The Real Worlds of Welfare Capitalism

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1 Introduction

1.1 Dry statistics / real lives

To get a good sense of how real lives are really lived, of what it is really like to be poor or old or disabled, we read novels or biographies, social histories or social commentaries. We read Charles Dickens’ *Hard Times* (1854) or George Orwell’s *Down and Out in Paris and London* (1933) or John Steinbeck’s *The Grapes of Wrath* (1963); we read Jane Addams’ *Twenty Years at Hull House* (1919) or Michael Harrington’s *The Other America* (1962) or *The Autobiography of Malcolm X* (1965). Any of these offer far more evocative accounts than we social scientists can ever hope to muster out of the dry statistics which are our stock in trade.¹

Inept though we may be at evoking the real lives of social unfortunates, social scientists are nevertheless relatively good at counting how common each of those patterns of social misfortune actually is in any given society. That is a crucial step in transforming ‘personal troubles’ into ‘public issues’ (Mills 1959, ch. 1; Gibson 1998, ch. 1). Ever since the days of Charles Booth’s magisterial sixteen-volume study of *Life and Labour of the People in London* (1892–1903) and Seebohm Rowntree’s study of York (1901; 1941), social reformers have been keenly aware that it is as essential to enumerate instances of social distress as it is to describe them evocatively. Social statisticians both inside and outside government have, by now, gone a long way toward helping us understand not only what sorts of problems people have but also how many people have them.

While providing us with many good head counts, however, social statisticians still provide us with far too little by way of connected stories. In purely mathematical terms, ‘transition matrices’ may succeed in rendering their models dynamic, but such devices hardly constitute a continuous narrative thread. Much of the appeal of ‘qualitative’ methods in the social sciences derives from their promise to recapture the sequencing and patterning that constitutes the real lives of real people (King, Keohane and Verba 1994).

¹ Though more ‘qualitative’ work – such as Edin’s (1991) on ‘how AFDC recipients make ends meet in Chicago’ – comes much closer.
Sequences and longer-term patterns clearly matter enormously to people’s welfare. It makes an enormous difference whether people are poor for just one year or several, whether their deprivations are singular or multiple, whether ruptures in their family lives or employment histories are isolated instances or recurring patterns. If bad things keep happening to the same people over and over again, then that is more problematic for those people. If the bad things happen to different people over time, then that is less problematic for any given individual but obviously involves more people. The sociology and politics and perhaps the morality of social policy as well varies, depending upon which of those ways social risks are distributed among people over time. Important though those factors undeniably are, however, they are captured only very imperfectly in conventional social surveys.

Conventional compilations of social statistics have traditionally amounted simply to a succession of cross-sectional ‘snapshots’ of the population, frozen at some particular moment in time. By taking repeated cross-sectional snapshots at regular intervals we can build up what social statisticians proudly call a ‘time series’. But that inevitably remains a series of disconnected snapshots. What exactly has happened in between successive snapshots – how one cross-section has transformed itself into the next – inevitably remains a mystery. Successive snapshots record the fact of change without revealing the mechanism. Furthermore, those snapshots are of cross-sections representing group profiles rather than individual experiences.

2 The best brief discussion of this issue is perhaps Ruggles (1990, ch. 5), though of course all the wider literature on income dynamics makes this same point at more length (see, e.g., Levy 1977; Lilliard 1977; Duncan et al. 1984; Atkinson, Bourguignon and Morrisson 1992, ch. 1; Bane and Ellwood 1994; Leisering and Leibfried 1998).

3 In the purple prose of Milton Friedman (1962, pp. 171–2): ‘A major problem in interpreting evidence on the distribution of income is the need to distinguish two basically different kinds of inequality: temporary, short-run differences in income, and differences in long-run income status. Consider two societies that have the same distribution of annual income. In one there is great mobility and change so that the position of particular families in the income hierarchy varies widely from year to year. In the other, there is great rigidity so that each family stays in the same position year after year. Clearly, in any meaningful sense, the second would be the more unequal society. The one kind of inequality is a sign of dynamic change, social mobility, equality of opportunity; the other of a status society. The confusion behind these two kinds of inequality is particularly important, precisely because competitive free-enterprise capitalism tends to substitute the one for the other. Non-capitalist societies tend to have wider inequality than capitalist, even as measured by annual income; in addition, inequality in them tends to be permanent, whereas capitalism undermines status and introduces social mobility.’

4 As pointed out by Rowntree’s (1901, p. 172) analysis of poverty as a lifecourse phenomenon: ‘The proportion of the community who at one period or another of their lives suffer from poverty to the point of physical privation is . . . much greater, and the injurious effects of such a condition are much more widespread, than would appear from a consideration of the number who can be shown to be below the poverty line at any given moment.’ See similarly Duncan et al. 1984.
individual faces. In the sorts of ‘time series’ which social statisticians conventionally compile, there is no way of tracking what happens to particular individuals over time. All we can say is how many people – but not which people – fell into each category at successive moments in time. That sort of information is obviously very useful, and for certain sorts of purposes a series of disjointed cross-sectional time slices may be all that we really need. But for lots of other purposes it will inevitably be woefully inadequate (Ruggles 1990, ch. 5).

Great strides were made in the 1980s through the heroic efforts of the Luxembourg Income Study (LIS) toward compiling individual unit-record data on a genuinely cross-nationally comparable basis. Thanks to LIS, our statistical snapshots now have recognizably individual faces: we can now link up an individual’s response to one question to the same individual’s response to other questions within a single survey. But snapshots they remain. It is still impossible, even in the LIS data, to track individuals through time since each successive five-yearly wave of LIS surveys is based on a different, unconnected sample of individuals.

With long-term panel studies now coming on stream, we can at long last do better than that. In these ‘panel studies’, the same individuals are re-interviewed, time and again, over a protracted period. The interviews are conducted according to a strictly predetermined questionnaire. The responses are pre-coded, computerized and calculated in the ordinary way. The results are therefore highly quantitative and, in that sense, still dryly statistical – certainly compared to the more richly textured accounts

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8 Smeeding, O’Higgins and Rainwater (1990); Mitchell (1991); Smeeding et al. (1993); Atkinson, Rainwater and Smeeding (1995); Gottschalk and Smeeding (1997). Further information on LIS can be obtained from CEPS/INSTEAD, B.P. 48, L-4501 Differdange, Luxembourg; http://www.ceps.lu.

9 Anyway they are reported on that basis. Occasionally, as in the case of the Netherlands, a country’s LIS data was generated through a panel study; but when depositing those data with LIS, they recoded individual identifiers in such a way as to preclude linkage across the two surveys.

As an adjunct to the LIS project, there is now a central collection of panel studies, PACO (the Panel Comparability project); further information on this project, too, can be obtained from CEPS/INSTEAD, B.P. 48, L-4501 Differdange, Luxembourg; http://www.ceps.lu. The surveys held in the PACO archive at the time of writing are: Belgium, 1992; France (Lorraine), 1985–90; Germany 1984–92; Hungary, 1992–94; Luxembourg 1985–92; Poland, 1987–90; Spain (Galicia), 1992–93; Sweden, 1984, 1986, 1988, 1991; US, 1968–88; UK, 1991–94. So far, only seven of those countries’ data have been rendered comparable and incorporated in the PACO database (the three as yet non-comparable panels being those from Belgium, Spain and Sweden). Eventually a more systematic study might be conducted on the basis of those resources. For the time being, however, none of the other panels represented in that collection have been systematically surveyed for fully a decade, as have the panels in our study. Note that the Dutch Socio-Economic Panel Survey which we will be analysing is not included in the PACO project.
that might emerge through qualitative investigations. Nevertheless, those panel-study statistics reveal far more about the ebb and flow of real life events in real people’s lives than could ever be done through any set of successive aggregate snapshots, and they do so in a much more systematic way than could ever be accomplished through purely qualitative methods alone.

That is the basis upon which this book purports to reveal more than has hitherto been known about the ‘real worlds’ of welfare capitalism. For the first time, we can look at those questions through panel data tracking real people’s lives across a whole decade in at least one representative of each of the three basic types of welfare regime. We can, in this way, tell more about the real lives of real people than could have been told by previous cross-sectional time-series studies, however sophisticated.

These new developments do not render the older-style compilations of cross-sectional time-series data irrelevant. There are many respects in which cross-sections might be more useful than panels. Certainly cross-sections at a single point in time are more readily interpretable than panel data spanning several years, in which natural ageing and lifecourse effects at the individual level must somehow be disentangled from genuine changes at the systemic level. While there will thus remain an important role for both types of data, panel data nonetheless provide an important new perspective – and one which, in all its complexities, better reflects lives as they are really lived.

1.2 Welfare states / welfare regimes

The ‘welfare state’ is not one thing. Many subtly different particular programmes and policies, and different combinations of them, are pursued under its banner. Many subtly different objectives, goals and values are served, intentionally or otherwise, by all those various programmes and policies.

Within that diversity, however, are a few clear clusters. There seem to be broadly three distinctive styles of welfare state. These represent prototypes as much as ideal types. They represent intellectual constructions on the basis of which particular welfare regimes have been self-consciously modelled, as much as they do intellectual abstractions from the messy reality that has emerged haphazardly around us.

Different welfare regimes represent different ‘worlds of welfare capitalism’. They represent, almost literally, whole different ‘worlds’ – each

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7 The phrase is Esping-Andersen’s (1990) but the basic idea had been expressed by many before: see particularly Titmuss (1958; 1974) and Mishra (1984), the first of which in particular is fully acknowledged by Esping-Andersen (1994, p. 715). Note also Myrdall 4 The Real Worlds of Welfare Capitalism
world being internally tightly integrated, and each being sharply differentiated from one another. Welfare regimes bunch particular values together with particular programmes and policies. Different sorts of welfare regime pursue different policies, and they do so for different sorts of reasons. Each fixates narrowly on its own reasons, not denigrating the values that drive other welfare regimes so much as de-emphasizing them or perhaps just taking them for granted.

Welfare regimes also bundle together programmes and policies which transcend the ‘welfare state’, narrowly conceived. They are indeed worlds of ‘welfare capitalism’. Welfare regimes represent different ways of organizing not only the transfer sector, represented by social welfare policy, but also the productive sector of the capitalist economy. (Non-capitalist states perform transfer functions too, but such states lie outside the discussion of this book; so do the ‘Confucian’ welfare states of the Asian tigers.) All of the various sorts of welfare state we shall be discussing here are set in the context of a capitalist economy: and in a capitalist market economy, what the market can be made to do the state does not need to do.

Thus, while the ‘welfare state’ is often associated narrowly with public transfers, in cash or in kind, welfare states of that narrower sort are all embedded in larger socio-economic orders which promote people’s welfare – their well-being, more broadly construed – by various other means as well. The term ‘welfare regime’ refers to that larger constellation of socio-economic institutions, policies and programmes all oriented toward promoting people’s welfare quite generally. It certainly includes the transfer-oriented ‘welfare state’ sector, narrowly conceived. But it also includes the tax as much as the transfer sector of the public economy. And it also includes, alongside both, the productive sector of the economy.

(1944, p. 152): ‘Social reform policies may be conceived of as passing through three stages: a paternalistic conservative era, when curing the worst ills is enough; a liberal era, when safeguarding against inequalities through pooling the risks is enough; and a social democratic era, when preventing the ills is attempted. The first was the period of curative social policy through private charity and public poor relief; the second was the period of social insurance broad in scope but yet merely symptomatic; and the third may be called the period of protecting and cooperative social policy.’

8 For discussions on the former approach of the command economies of communist states see Pryor (1968) and Deacon (1983).  
9 These are well surveyed by Jones (1990; 1993), who also characterizes them as ‘oikonomic welfare states’, falling within ‘Titmuss’ (1974) ‘institutional redistributive’ class but placing particular emphasis upon education and family as keys to stable social progress.  
10 Titmuss (1958).  
11 It also includes institutional arrangements facilitating private home ownership, the rates of which vary considerably cross-nationally and with real consequences for the welfare of people, particularly in their later years (Castles 1996a).
Particular sorts of tax-transfer arrangements thus tend to be associated with particular sorts of strategies within the productive sphere. These clusters, which we map in chapter 3 below, represent intellectually and pragmatically unified packages of programmes and policies, values and institutions. It is between these whole packages – these welfare regimes as a whole – that social engineers are obliged to choose. It is the performance of these welfare regimes, taken as a whole, that we ought to try to compare.

Inevitably there are limits in the extent to which we can do that in data available to us. (Education, health, and labour-market policies all lie largely outside the remit of the socio-economic panels upon which we will be relying for our data.) But at least at the level of broad conceptualization, if alas not at the level of operationalization, we ought to take that broader perspective on welfare regimes as a whole.

1.3 Our aims and methods: ethics, institutions and panels

Our aims in this book are ambitious. We will strive to produce an overall assessment of alternative welfare regimes, looking across all the various values that they have traditionally been supposed to serve and across all the various institutional shells that they have traditionally been supposed to inhabit.

Our object of assessment is institutions. Our concern is to find out which type of welfare regime best serves the values that welfare states have traditionally been supposed to serve. The criterion for assessment is moral, embodied in social and political values. We are concerned to discover how the values traditionally associated with welfare states are best served. The mechanism of assessment is by means of empirical socio-economics. We draw upon socio-economic panel studies across three countries (the United States, Germany and the Netherlands) for evidence as to how well each of those countries – and each of the styles of welfare regime that they in turn represent – promote those central social goals.

Those vaunting ambitions must be moderated in the light of the limits of the evidence which is empirically available to us through those panel studies. Not all welfare-state values are readily couched in terms of socio-economic outcomes tracked in panel studies, and the measures which those studies report often represent only imperfect or indirect indicators of what it is that concerns us. The particular countries scrutinized may or may not be perfectly representative of the others in that

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12 Although, as will be evident from the discussion in chapter 3 below, there is also considerable scope for choosing between various ‘options’ within each basic package.
cluster, or hence of that style of welfare regime more generally. The particular decade under scrutiny may or may not be peculiar in ways that might confound our findings.

Despite these risks and shortcomings (about which we will say a little more at the end of this chapter, and indeed throughout the book), these panel studies represent not only the best but, ultimately, the only real way of answering the sorts of evaluative questions that we generally want to pose of our social institutions. They and they alone afford us genuine, quantitatively grounded insights into what life is really like for individuals and families under alternative social arrangements.

Limited though these first fruits of panel techniques are in time and place, they allow us to say – in ways that we never could with older cross-sectional snapshot techniques – what really happens to real people over time. Only by knowing what happens to particular people, individually, can we really know what has happened to them in aggregate. And only by knowing what happens to the same people over time can we evaluate what the actual consequences of welfare regimes are for real people. Unfortunate though it may be that anyone ever falls into poverty, brief spells of poverty are much less worrying (both to them and to us) than persistent poverty plaguing the same persons year in and year out.

The central finding of the American Panel Study of Income Dynamics – which recurs cross-nationally, and will recur yet again in our analysis of Germany and the Netherlands below – is that people’s economic fortunes are vastly more volatile than most of us would ever have expected. The stability of the overall cross-sectional aggregates trick us into supposing that there is an underclass of citizens, economically deprived and socially excluded, which is stable over time. Probing beneath those cross-sectional aggregates through panel data, we now know that this is largely untrue. Many more people than we ever imagined are poor in one or two years out of ten; far fewer than we would ever have dared to hope are poor for eight or more.13

These differences really do matter. In the first instance, and most importantly, they obviously matter to the people themselves. If poverty

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13 Duncan et al. (1984); see similarly Levy (1977); Ruggles (1990, ch. 5); Bane and Ellwood (1994, esp. chs. 2–3). Previous international and cross-national findings are contained in: Duncan et al. (1993, 1995) (eight countries); Muffels and Dirven (1993) (US and the Netherlands); Headey and Krause (1994) (Germany and Australia); Headey, Krause and Habich (1994) (Germany); Muffels and Dirven (1995) (Germany and the Netherlands); Dirven (1995) (Germany and the Netherlands); Dirven and Berghman (1995) (the Netherlands); Dirven and Fouarge (1995) (Belgium and the Netherlands); Fouarge and Dirven (1995) (Belgium, Germany and the Netherlands); Schluter (1996a, b); Burkhauser and Poupore (1997) (US and Germany). A preliminary report on the first five years of our own three-country study is contained in Headey, Goodin, Muffels and Dirven (1997).
were in effect a life sentence, that would be much worse than if poverty were a state from which many (if not all) of the poor might hope soon to escape. The good news from panel studies, and obtainable only through such studies, is that most poverty spells are of this more transient, short-lived character.\textsuperscript{14}

These new perspectives on the nature of poverty have implications for welfare philosophy and policy as well. If poverty spells strike broadly but usually just briefly, then social welfare policies to alleviate poverty look much less like unidirectional transfers between ossified classes and much more like ‘insurance’ policies which any of us, rich or poor, might someday need.\textsuperscript{15} Even those who are presently not in need, looking at the evidence of income volatility contained in the panel data, might come to regard welfare policies as a good insurance investment.

It is of course a sheer fallacy to say that, just because most do escape poverty in relatively short order, all can.\textsuperscript{16} This amounts to a fallacy of false universalization.\textsuperscript{17} True, most people’s poverty spells are brief. But there is no reason to suppose that what is true of most people is (or can be) true of all of them. To assume otherwise ignores the variety of causes of poverty spells, the variety of escape routes from poverty, and the differential impact they have on different people’s lives.\textsuperscript{18} The panel evidence indicates that there is indeed a group – smaller than traditionally supposed, but nonetheless a very important presence in real human terms – who are persistently poor and genuinely need public assistance on a

\textsuperscript{14} That is demonstrated on a broadly cross-national basis, albeit on the basis of less long-term panel data, in Duncan \textit{et al.} (1993).

\textsuperscript{15} Note in this connection the striking survey finding that, in the Netherlands \textit{circa} 1995, fully 79 per cent of those under sixty-five said that they had received or fully expected to receive at some future time unemployment, disability, sickness or social assistance benefits; and that proportion rises to a staggering 92 per cent if we include those with some other household member or close acquaintance who is presently receiving such benefits (van Oorschot 1997, p. 14).

\textsuperscript{16} The American welfare reform of 1996 – eventually enacted as the ‘Personal Responsibility and Work Opportunity Reconciliation Act of 1996’, Public Law 104–193 [H.R. 3734] August 22, 1996, 110 Stat. 2105 – was largely predicated on precisely that fallacy, based in no small part on the panel data we shall here be re-analysing. Mary Jo Bane, who has done so much to analyse welfare spells using these data, served as Assistant Secretary for Children and Families in the US Department of Health and Human Services under Clinton. Of course a key part in her strategy, and indeed the President’s, was to target education and training on those at risk of long-term welfare dependency (Bane and Ellwood 1994: 36–7). How well the 1996 reforms succeed in that is a much contested question which must, at the time of writing, remain an open one (Moynihan 1995; Friedlander and Burtless 1995).

\textsuperscript{17} Akin to the more standard ‘fallacy of composition’.

\textsuperscript{18} For just one example, within the white community the dominant path out of poverty among women thrown into poverty by divorce is through remarriage to a more affluent man. Given the realities of mating practices within impoverished black ghettos, that is an option simply unavailable to large proportion of single black mothers.
protracted basis. It is an open question what form that differential public assistance ought to take – whether cash benefits, or in-kind assistance and services, or education and training, or some combination of all of these.

1.4 Our focus: three countries, ten years

Panel studies, by their nature, are difficult and expensive to run. You must keep track of particular individuals as they change names and addresses over the years. Furthermore, you must accumulate the evidence of several years before any important long-term patterns start to emerge with any clarity. Because of these difficulties and the attendant expenses, social scientists have been slow to mount on-going panel studies. Only a very few have been conducted with any regularity, over any substantial period. Furthermore, not all of them contain strictly comparable questions, further complicating both cross-time and cross-national comparisons.

Consider, for example, the case of Sweden. Obviously, we would very much like to have been able to include that classic exemplar of social democracy in our study. But, alas, the Swedish panel study is virtually useless, given the way in which it has been conducted to date. Whereas the panels we will be using here were all surveyed at least once a year, the Swedish panel was surveyed only sporadically – only every other year (in 1984, 1986 and 1988) or worse (not again then until 1991). In the first two waves (1984 and 1986), the Swedish study administered long questionnaires comparable to those used in the other three panel studies we examine. In the latter two waves (1988 and 1991), it administered only a very short battery of largely non-comparable questions. Consequently the Swedish panel data are just not sufficient or comparable to serve our purposes, however desirable it might otherwise have been to include that country in our study. So too for the other Scandinavian panels, such as the Swedish Level of Living Survey (SLLS), which characteristically contain good income information drawn from tax records but often have such grossly inadequate information about house-

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19 The European Community Household Panel, begun in 1994, has a high degree of cross-national comparability but has not been running long enough for meaningful results to have emerged, and so too with most of the panels contained in the PACO project, discussed in footnote 6.

20 These problems will obviously remain even after the HUS (Household Market and Non-Market Activities) Panel is updated to include 1993 and 1996. For details, see http://silver.hgus.gu.se/econ/econometrics/hus.husin.htm.

21 Tellingly, these Swedish studies are among those which the Luxembourg PACO team has not been able to render comparable for incorporation into their database. Duncan et al. (1995) report results based instead upon the Swedish Household Income Survey (HINK), which show very similar poverty rates to those of the Netherlands.
hold structure that ‘we do not know the number of children in the household, nor do we know the number of other adults’ (Aaberge et al. 1996: 7).\textsuperscript{22} And so too, in less dramatic fashion, for the great many other panel studies underway across the world: either they have not been running long enough, or they have not been running regularly enough, or they have not been using sufficiently comparable questions from year to year to provide the sort of data needed for the present study.

US panel researchers waited until the first ten years’ worth of panel data were in before offering the results of that project to a wider public in their *Years of Poverty, Years of Plenty* (Duncan et al. 1984). That timing was not accidental. Ten years is about what it takes for any really conclusive long-term results to emerge from a panel study. The virtue of panels is that they allow us to track individuals through time. The disadvantage is that this necessarily takes quite some time.

If, however, ten years’ worth of panel data are required for conclusive long-term results to emerge, then that drastically limits the scope of any comparative cross-national study relying upon panel data. There are only three major countries for which regular, comparable collections of socio-economic panel data have been collected over ten years or more.\textsuperscript{23} The US Panel Study of Income Dynamics, pioneered by James N. Morgan at the University of Michigan’s Institute for Social Research, has been tracking its panel since 1968. The German Socio-Economic Panel, run by the Deutsches Institut für Wirtschaftsforschung, Berlin, has been tracking its panel since 1984. The Dutch Socio-Economic Panel Survey, run by the Centraal Bureau voor de Statistiek, has been tracking its panel since 1984. These are the panel data we will be using.\textsuperscript{24}

Our choice of countries to study was opportunistic and data-driven. We focus on the countries we do – the United States, Germany and the Netherlands – simply because those are the only countries for which ten-year socio-economic panel data are available. It is sheer good fortune that each of those countries can credibly be taken to represent one of each of the ‘three worlds of welfare capitalism’.\textsuperscript{25}

\textsuperscript{22} Thus precluding construction of ‘equivalence scales’, upon which all serious work in this area is based: see section 6.3.2 below.

\textsuperscript{23} Strictly speaking there are two other socio-economic panels which meet our ten-year test, but one is sub-national in scope (Lorraine) and the other is of an economically peculiar micro-state (Luxembourg).

\textsuperscript{24} Our efforts at working across these data sets were greatly facilitated by the 1995/6 release of an official Equivalent File, organized through the University of Syracuse, combining the results of the German and American studies.

\textsuperscript{25} We will be speaking here primarily of the tax-transfer aspects of countries’ welfare regimes. Rankings based on countries’ labour market policies would look different (Esping-Andersen 1996c; 1999). Basing the categorization on the extent of capital-labour intermediation in economic policy-making would make rankings more different again,
The United States is conventionally regarded as the archetypical example of a ‘liberal welfare regime’ and Germany is equally conventionally regarded as the archetypical example of a ‘corporatist welfare regime’. Of course even those archetypes turn out not to be completely pure cases. Over four-fifths of the money the US government spends on social protection goes not on means-tested benefits of the sort most strongly associated with the liberal welfare regime but rather on social insurance schemes of a more corporatist sort; and forgetting that fact leads in domestic American politics to many misguided attacks on ‘America’s misunderstood welfare state’ (Marmor, Mashaw and Harvey 1990). For the purposes of international comparisons of welfare regime types, however, what is crucial is that the US relies much more heavily than most (three times the OECD average) on classically liberal means-tested benefits (Esping-Andersen 1990, p. 70). It is purely in this comparative sense that we say the US and Germany are archetypical liberal and corporatist welfare regimes respectively.

The Netherlands may be a still less archetypical representative of the ‘social democratic welfare regime’ type. Nonetheless, the Netherlands does sit squarely within that camp defined in terms of the vigorous public pursuit of income redistribution and, through that, social equality. The original foundations of the Dutch welfare state may have been essentially corporatist, and its path to its present form very different from the ‘labour mobilization’ path of the Scandinavian social democracies; it may lack the heavy commitment to active labour market policies and high levels of public employment and public consumption that characterize the Swedish welfare state today; its health system is income-tested; and it may not be nearly so ‘women-friendly’ as the Swedish model. In the words of the title of one classic article on the subject, the Dutch model was – certainly in the period under study, at least – one of ‘a passive social democratic welfare state in a Christian democratic ruled society’ (van

with the Scandinavian countries (and sometimes the Netherlands) appearing very much at the top and Germany only in the middle of the list (Schmitter 1981; Lehmburch 1984).


But perhaps none the less solidaristic for that: see Baldwin’s (1990, ch. 1) forceful critique of the fallacy of thinking that the ‘laborist approach’ exhausts all socially based explanations of solidaristic social policy. Cf. Esping-Andersen and van Kersbergen (1992).

Mahon (1991); Therborn (1992); cf. Kloosterman (1994). Note that the Netherlands today spends well above the OECD average on active labour market policies; note furthermore that Sweden began spending substantially larger proportions than the Netherlands on such programmes only in recent years (OECD 1996c, Table 2.9, p. 30).

Kersbergen and Becker 1988). Still, at least in respect of the tax-transfer side of social policy, the Netherlands clearly qualifies as social democratic, and it has done so for the duration of the period under study. And, as we shall go on to argue in section 1.5 below, in certain crucial respects it is actually a better representative of the social democratic welfare regime than is Sweden itself.

There are of course many other ways of categorizing welfare regimes other than these three, and there were many people who had the basic idea before Esping-Andersen popularized it. Esping-Andersen has many critics, some of whom think that they said the same thing first, others of whom think that they have refuted Esping-Andersen decisively. The point remains that, however compelling those refutations, they have not succeeded in laying to rest Esping-Andersen’s 1990 book. Not only does it remain the firm focus of most on-going discussions in these areas, it has by now become a well-established landmark in relation to which any subsequent work – theirs as much as ours – must situate itself.

In certain quarters, the whole idea of a typology of welfare regime types is an anathema. Those deeply immersed in the particular facts of particular countries’ national experiences see each country’s welfare institutions as sui generis – a case unto itself. That is standardly said even of those countries which, among those prepared to countenance typologies at all, are regarded as archetypical instances of a certain class. American exceptionalism, as regards its welfare state as well as much else, is a familiar refrain (Skocpol 1995; Lipset 1996). Germans say much the same of their peculiar history. And those who want to make history the litmus test would similarly say the Dutch welfare state was built on far too many corporatist foundations to count as social democratic in the way the

30 The key tables in Esping-Andersen’s (1990, pp. 52, 74) own original presentation so classify it; and all the standard international comparisons of cross-sectional data on income distribution confirm that the Netherlands is in broadly the same league as Sweden (Atkinson, Rainwater and Smeeding 1995; Sweden, Ministry of Finance 1996). In a subsequent paper discussing the Netherlands alongside Germany, France, Italy and Belgium as instances of a ‘conservative Continental welfare state’, Esping-Andersen’s (1996b, c) data once again show that the Netherlands is very much an outlier among that group, with much higher ‘social minimum’ payments and higher ‘replacement rates’ than those countries whose benefit systems are more occupationally based. Esping-Andersen (1996c, p. 84) admits as much in his first footnote to that article, where in effect he apologizes for the inclusion of the Netherlands among ‘conservative Continental welfare states’, saying, ‘The Netherlands is a partial exception in that important elements of her income maintenance system are closer to the Nordic universalistic model.’

31 Most especially Wilensky and Lebeaux (1958) and Titmuss (1958; 1974). See also: Furniss and Tilton (1977); Marshall (1977); Korpi (1983); Therborn (1986).

32 Among them: Ringen (1991); Castles and Mitchell (1992; 1997); Lewis (1992); Castles (1993; 1996a, b); Sainsbury (1996). Esping-Andersen (1994; 1999, ch. 4) has himself subsequently conceded that at least some of those counterclaims might have merit.
Scandinavian countries do. (Of course, those steeped in Swedish history say that there, too, the story is much more complicated than any simple, stylized social democratic account would make it appear.)

Those inclined to this line of thought might say that welfare typologies can, at best, identify ideal types which are inevitably intermingled in any particular country’s welfare institutions. Thus, no single country – still less, they would say, pointing to the peculiarities of the national histories of the countries under examination, the particular countries we have ‘chosen’ – can truly be taken as representative of a regime type as a whole (Bolderson and Mabbett 1995).

We respect the position of such sceptics. Certainly we share their strong sense that there are indeed many respects in which ‘history matters’. Toward that end, we provide (in chapter 4) a brief historical and institutional sketch of welfare institutions in each of the countries under study to complement our more abstract, stylized account of welfare regimes (in chapter 3). Nonetheless, we cannot help thinking that it is useful to try to put particular countries’ welfare arrangements in some more general perspective – just as it is to look at general typologies of welfare regimes through the experiences of particular countries. On that latter proposition if not the former one, we should surely have the sceptics on our side.

Those conciliatory gestures notwithstanding, many will no doubt resist either the ‘three worlds’ hypothesis in general or our categorizations of those three particular countries within that scheme. We invite them to approach this book as a report on the real effects of social welfare arrangements in three important – and, we hope to show, importantly different – countries. That is a much more modest understanding of the task we have set for ourselves, and it is not the way we ourselves prefer to regard it. Nonetheless, that would be a perfectly interesting and worthwhile project in its own right, as must be agreed even by those who do not suppose that any more general conclusions follow from it.

In the process of showing the ways in which these countries differ, we will of course be providing further evidence bearing on our classifications

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34 Therborn (1989); Tilton (1990).

35 Economists would therefore advise us to construct mathematical models in which these institutional differences figure as variables, which may be present to a greater or lesser degree in any case. But such mathematical models would of course be even more of an anathema to those sceptical of even the more informal modelling involved in regime typologies.

36 A point which Esping-Andersen (1987b, p. 7) is of course happy to concede.
of countries and on the ‘three worlds’ hypothesis more generally. Those who remain unconvinced by chapter 4’s institutional and programme-specific arguments that the Dutch tax and transfer mechanisms really do approximate to a social democratic welfare regime should simply wait to see whether (come chapter 14’s application of the panel results to that model) the Netherlands turns out to look like one.

1.5 The best worlds of welfare capitalism

The logic of the comparative research design ideally requires that the countries be maximally different on the dimensions under study and maximally similar on all other dimensions (Mill 1843; Przeworski and Teune 1970). As we hope to show over the course of this study, these three countries are indeed strikingly different, both in their welfare regimes and in the effects that those regimes have on people’s lives, particularly among people of prime working age.37

In most other obvious respects, these three countries are pretty similar to one another. They represent the largest and economically most successful example of each regime type. In that sense, they might be said to constitute not just ‘representative cases’ but, indeed, the ‘best cases’ of each regime.

Certainly that is true of the United States. Judged in terms of population or GDP, the US is indisputably the largest liberal regime; and judged in terms of economic growth rates it is a highly successful one. Among Esping-Andersen’s other (1990) liberal welfare regimes – Australia, Canada, Japan and Switzerland – only Japan’s per capita GNP grew at a higher average annual rate over the period under study (World Bank 1996, pp. 18–19).38

Germany, likewise, is indisputably the largest and it was among the economically most successful corporatist regimes over this period. Among Esping-Andersen’s (1990) other conservative-corporatist welfare regimes – France, Italy, Austria and Belgium – only the latter (smaller) two did economically better, and then not by much, over this period (World Bank 1996, pp. 18–19).

The Netherlands is by far the largest country in Esping-Andersen’s (1990, p. 74) social democratic regime cluster. It is twice the size of Sweden and three times the size of Denmark in terms of population and

37 The regimes and their effects are rather less distinctive in their treatment of the elderly, whose experiences we report separately.

38 Of course, the Japanese welfare state is very different from those of Western welfare generally – more Confucian than liberal some would say (Jones 1993; Goodman and Peng 1997) – and in any case Japanese economic growth rates have plummeted in the period since 1994.
GDP. It is also economically the most successful member of that regime cluster. The more standard social democratic exemplars such as Sweden and Denmark have seen their economies unravel, with potentially serious consequences for their social welfare arrangements as well.\(^{39}\) The Dutch economy, in contrast, has been performing remarkably well.\(^ {40}\) Domestic Dutch discourse may suggest otherwise, but seen from abroad the Netherlands seems to be ‘a country that has exceptionally high job growth, radiantly healthy public finances, a relatively low rate of unemployment and an attractive climate for investment – and moreover . . . a country that sees the opportunity to combine all this with a high level of social protection’.\(^ {41}\) As The Economist once editorialized: ‘If somewhere must be found to sit out the recession, Holland must be the nicest, comfiest place to choose’ (quoted in van Kersbergen and Becker 1988, p. 477).

As we have frankly admitted in section 1.4, our real reason for choosing the Netherlands as our social democratic exemplar was that the Netherlands is the only even remotely social democratic welfare regime on which we have long-run, continuous panel data. But, as it happens, the choice thus forced upon us might not be a bad one. The Netherlands might be taken to represent not some deviant version of a social democratic welfare regime but, rather, a paradigmatic case of a social democratic-style welfare regime that looks likely to be economically sustainable in the long run (Hemerijck and van Kersbergen 1997; Visser and Hemerijck 1997).

If we want to assess regime performance there is much to be said for taking ‘best cases’ or best practice. Best cases tell you how to achieve good outcomes and avoid unnecessarily damaging trade-offs between ‘hard’ economic goals and ‘soft’ social welfare goals. They are what you need, in order to answer the question, ‘What is the best we can do?’ That is the right question to ask, for the development of future policy.

Previous assessments of welfare regimes and the ‘big trade-off’ have usually averaged the performance of regime types. This has the advantage

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\(^{39}\) For a striking contrast, compare Marquis Childs’ 1936 celebration of Sweden as ‘the Middle Way’ with his 1980 reconsideration. For economic analyses see: Moene and Wallerstein (1993); Lindbeck (1995; 1997); Lindbeck et al. (1994). On social policy retrenchment see: Ploug and Qvist (1994); Clasen and Gould (1995); Stephens (1996); Andersen (1997). For a comparison with previous, more successful periods see Erikson and Aberg (1987).

\(^{40}\) Its growth in real GNP per capita over the period 1985–94 averaged 1.9 per cent per year, compared to zero in Sweden, −0.3 per cent in Finland, 1.3 per cent in Denmark and 1.4 per cent in Norway (World Bank 1996, pp. 18–19).

\(^{41}\) In the words of A. P. W. Melkert, Minister for Social Affairs and Employment, in the introduction to a report which was addressed much more to the very different domestic perceptions of ‘a highly developed welfare state where the associated costs, legislation and institutional structure create a contented society, but also create such an obstacle to economic dynamics that it is difficult to talk in terms of a bright future’ (Netherlands Ministry 1996a, p. 4).
of using all available cases. But poor performers are arguably irrelevant. There are many ways of failing to achieve the social optimum. The interesting question is, ‘Is there some way of having the best of all possible worlds, without any trade-offs?’ Our answer, to foreshadow what follows, will be, ‘Yes!’

1.6 Is it a fair test?

This book is clearly no more than a first cut at the cross-national analysis of these socio-economic panel data, and these three data sets are themselves only a precursor of many others still to come. A different decade or different countries might make a difference, maybe a big one, to our overall conclusions.

Still, while ours is only a first cut it is nonetheless a perfectly reasonable one. These three countries are all very much in the OECD mainstream, with successful market economies. They all have ‘big governments’, which take between 30 and 60 per cent of GDP in taxes and spend half of that on health, education and welfare (Rose 1984). They are, in those terms, all ‘big social policy’ states.

The years under study – the mid-1980s to the mid-1990s – were not particularly peculiar, in global economic terms. The first half of the period corresponded to a worldwide economic boom, the second contained an economic slump in all three countries (OECD 1996f, annex table 1, p. A4). Economic growth, expressed as change in real (inflation-adjusted) GDP, was around 26 per cent in all of these three countries.

All the countries under study were affected, at different times and some more than others, by broadly the same global economic, social and demographic trends. All three countries have around two people in the working-aged population for every person who is too old or too young to be expected to engage in paid labour. Over four-fifths of men in all these countries were in the paid labour force. And while female labour force participation rates did differ across the three countries, they rose over this period in Germany and especially in the Netherlands by the end of

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42 More precisely: 1985–94 for Germany and the Netherlands (though the 1994 income data in the Netherlands is adduced from the 1995 survey); for the US, 1983–92, representing the latest results available at the time of writing.

43 Owing to differential population growth rates, growth in GDP per capita – which as we argue in section 7.2 is actually a better measure of people’s well-being – varied between 17 per cent in Germany and the US and 19 per cent in the Netherlands. For details see appendix table A1, Eff 1B and sources cited therein.

44 ‘Dependency ratios’ measuring the ratio of non-working-age population to the working-age population (16–64) were in the mid-40 per cent range for both Germany and the Netherlands throughout this period, and only just over 50 per cent in the US (ILO 1984–96, table 1 and UN 1984–95, table 7).
the period they were beginning to approach US levels (where about two-thirds of women were in the paid labour force throughout the period).45

Politically, of course, the period was one of great rupture, with the collapse of communism and the reunification of Germany. In terms of social welfare policy, however, that had little immediate impact.46 At least in their formal institutional structures, East German social welfare arrangements were very like those of West Germany, sharing as they did common pre-war roots.47 The welfare costs to the Federal Republic were certainly higher after unification than before, but their form was not materially different – certainly not, anyway, as regards members of the original West German panel to whom we confine our attention for the purposes of this study.48

The comparability of the items upon which we focus in these panel studies is underwritten by the imprimatur of an official Equivalent File merging the results of the German and American panel studies.49 Of course we have had to supplement that official US–German file with the corresponding Dutch data; and we also had occasion to supplement it with other variables from the larger underlying files which were omitted from the official Equivalent File. But the great advantage of having that official Equivalent File as the starting point for our work is that, at least as regards those key variables which it does contain, we can compare across the data sets in the confidence that the variables we are using are ones that the data managers themselves regarded as being well matched for precisely these purposes.

In all these ways, ours seems to be a perfectly fair ‘first cut’ – but definitely only a first cut – at the analysis of alternative welfare regimes as viewed through the lens of panel data.

45 Male labour force participation rates were in the mid-80 per cent range for all countries at the beginning of the period and stayed there in Germany and the US, rising in the Netherlands into the mid-90s (although most of that increase came in the form of part-time labour). Female labour force participation rates were in the mid-60 per cent range in the US throughout the period, whereas in Germany they moved from the mid-50s to around 60 per cent by the end, and in the Netherlands they rose from the middle 40 per cent range to the middle 50 per cent range (OECD 1996a, table II; ILO 1984–96, table 1; OECD 1984–95, Statistical Appendix).

46 At least in the period upon which we focus, ending in 1994; cf. Hauser (1995).


48 A panel of former East Germans was added to the panel in 1990, but they are clearly identified as such in the panel, and they can easily be discarded for the purposes of our study.
