

Mitchell, Deborah; Castles, Francis

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Three Worlds of Welfare Capitalism or Four?

Francis Castles and Deborah Mitchell

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(scanned copy)



THREE WORLDS OF WELFARE
CAPITALISM OR FOUR?

Francis G. Castles and Deborah Mitchell

Australian National University

ABSTRACT

With new sources of cross-national, quantitative data now appearing on inequality, poverty and the targeting of expenditure and taxes to achieve greater redistribution, it is possible to take the comparative analysis of welfare outcomes well beyond the conventional focus on expenditure 'effort'. This study of 18 advanced OECD nations seeks to examine the linkages between various aspects of the redistributive process, to elaborate a typology of worlds of welfare capitalism and to locate the political origins of each of these worlds. Where earlier expenditure typologies have stressed a two-world model in which Australia featured as a conspicuous welfare laggard, and the most recent expenditure targeting or instruments model postulates a three-world model in which Australia is depicted as the epitome of the Liberal, residual welfare state, the four-worlds model depicted here identifies Australia as one of a distinctive Radical group of nations focussing its redistributive effort through instruments rather than expenditure.

Introduction

Until very recently, empirical research on comparative social policy has rested almost entirely on comparisons of welfare spending by governments. Public social expenditure as a percentage of national product is a measure of 'welfare effort' (Wilensky, 1975) - the degree of a particular nation's financial commitment to the obviating of poverty and income inequality either through particular programmes or in aggregate - which became the central focus of comparative research, less because of its intrinsic interest than because it was the most easily available (or only available) quantitative indicator of state intervention in the field of income redistribution (see Castles, 1989).

Now, that situation is changing. Where, earlier, we had no reliable cross-national indicators of policy outcomes in terms of measured levels of poverty and inequality, these are now becoming available through the microdata sets being assembled by the Luxembourg Incomes Study (LIS), allowing us to contrast the redistributive performance of some 10 OECD nations on the basis of the first wave of data for the early 1980s and eventually permitting comparison of more nations on the basis of later waves. In addition, there has emerged a renewed interest in a comparative analysis of the ways in which welfare is delivered and their distributive implications (see Esping-Andersen, 1985; Jones, 1985). Where, earlier, discussion of the impact of policy instruments, other than the crude quantum of expenditure, rested on implications drawn from ideal typical characterisations (for instance, Titmuss' (1974) distinction between residual, industrial-achievement and institutional types of welfare state and Marshall's (1975) categorisation of stages in the development of citizenship rights), research on the institutional characteristics of welfare programmes conducted at the Swedish Institute of Social Research since 1981 (organised by Walter Korpi and Gøsta Esping-Andersen) now begins to allow a quantitative treatment of the impact of particular instruments, such as contributory insurance, the operation of means tests, the extent of coverage, the degree of benefit equality, and the extent of income replacement of particular programmes.

These different approaches, focussing on expenditures, instruments and outcomes, are sometimes thought of as mutually exclusive keys for unravelling the 'true' character of social provision in advanced societies. A major reason for such divergence is a lack of consensus about what the welfare state is for and, hence, what outcomes we should be measuring. As we shall have occasion to note, the policy

instruments approach is as much concerned with - and not infrequently confused as between - the equality of status conferred by welfare rights and the redistributive potential of the welfare state to equalise incomes and obviate poverty. Universal provision of benefits is the ultimate expression of the former and yet, in its direct implication of giving to rich and poor alike, is the antithesis of the latter, a point which socialist protagonists of rights-conferring welfare often find too disturbing to contemplate. Socialist egalitarians ought in logic to be proponents of a social policy selectivism favouring the disadvantaged, but only in a very few countries is this the case.

Despite the recent studies inspired by the availability of the LIS dataset, much work remains to be undertaken on the conceptualisation, operationalisation and measurement of the linkages between welfare effort, welfare instruments and welfare outcomes. One important aim of this essay is to locate some of these linkages and to explore the political factors which condition their operation. Another is to demonstrate that, far from being a legitimate basis for contesting analytical approaches to the character of social provision, information concerning social policy expenditure and instruments are essential and **complementary** components of an understanding of the distributive implications of the diverse types of welfare regime to be found in the advanced capitalist nations.

One of the authors of this paper has been prominent amongst those who have sought to understand the dynamic of welfare provision through a comparative and quantitative analysis of welfare effort (Castles, 1982); the other is a researcher whose focus of analysis has been the new data emerging from the Luxembourg Incomes Study (Mitchell, 1990). We take our title from Gøsta Esping-Andersen's important new study, *The Three Worlds of Welfare Capitalism* (1990), which seeks to show how diverse policy instruments contribute to the shaping of distinctive welfare state regimes. We question his conclusions, not because we doubt that the three worlds of Liberal, Conservative or corporatist and Social Democratic welfare capitalism he identifies have strong empirical referents, but rather because our empirical analysis of the linkages between effort, instruments and outcomes suggests, in addition, the existence of a fourth 'radical' world. That world, to which we suggest Australia belongs, has characteristics which depart at least somewhat from the expenditure-based orthodoxy that more social spending is the only route to greater income redistribution.

Linkages of the Welfare State

The availability of reliable cross-national microdata on the incidence of poverty and inequality will alter the entire character of comparative social policy analysis. The centrality of the welfare state in the comparative public policy literature drew its rationale from the supposed impact of government intervention on distributional outcomes in advanced societies. However, in the absence of any independent measure of outcomes, both aggregate expenditures and types of instruments necessarily became proxies for distributional consequences. Thus, any serious distinction between means and ends was impossible. The debate about the linkage between the extent and type of government intervention and social justice became a matter of demonstrating what nations for whichever reasons spent most on social objectives and of devising a quasi-moral calculus by which it could be shown that some types of instruments for achieving those objectives were more welfare-conferring than others.

The inadequacies of aggregate expenditure as a proxy for outcomes have always been recognised by practitioners of comparative policy analysis, but, understandably, since stressing them without an alternative would have implied the need to abandon comparative social policy research, they have not, until quite recently, been strongly emphasised. Now, with the series of reasonably reliable, cross-national measures provided by the LIS of such outcomes as poverty head-counts (the number in poverty), poverty gaps (the aggregate expenditure required to remove measured poverty) and various indices of income inequality, locating those inadequacies can become part of a process of model-building by which we can better explain the forces contributing to social policy outcomes. Such a model will still necessarily include expenditure - the extent of resources a society is willing to transfer from some groups of citizens to others clearly remains an important limiting condition of the extent to which it can modify existing outcomes - but must also include at least three other factors generally neglected in aggregate expenditure studies.

The first of these factors is precisely the character of the existing outcomes which social policy interventions seek to modify. *Ceteris paribus*, an identical input of expenditure will lead to quite different observed levels of poverty and inequality depending on the distribution of incomes prior to income maintenance expenditures and taxes. One crucial determinant of that initial distribution is the extent of 'need' in a particular society (see Gilbert and Moon, 1988). Leaving aside the much-argued topic of the extent to which institutional arrangements, such as incomes policies and practices of corporatist intermediation,

can modify primary income distribution, it is quite apparent that demographic and social structural features have a major impact on the need for government interventions to redistribute income. The greater the percentage of the aged, the unemployed, of single parents and of children dependent on any other of these categories, the greater the inputs a government will have to make to obtain a high level of post-transfer, post-tax equality.

A second inadequacy of the expenditure approach is that it ignores the way in which the welfare dollar is spent. As Esping-Andersen puts it (1990, 19-20):

By scoring welfare states on spending, we assume that all spending counts equally. But some welfare states, the Austrian one, for example, spend a large share on benefits to privileged civil servants. This is normally not what we would consider a commitment to social citizenship and solidarity. Others spend disproportionately on means tested social assistance. Few contemporary analysts would agree that a reformed poor-relief tradition qualifies as a welfare-state commitment.

The final remark illustrates the tendency to shift to a quasi-moral calculus in debate of this kind, but, stripped of such connotations, the point being made is the wholly correct one - that the redistributive consequences of a given level of expenditure - depends on the instruments through which it is delivered. Earnings-related (or status-related) benefits will clearly have a less equalising effect, all other things being equal, than flat-rate benefits. Universalism (the provision of benefit to all members of a categoric group - the aged, the unemployed, etc) will, other things being equal, lead to greater **equality of treatment of citizens** than means tested or targeted benefits. These latter, as already noted, when directed to the less well-off, "contribute to a more equal distribution of income from welfare...for the same amount of public spending" (Marklund, 1988, p.48).

Because Esping-Andersen's account is less immediately concerned with redistribution than with the rights-conferring aspects of welfare provision - his organising problematic is a notion of welfare 'de-commodification', defined in terms of welfare "rendered as a matter of right" (1990, 22) - he is unwilling to concede the welfare-conferring potential of means tested benefits in redistributive terms. As we shall see subsequently, this has important implications for his categorisation of worlds of welfare capitalism.

A third deficiency of the aggregate expenditure approach is that it has largely ignored the linkages between taxation and the various components of welfare provision. At least four important points should be made here. First, that the capacity to spend for social purposes depends on the capacity to extract for social purposes and some tax instruments - in particular, dedicated social security contributions - appear to be far more closely associated with high levels of welfare effort than others (see Castles, 1990). Second, tax expenditures, representing tax revenues foregone by governments through the operation of deductions, concessions and rebates, in themselves constitute a significant welfare instrument, increasing the household disposable incomes of particular groups of 'beneficiaries' vis-à-vis others (Gilbert and Moon, 1988). Third, and systematically unnoticed by those who laud the virtues of the big-spending welfare state, many of those nations providing the most generous direct benefits are also those which are most assiduous in 'clawing-back' benefits through taxation (Mitchell, 1990, 113-25). Targeting, in the sense of making sure that most benefit goes to the poor, is by no means a phenomenon restricted to the nations conventionally labelled as providing 'residual' social provision. Rather, in these systems, targeting takes place through the direct benefit system whereas in many European nations, targeting occurs through taxation and often in a no less intrusive and stigmatising way, as officials inquire into tax-payers' patterns of spending to establish their probable 'true' income level. Fourth, it must be noted that in outcome terms - other things being equal - the more progressive the tax structure, the greater the extent of income redistribution.

The model of welfare linkages presented here is a very simple one. To understand the genesis of welfare outcomes, we have to start from the way in which the different incidence of need in different countries leads to variation in the distribution of market incomes. Thereafter, the redistributive policy process begins whereby market income is modified by a series of inputs consisting of the level of expenditure devoted to social policy goals and the level of revenues extracted to finance these expenditures. The final distribution of income will also depend on the characteristics of the transfer and tax instruments, for example, the extent to which expenditures and revenues are targeted. Changes in needs, the distribution of market incomes from employment or any one of these policy instruments will necessarily modify the distribution of post-transfer, post-tax incomes.

The model is simple because it ignores a variety of reciprocal linkages which may also substantially influence final poverty and inequality outcomes. For instance, it ignores the possibility that high

rates of progressive taxation may be taken into account in the negotiations leading to pay relativities and, hence, initial market income distributions (see Dernberg, 1974). It also neglects the possible ambiguity of the interaction between social insurance contributions and redistribution, with the contributory principle serving as a stimulus to the expenditure that makes possible welfare generosity, whilst simultaneously biasing that expenditure in a regressive direction. Finally, it takes no account of the possibility - strongly argued by the protagonists of universal and generous welfare benefits - that means testing will have a double knock-on effect on the extent of welfare expenditure. First, by its automatic effect of non-provision for the better-off and, second, because it will dissuade the better-off from supporting adequate benefits for the poor. If this indirect effect could be empirically demonstrated to outweigh the direct redistributive impact of means tests, the redistributive case for targeted instruments would be much weakened.

Whilst the model is simple, it does go well beyond the mere identification of expenditure levels or instruments with outcomes. It also has the strong policy implication of alternative routes to similar redistributive goals. For instance, those who wish simultaneously to offer equality of citizen status and a measure of redistribution may, arguably, pursue both aims by providing universal benefits and financing them from a highly progressive tax system.

Basically, the model transforms the research task of comparative social policy analysis from an account of the factors determining the nature of **inputs** to a threefold endeavour of establishing: the precise nature of the linkages operating in particular countries and policy areas; of locating the broad configurations of welfare linkages that characterise contemporary welfare states; and of seeking reasons why particular configurations occur in particular nations. The first task involves detailed empirical analysis of the income redistribution process in as large a number of countries as possible and constitutes the research agenda of the LIS project. The second involves typology construction, and the third a search for explanations. This paper, in a necessarily preliminary way, attempts to make some headway with these latter tasks.

Welfare State Typologies

The logic of our model implies that categorisations of welfare states on the basis of any single component are unlikely to have the same explanatory potential as categorisations based on two or more components. Modifying the familiar categorisation of expenditure

leaders and laggards by additional information about the extent of needs, the character of transfer instruments and the structure of taxation should lead to typologies which are better able to predict redistributive outcomes than those based on expenditure alone. In this section, we explore a number of possible typologies that relate to the way in which policy-making contributes to such outcomes. Although some categories of need can be altered by policy action - reducing unemployment by an 'active' labour market policy is a prime example - that is not generally the case, and we concentrate on the direct policy mechanisms, social security and taxation, which are deliberately put in place to transform the distribution of market incomes.

Esping-Andersen's work is an obvious starting-point in the search for relevant criteria of classification of transfer instruments. Not only does he elaborate a typology of worlds of welfare capitalism on the basis of the index of de-commodification mentioned earlier, but he also creates three further measures which supposedly tap salient dimensions of welfare-state stratification, that term being used to denote ways in which the welfare state serves to structure the quality of social citizenship (Esping-Andersen, 1990, 57). Each of these classifications derives substantially from quantitative data on transfer instruments or their impact, and the findings of the de-commodification index and measures of stratification are seen as being mutually reinforcing. Nations fall into three groupings on the criterion of degree of de-commodification and these three configurations are argued by Esping-Andersen to correspond reasonably closely to the groupings located by strong adherence to particular principles of stratification. These classifications are presented in Table 1.

Table 1: Esping-Andersen's Worlds of Welfare Capitalism

| De-commodification | | | Principles of Stratification | | |
|--------------------|-------------|-------------|------------------------------|--------------|-------------|
| Low | Medium | High | Liberal | Conservative | Socialist |
| Australia | Italy | Austria | Australia | Austria | Denmark |
| USA | Japan | Belgium | Canada | Belgium | Finland |
| NZ | France | Netherlands | Japan | France | Netherlands |
| Canada | Germany | Denmark | Switzerland | Germany | Norway |
| Ireland | Finland | Norway | USA | Italy | Sweden |
| UK | Switzerland | Sweden | | | |

Source: Esping-Andersen, 1990, Tables 2.2 and 3.3.

First, there is a Liberal world of welfare capitalism in which de-commodification, measured in terms of the replacement rates of benefits, length of contribution periods and the individual's share of benefit financing, is low; and where Liberal principles of stratification, measured by the extent to which means tested poor relief, private pensions and private expenditure on health, are prevalent. This is the world of the selectivist and residual welfare state, limiting "the realm of social rights" and providing "a blend of a relative equality among state-welfare recipients, market-differentiated welfare among the majorities, and a class-political dualism between the two" (Esping-Andersen, 1990, 27). On the basis of the de-commodification typology, the Liberal world consists of Australia, the United States, the United Kingdom, New Zealand, Canada and Ireland, the first three of these nations also being exemplars of Liberal stratification. Japan and Switzerland count as Liberal on the stratification principle, but not the de-commodification one.

Second, there is a world of moderate de-commodification described by Esping-Andersen as 'corporatist', which is associated with the contributory and earnings-related characteristics of continental European welfare states, and mirrored by a Conservative stratification principle resting on corporatism and etatism in welfare provision. This world is shaped by the twin historical legacy of corporatism and Catholic social policy, limiting the direct role of the state to provision of income maintenance benefits related to status-position (Esping-Andersen, 1990, 27). It is important to note that, in Esping-Andersen's view, the Conservative welfare state is not necessarily more egalitarian than its Liberal counterpart, since the "state's emphasis on upholding status differences means that its redistributive impact is negligible" (ibid). Italy, France, Germany, Japan, Finland and Switzerland are corporatist in de-commodification terms and, again, the first three feature as Conservative in terms of stratification.

Finally, there is a Social Democratic world of welfare capitalism in which de-commodification is high, and there is a corresponding Socialist principle of stratification, resting on universal benefits and a high degree of benefit equality. This world is seen as the product of a Social Democratic ideology, which eschewed "a dualism between state and market (and) between working class and middle class ... (and sought to) promote an equality of the highest standards, not an equality of minimal needs as was pursued elsewhere" (Esping-Andersen, 1990, 27). Clearly, the Social Democratic world of welfare capitalism is one in which redistribution is a major objective of policy. The Netherlands, Denmark, Norway and Sweden feature as both Social Democratic and ultra-Socialist, with Austria and Belgium fitting this classification in

de-commodification terms, but adhering to Conservative principles of stratification.

These classifications provide a more interesting and differentiated picture of welfare provision than any resting on aggregate expenditure alone. Nevertheless there are a variety of problems. Each classification rests on a composite index and, in some instances, judgements supposedly based on the insight that "not all spending counts equally" are heavily contaminated by expenditure considerations. This is particularly true of the de-commodification index, which not only gives a prominent place to replacement rates, which will obviously be higher where aggregate expenditure is higher (or vice versa - the point being that the two measures are not independent), but then also gives them an extra weight because of "the singular importance of people's welfare-work choices" (Esping-Andersen, 1990, 54), which is only another way of saying that high expenditures are, in fact, likely to be associated with high levels of welfare.

Moreover, both the de-commodification index and the Socialist stratification index are highly influenced by somewhat idiosyncratic decisions about the import of means testing of benefits in Australia and New Zealand. In both cases, index scores are adjusted well below actual coverage ratios on the grounds that such "programs are highly conditional in terms of offering rights" (Esping-Andersen, 1990, 54). That is as may be, but what Esping-Andersen fails to note is that, insofar as rights are affected, it is not the poor and disadvantaged who lose out - their right to benefit in these countries is absolute (and, in some instances, appreciably greater than in the nations of income-related benefits) - but rather those coming from middle and upper echelons of income and wealth. Esping-Andersen's operationalisation appears paradoxical in terms of a Socialist principle of stratification and only makes sense in the case of de-commodification, if that principle is absolutely unrelated to redistributive outcomes.

The real problems of this classification are made apparent by Esping-Andersen's treatment of unemployment benefits. Both Australia and New Zealand score "exceedingly low... because they offer only means tested benefits" (Esping-Andersen, 1990, 51), and yet these nations, perhaps more than any others, may be seen as having provided a genuine "work-welfare choice" (Esping-Andersen's decisive criterion for the presence of de-commodification) since unemployment benefits were, at least until recently, available irrespective of the duration of unemployment and without contribution. Nor, since, in all nations, the unemployed come substantially from the lower income ranges, are the exclusions that derive from means testing considerable. Means tests

exclude the better-off and may stigmatise the less well-off, but they have rather little direct effect on the income replacement rights of the poor. It is arguable that unemployment benefits in Australia and New Zealand do not meet Esping-Andersen's critical criterion of de-commodification, that "individuals or families can uphold a socially acceptable standard of living independently of market participation" (Esping-Andersen, 1990, 37), but that is not because of the operation of means tests, but because of the level of benefits. That is not a consideration independent of the extent of welfare expenditure and is, in any case, already adequately captured in the construction of the de-commodification index without further adjustment.

Given these problems of operationalisation, and our explicit concern with distributional rather than status-conferring aspects of the welfare state, the only instruments measure which is readily translatable from Esping-Andersen's study to our own is that relating to the degree of benefit equality. This features as one of the two components of the Socialist stratification index and is particularly interesting as a quantitative indicator of the radical thrust of income maintenance policy, radicalism being defined here as a function of the degree to which benefit levels are the same for all recipients. In Table 2, we present the typology that emerges from cross-classifying 18

Table 2: Welfare Expenditure and Benefit Equality

| | | Household Transfers as a Percentage of GDP | | | |
|--------------------------|--|--|----------|-------------|----------|
| | | <u>Low</u> | | <u>High</u> | |
| <u>Low</u> | | Canada | | Austria | |
| | | Japan | | France | |
| | | Switzerland | A | Germany | B |
| | | USA | | Italy | |
| | | | | Netherlands | |
| Average Benefit Equality | | | | | |
| | | Australia | | Belgium | |
| | | Finland | | Denmark | |
| <u>High</u> | | Ireland | C | Norway | D |
| | | New Zealand | | Sweden | |
| | | United Kingdom | | | |

{Note: Data on 1980-84 household transfers from Varley (1986: 11) and on average benefit equality in 1980 from Esping-Andersen (1990: 70-71) }

OECD nations (the same 18 that feature in Esping-Andersen's study) in terms of high and low aggregate expenditure levels and high and low degrees of benefit equality.

It should be noted that the Varley data-set for transfer expenditure used here is derived from OECD sources and suffers from any defects therein. In particular, OECD transfers do not include occupational pensions mandated by legislation, but paid directly by employers. In Finland, this is a major item of transfer expenditure and might, if included, alter that country's classification in this and subsequent tables. It is becoming a major item in Australia, but in no way sufficient to alter that country's classification here or subsequently. The case for adjusting OECD data to take account of these exclusions is an arguable one, but we prefer to use the unadjusted data, noting that that the major Finnish source advocating such an inclusion simultaneously complains of "the large inequalities among pensioners...partly due to the relatively large differences in the benefit levels of pension schemes" (Alesto and Uusitalo, 1986, 229). In our view, the exclusion of employer funded occupational schemes is justified precisely because they are likely to translate or magnify the inequalities of working life beyond pensionable age to a degree greater than would be acceptable of publicly funded schemes.

Subject to this caveat, what is fascinating about this typology, based explicitly on the combination of aggregate expenditure and a single welfare instrument, is the degree to which it reproduces the worlds of welfare capitalism identified by Esping-Andersen in terms of his stratification principles. Quadrant **A** consists, with the exception of Australia, of precisely those countries which most strongly manifest the Liberal principle. Quadrant **B** contains four of the five nations scoring highest on the Conservative principle and three of the four nations contained in Quadrant **D** are strong exponents of the Socialist principle. What is different about our typology is the existence of a fourth type - Quadrant **C**. The crucial question - and that which informs the title of this paper - is whether this "fourth world" of welfare is merely an artifact of this mode of typology construction, or whether it has a similar coherence to the other types in terms of its historical and structural origins and its consequences for outcomes. The next two sections of the paper deal with these issues.

Here, we simply note that, with the exception of Finland, conceivably to be explained in terms of the caveat concerning occupational pensions discussed above, the cases included in Quadrant **C** are those which fit least easily in Esping-Andersen's own framework. Australia, as has been pointed out, is almost certainly misclassified by Esping-Andersen.

Whilst the strong Liberal label is apposite, adjusting for the anomalous scoring in respect of universalism would make Australia a nation of strong Socialist stratification also, the only instance where a single nation scored strong on two principles. By contrast, Ireland, New Zealand and the United Kingdom are cases which Esping-Andersen does not classify as adhering strongly to any single principle of stratification. Ireland is medium on Conservatism and low on Liberalism and Socialism. New Zealand is medium on Socialism (it too would be high with a rescoring of universalism that was not artificially biased against means testing) and low in other respects. The United Kingdom is medium on Liberalism and Socialism and low on Conservatism. That four of the five nations identified as potentially constituting an additional type or world of welfare capitalism are difficult or impossible to label using Esping-Andersen's typology suggests the possibility that the grouping in Quadrant C may capture a reality undiscovered by his study.

That impression is strongly reinforced when we turn our attention to questions of taxation, an instrument influencing welfare outcomes extraordinarily neglected in comparative social policy research. Reliance on different tax instruments as a means of influencing the redistribution of market income is analogous to the use of diverse transfer instruments to distribute social security expenditures. Progressivity, whether as a principle directing the provision of tax benefits, as a means of 'clawing-back' benefits accorded the better-off or, more generally, as a principle that higher income earners should contribute a greater proportion of their income to social purposes, will, in varying ways, reduce poverty and increase income equality. Since income and profits taxes in most nations are ostensibly based on the principle of progressivity, and since most other taxes are levied on a proportional or even regressive basis, we may take income and profits taxes as a percentage of GDP as a very crude proxy of the redistributive potential of a nation's tax system. Like the earlier measure of average benefit equality, it too may be regarded as an indicator of a radical dimension of state intervention in redistributive policy. In Table 3 we present the typology that emerges from cross-classifying aggregate expenditure and aggregate income and profits tax revenues.

Very little comment is required about this typology. With the single exception that Ireland and Canada exchange place between Quadrants A and C, Tables 2 and 3 are identical in their location of cases. It would appear that the same radical principle which leads to the equalisation of benefits leads also to a high proportion of national income being

Table 3: Welfare Expenditure and Taxes

| | | Household Transfers as a Percentage of GDP | | |
|---|----------------|--|-------------|----------|
| | | <u>Low</u> | <u>High</u> | |
| <u>Low</u> | Ireland | A | Austria | |
| | Japan | | France | |
| Switzerland | Germany | | B | |
| USA | Italy | | | |
| | Netherlands | | | |
| Income & Profits Taxes as a Percentage of GDP | | | | |
| <u>High</u> | Australia | C | Belgium | |
| | Canada | | Denmark | |
| | Finland | | Norway | D |
| | New Zealand | | Sweden | |
| | United Kingdom | | | |

Data on 1980-84 household transfers from Varley, 1986, 11 and on average income and profits tax revenues 1980-84 from OECD, 1986.

extracted in the form of progressive taxes. It is this radical principle which clearly differentiates between Esping-Andersen's, high-spending Conservative and Social Democratic worlds, and the fact that it also consistently discriminates between groups of low welfare spenders suggests that we should take the notion of a fourth world very seriously indeed - a **radical** world, in which the welfare goals of poverty amelioration and income equality are pursued through redistributive instruments rather than by high expenditure levels.

The Impact of Parties

Much of the comparative literature on aggregate welfare expenditure has been concerned with the extent to which spending is a function of socio-economic variables and the extent to which it reflects political partisanship and, in particular, the opposed interests of working class and bourgeois parties. Partisanship, of course, is itself a reflection of underlying social cleavages and it is these which Esping-Andersen puts to the fore in his account of the genesis of his three worlds of welfare

capitalism, whilst simultaneously attaching partisan labels to each of those worlds. In this section, we do not intend to disinter old quarrels about the ultimate causes of welfare development (see Wilensky, 1975; Castles, 1982), but rather seek to explore the degree of fit between a simple partisanship model and typologies elaborated by combining both expenditure and welfare instruments considerations.

Nor do we intend to enter the fray likely to erupt as a consequence of Peter Baldwin's (1990) recent analysis of the critical role of bourgeois parties in shaping welfare state reform. That analysis rests on the proposition that certain policy instruments - and, in particular, universal benefit provision - may favour middle class interests in horizontal redistribution through a widening of the pool of insured risk sharing, and that bourgeois parties will fight for extensions of the welfare state that have such characteristics. That is a case we readily concede, but focus here substantially, although not exclusively, on the role of leftist or non-Right (an alternative categorisation that sits far more easily with Baldwin's thesis) parties and trade unions. This is because our concern is precisely with vertical redistribution, which clearly is a goal which should distinguish parties and groups espousing ostensibly lower class interests.

We start by examining the political correlates of the differentiating criteria of expenditure and instruments and proceed to more focused delineations of individual types. In each instance, our conclusions are stated as propositions stating strong tendencies, with any important exceptions noted in the text. Data sources for the judgements made are Paloheimo (1984) for cabinet incumbency, Mackie and Rose (1984) for electoral support and Stephens (1979) and Bain and Price (1988) for trade union density.

- **Proposition 1.** High expenditure countries (those on the right hand side of Tables 2 and 3) are nations in which the political Right has not been in office for long periods in the post-war era. Counting Christian Democratic, democratic socialist and centrist agrarian parties as non-Right, this generalisation holds for all these nations except France under the Fifth Republic.

- **Proposition 2.** Low expenditure countries (those on the left hand side of Tables 2 and 3) are nations in which the political Right has enjoyed long periods of political office. Japan, the USA, Australia, New Zealand and the United Kingdom are countries in which the Right has ruled through a major dominant party for more than half the post-war era, and Ireland and Switzerland ones in which either rightist factions have alternated or ruled in coalition. Canada is a case which defies

easy classification. The until recently hegemonic Canadian Liberal Party is clearly to the left of the Conservative Party, but, over time, its adherence to progressive causes has varied quite markedly. Some writers, deriving their classification from a neo-Marxist perspective, count both Canadian parties, as both American ones, as 'bourgeois' in partisan complexion (see Schmidt, 1982, 135). The operational definition used as the differentiating criterion for the typology of political configurations which appears below in Table 4 rests on partisan control by Christian Democratic, democratic socialist and centrist agrarian parties. By this criterion Canada does not constitute an exception to Proposition 2.

We remind readers that Finland's location in Quadrant C rather than D depends somewhat on an operational choice concerning the classification of employer-paid occupational pensions. Finland is only an exception if, as here, we use OECD data excluding such pensions as a component of public expenditure. The Finnish Right is unquestionably weak (see Alestalo, Flora and Uusitalo, 1985), but it is arguable that Finland's relatively low level of aggregate welfare spending when occupational pensions are excluded, and, indeed, the very fact that the choice was made to mandate the private sector to provide such pensions, stems from the strong divisions on the Left, which mean democratic socialist and agrarian parties, frequently in office, are usually in coalition with one or more parties with a much lesser ideological commitment to welfare state expansion.

- **Proposition 3.** Countries which do not adopt equalising instruments (those at the top of Tables 2 and 3), whether in respect of benefits or taxes, are ones in which the labour movement has been weak. Weakness is here measured in terms of union membership (the countries in the top half of Table 3 had an average level of union membership of 34% of the labour force in 1984, whilst the countries in the bottom half averaged 60%), parliamentary support for Social Democracy or Labor, and cabinet incumbency of such parties. Only Germany and Austria are partial exceptions to this generalisation. The German Social Democrats, however, only broke the 40% barrier of voter support in the late 1960s and the Austrian Party, although historically stronger, had to wait until 1970 before taking office outside the framework of a Proporz arrangement with its Christian Democratic rival.

- **Proposition 4.** Countries which adopt equalising instruments (those at the bottom of tables 2 and 3) are predominantly those in which the labour movement has been strong. This is not always recognised by European scholars looking to the countries of the Antipodes, but it should be noted that, taking the average vote from the beginning of this

century, Australia's Labor Party has been more strongly supported than Sweden's Social Democrats and that the New Zealand Labor Party's period of one-party majority rule from 1935-49 is second only to that of Norway's Social Democrats from 1945-63. In both Australia and New Zealand, the trade union movement has been historically strong, with the Scandinavian nations only decisively overtaking them in the post-war period. Canada is apparently again an exception, although the much greater strength of the social democratic NDP at the provincial (in power in as many as 3 out of 10 provinces at one time) than the federal level, mitigates the usual impression that Canada, like the USA, is wholly lacking in a politically powerful labour movement. Belgium may be seen as an exception by some, but whether that is so depends on which criteria of labour movement strength is used. Belgium has manifested appreciably higher levels of union density than any country in the top half of the tables (in 1982, 78.6 per cent contrasted with the highest in the top half of the table, Austria, at 58.2 per cent), but Social Democratic party electoral support has been lower than in Germany and Austria. The Belgian Social Democratic party during the period 1950-80 was in office for longer, although usually as the subordinate coalition-partner, than in any of these nations except Austria.

- **Proposition 5.** Low expenditure, low equalising instruments countries (those in Quadrant **A**) are nations in which the role of the labour movement has been vestigial and in which rightist liberal parties have been dominant. The only possible partial exception might be Canada in respect of average benefit equality, depending on one's ideological classification of the Canadian Liberal Party. In ideological terms, this world of welfare capitalism is quite appropriately described as **Liberal**. It is worth noting, however, that were the focus to be on the structural characteristics of party systems, the label 'Traditional' might fit as well, for what the otherwise very disparate American, Japanese, Irish and Swiss political systems have in common are democratic structures substantially untouched by the advent of modern mass parties, whether organised on the basis of working class mass mobilisation and counter-mobilisation or of "catch-all" people's parties. To the degree that this is the case, one might speculate that an important political factor conditioning the achievement of redistributive outcomes in advanced capitalist states is the extent to which political structures have been modernised in such a way as to facilitate the articulation of the welfare demands of the democratic electorate.

- **Proposition 6.** High expenditure, low equalising instruments countries (those in Quadrant **B**) are nations in which the main political

divide is between Catholicism and Socialism. In these countries, electoral competition between the people's parties representing these diverse strands of social thought has involved competitive pressure for greater expenditure, but the Catholic input has prevented any substantial equalising thrust. Only in France does the structure of partisan conflict not reflect this basic cleavage division, but the input of Catholic social policy ideas in France is well established (Ashford, 1986). Labels here are not so obvious. Esping-Andersen offers both 'corporatist' and Conservative, and Christian Democratic or Catholic would be equally well merited. Our choice of **Conservative** simply reflects a wish to maintain continuity with that aspect of Esping-Andersen's analysis, his typologies of stratification principles, which has most resemblance to our own.

- **Proposition 7.** Low expenditure, high equalising instruments countries (those in Quadrant C) are nations in which a strong labour movement has found it difficult to translate popular support into cabinet incumbency during the post-war era. The mechanisms operating here are not wholly transparent and the directions of causality less than certain. That long-term incumbency is required to increase expenditure seems obvious enough, but how strong labour movement support is translated into equalising instruments is more difficult to understand.

The influence of a powerful trade union movement is clearly involved, with highly significant bivariate associations between union density and benefit equality of .64, and with taxes of .73. The question is how, in the absence of democratic socialist governments, such an influence is exerted to promote equality. At least two possibilities can be discerned: first that the trade unions operate as an extra-parliamentary veto group opposed to reversals of existing egalitarian policies and, second, that the trade union density variable serves as a proxy for a strong solidaristic sentiment within the population, which governments of whatever complexion must take into account in their decision-making. On either count, the world of welfare captured by Quadrant C must be regarded as a manifestation of the effects of class politics unalloyed by the influence of party. The impact of trade unionism or of solidarity expressed through trade unionism should, perhaps, be best likened to a ratchet effect by which reforms once effected are difficult to reverse despite long periods in office of parties with little or no attachment to egalitarian principles. That leaves open the question of the mechanism by which equalising instruments are first initiated as state policy.

Another probable contributory factor, and one which does offer a clue to the origin of such instruments, is the legacy of radical egalitarianism on the part of new social forces that emerged around the turn of the century and which strongly influenced the initial choices as to the ways in which welfare benefits and welfare financing were to be structured. Such a legacy is common to Scandinavia and a number of the English-speaking nations, in the former deriving its impetus from the ideas of the 'people's movements' of the late nineteenth century (see Therborn, 1989) and in both Britain and the Antipodes from an admixture of social liberalism and trade union inspired political organisation (laborism). In much of Scandinavia, the coincidence in the early post-war era of Social Democracy hegemony and rapid economic growth led to the supplementation and partial usurpation of social protection through equalisation by massively expanded welfare state expenditure. In the English-speaking countries, a labour movement which rarely succeeded in obtaining office has had to rest content with defending equalising reforms already enacted.

Finland's radical credentials are as great as any of these nations, Scandinavian or English-speaking. Finland was the first country in Europe to confer female suffrage (New Zealand and Australia were the first in the world - and, perhaps, this constitutes a criterion as good as any other of a radical commitment to citizen equality) and had a strongly peasant-based Social Democratic Party which was the first in Europe to achieve majority status (see Alapuro, 1988). What distinguishes Finland from the other Scandinavian countries to some extent and makes for similarity with some of the English-speaking nations is a greater reluctance on the part of the labour movement to move beyond an equalising instruments approach to social policy. The ideology of workers' parties and organisations in the countries of early social radicalism was originally strongly imbued with an emphasis on the egalitarian virtues of selective social policy and flat-rate benefits. That changed in much of Scandinavia and in the United Kingdom in the early post-war years, but remains manifestly true of Australia and New Zealand throughout the post-war era. Significantly, and a pointer to a welfare difference between Finland and the other Scandinavian countries which is not solely dependent on the operational classification of occupational pensions, that is also the case in Finland, where "the most distinctive spokesman for universalism has been the Agrarian Party, while the Social Democrats have been stubborn supporters of the income test" (Kangas and Palme, 1989, 10).

That there is a connection between a continuing emphasis on an equalising instruments approach to social policy and the relative weakness of Social Democracy seems clear, but the direction of

causality is by no means self-evident. A strong argument can be mounted that structural impediments to democratic socialist incumbency in Australia, Britain, Finland and New Zealand are the fundamental determinants of a failure to obtain the governmental status required to legislate more generous welfare benefits. In the case of Australia, New Zealand and the United Kingdom, Labour parties have not fared well against unified parties of the Right in the context of plurality electoral systems. In the case of Finland, a strong cleavage line on the Left dividing Social Democrats and Communists has made it impossible for the Left to rule except in coalition with a variety of middle-class parties with quite diverse social policy stances. However, the linkage between social policy stance and Social Democratic strength may also, in some part, be a matter of strategic choice by political actors. Seen in these latter terms, the abandonment of some aspects of the equalising instruments approach in Denmark, Norway and Sweden - selectivity, but only to a more limited degree benefit equality and, only in the late 1980s, any move away from substantial reliance on incomes and profits taxes as a means of financing the welfare state - and its replacement by an emphasis on expenditure generosity can be regarded as a deliberate response by Social Democratic parties in these countries to the problems of winning the political support in the context of the rapidly changing social structure of a post-industrial society (see Esping-Andersen, 1990, 31). In this view, democratic socialist parties' failure to obtain a strong purchase on government in United Kingdom, Australia, New Zealand and Finland can, at least in some part, be attributed to these parties' social policy choices. Almost certainly, the direction of causality is both ways simultaneously, with a vicious circle by which structural conditions in some nations impede certain strategic options and a virtuous one in others where the two are mutually reinforcing. In any case, the direction is irrelevant to the basic contention of this section that a distinct political configuration corresponds to a distinct set of social policy outcomes in the nations located in Quadrant C - with the only issue in question being whether political causality here is a matter of political structure or of political choice.

The combination of equalising social policy instruments and low welfare expenditure identified in Quadrant C and the political configuration of a strong labour movement denied political power corresponding to it demand a label that provides clear differentiation from the other worlds of welfare capitalism located by Esping-Andersen's typologising. The social liberal and 'laborist' (McIntyre, 1985) movements in the English-speaking nations in the early part of the century and the 'popular movements' of Scandinavia at the end of the nineteenth were frequently described as **Radical** rather than

socialist by contemporaries. It seems wholly appropriate to use that term to denote a political configuration identified with the persistence of egalitarian social policies of precisely the kind that such movements sought to initiate and to arrogate the title of the radical dimension of state activity to the nations that adhere to it in its purest form.

- **Proposition 8.** High expenditure, high equalising instruments countries (those in Quadrant **D**) are nations in which a weak Right is conjoint with a powerful trade union movement. In the three Scandinavian nations appearing in this quadrant in both tables 2 and 3, we can be more specific and locate the prevailing political configuration in terms of the dominance or hegemony of Social Democracy. This suggests that Esping-Andersen's 'Socialist' label might be the appropriate one, but that clearly does not apply to Belgium,¹ where the most that can be argued is that a Social Democratic party, averaging around 32 per cent of the vote in the three decades, 1950-80, and in coalition with the Christian Centre for approximately half that period, supplied a centre-left complexion to government for much of the post-war period. What, of course, the Social Democratic countries have in common with Belgium, and what sets them apart from Germany and the Netherlands, is that the weakness of the political Right in government is reinforced by labour movement support in the population expressed through trade union membership.² Under these circumstances, we adopt the label **Non-Right Hegemony (N-RH)** to express the political impetus shaping the world of welfare located in Quadrant **D**.

Table 4 provides a summary presentation of the political configurations described by the first four of these propositions.

The underlined cases are those which do not fit precisely with the earlier observed configurations of aggregate expenditure and equalising instruments and the abbreviations in brackets indicate to which of our

¹ Esping-Andersen uses the Socialist label to describe the stratification system of the Netherlands. That is at least as inappropriate as using that label to describe Belgium. In the period 1950-80, the Dutch Social Democratic party supplied the Prime Minister more often than in Belgium and was in government for only a marginally shorter length of time, but it had consistently lower electoral support and the degree of union mobilisation was approximately 50 per cent that in Belgium.

² A possibly significant difference remains in that in Belgium, unlike Scandinavia, the unions are divided on religious and political lines. Whether that difference has any implications for the equalising thrust of social policy cannot be ascertained in the absence of LIS data for Belgium.

four worlds of welfare they properly belong in these terms. The labels in bold are the designations of the four worlds and appropriately describe the combination of aggregate expenditure and equalising

Table 4: Political Configurations and Worlds of Welfare

| | Low | Non-Right | Incumbency | High |
|------------------------|--|----------------|------------|--|
| Low | <u>Canada</u> (Rad) <u>France</u> (Con) Ireland Japan Switzerland USA | Liberal | | Germany Italy Netherlands Conservative |
| Trade Union Density | | | | |
| High | Australia New Zealand UK | Radical | | <u>Austria</u> (Con) Belgium Denmark N-RH <u>Finland</u> (Rad) Norway Sweden |

Data on union density 1984 from Bain and Price (1988). Non-Right incumbency defined as the number of years between 1960-84 that the chief executive came from a Christian Democratic, democratic socialist or centrist agrarian party. Data from Paloheimo (1984).

instruments for all but the underlined cases in each quadrant. In fourteen cases the political configuration predicts the welfare configuration precisely and in no case is there a complete discontinuity between politics and welfare (i.e expenditure may be lower (Finland) or higher (France) than predicted and income tax may be lower (Austria) or higher (Canada), but no country is misclassified on both counts).

Overall, the impression is of an extraordinarily close fit between political structure and the character of welfare provision, indeed, a degree of congruence that is more apparent when instruments are taken into account than when expenditure is considered alone. Moreover, it is

clear that our fourth world of radical welfare capitalism corresponds closely to a particular configuration of political preconditions, consisting of a labour movement unable to obtain a degree of partisan control commensurate with its political support base in the community and also, perhaps, of a historical legacy of radical egalitarianism. What we must now determine is whether this radical world - and, indeed, the other worlds - is associated with particular redistributive outcomes.

Redistribution and Types of Welfare Capitalism

The LIS data permit us to devise a variety of measures of poverty, inequality and redistributive achievement for an increasing number of countries, eventually, one hopes, becoming conterminous with the standard OECD dataset. In this final section, we use measures pertaining to the impact of transfers and taxes on the distribution of incomes to ascertain the degree to which our four worlds correspond with distinct outcomes reflected by the achievement of redistributive objectives.

In Table 5, we present data on the pre-transfer and post-transfer, post-(income) tax Gini coefficients of inequality for the 10 nations in the first wave of the LIS data, together with a measure of the net redistribution occurring as a consequence of the impact of diverse types of tax-transfer systems on the redistribution of market income.

Table 5. Ranks based on Gini coefficients pre-transfer, post-transfer, post-tax and net redistribution

| <u>Rank</u> | <u>Pre-transfer Gini</u> | <u>Post-tax Gini</u> | <u>Net Redistribution(%)</u> |
|-------------|--------------------------|----------------------|------------------------------|
| 1 | Norway .385 | Sweden .197 | Sweden 53 |
| 2 | Canada .387 | Norway .234 | Norway 39 |
| 3 | UK .393 | Germany .252 | Germany 38 |
| 4 | Germany .407 | UK .264 | Netherlands 37 |
| 5 | Switzerland .414 | Australia .287 | France 35 |
| 6 | Australia .414 | Canada .293 | UK 33 |
| 7 | Sweden .417 | Netherlands .293 | Australia 31 |
| 8 | US .425 | France .307 | USA 25 |
| 9 | Netherlands .467 | USA .317 | Canada 24 |
| 10 | France .471 | Switzerland .336 | Switzerland 19 |

Calculated from LIS data files (Mitchell, 1990).

Looking first at pre-transfer Gini coefficients, which reflect both the inequality of income from employment and the existence of diverse degrees of need, we note the absence of any obvious connection between levels of inequality and either our four worlds or Esping-Andersen's three worlds of welfare capitalism. Of our N-RH nations and Esping-Andersen's Socialist ones, Norway ranks as the most equal nation, whilst Sweden ranks seventh; of the Conservative nations, Germany ranks fourth and France tenth, and of the Liberal (or low de-commodification) nations, Canada ranks second and the USA eighth. Only the Radical nations group fit somewhat more closely, with all of them being at or above the median level of equality. The absence of any link between pre-transfer inequality and configurations of welfare linkages is, of course, not surprising. We should not expect welfare states to reflect prior levels of inequality, except, perhaps, in the negative sense that a higher level of inequality could be seen to demand a greater redistributive effort.

Post-transfer, post-tax Gini coefficients manifest an utterly different picture and one in which the impact of diverse configurations of welfare instruments begin to be apparent. Now, Sweden and Norway rank first and second and, at the other end of the distribution, the USA and Switzerland, the two LIS countries that, again feature as Liberal in both classifications, rank ninth and tenth. This is precisely the result that would be predicted on the basis of our own typology and is also compatible with Esping-Andersen's interpretation. However, since Esping-Andersen classifies the Radical nations appearing in the LIS dataset - Australia, Canada and the United Kingdom - as nations of low de-commodification and largely adhering to Liberal stratification principles, he would presumably predict that these nations would have less favourable equality outcomes than the Netherlands, which, according to his classification is a Socialist, high de-commodification system.

The data do not, however, support such an contention. The United Kingdom, Australia and Canada all manifest lower levels of post-transfer, post-tax inequality than the Netherlands. On the other hand, the fact that these three nations - Liberal in Esping-Andersen's classification and Radical in ours - manifest a higher level of post-transfer, post-tax equality than France and a lower level than Germany, the two Conservative nations in the LIS dataset, contradicts neither exercise in typologising. Esping-Andersen is explicit in pointing out that higher de-commodification in Conservative nations has no inherent redistributive implications. Our own position is that high welfare

expenditures (characteristic of the Conservative welfare states) and targeting through either the transfer or tax systems (characteristic of the Radical ones) are alternative or complementary mechanisms of income redistribution, and we do not venture an *a priori*, theoretical, judgement about which is likely to be most effective.

Finally, looking at the net redistribution column filters out the impact of the initial pre-transfer distribution, leaving us with only the effects of the diverse welfare policy types. Those effects are not inconsiderable. Sweden succeeds in reducing income inequality by around 50 per cent and all but three of these ten nations reduce it by more than 30 per cent. On this count, it would appear that the tax-transfer state is rather more than merely the instrument of horizontal risk reallocation that Baldwin (1990) conceives it to be. Most certainly, it cannot be regarded as a part of that perverse exploitation of the disadvantaged by the advantaged that certain revisionist writers have identified as the crowning irony of welfare state development in the area of direct service provision (Le Grand, 1982).

At first glance, the net redistribution findings are nicely poised between Esping-Andersen's interpretation and our own. In favour of Esping-Andersen's thesis, should be counted the fact that his three Socialist nations rank in the first four in redistribution terms, and that it now becomes apparent that the Netherlands is misclassified vis-à-vis the Radical nations in post-transfer, post-tax terms only because of that country's high level of pre-tax inequality. Against his interpretation, should be counted only the fact that Netherlands and Germany swap ranks. As support for the four worlds interpretation should be counted the almost perfect clustering of types: Non-Right Hegemony first, Conservative second, Radical third and Liberal fourth and last. Against, should be counted the one exception, Canada, which is Radical according to the income tax-based typology (although not in terms of benefit equality, where the clustering is wholly perfect), but ranked behind the Liberal United States in redistributive terms.

But the similar degree of support for the two typologies is only apparent. Because Esping-Andersen's does not distinguish the redistributive effects of Conservative and Liberal welfare states, his prediction amounts only to an expectation that Sweden, Norway and the Netherlands will manifest more equalising policies than the other seven nations. That is true for Sweden and Norway, whilst the Netherlands achieves a greater equalisation than all other nations except Germany. On the other hand, we predict a rather more differentiated hierarchy, with N-RH nations being the most equalising,

Liberal nations the least and Conservative and Radical nations falling in between. Although in our case there is also one departure from the expected hierarchy (i.e. Canada), the degree of fit of the four worlds model is appreciably greater, just because its detailed predictive power is greater.

Ideally, we would wish to test the degree of fit of both models against complete data from all 18 cases included in the typologies of tables 1, 2 and 3, but that must necessarily await the further expansion of the LIS dataset. In the meanwhile, we wish merely to note that the four worlds model is a better predictor of redistributive outcomes than either a conventional expenditure 'leaders and laggards' model or Esping-Andersen's typology based on social policy instruments. Although the evidence is as yet insufficient to come to definitive conclusions as to the relative potential for vertical redistribution of different types of welfare state, we are surely entitled, *pro tem* at least, to prefer that which rests on an affirmation of two intuitively obvious social policy principles: that more expenditure on the poor and greater targeting of what expenditure there may be to the poorest, are **both** separately factors likely to enhance vertical redistribution. That certainly is the message of a multiple regression of net redistribution on both total transfer expenditure and progressive taxes as percentages of GDP.³ Ten cases are here, as previously, only a basis for interim conclusions, but the finding that both expenditures and our proxy for the progressivity of taxes are highly significant predictors of outcomes and of rather similar explanatory power offers some further substantiation of the case argued in these pages.⁴

³ 1981 Net Redistribution = $-7.0 + 1.4$ 1981 Social Security Expenditures (5.26) + 1.5 1981 Incomes & Profit Taxes (4.21). **Adj R² = .81.** (Figures are unstandardised regression coefficients; figures in parentheses are t-values. Data sources and definitions are those cited in tables 4 and 5).

⁴ For reasons of space, we have restricted our analysis to overall measures of income inequality, but it is worth noting that the conclusions which would have emerged from an analysis of poverty reduction would have been essentially similar. Using expenditure and benefit equality (i.e. the variables defining the typology in Table 3) as regressors of the reduction of the poverty head-count after transfers, we obtain the following equation: 1981 Poverty Reduction = $16.6 + 2.03$ 1981 Social Security Expenditures (3.80) + 41.24 Benefit Equality (3.06). **Adj R² = .72.** The definition of poverty reduction is the percentage change in the poverty head-count after transfers, using a poverty line of 50% of median income adjusted by the OECD equivalence scale (see Mitchell, 1990). For an Australian audience, it should be pointed out that this equation implies that almost precisely two thirds of the 63 per cent reduction of the poverty head-count in that country is attributable to the flat-rate character of its social security benefits (or to other

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