full employment and high wages with the aid of protectionism. The cost of protectionism, however, was a lagging growth performance. Sweden, as Stephens<sup>4</sup> shows, could balance (over-) full employment with the world’s most generous and egalitarian welfare state as long as governments could control domestic credit and investments, and as long as labour market partners could guarantee wage moderation. Following liberalization in 1982, the Swedish economy suffered heavy capital leakage abroad, thus undercutting domestic investment and job generation. At the same time, Sweden’s tradition of national social pacts eroded. In both countries, governments (both left and right) have been compelled to cut back social expenditure. Economies like those in North America have met the challenge of global competition by doing well in terms of employment but at the expense of rising wage and household income inequalities, growing poverty rates and the re-emergence of an “underclass”.<sup>5</sup> Western Europe, with its much more comprehensive industrial relations systems, welfare states and also powerful trade unions, has promoted equality and avoided poverty growth while experiencing a dramatic rise in (long-term) unemployment and swelling armies of welfare dependants, the combination of which threatens to create a severe crisis in the financing of social security. In contrast to the post-war Keynesian régime, demand-led, reflationary strategies are no longer an option, partly because unemployment is not merely cyclical; partly because income growth leaks out of the economy to purchase imported goods.<sup>6</sup>

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the case for  
divergence of

## welfare policy: the role of institutions

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We should, however, not exaggerate the degree to which global forces overdetermine the fate of national welfare states. One of the most powerful conclusions in comparative research is that political and institutional mechanisms of interest representation and political consensus building matter tremendously in terms of managing welfare, employment and growth objectives.<sup>7</sup> Just as countries differ substantially in union and employer strength, organization and centralization, so they also vary in their capacity to manage conflicting interests. Cameron<sup>8</sup> and Katzenstein<sup>9</sup> have shown that the post-war European economies were able to promote **both** welfare and efficiency because all-encompassing interest organizations had the capacity to promise wage restraint in return for full employment. For this reason, a strong social safety net had no major negative effects on the capacity of economies to adjust or, more generally, on growth.<sup>10</sup>

The point is that countries with weak institutions lack the capacity to negotiate binding agreements between contending interests. As a result, conflicting welfare, employment and efficiency goals more easily turn into zero-sum trade-offs. Wage inflation, for example, is most likely under fragmented unionism. Weak or fragmented bargaining systems may block rather than facilitate economies' capacity to adapt to change. Hence a favourable institutional environment may be as effective as free markets in nurturing flexibility and efficiency.<sup>11</sup> Similarly, as is now the case in Sweden, trade-offs become more acute when consensus building mechanisms erode.

These issues are clearly relevant for developing industrial democracies, including Eastern Europe. For the ex-communist nations there is of course little doubt that the transition to market economies requires sweeping institutional reconstruction and privatization. It is also clear that the institutional mechanisms that have surrounded the highly protectionist Latin American economies stifle growth. Yet Japan and South Korea have managed to produce full employment growth with a remarkable degree of equality and in the context of highly regulated labour markets.<sup>12</sup> Again, it appears that deregulation and marketization are not universal panaceas.

In all cases, there is a continued dominance of national traditions, which emerge in two important respects. First, while the post-war Western welfare states addressed fairly similar objectives, they diverged tremendously in terms of ambition and in terms of **how** they accomplished their goals. Second, as these same welfare states today seek to adapt, they do so very differently. A major reason has to do with institutional legacies, inherited system characteristics and the vested interests that these generate.<sup>13</sup>

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## challenges to western welfare states

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The contemporary advanced welfare state faces various challenges, some specific to the welfare state itself and others provoked by exogenous macro-societal and economic forces. First, there is a growing disjuncture between existing social protection schemes and evolving needs and risks. This is due to changes in family structure (the rise of single-parent households, for example), modification of occupational structure (increased differentiation and heterogeneity) and changes in the life cycle (which is becoming less linear and standard, as people engage in a wider variety of activities over the course of their lifetimes and are less constrained by traditional stereotypes of proper behaviour for those in certain age or gender categories). Hence there is growing dissatisfaction with the welfare state's capacity to address emerging new demands.

In addition, the welfare state crisis is spurred by changing economic conditions (slower growth and "de-industrialization", for example) and demographic trends (especially population aging), both of which threaten the future viability of present welfare state commitments.

Demographic and economic problems have received most attention. The first are caused by the combination of low fertility and population aging which will engender burdensome dependency ratios and, without strong economic growth, severe fiscal burdens. In the European Community, the age-dependency ratio will increase 50 per cent between now and 2020; with existing rules and benefits, this will absorb an estimated additional 5-7 per cent of GDP.<sup>14</sup> OECD<sup>15</sup> projections until 2040 indicate that aging alone will double or triple health and pension expenditures, especially in countries, like Japan, which experience unusually rapid aging.

Still, population aging does not automatically imply crisis. In part, the cost of aging depends on long-run productivity growth. The OECD<sup>16</sup> estimates that if real earnings grow at an annual average rate of 0.5-1.2 per cent (depending on the nation involved) that will suffice to finance additional pension expenditures.<sup>17</sup> At the same time, demographic trends can be politically managed.

Many countries are today reversing a decades-long policy of lowering retirement age. Similarly, increasing the number of the employed will automatically lower dependency rates. It makes a huge difference when, as in Scandinavia today, governments are able to ensure an overall activity rate 20 percentage points higher than the average in Continental Europe. Here it is decisive whether social policy encourages low female employment and early retirement (as in the nations of the European Community), or maximum participation (as in Scandinavia).<sup>18</sup> It is also decisive whether, as in Southern Europe and Latin America, the incidence

of informal, illegal or undeclared employment is growing. The spread of irregular work in countries like Italy is very much part of a built-in negative spiral: the heavy social contributions associated with overloaded income maintenance programmes stimulate irregular employment which, in turn, further erodes the tax base.

It is often feared that female employment will jeopardize fertility, and thus aggravate the aging crisis. The facts, however, tell a different story. High fertility may accompany low female employment (as in Ireland), but then it may not (today, Italy and Spain have Europe's lowest fertility levels). Female employment is at a record high in Finland and Sweden, both of which show comparatively high (and rising) fertility rates. Here the welfare state makes a decisive difference. It has been amply documented that female employment **with** fertility is possible if social services and liberal provisions for leave are available. This is the case in Sweden, but not in most of Continental Europe. To the extent that women's economic independence is a defining element of "post-industrial" society, the contemporary family needs the welfare state in order to harmonize work and family objectives.

The **economic** problems that confront the Western welfare states are typically identified in terms of unemployment. The combination of high wage costs (due to mandatory social contributions) and rigidities (such as job tenure, costly termination payments or generous social benefits) is widely regarded as the main impediment to job growth. Generous social benefits are also considered to reduce the work incentive.

There is evidence that high marginal labour costs and stringent job rights prohibit job growth; and one way partially to confront this problem is to reduce social contributions through privatizing social welfare programmes. Nevertheless privatization of social security may not offer a real solution. First, as we know from the United States and, more recently, from Chile, private plans depend on favourable tax concessions, i.e. public subsidization. Second, experience from the United States shows that occupational welfare (or defined benefit) plans may incur exactly the same kind of rigidities and cost burdens that social insurance does. The former tend to inhibit labour mobility because workers are afraid to lose benefits, and because they involve vesting requirements (in the United States, for example, workers must have been on the job for an average minimum of five years before they become eligible for benefit plans). Like social security, private plans also impose high fixed labour costs.<sup>19</sup> Hence public sector efforts to trim social security are paralleled in the private sector. In the United States, coverage under occupational plans has declined by almost 8 per cent in the past decade.

Post-industrial employment trends are also potentially problematic. On one side, they favour professional and skilled occupations; on the other, they seem to foster precarious jobs (a rise in contingent workers, involuntary part-time workers, homeworkers or self-employment). The consequence may be greater polarization between a core and periphery workforce.<sup>20</sup> The American "job miracle" has produced comparatively low unemployment levels, but a disturbingly large share

of jobs that pay below-poverty wages. The erosion of both wage and social benefit levels during the 1980s has been accompanied by unprecedented levels of poverty and immiseration. This, in turn, may threaten the social order and additionally burden the welfare state. It is also feared that welfare benefits will merely subsidise low wage employers. As Myles' analysis of North America points out, it is exactly this problem which has fuelled renewed interest in some form of guaranteed basic income plan.<sup>21</sup>

The "endogenous" problems of the welfare state lie in the growing discrepancy between existing programme design and social demands. This is largely because the design of the contemporary welfare state was informed by a social order that is no longer predominant. The point of reference for its ideals of universalism and equality was a relatively homogeneous industrial working class. The much greater occupational and life cycle differentiation that characterizes "post-industrial" society implies more heterogeneous needs and expectations. With greater career uncertainty, demands for more flexible adjustment, changing family arrangements and female employment, citizens also face more diverse risks.

Also the welfare state's erstwhile "model family" is no longer the norm. On one side, we see the rise of the two-earner, double-career unit; on the other side, the often dramatic rise of divorced, single-person and single-parent households. The former are often privileged, but it is also clear that wives' remunerated labour is becoming the only means by which households can escape poverty or maintain accustomed living standards today. This is evident in the American case.<sup>22</sup> Single-parent families constitute a rapidly growing, high-risk poverty clientele.<sup>23</sup>

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## welfare régime challenges in other regions

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Eastern Europe and Japan also face the aging problem, but this is not yet the case in Latin America and much of East Asia. Here, instead, the main demographic problem lies in the growing incompatibility of the traditional extended family structure with the demands of urban industrial employment. Urban migration makes traditional forms of social protection difficult to sustain. In East Asia, the dilemma is between the welfare state (combined in Japan and South Korea with corporate plans) and the Confucian tradition of familialism with its care obligations.<sup>24</sup>



The main **economic** problems facing the newly industrializing and democratizing countries differ, depending on their insertion in the world economy. Eastern Europe is a case in its own right, given its legacy of a quite advanced communist welfare régime. This was characterized by three basic pillars: full and quasi-obligatory employment; broad and universalistic social insurance; and a highly developed, typically company-based service and fringe benefit system. In fact, very much as in Scandinavia, its employment maximization strategy was the *sine qua non* of system equilibrium, since it minimized the burden of welfare dependence. The post-democracy reforms have eroded the first and third of these pillars. Instead of full employment, there is mass unemployment; and collapsing (or privatized) state enterprises are decreasingly capable of furnishing accustomed services. As the viability of both is destroyed, existing income maintenance programmes face underfinancing and overburdening. The consequence is an alarming rise in poverty, mortality and morbidity.

Where countries define their competitive edge in terms of favourable labour costs, they will be wary of major welfare state advances. This is, however, only partially the case. Following the example of Japan, East Asia in general, and South Korea in particular, see their economic future in terms of an educated workforce, very much as Sweden did with its welfare state design. This obviously implies heavy social investment in education, health and social services.<sup>25</sup> A strong income maintenance system will probably be difficult to avoid in this scenario to the extent that an increasingly educated, urbane and professionalized labour force is likely to distance itself from the principles of family-based solidarity which underlie Confucian culture; and occupational company schemes are highly uneven in coverage. The latter are rarely present or even viable in smaller or medium-sized firms.

In contrast, Latin American development is to a much greater extent based on natural resources. As these countries abandon protectionist, import substitution policies they clearly face the labour cost problem more acutely. It is in this light that Chile's attempt to shift social security from state to market must be understood.

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## adaptation of the welfare state in the past decade

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Symptoms of crisis have become increasingly evident during the past decade. Nevertheless, popular perceptions notwithstanding, the degree of welfare state roll-back, let alone significant change in the core countries, has been modest. This is clear from social expenditure trends (see appendix table 1 on page 27),

which remain essentially stable, although there is a break with the past in the sense that the decades-long momentum of growth has been interrupted. Most nations have limited intervention to marginal adjustments, while a few — mainly within the Anglo-Saxon liberal group of countries — have set in motion a more radical programme of reform which, over the longer run, may have profound consequences. Among the non-core group, the signs of system change are more evident: on the one hand, active privatization in East-Central Europe and Latin America; on the other hand, embryonic welfare state construction in East Asia.

Since the early 1970s, we can identify three distinct welfare state responses to economic and social change. The Scandinavian countries followed, until recently, a strategy of welfare state-induced employment expansion in the public sector. The Anglo-Saxon countries — in particular Britain, New Zealand and the United States — have favoured a strategy of deregulating wages and the labour market, combined with a certain degree of welfare state erosion. And the Continental European nations, like France, Germany or Italy, have favoured a strategy of induced labour supply reduction. All three strategies were intimately related to the nature of their welfare states.

## the scandinavian route

By the late 1960s, the Scandinavian countries had largely achieved their welfare state aims as far as income maintenance programmes are concerned. Although it was much more comprehensive and universalistic in coverage and generous in terms of guaranteeing adequate benefits, the Scandinavian “social democratic model” was at this point not radically different from others, such as those to be found in Germany or the Netherlands. Only with the shift towards active labour market policies, social service expansion and gender equalization in the 1970s and 1980s did a distinct Nordic — and especially Swedish — model come into existence. This shift was premised on the classical principles of the social democratic welfare state: the harmonization of egalitarian ideals with growth and full employment; the optimization of employment and the minimization of welfare dependence. It was, however, also motivated by growing employment problems.

With a steady decline in manufacturing employment, and given Scandinavia’s unusually egalitarian wage policies, it was clear from the start that sustained full employment, let alone the rise in women’s employment, would have to rely on public sector service jobs. Indeed, until the mid-1980s, when its expansion came to a halt, this sector accounted for roughly 80 per cent of total net job growth in Denmark and Sweden (with Norway lagging behind); and public employment now constitutes about 30 per cent of total employment in Scandinavia. From the point of view of equalizing the economic status of women, the policy has succeeded. With public day care covering about 50 per cent of small children in Denmark and Sweden, as well as generous provisions for paid maternity and parental leave, women’s participation rates in general (as well as the participation

rate of women with small children) hover around 80 per cent — a figure higher than that for prime-aged males in the rest of Europe.

The consequences of this strategy, intended or not, are both positive and negative. On the positive side, it permits women to harmonize careers and fertility. Unlike the situation in many other countries, fertility rates have actually climbed. The strategy has also generated equality: the difference in men's and women's earnings and life cycle behaviour is rapidly eroding; the two-earner, double-career household is now the norm; in comparison to everywhere else, the poverty rate among female-headed families is insignificant. And, with a very large proportion of the population engaged in remunerated work, the welfare state is assured higher tax revenue and lower dependency levels.<sup>26</sup>

On the negative side, the most dramatic result is an extremely high degree of gender segregation, with women concentrated in (typically part-time) public sector jobs, and males in the private sector. Although this may partly reflect women's preference for the more flexible conditions of public employment, the high social costs, absenteeism rates and disruptions to production that are associated with the employment of women with children lead private employers to prefer male workers. Absenteeism in Sweden is in fact alarmingly high.<sup>27</sup>

Another, less noticeable, consequence is the very high proportion of low-skilled (albeit well-paid) jobs that a social services-led strategy produces. In fact, the overall share of unskilled service jobs is higher in Denmark and Sweden than in the notorious case of the United States.<sup>28</sup> This, again, suggests a difficult trade-off between mass joblessness and mass sub-optimal employment in services, whether in the private sector (as in America) or the public sector.

Of course, it makes a great difference from a welfare point of view that Scandinavian public employment offers good pay and security, but here we also arrive at the increasingly evident Achilles heel of the system: the growing tax burden that a very large public sector labour market incurs. With high rates of productivity growth, the system can be sustained; but when productivity or private investments are sluggish, severe cost problems emerge. This is exactly the situation that Sweden faces today: declining fiscal capacity combined with rising pressures on public job creation and/or income maintenance. Only Norway, with its oil revenues, has so far avoided the problem. Swedish policy makers and unionists face growing pressures to lower taxes and social benefits, and to allow a more flexible setting of wages.<sup>29</sup>

Nordic social policy trends do not, however, point in an "American" direction. It is true that wage differentials have grown and public sector wages have experienced relative decline. At the same time, marginal adjustments to social entitlements, especially under the recent conservative governments in Denmark and Sweden, have aimed at reducing some of the systems' negative work incentives and high absenteeism rates. Thus waiting days for sickness benefits have been reintroduced, replacement rates for sickness, parental leave and unemployment benefits have been slightly lowered and, in Sweden, the number of years during which contributions are made for pensions has been increased.

Over the long run, the single most radical change in Swedish policy involves a shift from the defined benefit formula in second tier pensions (known as ATP pensions) to contribution-based pension rights. In a sense, this entails a move away from the principle (established in the 1960s and 1970s) of guaranteeing an adequate income to everyone, regardless of work history, towards an actuarial approach to benefits, which implies less redistribution of income.

There is also a visibly stronger accent on “pushing” people back to work (despite rising unemployment rates). Thus work and training requirements have been strengthened substantially for those receiving Swedish unemployment insurance, and Denmark introduced the so-called “job guarantee” policy for young workers unemployed more than one year. Also, to combat undeclared economic activity or negative work incentives, marginal tax rates have been drastically reduced — particularly for higher income earners, as with the Reagan reform. Finally, there is a certain drift towards decentralization and privatization of service delivery, particularly in Sweden. It would, however, be mistaken to see this as a neo-liberal strategy of marketization. All providers remain subject to centrally defined, stringent norms and the reform appears much more motivated by efficiency criteria and by an interest in allowing services to vary more in accordance with differentiated client demands. Here we see an example of how the more heterogeneous “post-industrial” structure of needs compels social democracy to depart from its traditional universalistic principles.

The drift of these reform efforts is marginal adjustment rather than an impending paradigm shift away from the basic principles of the universal, egalitarian welfare state. If anything, the welfare state’s role in securing and nurturing employment is being strengthened. The celebrated “active labour market” policy approach is being stepped up, particularly with regard to training and job provision. The Danish job guarantee programme relies mainly on sheltered public jobs, but employment stimulus policies extend also to the private sector via marginal wage subsidies and, recently, a temporary minimum guaranteed income for those establishing themselves as self-employed.<sup>30</sup>

Connected to the stronger social investment bias of Scandinavian social policy is also a more general shift of priorities in favour of the young and adults — groups that in the traditional full employment setting were assumed to require only marginal welfare state intervention. In a sense, what is emerging is a new life cycle definition of social policy, with the recognition that contemporary family and employment transformation poses new risks and needs throughout the active, adult phase of people’s life course. This is reflected in the surge of adult retraining policies and “life-long learning”, in the schemes to facilitate geographical and job mobility, and in joint parental leave provisions. It is also reflected in attempts to secure the economic well-being of newly emerging family types, such as single-parent households.

There is, nonetheless, considerable uncertainty as to whether the Scandinavian model will remain viable over the long run. It faces two major threats. The first is a conflict between the principle of universalist egalitarianism and the growing heterogeneity of the population structure. There are indications that the more

privileged social strata are exiting from the welfare state, be it in terms of private pension plans or services. Thus failures constantly to upgrade (and maybe even to differentiate) welfare programmes may, in the long run, provoke an exodus of the élites which, in turn, will undermine the solidity of welfare state foundations. The dilemma, of course, is that the fiscal capacity to carry out such an upgrading does not exist.

A second, and more serious, threat comes from the long-run difficulty of maintaining (and now restoring) full employment. The limits to public employment growth have been reached. Indeed, to reduce public expenditure burdens, the previous Conservative Swedish government planned massive public sector lay-offs. Any employment strategy must therefore rely on private sector services which, in turn, poses the question of investment incentives and wage differentials. A low wage strategy of the American type would, in effect, completely undermine the welfare state edifice. The new Social Democratic government's strategy is to try to avoid dramatic system shifts by marginal adjustments, such as reducing the level of benefit entitlements and promoting selective wage subsidies.

Nevertheless Sweden's very high unemployment rates seem to undermine the basic credibility of the once celebrated social democratic model, and particularly of its activist "social investment" approach. Does the Swedish experience indicate that markets, indeed, work better? The answer to this question will ultimately depend on one's diagnosis of the present crisis. Many, like the Swedish economist Assar Lindbeck, diagnose the latter as primarily welfare state-induced: a problem of work disincentives and too low savings.<sup>31</sup> This analysis is, however, hotly contested. There is little evidence of any major work disincentive effect;<sup>32</sup> and Swedish long-term productivity performance is not inferior to the European or OECD average.<sup>33</sup> There are several, quite plausible, alternative arguments. One stresses the transitory nature of the crisis, arguing that the sudden rise in unemployment is a combination of a cyclical effect (the past recession) and a massive hemorrhage of investment capital since the mid-1980s, primarily spurred by fears of being left out of the European Community's accelerated market integration process. Another stresses imbalances between existing policies and emerging trends. Thus, it is held, the active labour market policies are primarily directed towards shorter industry-specific training, while the labour market increasingly demands higher-level and more generic skills. To the extent that the latter kinds of diagnosis are correct, the Swedish model is in need of (maybe even substantial) adjustments, but not of dismantling. In the last analysis, the question is likely to boil down to whether Sweden's once-celebrated institutional infrastructure is capable of overcoming its present fragmentation.

## the neo-liberal route

Another group of nations deliberately adopted deregulatory, market-driven strategies during the 1980s, notably Britain, New Zealand and the United States

— and to a lesser degree also Australia and Canada. Britain and New Zealand exemplify a radical régime shift. Both were pioneer welfare states with a strong full employment commitment.

The policy shift has been far from uniform. It accompanied the curtailment of protectionism in Australia and New Zealand. In the United Kingdom and the United States, such a shift was associated with a noticeable weakening of collective organizations such as unions while, in contrast, Australia's liberalization policies were developed in co-operation with strong unions. In any case the thrust of the policy was to confront economic decline and domestic unemployment with greater labour market and wage flexibility through seeking to reduce the burden of social costs and taxation, and eroding the legislated or *de facto* minimum wage. Except for New Zealand's active dismantling of programmes, the most favoured approach has combined a greater accent on targeting benefits with failure to upgrade benefits and coverage in line with economic change. This style of more "passive" alteration will, as Myles<sup>34</sup> argues, have only marginal effects in the immediate term, but possibly far-reaching consequences in the longer run.

The passive approach is typical of American social policy in the 1980s. In the absence of adjustment for inflation during the 1980s, the minimum wage dropped to only 38 per cent of average earnings, and the value of social assistance benefits (Aid for Dependent Children—AFDC) to 24 per cent by 1989.<sup>35</sup> Similarly, the percentage of the unemployed receiving insurance benefits declined steadily from about 70 per cent in the mid-1970s to 33 per cent in 1989. Thus, with the principal exception of pensions, the already quite weak American social safety net was allowed to erode still further.

A basic assumption in American welfare state construction has always been that employer plans would adequately supplement the basic public safety net. However, the trend in private coverage has largely paralleled erosion in the public sector. During the 1980s there has been a steady decline in the share of workers covered under both occupational pensions and health; and the decline has been particularly sharp among young and low wage workers. The reasons are quite clear: on one hand, employers are trying to cut down on high (and growing) fixed labour costs; on the other hand, an increasing share of the labour force is employed in firms and sectors with low coverage.

Common to all the "liberal" cases are deepening inequality and rising poverty rates. Recent data for the 1980s show that earnings in the lowest decile lost ground, relative to the median, by 11 per cent in the United States, 14 per cent in the United Kingdom, 9 per cent in Canada and 5 per cent in Australia.<sup>36</sup> In contrast, both Continental Europe and Scandinavia show either stability or even decreasing inequality of earnings and none of these countries experienced rising poverty.

The common underlying cause of growing poverty in the former group is the deregulation of wages and labour costs in response to economic restructuring. The "low wage" phenomenon in these countries is especially acute among

unskilled, non-unionized workers, and among young entering cohorts. However, as we have seen, there are substantial national variations in the incidence of poverty and income polarization. Both Castles' and Myles' studies<sup>37</sup> suggest that this can be explained by welfare state differences. Unlike the United States, Canada's unemployment coverage did not erode (99 per cent of the unemployed receive benefits). In both Australia and Canada, welfare state policy has seen a pronounced drift in the direction of more targeting of benefits and a weakening of basic rights programmes in such areas as child/family benefits and pensions. The methods of targeting, however, appear to assure much better programme performance than is the case in traditional means-tested systems — primarily because eligibility is based on tax or income returns, rather than stigmatizing means tests, and because targeting is meant to exclude the rich rather than assure that only the demonstrably poor are included.

There is, at least superficially, some evidence in favour of the positive employment effect of wage flexibility. Employment growth in the 1980s has on average been two to three times higher in these countries than in the rest of the OECD. Low-end positions may be unattractive, but they do provide a large pool of easily accessible first-entry jobs. This helps integrate youth, women and immigrants into the labour market. In this sense, the American scenario contrasts very favourably with the Continental European one. The burning issue, of course, is whether these jobs become dead-end traps; that is, whether the low wage strategy fosters a new kind of chronically impoverished post-industrial proletariat. Research on this issue is still fairly rudimentary, but much suggests that mobility chances are substantial, **conditional upon adequate skills**.<sup>38</sup> The unskilled workers have a high risk of remaining trapped. Hence an active social investment strategy seems to be paramount if we wish to avoid the emergence of a proletariat of the working poor.

The low wage strategy nurtures employment growth in low productivity, "lousy jobs" where even full-time, year-round employment results in below-poverty income.<sup>39</sup> Hence, as Myles suggests, a low wage labour market entails a double jeopardy: it necessitates higher income maintenance transfers (such as social assistance) and, at the same time, produces poverty traps (since low wages create a disincentive to work). The wage flexibility scenario brings with it two additional problematic consequences. First, there is a worrying erosion of the traditional fringe benefit packages of corporate welfare. Disappearing jobs tend to be in industries with developed welfare plans; and many new jobs are concentrated in companies with little or no occupational benefits.<sup>40</sup> Despite the fact that the United States spends almost 13 per cent of GDP on health care, the number of persons without adequate protection is very high (an estimated 30-40 million) and growing. In other words, welfare states like the United States, which assume company-provided supplements, are likely to face growing gaps in social security and serious disequilibria more generally.

The gap in social security coverage is less serious among the presently aged, but is most acutely felt in younger households. Perhaps the single most worrying effect is rising child poverty, in part because of the low earning capacity of single mothers, combined with a real decline in benefits; and in part because the lack of

child care facilities prohibits married mothers in low income households from supplementing family income. In both types of cases, we see an alarming rise of child poverty in Australia, Canada, the United Kingdom and the United States.<sup>41</sup>

The poverty problem associated with the “low wage” strategy is clearly concentrated among particularly vulnerable clienteles such as unskilled and single-parent households. In the short run the risk can be reduced by sustaining the standards of income maintenance programmes, but if low wages remain the only alternative to welfare dependency, this clearly nurtures poverty traps. Hence it seems obvious that, to guarantee against creation of a poverty spiral, an active social investment strategy will be needed in the longer run. A strategy of wage flexibility would be potentially much less harmful if it were systematically associated with an active training programme.<sup>42</sup>

## the labour reduction route

The jobless growth scenario is especially acute in the European Community. If we go back to the 1960s, overall employment ratios were quite similar (around 65 per cent of the working age population) in Continental Europe, North America and Scandinavia. Today, the American employed-population rate is 76 per cent for men and 60 per cent for women; the Swedish, 83 per cent for men and 76 per cent for women; while the French is 70 per cent for men and 50 per cent for women.<sup>43</sup> The overall average of the European Community has fallen to 57 per cent. The major difference between Continental Europe and other regions has to do with the labour force supply of women and older men, as well as with youth unemployment.<sup>44</sup>

These nations epitomize the “insider-outsider” problem: a small, predominantly male, “insider” workforce enjoying high wages, expensive social rights and strong job security contrasts with a swelling population of “outsiders” depending either on the male breadwinner’s pay or on welfare state transfers. How does one account for this, uniquely Continental European, phenomenon? One analysis focuses on the welfare state and rigid labour markets, and on overly burdensome fixed labour costs due to taxes and social contributions. Nevertheless this argument alone is clearly incomplete when we take into account the Scandinavian experience, which has been marked by many years of publicly led job expansion — only recently curtailed — notwithstanding similarly burdensome labour costs and strong job rights.

One peculiarity of all the Continental European welfare states is their combination of highly (if not overly) developed social insurance, inordinately biased towards pensions, and underdeveloped social services.<sup>45</sup> In addition, social insurance in these countries tends to be highly occupationally segmented. Entitlements are quite strictly related to one’s employment and contribution record. This means the necessity of a long unbroken career, in particular with regard to pensions. Thus the underlying assumption is that wives’ and other



family dependants' welfare needs will be met from the earnings and accumulated entitlements of full-time male breadwinners. These welfare states tend strongly to stress the family (and secondarily voluntary organizations) as the core unit of social care and, hence, the woman as full-time housewife. This is evident in tax policies (for example, the punitive tax treatment of couples with working wives) and in the extremely underdeveloped supply of social services. While child care covers about 50 per cent of Danish and Swedish children, coverage is below 5 per cent in Germany, Italy and the Netherlands. Similarly, the percentage of the elderly living with their children is about 40 per cent in Italy and Spain, but under 10 per cent in Scandinavia and 15 per cent in the United States.<sup>46</sup> The Continental European welfare state is thus essentially a transfer, or family income maintenance, state.

This helps explain its preference for early retirement (or disability pensions) as the principal policy for managing "de-industrialization". As a derived consequence, it also explains the high labour cost problem, employment inflexibilities and the catastrophic levels of long-term youth unemployment. The productivity gains that may come from an early retirement strategy of economic restructuring are easily outweighed by its associated costs. One of these is of course an added transfer burden, since generous pensions have often been the bribe to induce early retirement. Social insurance finances tend in most countries to be increasingly in deficit because contributions fall short of benefit payments. This problem is augmented by the fragmented nature of insurance funds: deficits are sometimes alarmingly high in funds covering declining occupations (such as miners' or general workers' insurance), while insurance funds for growing occupations tend to be financially healthy.

The rising financial requirements inherent in mass retirement mean growing social contributions and thus higher fixed labour costs. This is especially true in France and Italy, where labour supply reduction has been most intense. An indirect effect is that employers will prefer to regulate their labour needs through adjustment of hours rather than through taking on extra workers, since the marginal cost of part-time workers tends to be prohibitively high.<sup>47</sup> Such a situation disfavours female employment. In addition, high and rigid labour costs in the context of mass unemployment create a strong incentive for both employers and job seekers to exit formal employment relationships. This can be seen in the very large (and growing) hidden economy, and in the rise of self-employment, neither of which of course augments the tax base of the welfare state.

Indirectly, this system has an in-built tendency to augment labour market rigidities. If we consider that the average family depends on the male earner's pay and benefit eligibilities, and when we add to this the declining number of active years per worker due to later entry and early exit, the result is that the typical worker can ill afford any risks or employment breaks across his active career. It is therefore natural that trade unions will defend the existing rights of the "insiders" as forcefully as possible. This means safeguarding prime-age male workers' jobs even though such a strategy makes it more difficult for wives, sons and daughters to find work.

The problem has obviously not gone unnoticed, but major efforts to promote the flexible use of labour are easily blocked or neutralized by trade union, employee and even employer resistance. Although Italy liberalized part-time employment in the 1980s, the latter has hardly grown at all. Many countries have implemented temporary hiring provisions but, except for Spain and to a lesser degree France, there has been no visible rise in temporary workers. Furthermore, in these two countries such flexible hiring provisions have had no substantial impact on overall **net** job growth.

There are two equally plausible explanations for this outcome. One is that it is still too early to see the full effects of a more flexible labour policy; another is that employers may avoid shifting to new labour practices in the interest of maintaining harmonious industrial relations.<sup>48</sup> A case in point is the weakening of worker dismissal provisions in many countries, including Belgium, France, Germany (and the United Kingdom), despite which, as Blank<sup>49</sup> suggests, companies' lay-off behaviour has hardly changed.

Although most agree that these countries need to decrease labour market rigidities, the dilemma is that the welfare of individuals and families depends on precisely those elements that cause rigidities in the first place: job security, high wages and expensive social contributions. The chief social policy issue, then, is how to develop alternative sources of lifetime security.

From this perspective, it seems clear that the transfer-induced labour reduction strategy must be drastically reversed. In fact, on this there is widespread agreement. There is now a uniform move to raise retirement age. In order to reduce the cost of hiring (and firing), there is also a trend towards diminishing the burden of mandated social contributions. One general strategy is to encourage the growth of private plans, and a certain trend in this direction is visible. Still, it is hardly likely to predominate precisely because — as is the case in the United States — this does not solve employers' labour cost problems. Privatization will more likely imply individual insurance plans and thus very unequal coverage. The second strategy, exemplified by the recent French government proposal, is to shift towards general revenue-financed — and thus probably more basic — pensions.

At a deeper level, to reduce rigidities it is clearly necessary to diminish families' dependence on the single male earner. The key, then, is to augment the supply of, and demand for, women workers. In this sense, it is difficult to see how the Continental European model can avoid breaking with its traditional, family-based, income transfer bias. It is in fact on this issue that much of contemporary political conflict focuses; the left typically advocating a "Scandinavian" social service expansion, the right (especially Christian Democracy) proposing a "welfare society" approach that would reinforce the family — for example by introducing a housewife's salary — as well as local community voluntarism. Considering the fiscal strains of present social insurance systems, neither strategy seems particularly viable.<sup>50</sup>

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## the emergence of new welfare states?

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Are the nations of East Asia, East-Central Europe or Latin America in the process of emulating the Western model, or are they following qualitatively new trajectories?

If by “new” trajectories we mean models that deviate markedly from existing welfare states, the answer to the second question is essentially “no”. Our survey does suggest, however, the makings of distinct trajectories that do not necessarily correspond to regional clusters. One — comprising Argentina, Chile and East-Central Europe — follows a broadly liberal strategy based on privatization of social insurance, a reduced public social safety net, a shift towards targeted means-tested assistance, and a free-market bias in labour market regulation. The market-driven strategy in Latin America must be seen against the backdrop of a highly status-segmented, clientelistic and seriously underfunded social insurance tradition.

A second group of countries, exemplified by Brazil and Costa Rica, has so far shunned neo-liberalism and has in fact taken some steps towards strengthening public social safety nets, in both cases adopting a fairly universalistic approach in terms of population coverage.

The third, East Asian group is — paradoxically — both globally unique and a hybrid of existing welfare state characteristics. This set of countries shares with the Continental European model an unusually underdeveloped network of caring services for the young, the old and the sick, and relies heavily on families to provide such assistance. Embryonic social insurance schemes tend to follow the European corporatist tradition of occupationally segmented plans, favouring rather privileged groups such as the civil service, teachers or the military. In these countries, social security is neither comprehensive nor does it aim to furnish income **maintenance**. By default more than design, the vacuum of social protection has spurred the rise of company-sponsored occupational welfare, especially in Japan. As a consequence, a certain degree of “Americanization” has evolved: the modesty of public welfare rests on the assumption that the primary workforce will be covered under private plans.

When we evaluate the paths taken in these regions, we should first of all remember the stark contrast between the crisis-ridden economies of Latin America (and recently also East-Central Europe) and the amazingly dynamic economies of East Asia. Indeed, the general economic climate of the former two regions in the 1980s was quite similar in a number of ways: declining per capita GDP, inflationary pressures, huge debt problems, soaring unemployment, and the urgency to reform highly protected monopolistic industries.<sup>51</sup> Both regions have

embarked on more or less rigorous liberal stabilization and restructuring strategies in the 1980s.

A common trait in the ex-communist nations' transition is a first attempt to cushion shock therapy with social security. Initially, virtually all of these countries introduced generous unemployment insurance, and industrial redundancies were dealt with through attrition and early retirement. Nevertheless the dramatic fall in revenues, coupled with unexpected levels of unemployment and income loss (real wages in Eastern Europe have fallen by 20-35 per cent, and, in the Commonwealth of Independent States, by as much as 50 per cent), led in many countries to virtual collapse of the existing social security system and to a uniform shift towards targeted means testing.

In the region as a whole, there was a net loss of 6 million jobs (12 per cent of the labour force) between 1989 and 1993. Retirement aside, there has been a notable drop in participation rates, as well as a rise in irregular jobs and underemployment.<sup>52</sup> Everywhere, the effects of the transition are rising unemployment and poverty. There is, however, a clear difference between countries like the Czech Republic and Hungary, on one side, and Poland and the Commonwealth of Independent States, on the other. As Burda<sup>53</sup> and OECD<sup>54</sup> suggest, the former countries were more prone to negotiate the transition strategy, the social safety net remained stronger, and there were more active employment policies, particularly for youth and the unskilled.<sup>55</sup>

As Standing's study demonstrates, shock therapy — combined with certain kinds of social policy — has often added to already existing distortions. The policy of taxing wage growth (as a means to stem inflation) gives the stronger firms incentives to shift to non-money wages. Those working for weaker companies or in less competitive sectors do not receive these non-monetary benefits and therefore find their living standards dramatically reduced. An often sharp deterioration of the minimum wage has affected both earnings and most social benefits. Pensions and unemployment benefits, pegged to the minimum wage, have eroded to the point where they equal 20-30 per cent of the average wage.<sup>56</sup> In the labour market, the drift is from protected, full-time jobs towards marginal, often undeclared or irregular jobs, or towards unemployment (the effect of which is to exacerbate the tax problem), as well as towards an across-the-board reduction in real wages and the emergence of "Third World" poverty rates (at present, the latter stand at 40 per cent in Poland and reputedly at 80 per cent in the Ukraine).

In a nutshell, individual risks have been privatized, but not the means to confront them. The lack of functioning private financial institutions makes private insurance difficult to establish. Hence, with the crumbling of an erstwhile public social security system at a time when there are serious obstacles to a private alternative, the remaining structure of social protection increasingly resembles the kind of poor relief that the advanced nations successfully left behind.

A similar scenario can be described for those Latin American countries which have embarked on a neo-liberal adjustment strategy. Traditional social security in

most Latin American nations can best be described as a patchwork of occupational social insurance, typically favouring the privileged (such as public employees and the labour aristocracy) and heavily impregnated with patronage. Within this context, hyper-inflation and tax avoidance have posed serious fiscal problems, while more aggressive efforts at social reform have been politically difficult to contemplate. For these, as well as other reasons, the Chilean experiment with privatization holds considerable interest.

Huber's study indicates that privatization of social security has so far been a mixed blessing.<sup>57</sup> Chile's shift to a pension scheme based on private individual retirement accounts has necessitated large public subsidies, and hence the net effect is a *de facto* subsidization of private welfare. Operating costs also appear to be prohibitively high. Moreover, since coverage is purely employee financed, the proportion of the population involved is not very impressive. The new private schemes may cover the more privileged and secure workforce fairly well, but they are essentially inoperable for the large mass of more marginalized wage earners, not to mention the unemployed. In other words, privatization in Chile has largely meant a replication of many of the same faults that characterized public insurance. It can be hoped that the new system will at least be more solvent.

It is on the labour market front that the Chilean-style liberalization strategy appears more positive, at least over the longer run. Unemployment levels have fallen from a catastrophic 30 per cent in 1983 to 5 per cent today, and investments, GDP and wages have all grown healthily. But this should be considered against past erosion: per capita income fell 26 per cent in 1974-1975 and another 16 per cent in 1982. Real incomes in 1988 were no higher than they had been before Pinochet, but they were much more unequally distributed.<sup>58</sup>

The alternative response, exemplified by Brazil and Costa Rica, has been to strengthen social policy, orienting it in a clearly universalistic direction, especially in the case of health care (although, as Huber notes, the universalism of these programmes in Brazil is questionable because of heavy political patronage, as well as the depth of poverty in many urban and rural settings). On the whole, Huber's study is pessimistic regarding the longer run viability of this strategy.<sup>59</sup> It remained possible in Costa Rica only as long as generous American aid was available; and, considering inflation (especially in Brazil), the size of the foreign debt and stagnant or falling GDP, the future of a more ambitious social security plan seems seriously in doubt.

Turning finally to East Asia's peculiarly "hybrid" welfare régime, the first thing one notes in a comparative framework is how social security development lags in terms of GDP attainment. Japan's level of economic development already equalled the OECD average in the 1970s; South Korea and Taiwan have reached the GDP level of, say, Spain in the 1970s and Portugal today. A common explanation for the lag in development of welfare policy is that Confucian familialism is an effective functional equivalent, although critics would hold that the survival of three-generation households can be ascribed more realistically to the lack of any alternative.

Be that as it may, the issue of welfare state construction is now intensely debated in all three countries. The reasons for this debate are many. In Korea and Taiwan, democratic nation building requires the extension of citizens' rights. In addition, these countries will soon experience extremely rapid population aging which, combined with urban mobility and modernization, is causing a growing crisis of caring for the elderly. Finally, the low wage industrial miracle of Korea and Taiwan is rapidly being exhausted, implying the need for sweeping industrial restructuring and, in its wake, the likely emergence of unemployment and a host of new welfare problems. In much more advanced Japan, there are growing indications that the system of life-long employment and corporate welfare guarantees will weaken. The equilibrium of the Japanese combination of rather modest public benefits, private supplements and virtual employment security (for the male labour force at any rate) rests not only on familial care responsibilities, but also on the job guarantee.

So far, these fast-growing economies have suffered labour shortages rather than unemployment, and this has obviously meant that the income risks of adult wage earner families have been rather small, and their caring capacity fairly strong. But this is not likely to continue indefinitely.

Up to the present, responses to perceived challenges in the field of social policy have been concentrated in two areas. The first, and more cautious, approach has been to erect a somewhat more comprehensive and universal social security network, as exemplified by South Korea's reforms in the late 1980s. Nevertheless such programmes do not provide universal coverage, nor are benefit levels adequate to maintain recipients much above subsistence. Taiwan's very recent National Health Care reform (September 1994), initially intended as universal and obligatory, in fact is voluntary; and gaps in coverage are thus likely to remain.

Policy makers' hesitation to commit themselves to a genuine income maintenance system is partly due to fears of unusually rapid population aging in the coming decades. This is particularly the case in Japan where, indeed, the conservatives seek to reinvigorate Confucian familialism as a compensatory strategy. This closely parallels the Christian Democratic policy in much of Europe, and for basically the same reasons it is unlikely to be effective. Women in Japan and South Korea, as in Germany and Italy, are having far fewer children (Japan's fertility rate is now far below replacement) and are increasingly entering the labour market. Furthermore, population aging in Japan is, comparatively speaking, extremely skewed towards the very old, meaning those with particularly intense needs for care. The percentage of people aged 80-plus will triple by the year 2020.<sup>60</sup>

Another concern of governments is the possibly negative impact of expanded social protection on savings. The Asian tigers' economic miracle was premised on high savings rather than Keynesianism: families saved for lack of adequate social security coverage. It is feared that a real welfare state approach would undermine this incentive. Moreover, since these economies are characterized by sustained growth **and** unusually egalitarian income distributions, there is some

legitimacy in the argument that most households have the capacity to save — at least if they are urban and contain a primary sector breadwinner.

The second major approach to the challenge of designing new social policies is to stress a social investment strategy. Thus, in anticipation of structural unemployment and (partial) “de-industrialization”, these countries favour training and education rather than income maintenance. On this front, they are possibly vanguards. At any rate, in most of the welfare systems we have examined — except Scandinavia — the reorientation of welfare state activities from social transfers to social investment remains so far only on paper.

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## conclusions: major trends and policy dilemmas

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Except for a handful of cases, the dominant picture is that of a “frozen welfare state landscape”. Resistance to change is to be expected: long established policies become institutionalized and create groups with a vested interest in their perpetuation. Thus social security systems are not likely to be amenable to radical reform and, when reform is undertaken, it tends to be negotiated and consensual. Continental Europe is the clearest case of impasse, while Australia and Scandinavia represent change via negotiation. At the other extreme, in Chile and the ex-communist nations, wholesale change has occurred against the backdrop of the collapse or destruction of the existing organizational structure. In between these poles are countries, like Britain or the United States, in which a more gradual erosion occurred in tandem with weakened trade unionism.

The decay of comprehensive and centralized consensus building mechanisms in Scandinavia (and especially in Sweden) over the past decade is one of the primary reasons for the difficulties that now also beset the famed Swedish model. Its long-standing capacity to reconcile ambitious and egalitarian welfare goals with full employment has undergone serious erosion.

There is a seemingly universal trade-off between equality and employment. The roots of this dilemma may lie primarily in the new global order, but our study identifies significantly different national responses. Within the group of advanced welfare states, only a few have undertaken radical steps to roll back or deregulate the existing system. All, however, have sought to trim benefits at the margin or to introduce cautious measures of flexibilization. As we have seen, those following a more radical liberalization strategy do better in terms of employment but pay a high price in terms of inequality and poverty. In contrast, those resistant to change pay the price of high unemployment — Continental Europe in particular.

Although some perception of a trade-off between equality and efficiency has always dominated social policy debates, it was for a number of decades widely agreed that the Keynesian welfare state provided a positive-sum solution. Today, there are few who are optimistic about finding a problem-free “third way”. Still, many of the countries we have surveyed pursue strategies designed to mediate or soften the trade-off. One group, represented by Australia and Canada, combines liberalization and a shift towards more selectivity and targeting with a concomitant rise in benefits to those most at risk. Their approach to selectivity is broad rather than narrow, with the goal of insuring against abject poverty and stark inequalities. Comparative income and poverty data suggest that the strategy is somewhat successful, at least when compared with the United States. These countries have enjoyed an employment performance that equals the American one without alarming rates of immiseration.

Another strategy, evident in Scandinavia, consists of shifting welfare state resources from passive income maintenance to employment (and family) promotion. The era of public employment growth has clearly ended and, instead, policy is directed to strengthening long-standing commitments to active labour market measures, such as training and mobility, as well as wage subsidies. Scandinavia appears now to have accepted the view that greater inequalities are unavoidable but seeks to build in guarantees against these being concentrated in any particular social stratum, or becoming permanent across people’s lifetime. In this regard, the Nordic welfare states may be said to spearhead a “social investment” strategy. These nations have clearly not escaped high unemployment levels and are simultaneously compelled to make significant cuts in social benefit levels. Yet their unemployment record must be judged against the backdrop of record high activity rates and, contrary to Continental Europe, very modest degrees of social marginalization, exclusion and youth unemployment.

More generally, if a return to full employment will have to rely on greater earnings inequalities and a profusion of “lousy” service jobs, active social investment policies should diminish the chance that certain groups become chronic losers. “Lousy” jobs constitute only a marginal welfare problem (and may even be beneficial) if they are merely stop gap, or easy first entry, jobs for school leavers or low-skilled (often immigrant) workers. They are a major problem if they become dead-end career traps. We know that education and skills offer the best odds for people to move on to better jobs. Hence a low wage-based employment strategy can be reconciled with equality if there are guarantees of mobility and improvement.

Privatization of social security programmes is one of the most commonly advocated strategies in the current welfare state crisis. In fact, it is promoted for two distinct reasons: one, to diminish public spending burdens and encourage self-reliance; the other, to respond to the more differentiated and individualistic demands of “post-industrial” society. In practice, there have as yet been very few substantial privatization reforms. Nevertheless a process of “creeping” privatization may be under way in many countries, mostly because of gradual erosion of benefit or service levels. Here we should also mention the Swedish



experience of permitting greater competition between service providers, albeit under strict norms.

If privatization entails a shift of welfare responsibilities to companies, it is very unlikely to become a panacea. Experience from North America shows that company plans, especially of the defined-benefit variety, face problems similar to public plans; they inhibit flexibility and incur heavy fixed labour costs. Indeed, they are being rolled back in tandem with public programmes. In addition, such corporate plans are less and less viable in a service-dominated employment structure where firms are smaller and the labour force less unionized. The alternative is individual savings plans (which will hardly provide substantial welfare guarantees) or individual insurance schemes (like the Chilean model or the rapidly growing Individual Retirement Accounts-type plans in the United States). As in the United States — and in Europe — individual plans do have positive aspects. Besides encouraging savings, they permit individuals to tailor their welfare package. But if they are meant as a substitute for, rather than merely a supplement to, public schemes, their capacity to furnish social security in any universal way is highly dubious. The Chilean experience suggests that coverage will be incomplete and that administrative costs are prohibitively high. Besides, the growth of such schemes has everywhere been nourished by public subsidies, such as favourable tax treatment.

Although it may be too early to say with any certainty, two general policy trends seem to be evolving in the area of pension entitlements. The first, exemplified by the Australian experience, is to move from universal rights to targeted benefits. The second, exemplified by developments in the field of private pensions in the United States and by the recent reform in Sweden, involves a shift away from entitlements based on general standards of adequacy towards reliance upon actuarial criteria for the definition of benefits.

One of the overriding problems in the advanced welfare states is that their transfer programmes have over the past decades become perverted. In order to facilitate industrial restructuring, income maintenance schemes became a labour market management device, providing inducements **not** to work. Especially in Continental European countries, the labour reduction strategy has exacerbated rather than eased the underlying employment problem. It adds to the burden of labour costs for the shrinking “insider” labour force and thus raises the costs of entry for the “outsiders” such as youth. It increases the family’s dependence on the sole (usually male) breadwinner’s job stability and pay.

There is little doubt that the future welfare state faces the challenge of harmonizing women’s employment with family formation. Women demand employment and greater economic independence; the family is more likely to be flexible if it depends less on one person’s income; and the aging burden will be lessened if fertility rises. The Scandinavian experience demonstrates that these demands can be harmonized with a comprehensive network of services. Nevertheless the fiscal strains on contemporary welfare states generally prohibit such an expansion in the public sector, and high wage costs make it unlikely in the private sector.

On a final note, we should not forget that the initial impetus behind the post-war welfare state went beyond narrow social policy concerns. As a mechanism for social integration, for the eradication of class differences and for nation building, the advanced welfare state has been enormously successful. Part of the welfare state crisis today may be simply a question of financial strain and rising unemployment. In part, it is clearly also related to less tangible needs for new modes of social integration, solidarity and citizenship. The market may indeed be an efficient mechanism for allocating resources, but not for building solidarities. There is little doubt that these more intangible qualities constitute an important element in the embryonic welfare state evolution in the new industrial democracies of Asia, Eastern Europe and South America. The economic effects of the welfare state can certainly not be disregarded. But neither should we forget that the only credible reason for promoting economic efficiency is to ensure welfare.

appendix table 1:  
social security and health expenditures as  
a percentage of gross domestic product

<b>1. Western Europe</b>	
Denmark (1990)	38.4
France (1990)	27.4
Germany (FRG, 1989)	22.8
Netherlands (1991)	34.6
Norway (1990)	32.0
Sweden (1986)*	31.3
<b>2. Eastern Europe</b>	
Czechoslovakia (1991)	21.7
Hungary (1986)*	16.2
Poland (1986)*	17.1
URSS (1986)*	15.5
<b>3. North America and the Antipodes</b>	
Australia (1991)	15.1
Canada (1989)	19.1
New Zealand (1991)	19.6
United States (1991)	10.5
<b>4. South America and East Asia</b>	
Argentina (1987)	6.5
Brazil (1991)	10.3
Chile (1988)	9.9
Costa Rica (1991)	11.0
Japan (1986)*	12.2

**Sources:** IMF, *International Government Statistics*, Washington, DC, 1993; and ILO, *The Cost of Social Security*, Geneva, 1991.

**Note:** \* These are ILO figures and not fully comparable with IMF data. Note also that the percentages for the ex-communist countries are calculated in terms of net material product.

appendix table 2:  
population share of the elderly  
(aged 60-plus) in 1990

<b>1. Europe</b>	
Czech Republic	16.6
France	18.9
Germany	20.9
Hungary	19.0
Italy	19.9
Norway	21.2
Poland	14.8
Russia	15.3
Sweden	23.4
<b>2. The Americas</b>	
Argentina	13.1
Brazil	7.1
Canada	15.7
Chile	8.9
Costa Rica	6.4
United States	16.9
<b>3. Asia and the Pacific</b>	
Australia	15.3
Japan	17.2
South Korea	7.4
New Zealand	15.1

**Source:** United Nations, *Demographic Yearbook*, New York, 1993.

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1. See Freeman (1993) and also European Community (1993).
2. The studies prepared for the UNRISD project on The Future of the Welfare State are not yet completed. This paper draws upon draft manuscripts as well as discussions with the researchers. Among the advanced welfare states, the project has focused on the “social democratic” Scandinavian model (analysed by John Stephens), the “corporatist-conservative” Continental European model (by Gøsta Esping-Andersen), the North American countries (by John Myles) and the Antipodes (by Francis Castles). Guy Standing is responsible for the East and Central Europe study, Evelyne Huber analyses Latin America, and Roger Goodman and Ito Peng the East Asian countries.

The omission of Britain may seem curious, both because it was once a welfare state pioneer and because it is a major example of radical change. We shall discuss this case in passing, but it proved too difficult to include it under any of the region headings. In any case, the literature on the British case is voluminous.
3. See note 2.
4. See note 2.
5. Gottschalk, 1993; OECD, 1993; Jencks and Peterson, 1991; Room, 1990.
6. This argument, while prevalent in current debates, must be accepted with serious caution. To give an example, while the import share from the newly industrializing countries has grown substantially, it remains the case that an estimated 80 per cent of total European Community member state trade occurs **within** the European Community.
7. The literature on this topic is truly enormous. For a very recent comparative study, see Freeman (1993); for a general review of research, see Esping-Andersen (1994). Streeck (1992) has recently argued that these very same conditions also facilitate economies’ adaptation to new and more flexible production methods.
8. Cameron, 1984.
9. Katzenstein, 1985.
10. Calmfors and Driffill, 1988; Atkinson and Mogensen, 1993; Blank, 1994; Buechtemann, 1993.
11. Blank (1993, p.166) indeed suggests that deregulation in some cases may create greater rigidity. The abolition of employment protection laws in Europe actually led to slower and **less** flexible employment adjustment.
12. Freeman, 1993; Freeman and Katz, 1994.
13. Two examples will suffice at this point. First, as Castles’ study (see note 2) demonstrates, the negotiated liberalization strategy, pursued by the Australian Labour government with unions, scores more favourably in terms of both equality and growth than New Zealand’s strategy, which was pursued in conflict with existing interest associations. Second, since decades of social security institutionalization create vested interests, it is virtually impossible to amalgamate occupationally exclusive social insurance schemes.
14. European Community, 1993, p. 24.
15. OECD, 1988.
16. Ibid., p. 70.



17. An economy's productivity performance is thus vital. The earnings performance of many nations in the past decade suggest that such levels of growth may not be so easily attainable. In the United States, for example, manufacturing earnings declined by an annual average of 0.2 per cent. In Europe where labour shedding has been much more dramatic, productivity and thus wages have grown at higher rates (1.7 per cent in France, 0.9 per cent in Italy, and 2.4 per cent in Germany) (Mishel and Bernstein, 1993, figure 9A).
18. Freeman (1993, p. 3) shows that the percentage of people aged 15 to 64 who were gainfully employed (adjusted for hours worked) was identical in Europe and the United States in 1973. By 1990, Europe's activity rate was about 12 percentage points lower than that in the United States. As Freeman concludes, Americans work the equivalent of one month per year more than Europeans.
19. In the United States, the typical company pays 11 per cent of wages to legislated social contributions, and another 12 per cent towards fringe welfare benefits (Blank, 1993, p. 167). This compares to the European Community average of 24 per cent to the former and 5 per cent to the latter. In heavy social contribution nations, like Italy, the former approximates 47 per cent; the latter 2 per cent (recalculations from European Community, 1993, table 21).
20. European Community, 1993; OECD, 1993.
21. See note 2.
22. Mishel and Bernstein, 1993.
23. The author's own analysis of LIS (Luxembourg Income Study) data for the mid-1980s shows that single-parent (almost all female-headed) households face extraordinarily high poverty risks. Using the standard poverty measure of 50 per cent of (adjusted) median income, the proportion of these households in poverty is 60 per cent in the United States, 57 per cent in Canada, 27 per cent in Germany, and 19 per cent in both France and Italy. In contrast, the Swedish rate is 4.5 per cent. The impact of divorce may also be economically catastrophic, at least for wives. Burkhauser et al. (1991) show a 24 per cent income decline for American wives one year after divorce, and a full 44 per cent drop for German wives. The husbands' income loss is relatively inconsequential: 6 per cent in the United States and 7 per cent in Germany.
24. Hashimoto (1992, p. 38) shows that 65 per cent of the elderly in Japan live with their children (77 per cent in 1970). Choi's (1992, p. 151) data for South Korea show even higher rates (76 per cent). He also shows that 44 per cent of the aged are economically entirely dependent on their children. According to the official South Korean poverty line definition, more than 20 per cent of the aged are poor; about half have financial difficulties, and more than half of those who actually receive a pension find it difficult to live on it. A major reason cited for poverty among the aged is that their children are unable or unwilling to provide support for their parents (*ibid.*, p. 151).
25. The accent on education is already visible. According to Goodman and Peng's data, the proportion of middle school (junior high school) graduates who continue to secondary level education (senior high school) is 96 per cent in Japan and around 90 per cent in South Korea and Taiwan.
26. This discussion has focused on the gender aspect of policy, but it should rightly be generalized to the population at large, and to older workers in

particular. Thus, combined with active labour market policies of retraining, rehabilitation and job re-insertion, the strategy has succeeded — so far — in maintaining high employment levels also among youth and aged workers. The activity rate of males, aged 60-64, is 64 per cent compared to 54 per cent in the United States, 32 per cent in Germany, 25 per cent in France and only 15 per cent in the Netherlands.

Scandinavia's extremely high participation rate (for women as well as men, younger and older people as well as prime-age workers) makes it necessary to interpret the region's unemployment figures differently from the way they would be interpreted in the rest of Europe. While in Italy, for example, an economically inactive woman would typically be classified as a housewife, a jobless woman in Denmark would in all likelihood be considered unemployed.

27. In the aggregate, Swedish absenteeism rates are about double those in Germany or the Netherlands. In 1985 the absenteeism rate on "any given day" among Swedish women with a child aged 0-2 was 47.5 per cent. Critics argue that the system is too generous and thus encourages abuse. This is not entirely convincing when we consider that neighbouring Denmark's benefit levels and eligibility rule are essentially similar, while Danish absenteeism rates are substantially lower (for a comparison, see Esping-Andersen and Kolberg, 1992).
28. Esping-Andersen, 1993.
29. High wage costs and taxes are widely believed to spur negative work incentives and hidden employment, although hard evidence is difficult to come by (see Atkinson and Mogensen, 1993). Still, it is indicative that self-employment has been the fastest growing form of job growth in the 1980s.
30. To stimulate employment in personal services, the Danish government has introduced a subsidy programme which covers 20-30 per cent of the wage.
31. Lindbeck, 1994.
32. Atkinson and Mogensen, 1993.
33. Korpi, 1993.
34. See note 2.
35. Moffitt, 1990, p. 210.
36. OECD, 1993.
37. See note 2.
38. Esping-Andersen, 1993.
39. Burtless, 1990.
40. Many companies in the United States seek to lower their welfare obligations by shifting to so-called 401K systems. These are essentially individual insurance accounts akin to the Individual Retirement Accounts.
41. Based on own calculations of LIS data, child poverty in two-parent families almost doubled in the United States during the 1980s (from 12 to 22 per cent) and tripled in the United Kingdom (from 5 to 15 per cent). Canada's rise was more modest (from 11 to 14 per cent). The rise in poverty among single-parent households was even more dramatic in all countries except the United Kingdom, which registers a decline.

42. Lynch, 1993. The presence of a more active training policy may, however, in itself not suffice if it is not coupled with a strong institutional framework. As Soskice (1990) suggests, the lack of such a framework in the United Kingdom means that only a tiny proportion of those leaving school at age 16 receive any apprenticeship training.
43. OECD, 1994a, table 16.
44. Again, starting in the 1960s, the activity rate of males, aged 60-64, has dropped to 25 per cent in France, 31 per cent in Germany, and 15 per cent in the Netherlands. The comparable rate is 64 per cent in Sweden and 54 per cent in the United States. Note, however, that female employment rates, especially among the younger cohorts, have begun to rise since the mid-1980s in Germany and the Netherlands, where part-time jobs have become more common.
45. In Italy, 60 per cent of total social expenditure goes to the aged; in Germany, about 45 per cent. This contrasts with 30 per cent in Sweden (which is equally "aged") and 40 per cent in the United States (OECD, 1994a, chart 1).
46. OECD, 1994a, table 13. As in East Asia, there is a clear declining trend. The problem of care for the aged is doubly acute since the only real alternative to family care is (extremely costly) hospitalization.
47. Even part-time workers are entitled to full social benefits if they are employed for more than a certain minimum number of hours. These thresholds vary from country to country.
48. Several studies give credence to the former interpretation, suggesting that the shift to temporary workers will accelerate throughout the 1990s. On the other hand, Buechtemann's (1993) analysis of the German experience suggests that employers use temporary contracts as a screening device but subsequently extend permanent contracts in most cases.
49. Blank, 1994, p. 166.
50. In Italy, voluntary associations have grown tremendously over the past decade, particularly in areas such as care for the elderly and for the disabled or drug addicted. It is, however, evident that this has been supported by the availability of a large pool of non-employed youth and women.
51. State ownership has been widespread in Latin America, accounting for 40 per cent of industrial output (compared to 80-90 per cent in Eastern Europe) (Przeworski, 1991, p. 143).
52. OECD, 1994b.
53. Burda, 1993.
54. OECD, 1994b.
55. The Czech case is interesting since it combines low unemployment rates with a level of employment loss (at 10 per cent) equal to others. In part, this is explained by retirement, in part by job creation schemes (250,000 jobs were created in 1992). It also seems that more drastic employment losses have been avoided by the strategy of privatizing prior to rationalizing firms (OECD, 1994b).
56. OECD, 1994b.
57. See note 2.

58. Peirera, 1993, p. 37-39. It is also unclear how liberal this liberalization strategy has really been. The encouragement of markets required heavy public subsidies, as was the case with pensions. Subsidies to private enterprises in Chile during the 1980s are estimated to have reached around 4.3 per cent of GDP (*ibid.*, p. 37).
59. See note 2.
60. OECD, 1994a, table 15.