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# Growth to Limits

The Western European Welfare States  
Since World War II

Volume 2

Germany, United Kingdom, Ireland, Italy

Edited by

Peter Flora



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## Preface

The five volumes *Growth to Limits - The Western European Welfare States Since World War II* represent only one stretch of a longer road. To understand the destination, it may be useful to get a picture of the whole distance. At the beginning stood an encounter with one of the leading social scientists of the postwar period, the late Stein Rokkan. I first met him in 1971 at the Lausanne 'Workshop on Indicators of National Development' which he had organized under the auspices of the International Social Science Council. The conference was one of his manifold efforts to advance comparative research in the social sciences. This as well as later encounters have had a great impact on my work, in giving my own predilections a more specific meaning and above all providing continuing encouragement in times of uncertainty.

Rokkan's message was simple:

- Most of the 'big old questions' referring to the evolution and future of the industrial society and the modern state, of capitalism and mass democracy, of war and peace, are still essential for the social sciences.
- The progress already made in the development of new techniques and organizations of social research must be further advanced and made productive for an analysis of the development of global societies.
- Comparison, over time and across countries, is the essential method in this kind of analysis, linking theory and empirical research at a conceptual level which is not too remote from everyday language and experience.
- Europe is the ideal place for this comparative research, as the laboratory of the modern world with basic concepts and models deriving from its experiences, as well as because of its persisting diversity.
- Europe, however, is more than a testing ground for scientific hypotheses, its study more than an academic concern. Its development will be relevant not only for the Europeans, but for the future of the entire world.
- Comparative research, the study of Europe, must be a collective endeavour, an enterprise of the scientific community, requiring large-scale organization as well as networks of friendship among social scientists across national borders.

More than any other social scientist I have known, the Norwegian Stein Rokkan has embodied this philosophy: a classical scholar and promoter of new research methods, an ingenious inventor of complex models and scrupulous student of national experiences, a true European from the Northern periphery, an eminent organizer and father-figure for younger social scientists. Sometimes personality is more important than arguments, even in science, or should it be said that personality *is* the argument?

Apart from this general view, Rokkan provided me with two more concrete stimuli which have had an impact on my life. First, I made the crazy decision to produce a huge historical data handbook on Western Europe since the early nineteenth century in order to - as Rokkan expressed it - 'pin down numbers on the European vari-

ations'. Second, I decided that his studies on the long-term development of the European mass democracies and nation states should be supplemented by analyses of the development of the European welfare states. Both purposes were served through the HIWED Project (Historical Indicators of the Western European Democracies), which I began with Wolfgang Zapf in 1973 in Mannheim and took with me to Cologne in 1977. Through its entire duration from 1973 to 1979, this project received generous financial support from the Volkswagenwerk Foundation.

We began the work on the data handbook with much enthusiasm - which everyone knows is only another word for naïveté. First, the sources for European statistics had to be determined. In this connection I published in 1977 a bibliography along with an institutional history of official statistics (*Quantitative Historical Sociology. Current Sociology* 23.2. Paris, Mouton). Later a bibliography of all census publications was added. Throughout the good ten-year period in which we worked on the completion of the handbook, our naïveté gradually faded and with it our enthusiasm. Finally in 1983 we published the first volume (subtitle: *The Growth of Mass Democracies and Welfare States*) of our data handbook entitled *State, Economy and Society in Western Europe 1815-1975* (Frankfurt, Campus; London, Macmillan, 1983). The second and concluding volume followed in 1986 (subtitle: *The Growth of Industrial Societies and Capitalist Economies*). As a by-product of our work on the data handbook, the West-European-Data-Archive (WEDA) was formed, consisting of a combination of an old-fashioned collection of data sources and a new-fashioned collection of computer tapes. Winfried Pfenning was responsible for the set-up of this archive from 1979 to 1984, and since then Franz Kraus has taken charge. Today WEDA is a part of the Institute of the Social Sciences at the University of Mannheim and should serve as an important instrument for this Institute's future research on Western Europe.

Concurrent with our work on the data handbook, we began with the analysis of certain aspects of the long-term development of the West European welfare states since the end of the nineteenth century. First results were published in a book which I edited together with Arnold J. Heidenheimer (*The Development of Welfare States in Europe and America*. New Brunswick and London, Transaction Books, 1981). The most important in the series of comparative studies were the works of Jens Alber on the development of social insurance (*Vom Armenhaus zum Wohlfahrtsstaat*. Frankfurt, Campus, 1982) which won him the Stein Rokkan Prize of the International Social Science Council, Jürgen Kohl on the development of public expenditure (*Staatsausgaben in Westeuropa*. Frankfurt, Campus, 1985), and finally Franz Kraus on the development of income inequality (*Income Distribution in Western Europe 1900-1980*. Forthcoming).

When I moved from Cologne to the European University Institute in Florence in Autumn 1979, it was also with the intention of deepening our studies of the long-term development of the European welfare states (today I think perhaps I should have devoted myself more to the study of Renaissance art and Italian cooking). In Spring 1980, with the financial support of the European Community, I launched a comparative project on the growth of the European welfare states (Austria, Belgium, Denmark, Finland, France, Germany, Great Britain, Ireland, Italy, Netherlands, Norway, Sweden, Switzerland) since World War II, along with a group of social scientists from these countries.

I would like to thank at this point Hans Daalder most warmly. He had the courage to recruit me, then a rather young and unknown sociologist, for the European University Institute. And he encouraged the kind of comparative research which I then

started in Florence. Having grown up myself in a slightly cynical Catholic culture, I have always admired his Protestant *Prinzipientreue*.

By the first project meeting in 1980 I had been successful (with Austria, Switzerland, and Belgium as exceptions) in recruiting social scientists from these countries who were prepared to collaborate on this extensive project. The majority were younger scientists, some old friends, and some only known to me through the literature. As in real life, so in scientific projects: you lose some people and win others. Competent contributors were found for the three remaining countries. On the other hand, new teams had to be formed subsequently for Austria and the Netherlands, and it was unfortunately impossible to replace our French colleagues who left the project after two years.

Thus 12 countries remained and were researched by the following persons or teams:

Austria	Anton Amann/ Wolfgang Weigel	University of Vienna
Belgium	Jos Berghman/ Jan Vranken	Univ. of Antwerp/Univ. of Tilburg University of Antwerp
Denmark	Lars N. Johansen	University of Odense
Finland	Matti Alestalo/ Hannu Uusitalo	University of Helsinki Helsinki School of Economics
Germany	Jens Alber	European Univ. Institute, Florence/ Univ. of Cologne
Ireland	Maria Maguire	European Univ. Institute, Florence/ OECD Paris
Italy	Maurizio Ferrera	European Univ. Institute, Florence/ Univ. of Pavia
Netherlands	Theo Berben/ Joop Roebroek/ Goran Therborn	University of Nijmegen
Norway	Stein Kuhnle	University of Bergen
Sweden	Sven Olson	University of Stockholm
Switzerland	Peter Gross	University of Bamberg (FRG)
United Kingdom	Richard Parry	University of Edinburgh

In Spring 1980 my old friend and colleague Jens Alber joined the project as additional support for the project coordination. At the same time I had the good fortune of acquiring a Swiss secretary, Ursula Nocentini, who proved to me that the old saying that the Swiss even 'sweep the fields clean' is no myth. In the true style of the Swiss, she was able to put some order into our multi-national chaos.

In respect to the goal setting of the project, my ideas were simple. It was not my intention to examine a specific hypothesis or study a particular limited area. Much more than that, I wanted to initiate broadly based studies on the postwar development of the welfare states in a number of European countries. These studies were to be based on the same questions, work with comparable data, and utilize the same methods. I thought that it would then be possible to draw a picture of the major variations between the European welfare states, thus laying the groundwork for further research.

Naturally I knew that the way to hell is paved with good intentions. In order to get started on the right track, I employed two means: first, sections of the entire studies were written step-by-step for one or two countries and, after discussion in subsequent meetings, served as models for the other countries. Secondly, I met with the project members on a regular basis in order to work on the text and data 'on location' and to attain a greater cohesion and comparability (in a sometimes vicious battle sentence by sentence). Some years of my life were spent on this, and therefore I keep telling myself that the work *must* have been somehow meaningful.

As is well-known, several languages are spoken in Western Europe. Thus, a common language had to be found, and this was pidgin English. And as I am only familiar with the Austrian version of pidgin English, it was necessary to recruit the services of native English speakers. Often up to five different versions of a text (which grew to a country average of almost 150 pages) were being worked on. The reader may thus understand that even the old myth of Sisyphos was of little consolation. I am sure that my periodic despair was shared by Clare Gardiner, who worked in Florence on the numerous versions of the various chapters, as well as by Margaret Herden, who took on this work in Mannheim with refreshing American optimism.

Scientific work is certainly not unimportant in the production of such books, and editorial work may also be useful. *Conditio sine qua non*, however, is the actual typing of the manuscripts, not to mention the patience and creativity necessary for the production of the hundreds of tables and graphs which embellish these volumes. Computer readable texts and tables were done with passionate devotion by the two Ursulas (Ursula Nocentini in Florence and Ursula Rossi in Mannheim) and the graphs were produced reluctantly but meticulously by our artist in residence, Siegbert Sussek.

The completed manuscripts would never have gone to print without the Publication Officer of the European University Institute, Brigitte Schwab. Our common Bavarian-Tyrolian view of the world has certainly facilitated our collaboration. I would also wish to thank President Maihofer, who not only followed the endless progress with fatherly understanding, but also offered his energetic support.

The monumental product of our multi-phase cross-national chaos consists of five volumes which, following the tradition of the publishing house de Gruyter, are at least aesthetically pleasing and thus convey a respectable impression: three volumes (I-III) with four country studies each, one Appendix volume (IV) containing for each country an institutional synopsis, an annotated bibliography and a collection of documented time-series data, and finally a comparative study (V) by the editor. The first three volumes contain the following country studies: Sweden, Norway, Finland, Denmark (I); Germany, United Kingdom, Ireland, Italy (II); Austria, Switzerland, Netherlands, Belgium (III). Volumes I, II and IV are being published in 1986; the two remaining volumes III and V are scheduled for 1987.

I both fear and hope that with the completion of these volumes only a 'stop-over' point is reached. On the occasion of the twentieth anniversary of the Mannheim Institute of Social Sciences, a symposium on 'Western Europe in Transition' was organized in Autumn 1985, the contributions of which will be published in German in 1986 (Peter Flora (ed.), *Westeuropa im Wandel*. Frankfurt, Campus) and in English in 1987 (*Europe in Transition*. London, Macmillan). With this symposium the Mannheim Faculty of Social Sciences has documented its intention to develop a new research centre on Western Europe in order to expand and systematize its previous research, and to assure a greater continuity of research in this important field.



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# **Introduction**

PETER FLORA

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Since the Second World War, Western European societies have undergone changes which deserve to be called revolutionary, even though they were accomplished without a mounting of barricades. Europe did not rise like a phoenix from the ashes of the war, but it recovered much faster than most observers had anticipated, reaching a fairly high degree of economic and political stability as early as the 1950s. From this foundation, the long-term process of modernization of Western Europe was able to accelerate, deeply transforming these societies. The development of the welfare state was an essential element of this modernization process, most obvious in the expansion of public services and transfer schemes, and with far-reaching consequences for the class structures, the functioning of the economy, and political stability.

The origins of the Western European welfare states reach back to the nineteenth century, some of their present institutional features predating the First World War. Their present format, however, is mainly a product of the 'golden age of the welfare state' from the early 1960s to the mid-1970s, when the world-wide economic crisis put an end to this historically unprecedented expansion. Today, though with great variations, the Western European welfare states seem to have approached their limits of expansion. Persistent high rates of unemployment and public deficits set economic limits; tax resistance and a neo-liberal mood set political limits; and a new arms race and increased technological competition set external limits.

Furthermore, the welfare states have matured to such a degree that a repetition of past growth rates appears unnecessary. The primary task has become the economic and political stabilization of the welfare states. Large welfare clienteles will prevent that stabilization necessarily implies a dismantling. The ageing of the population, the changing division of labour between the sexes and a more general change of values will require instead that stabilization involves reorganization, above all a more flexible harmonization of different life domains (in particular work and family) and different stages of the life cycle (in particular education, employment, and retirement).

In the project, our concern was not primarily an investigation of the most recent problems and changes, but rather an analysis of the long-term development of the European welfare states which has been characterized by common growth tendencies and similar developmental problems as well as persisting institutional variations. We were convinced, however, that such a study would also teach us something about the solutions to be found for the present and future challenges.

This introduction can only try to sketch the broader context of the project (a more comprehensive comparative analysis is provided in Volume V). It starts with some reflections on the common heritage of the European welfare states and on the early origins of their institutional variations. A brief account follows of the long-term growth to limits of the welfare state. Then an attempt is made to characterize its present situation by problems of institutional adjustment without clear-cut political cleavages. The introduction concludes with a description of the common structure of the twelve country chapters.

## **1. Common origins of the European welfare state**

The modern welfare state is a European invention - in the same way as the nation state, mass democracy, and industrial capitalism. It was born as an answer to problems created by capitalist industrialization; it was driven by the democratic class struggle; and it followed in the footsteps of the nation state. Thus, we should understand the development of the European welfare state as an essential element in the transfor-

mation of European societies which started with the Industrial and the French Revolution. In a stricter sense, however, the 'take-off' of the modern welfare state occurred in the late nineteenth century, in the period extending roughly from the Italian and German unification to the First World War.

In retrospect, this development did not come as a surprise. The period witnessed the general breakthrough of industrialism, the decisive steps in the evolution of mass democracy and the culmination of the European nation state. Industrial breakthrough meant above all an unprecedented increase in both productivity and production, surpassing a population growth which was then the most rapid in European history. From around 1870 to World War I, the growth of European populations averaged somewhat more than 40 percent; it was the climax of their 'demographic transition'. The national product increased much faster in the same period; it quadrupled in some countries and tripled in most others<sup>1</sup>.

This growth led to massive population shifts from agriculture to industry, from country to town. While around 1870 only one in six West Europeans lived in towns of 20,000 or more inhabitants, by 1910 this figure was one in three; the population in cities of 100,000 and more inhabitants tripled in these decades to almost 50 million. Industrialization spread from the core areas to other regions and even to the peripheries in the North, South and West, transforming employment and class structures everywhere. In the more industrialized countries such as Great Britain, Belgium, Switzerland and Germany, 40 percent or more of the labour force was working in the secondary sector at the eve of World War I, and in the more peripheral countries the figure was at least one fifth to one fourth.

Population shifts of such unknown dimension and speed must inevitably create immense social problems. Furthermore, these problems were shaped and intensified by the capitalist structure of the European economies and by the increasing impact of the business cycle. It is not difficult, therefore, to understand that this was a period of intensified class conflict, of the mobilization of the new working class and its organization in trade unions and labour parties. While the establishment of trade unions was facilitated by freedom of association, which most European countries had granted even prior to 1870, the development of workers' parties usually came about later, with the introduction of male suffrage. Such parties were established everywhere in Europe before the turn of the century and became the prototype of the modern mass party. Although the franchise was achieved much earlier, this period saw the greatest extensions of suffrage, and voting turn-outs reached high levels well before World War I. Parliamentary control of government was also introduced in this period, with the exception of Austria and Germany.

The mobilization of anti-system forces was moderated and mediated to some extent by an (at least rudimentary) institutionalization of industrial conflict, the more general 'institutionalization of class conflict' through the evolving parliamentary institutions, and finally by an increasing state intervention and the creation of new public institutions. Buoyed by economic growth, state revenues rose remarkably in absolute terms, and slowly the European states took a larger share of the national product. As this was a period of relative peace and only minor wars, the new resources could be used for development of the economic infrastructure, for internal order - and for social welfare.

The fact that the modern welfare state originated in the late nineteenth century in Europe may thus be simply explained by the comparatively high levels of industrialization and democratization achieved in this region of the world. In this sense, European

developments indicated the direction in which the rest of the world would move once the process of modernization got started, just in the way Marx had thought that industrial England would mirror the future of the other countries. And indeed, with the spread of the industrial mode of production, and the diffusion of the nation state as the predominant form of political organization, the creation of public education, health and social security systems has become a world-wide phenomenon. In this respect, the evolution of the welfare state clearly represents a universal aspect of modernization. In a Durkheimian perspective, it is the increasing division of labour and the growing complexity and interdependence which require both a strengthening of the state as steering centre and a strengthening of individual rights as normative basis.

However, even if one is convinced that the evolution of the European welfare states exhibits some universal traits, three qualifications seem appropriate: (1) In Europe, the close relationships with the development of the *capitalist* market economy and the *democratic* nation state have produced a specific type of liberal welfare state. (2) European societies have some distinct *common historical preconditions*: above all, old nation states, specific family structures and strong industrial working classes, which have left their mark on the development of the European welfare states. (3) On the basis of common historical preconditions and within the broad limits of the liberal model, the European welfare states display a gamut of *institutional variations* which make generalized statements about the European welfare state often rather meaningless.

When industrialization started to transform the European societies and create problems of a completely new kind and order of magnitude, solutions were sought within a well-established form of political organization, the nation state. This form had already become predominant in Europe long before and differed from alternative forms (such as empires or trading networks) through its territorial consolidation, the degree of centralization, its differentiation from other organizations and the monopolization of the means of coercion <sup>2</sup>.

Most important perhaps, was the development of relatively direct and close relationships between the political centre and the population, in long-term processes of subjection and counter-mobilization. These relationships became institutionalized in the form of obligations and rights, crystallizing in the concept of citizenship. The extension of rights as claims on the state was often preceded or accompanied, however, by the restriction of rights previously vested in other organizations such as manors, guilds, communities or estates.

The *early* development of nation states was probably facilitated by the weakness of corporate structures in Europe, especially those linked to kinship. The *later* development of welfare states was probably furthered by the specific European family structures. As we know today from historical research <sup>3</sup>, pre-industrial Europe was quite unique for its relative predominance of simple family households. The nuclear family was less a product than a precondition of industrialization in this world area. And it was probably less adapted to cushion the impact of capitalist industrialization, which called for other collective forms of social security, above all state intervention, once the protective mechanisms of the manor and the guild had been destroyed.

Industrialization generally implies the emergence of an industrial working class. Only in Europe, however, was this class the dominant social category for a longer period of time. In this narrow sense, it is only in Europe that something like an 'industrial society' developed <sup>4</sup>. It is not surprising therefore that the modern welfare state

started in Europe with an attempt to tackle the problems common to this new social class: loss of income through accident, sickness, invalidity, unemployment, and in old age. The solution was found in a new institution which broke with the principles of the century old European poor law: social insurance. As a consequence of this early development, the social security system still dominates the welfare state. This distinguishes Europe from America, the 'first new nation', which developed much later what is still a rudimentary system of social security, seeking instead to strengthen social citizenship much earlier and with greater enthusiasm than the Europeans, through an extension of education opportunities <sup>5</sup>.

But the emergence of the European welfare state cannot be fully understood as a reaction to problems of the industrial working class. Its close connection with the evolution of mass democracy puts it into a much broader perspective in which the extension of political rights led to a democratic struggle for a more equitable share in the material wealth and cultural heritage of a nation <sup>6</sup>. In this perspective, the welfare state may be seen as a 'completion' of the nation state, to the extent that individual social rights become an essential element of citizenship as the main basis of political legitimacy.

However, it usually is a very imperfect completion. Only few social rights are citizen rights in a stricter sense. They are related much more often to employment status than to political status, and frequently welfare policies are not based on individual entitlements at all. The institutionalization of social rights is not only imperfect, but there are also principal limits to their extension. They derive from civil liberties connected with basic institutions such as the family or private property as well as from the imperatives of a society based on differentiation by achievement.

With all these limitations, the essence of the liberal European welfare state lies nevertheless in the idea of basic *rights* of individuals to state-provided benefits as principle elements of their *life chances*. Security and *equality* are the welfare state's central objectives, i.e. the attempt to stabilize the life chances of, in principle, the entire population and to make their distribution more equal.

The concept of 'life chances' was introduced by Max Weber in his analysis of class structures which he defined as specific structures of inequality in which the life chances of individuals are contingent upon their market position <sup>7</sup>. By the extent to which the welfare state influences the life chances of individuals and social groups independent of their market position, it reduces the 'class structuration' of society <sup>8</sup> or rather introduces a new dimension of structuration <sup>9</sup>.

Which life chances are referred to here? Max Weber speaks of *Güterversorgung* (procuring goods), *äußere Lebensstellung* (gaining a position in life), and *inneres Lebensschicksal* (gaining inner satisfaction), but without further exploring the latter aspects. It may thus be more useful to start with a somewhat different distinction made by Erik Allardt in his pioneer study, the Scandinavian Welfare Survey <sup>10</sup>. He differentiates three dimensions of life chances: *having* which basically refers to the 'level of living', *being* which points to the potential of 'self-actualization', and *loving* which is related to 'solidarity' and 'belongingness'. In his understanding, having, being, and loving represent opposite poles to poverty, alienation, and anomie.

The importance of different elements of individual life chances may of course vary greatly. The public guarantee of basic food supply, for instance, plays a role in developing countries today which it has lost in Europe since the early nineteenth century. Another example is the problem of housing supply which varied greatly in different phases of industrialization and population growth, and following war destruction. It

seems reasonable to assume that with economic growth and increasing social security, the aspect of having becomes *relatively* less important and aspects of being and loving *relatively* more important. With regard to these aspects of welfare or life chances, however, the modern bureaucratic welfare state rapidly approaches its inherent limits. As different aspects of life chances may gain or lose in significance, the boundaries of the welfare state can also shift, but its historical core - the system of income maintenance and the public provision of certain services, especially in health and education - is very unlikely to change substantially.

The nationalization of industry or other sectors of the economy has not become a constitutive element of the liberal welfare state <sup>11</sup>, which derives its basic character precisely through its close relationships with the capitalist market economy and mass democracy. The liberal welfare state is based on the economic surplus produced in the market economy, and its structure must be adapted to the basic laws governing this economic system. At the same time it is also based on the political consensus produced in the democratic mass polity, and its structure must reflect the basic nature of this consensus. Principle limits to the development of the welfare state lie only where it would begin to undermine these foundations. Thusfar, such *principal* tendencies have not become evident, despite predictions to the contrary <sup>12</sup>. The liberal welfare state has remained an essential element in the reconciliation of capitalism and democracy.

As a basic type, the liberal welfare state can also be found outside of Europe, but the Western European welfare states have developed in addition some specific characteristics. These originate from the early state formation and from the weight of the industrial working class, reflected above all in the salience of bureaucratic organization and social rights. However, one must not exaggerate the common origins and characteristics and thereby overlook the obvious differences among the West European welfare states which are related, among others, to differences in the processes of state and class formation across Europe.

## 2. Early sources of diversity

If one tries to map major variations among the European welfare states and search for the origins of this diversity, Stein Rokkan's work on a macro-model of European political development is the most obvious starting point. No one else among social scientists has contributed more to our understanding of the systematic and enduring character of the structural and cultural variations across Europe <sup>13</sup>.

Rokkan made a distinction between four basic processes of development which to some extent formed distinct time phases:

- (1) *state formation*: the process of political, economic, and cultural unification at the elite level, and the establishment of institutions for the mobilization of resources, external defence, and internal order;
- (2) *nation-building*: the process of bringing larger population groups into the system by means of conscript armies, compulsory education and mass media, strengthening the contacts between the population and the central elite;
- (3) *participation*: the process of a growing active participation of the subject masses in the working of the territorial system, the establishment of political citizenship, the evolution of mass democracy;
- (4) *redistribution*: the process of growth in public welfare services and social security systems for the equalization of economic conditions, the establishment of social rights, the evolution of welfare states.



Rokkan was mainly interested in explaining the differences between the European mass democracies and did not aim at studying the variations among the European welfare states. Nevertheless, he can teach us several lessons:

- (1) To an important extent institutional variations among the European welfare states should be understood as offsprings of other - often much older - structural differences: above all the varying experiences and results of the early state formation and nation-building processes, which usually preceded the emergence of modern welfare institutions, but also the differences in the later evolution of mass democracies.
- (2) Equally important, the diversity among the welfare states may be understood as a result of the different 'timing' in the creation of major institutions, 'time' defined not in chronological but in developmental terms. This is true above all with respect to the process of industrialization, where different levels were usually related to different problem pressures and varying constellations of collective actors.
- (3) Many of the major institutional variations date back to early phases in the development of the European welfare states, often to the period prior to World War I. Once crucial decisions were taken, it became difficult to reverse them, and this often happened only under exceptional circumstances, e.g. in times of war and economic crisis.

For a long time the European welfare states have demonstrated an almost irresistible growth tendency, but this has not reduced their institutional variations. To some extent the persistence of diversity may simply be explained by the stability of other underlying differences such as more centralist or federalist political institutions or varying party systems. It is also explained by the fact that welfare institutions usually create new - often powerful - vested interests and reinforce underlying values.

When one speaks of a persistence of diversity, which diversity do we mean among the myriad of variations? Obviously, one has to look for basic principles persisting amidst institutional change. Furthermore, one should try to find those structural variations which may be relevant for the future institutional adaptation of the European welfare states to new challenges which will be discussed further below. I believe that at least two basic dimensions of the institutional infrastructure will be relevant:

- (1) the degree to which the (central) state has 'penetrated' the welfare institutions, i.e. the *stateness* of the welfare state which defines the *Spielraum* (room for manoeuvre) for intermediary structures;
- (2) the degree to which the welfare institutions reflect social differentiations, i.e. the *fragmentation* of the welfare state which defines the potential of conflict and change.

'Stateness' as defined by J.P. Nettl<sup>14</sup> means the degree to which the instruments of government are differentiated from other organizations, centralized, autonomous, and formally coordinated with each other. State penetration in this sense corresponds negatively with the *Spielraum* offered for the development of the various non-state 'intermediary structures' ranging from e.g. highly organized churches to loosely knit social networks. If one foresees a future trend towards a greater variety of more flexible institutions of a mixed private-public character, then the existing differences in the intermediary structures may be decisive. These differences reflect variations in state penetration with roots reaching far back into history.

A first and major root can be found in the diverse relationships between Church and State since the Reformation. The Church of Rome had traditionally assumed responsibility for the care of the poor and sick and for education. With the onset of the Reformation, divergent patterns evolved across Europe. The break with the Roman Church brought about a certain fusion of secular and religious powers in the Northern states, particularly in the Lutheran monarchies. The property of the Church and the religious orders was confiscated and the clergy was incorporated into the bureaucracy of the territorial state. Thus, a concept of public welfare provisions was able to develop relatively early in the North, at least partially legitimized by the Protestant Churches. The same may be assumed for the development of a concept of corresponding citizens' obligations towards the state, probably still an important factor in mobilizing the necessary resources without excessive state pressure.

In the Catholic South, the Church instead maintained separate welfare organizations (schools, hospitals, etc.) well into the twentieth century, thus impeding the development of a national welfare state, of an idea of legitimate public welfare provisions and corresponding citizens' obligations. Important for the socialization and social control of the population, these Catholic institutions were contested by secularizing nation-builders, but with quite varying success. Often they became subsidized by the state with little public control. If their autonomy survived the first stages of democratization, the welfare institutions became easily exploited by political parties seeking to secure the loyalty of their clientele. A syndrome of political clientelism emerged as a result of the division of Church and State.

There is of course no clear dichotomy between Catholic and Protestant countries with respect to the 'stateness' of the welfare state. There are early variations among the Catholic countries with respect to the 'nationalization' of welfare institutions (schools in particular); there are differences with respect to the pro- or anti-state attitudes among the Protestant churches and sects, and finally there is the special category of the religiously mixed countries where the competition between the denominations seems to have promoted the development of welfare institutions, at the same time preventing their transformation into public institutions. The most interesting case is certainly the Netherlands where denominational welfare institutions became an essential element in state subsidized cultural segmentation - the famous *verzuiling*.

The varying state-church relationships had different effects in the various policy fields. They were perhaps most important in education where the Catholic Church has succeeded to this day (at least in some countries) to control a relevant part of the school system, especially in secondary education<sup>15</sup>. In general the Catholic Church continued to stress the principle of *Subsidiarität* which implies that smaller groups and voluntary organizations should be given priority over the state wherever possible. Thus, it is not surprising that in most Catholic countries the development of public poor relief was delayed much longer than in other countries<sup>16</sup>. On the other hand, the early attempts to develop a family income policy were mainly limited to the Catholic countries<sup>17</sup>. Only in the area of hospital health care are the differences somewhat less clear-cut, as throughout Europe the state (mainly the local communities) assumed responsibility for the poor sick very early on<sup>18</sup>.

In addition to the state-church relationships, the characteristics of the state formation process *stricto sensu* are relevant in explaining the varying 'stateness' of welfare institutions. This refers primarily to two dimensions: the establishment of a more centralized or decentralized political structure, and the survival or destruction of civil liberties and representative institutions during the absolutist period which created different

opportunities for the development of more decentralized and associative forms of welfare organizations.

With respect to the first dimension, the two cases where city-confederations developed into federal political systems, Switzerland and the Netherlands, are the most interesting, also for an analysis of possible future developments. In both countries, the 'stateness' of the welfare institutions has been rather low, but this long-standing structural similarity was related to very different growth patterns in the postwar period. In Switzerland, political decentralization, the referendum, local citizen participation, associative self-help, and finally the pervasive impact of the military reserve system culminated in a structure which slowed the development of the national welfare state to an extraordinary degree.

A comparison with the Netherlands is instructive. In no other West European country has the welfare state expanded to such an extent after World War II. An explanation for this striking difference appears to lie in the forms of funding and control of services in both countries. Financing and control at local and associative levels appears to result in a much slower and better balanced expansion than in the case of control by organizations which do not raise their own funding. This may be especially true when they are in competition with each other and use the institutions for clientelistic purposes.

The early formation of decentralized political structures may largely explain a relatively low level of 'welfare stateness' which offered opportunities for the development of 'intermediary structures' in the organization of welfare. Equally important for such opportunities was probably the extent to which civil liberties survived the age of absolutist state formation and were strengthened in the nineteenth century. These differences defined the *Spielraum* for the unfolding of organized bourgeois philanthropy as well as working class self-help which varied greatly across Europe<sup>19</sup>. Mutual benefit societies and other forms of voluntary organization assumed a prominent role in the late nineteenth century, especially in sickness and unemployment insurance, and thereby influenced the structure and extension of the later developing public institutions, in some cases to this day.

Different preconditions and experiences in the processes of state formation and nation-building explain many of the fundamental and long-lasting variations in the structure of 'social services' (education, health, poor relief) at the time of the 'take-off' of the modern welfare state and thereafter. They tell us much less, however, about the variations in the structure of 'social transfers', the social insurance or income maintenance system.

Social insurance schemes differ of course in manifold ways, but there is one dimension mentioned above which may be crucial in the mastering of current and future problems: the type and degree of institutional fragmentation along lines of social differentiation. Two questions may be distinguished in this context: (1) the extent to which claims for social transfers are based on citizen rights as opposed to employment and contribution records, and (2) the degree to which schemes are differentiated among occupational groups and social classes.

Most of the fundamental decisions on this subject were taken relatively early, many prior to the First World War. Today, a distinction is usually drawn between the Scandinavian-British welfare state with its relatively strong elements of social citizenship and relatively uniform and integrated institutions, and the continental welfare state with its much more fragmented institutions and smaller citizenship component. How-

ever, this is only a first and very crude distinction, the actual variations being more complex.

For an insight into the origins of these persistent differences, one must leave behind the framework of Rokkan's political development theory and turn to an analysis of the variations in class structure in the Western European countries. Three elements should be emphasized here: the homogeneity or heterogeneity of the blue-collar workers in manufacturing, their ties to the farmers, and their relationship to the white-collar employees.

Throughout Western Europe, as stated above, the modern welfare state originated as an answer to specific problems of the new industrial working class. The more homogeneous this class, i.e. the weaker the craft or anarchic-syndicalist traditions and the more influential big industry and centralized the trade union movement, the greater *ceteris paribus* - were the chances for the development of a uniform system of income maintenance, at least for the industrial workers.

Bismarck cannot be credited with the invention of such a system, but he was the first to implement it. For long the dominant model, the German system was entirely centred around the industrial worker. No one considered including the farmers or agricultural workers. After the turn of the century a separate insurance was created for white-collar employees which effectively blocked the way to a uniform national system. This remains the case up to the present.

The opposite was the case in Scandinavia, where the introduction of a uniform and egalitarian national system can be traced to a class compromise between the industrial workers and the small farmers. It appears that these two groups were less remote from each other than on the continent and that they drew closer together through their fight for the extension of voting rights. Thus, the element of class compromise in the development of the Scandinavian type of welfare state is evident from the first Swedish pension system in 1913 to the Finnish sickness insurance scheme of 1964.

This proves how productive it could be to examine the implications of different agrarian structures for the development of welfare states, as Barrington Moore has done for the more general process of political modernization<sup>20</sup>. It also shows that the time point at which systems were introduced, the 'developmental time', is relevant in explaining characteristics of these systems. In comparison to most other European countries, in Scandinavia the percentage of the labour force working in the agricultural sector was relatively high when the first social insurance schemes were established. Around 1910, it varied from 39 percent in Norway to 43 percent in Denmark and 46 percent in Sweden, whereas only around 25 percent of the labour force in these three countries was employed in industry. Given an agricultural structure dominated by small farmers, this sectoral distribution required and facilitated a class compromise in the creation of welfare schemes.

Moving to the other major example of a uniform and egalitarian system of income maintenance - to Beveridge England, the argument of 'time' reappears at a different stage of development. Usually, the groundbreaking reforms during World War II and immediately thereafter have been explained by a combination of factors: the war situation and national consensus building, the antiquated structure of British welfare institutions, and not least the influence of Lord Beveridge. However, it must also be taken into consideration that at that time already around 90 percent of the labour force were dependent blue-collar workers or white-collar employees with much less institutionalized status distinctions than in Germany, offering a social basis for the creation of a uniform national system.

Institutional unification or fragmentation and 'stateness' have been defined here as the two major dimensions of variation among the Western European welfare states. How are these related to a typology of the welfare state? Most typologies start with the distinction made by Richard M. Titmus between three 'models of social policy' <sup>21</sup>:

- (A) the *residual welfare model* in which social welfare institutions come into play only after the breakdown of the private market and the family as the 'natural' channels for the fulfilment of social needs;
- (B) the *industrial achievement-performance model* in which social welfare institutions are adjuncts of the economy, and social needs are met on the basis of merit, work performance and productivity;
- (C) the *institutional redistributive model* in which social welfare institutions are an integral part of society, providing universalist services outside the market on the principle of need.

These may be understood as normative models or Weberian ideal types, but they have been frequently used as empirical classifications and even interpreted in a developmental perspective. In this second use, the typology poses at least two problems, even if one accepts that any typology neglects many of the variations across welfare programmes within a country and thus greatly reduces the complexity of national cases.

The first problem is that 'stateness' (underlying the distinction of model A versus B and C) and 'institutional fragmentation' (differentiating models B and C) are not conceived as two clearly independent dimensions of variation. Thus, we can find relatively unified but limited welfare states on the one side and highly developed but fragmented welfare states on the other, with strongly differing developmental problems and opportunities.

The second problem is that the 'residual' model or more general low 'stateness' is defined only in terms of a priority given to the family and the market, largely neglecting the variety of intermediary structures with important welfare functions, i.e. of non-public or semi-public subsidized forms of charity, cultural segmentation or self-organization. Variations in these structures persist to the present and will also play a definite role in shaping future developments.

### 3. Growth to limits

The modern European welfare states thus started out from very different preconditions and with a greatly varying institutional heritage. Yet most of them originated in the same period prior to World War I, and all of them demonstrated a similar growth momentum. The initial variations did not really subside in the general process of growth, but rather, old differences were transformed into new ones. If we neglect the variations for a moment and take social insurance as the major new institution, we can then characterize the (in a literal empirical sense) average European development from the turn of the century to the mid-1970s as having very modest beginnings, surprisingly continuous expansion, and extraordinary acceleration in the last 15 years <sup>22</sup>.

The beginnings of the welfare state were limited indeed. Around the turn of the century, 12 countries had accident insurance covering an average of 20 percent of the employed population; 7 had a sickness insurance covering an average of 17 percent of the employed; a compulsory insurance for old age and invalidity existed only in Germany; 4 other countries had more limited systems; and none of the West European countries had unemployment insurance.

Since then the expansion has been surprisingly continuous with respect to the coverage of risks as well as to the inclusion of population groups. Neither the world wars nor the economic crisis of the 1930s stood in the way of this process. In the early 1930s, about half of the labour force on average was protected by accident, sickness, invalidity and old age insurances, but still not more than 20 percent by unemployment insurance; of course, this says little about the extent of protection. By the mid-1970s over 90 percent of the labour force was covered against income loss due to old age, invalidity, and sickness; over 80 percent was covered in case of accident, and 60 percent for unemployment<sup>23</sup>.

Generally speaking, one can assume that the extension of social insurance schemes throughout Europe was connected with an absolute and relative growth of expenditure, even though detailed and comparative figures are largely lacking for the interwar period. Around 1930 average expenditure on social insurance amounted to probably less than 3 percent of GDP. By 1950 it had increased to 5 percent, by 1960 to 7 percent and by 1974 to 13 percent. If one takes the broader concept of social security expenditure (including all income maintenance programmes and public health), the relative growth becomes even more marked and one can see a clear acceleration of growth. At the same time, a persistence of different expenditure levels due to continuing institutional variations is evident. In 1950 social security expenditure in Western Europe averaged 9.3 percent of GNP, ranging from 5.9 percent in Switzerland to 14.8 percent in West Germany; in 1965 the average was 13.4 percent, from 8.8 percent in Switzerland to 17.6 percent in Austria, and by 1974 the average had risen to 19.2 percent, ranging from 13.9 percent in Switzerland to 24.8 percent in the Netherlands.

Measured in terms of percentage points, the average growth accelerated from 0.9 in 1950-55 and 1.4 in 1955-60 to over 1.8 in 1960-65 and 2.4 in 1965-70 to 3.4 in 1970-74. Most of the relative growth and its acceleration was due to the increased spending on pensions and health, which raised their respective shares in total social security spending from approximately one fourth in 1954 to around one third in 1974 (while spending on family transfers was halved in the same period from around 12 to 6 percent).

Finally, if one takes an all-embracing concept of social expenditure (including spending on education and housing), the growth of the welfare state is most obvious and impressive. Whereas in the early 1950s the share of social expenditure varied between more than 10 and less than 20 percent of GNP, it had grown by the mid-1970s to between one fourth and one third of GNP, and in some countries to considerably more than one third. This growth of social expenditure explains almost completely the increase of the 'state share' (measured by total public expenditure as a percentage of the national product). This share had started to increase in the late nineteenth century after a long period of stagnation. The increase was most pronounced during the First World War (to a lesser extent, during the Second World War), producing the so-called 'displacement effect'<sup>24</sup>. In 1950 the average share in Western Europe was around 25 percent and by the mid-1970s it had almost doubled to more than 45 percent.

As a result of the first and second oil crises and their consequences for continuing high levels of unemployment and public deficits, and enduring distortions of the world economy, the situation has changed substantially. At least one thing seems clear: the late 1970s witnessed the end of the 'golden age' of the European welfare state. But beyond this statement, the diagnosis of what happened and what will follow is much less clear.

Most probably the tremendous growth of the welfare state from the early 1950s to the mid-1970s cannot be repeated in the future; indeed this may not even be necessary. Has the 'golden age' come to an end because external conditions underlying the past growth have changed so dramatically, and/or because more inherent growth impulses have become exhausted? But has growth really ceased at all - can one even speak of a 'dismantling' or 'regression' of the European welfare state? Even if the objective is only a stabilization of the welfare state at present levels, will this be possible without far-reaching institutional changes? Questions on top of questions which are not easily answered.

Before one tries to explain changes in the long-term development of the European welfare states, one should first attempt to assess their concrete form. Although systematic data for more recent years are not yet available, the country studies contain some basic information on expenditure trends and institutional changes since the mid-1970s. The picture they offer is somewhat bewildering. The strong growth trend of the past is broken, but at the same time growth continues, and the differences across countries have widened. This makes a general assessment more difficult.

One should first distinguish between expenditure growth in absolute terms (total social expenditure at constant prices) and relative terms (expenditure as a percentage of GDP). In some countries the social expenditure ratio stagnated from the late 1970s to the early 1980s; in some it declined; in many it rose further (in some cases even rapidly), and all this in the face of persistent high levels of public deficit in most European countries. If one considers instead social expenditure in absolute real terms, an impression of slow but uninterrupted growth results. The same observation can be made with respect to average benefits (at constant prices) which in general have further increased, major exceptions being family allowances (mainly due to a lack of indexation), and unemployment benefits (mainly due to a longer duration and changing structure of unemployment).

From this one could conclude that forces exist, which will also be at work in the future, for a further expansion of the welfare state, especially when the currently unfavourable conditions once again improve. In this view only severe economic and political crises would be capable of halting a further expansion. I do not share this view. Rather I believe that as welfare states mature there will be a 'natural' tendency in their expansion to slow down or stagnate without such crises - similar to the slow-down of population growth in the course of the demographic transition and to the deceleration of the sectoral change of employment from an industrial towards a service society. Considering the long distance the welfare state has come, its major advances are most certainly behind it. The spread of social security schemes throughout the entire population, the significant absolute and relative increases of the major social transfer payments, the enormous expansion in the areas of health and education services - all this makes the growth rates of the past seem unnecessary.

However, this is a more evolutionary view which may contribute to our understanding of the long-term development of the welfare state *in nuce*, but less to an explanation of the concrete developments in the last decade or to reasonable guesses about changes in the near future. For this purpose one has to combine the evolutionary view with an analysis of the historical constellation of forces which have supported the postwar growth of the welfare states, and which may have dissolved in the 1970s. This constellation consisted of a comparatively stable international system, a high level of internal consensus and institutional stability, and a historically unique economic growth.

As a by-product of the American leadership and as a result of the relatively peaceful conditions, defence expenditure as a proportion of GNP declined almost everywhere in Europe since the Korean War. This has precluded major conflicts over trade-offs between defence and social expenditure. A further decline, however, cannot be expected, given the increased tensions and arms race between the super powers and the pressures within NATO to redistribute defence expenditure towards Europe. If one includes the international transfers to developing countries under a broader category of security expenditure, it seems very likely that from this side the conditions for the future development of the welfare state will be less favourable than in the past.

The second crucial element in the favourable constellation was the outstanding internal political stability since World War II, which has successfully passed the test of the economic crisis from the mid-1970s. Despite everything said to the contrary, the overall legitimacy of the fundamental democratic institutions is not threatened: voting turn-outs do not signalize any large-scale alienation from the political process; the party systems on average demonstrate a mixture of stability and adaptability, and anxieties about a trend towards instable coalition cabinets or minority governments have not been confirmed.

To some extent, the relatively high level of political consensus may be seen as a pre-condition for as well as a result of the expansion of the welfare state. In his comparative study of the historical evolution of social security systems in Europe, Jens Alber has shown that up to 1900 these systems first developed in the more authoritarian states; from the turn of the century to World War I, the parliamentary democracies with liberal governments took the lead, and in the interwar period, the extension of these systems seems to have been linked to an increasing strength of socialist political forces. After 1945, however, these differences became blurred and the building of welfare institutions was carried forward by all relevant political forces <sup>25</sup>.

Social policy is of course not an area without conflicts. We find cases of severe political confrontations well before the 1970s, but on the whole there was a broad political consensus. In the early 1970s, however, to the surprise of many observers, tax protest flared up in some countries, most prominently in Denmark. Social scientists <sup>26</sup> started to speak of a 'welfare backlash', although it was primarily a protest against taxation and bureaucracy and much less against social benefits and public services.

As a phenomenon of a certain period, leaving aside the important variations across countries, the protest may be understood as a result of the most rapid increase of the tax ratio in modern European history, with World War I as the only exception. As an indicator of the most 'visible taxes', the average ratio of income taxes and social security contributions to GNP almost doubled in Europe between 1960 and 1975, from 15 to more than 27 percent <sup>27</sup>. But tax protest in its manifest form has proved to be an ephemeral phenomenon. It has largely disappeared or perhaps has been replaced by other forms such as tax evasion and a black labour market.

With growing difficulties in the financing of welfare programmes since the mid-1970s, distributional conflicts have increased, but nothing similar to a 'cleavage' of larger population groups pro- and anti-welfare state has appeared. Survey results across Europe cited in our country studies - incomplete as they may be - create the image of a still vast and often overwhelming support for the welfare state, even if this support has somewhat declined over the years. This may be explained by the fundamental changes in the social structure and the electorate which will be discussed in the following section.



There seems to be a certain change in the political climate since the 1970s: a neo-liberal economic philosophy, a conservative interpretation of the state's role, and an anti-modernist critique of large-scale institutions have gained some ground. However, the articulated enemies of the modern welfare state have remained in the minority, with a chance of taking over government responsibility only under very specific conditions of the electoral system and party constellation.

The third and perhaps most important element of the favourable historical constellation was the unprecedented economic growth of the postwar period. The years from the Korean War to the first oil shock were, according to Angus Maddison, the 'golden age' of capitalism, characterized by rapid and stable growth<sup>28</sup>. The absolute growth of the national product formed the basis for the *relative* growth of the welfare state. Whereas on average the European economies grew between 1950 and 1980 by about 4 percent, the average growth rate of social expenditure was around 6.5 percent. However, the relationships between economic growth and social expenditure growth changed over time. If one classifies the years as to whether economic and/or social expenditure growth rates lay below or above the average of the entire period, a relatively uniform picture emerges, despite all cross-national variations shown in the country studies.

Whereas in the 1950s social expenditure growth was consistently below average even in years with very strong economic growth, the decade from the early 1960s to the early 1970s is seen as the high season of the postwar welfare state with real growth rates of the economy as well as of social expenditure far above the average. In these 10 to 12 years the European welfare states took on their modern shape. The two years following the first oil shock, 1974 and 1975, were then characterized by a combination of very high social expenditure growth rates and very low or even negative economic growth rates, indicating that the European governments were not able or not willing to respond immediately to the economic crisis by reducing social expenditure. Only afterwards did social expenditure growth rates start to fall, sinking below the level of the 1950s. Thus the changing relationship between economic growth and social expenditure growth formed a kind of 'postwar spiral'.

#### 4. System disintegration without class conflict

The crisis of the world economy of the 1970s had two obvious consequences for the welfare states: it reduced revenues and increased expenditure, creating a structural deficit of the public households. These deficits accumulated to large public debts as most governments only started to respond to the financial problems after the second oil shock in the late 1970s. However, the current difficulties of the welfare states cannot be explained as a simple result of the economic crisis only. Rather they should be understood as the product of a historical coincidence of this economic crisis with the preceding extraordinary expansion of the public sector and with a demographic wave originating from the relatively high European birth rates between the late 1950s and mid-1960s.

Yielded by the demographic wave and pushed by the European revolution in higher education and an increasing female mobilization from the 1960s, more young people, highly educated people, and highly motivated women started to enter the labour market. This happened under increasing unemployment, in a situation in which European industry lost many jobs and in which the public deficits prevented a further extension of public employment. Thus in contrast to the 1930s, the situation today is characterized by above average unemployment rates of younger people and women.

This may explain why solutions are frequently sought in a greater flexibility of working and family life, and in an extension of the service sector.

On the one hand, the rationalization effects of an intensified international competition in the industrial sector and the stagnation of the public sector with lower turnover rates as a result of its previous rapid expansion do not allow much optimism for the immediate future. On the other hand, however, assuming a continuation of present economic growth and a further success in the consolidation of the public households, the strong decline in birth rates since the mid-1960s will ease the current problems considerably in the medium future. This will also be necessary because the welfare states must then be free for the solution of a future problem which is the opposite side of the declining birth rates: the pension systems.

It is not unlikely that by the early 1990s the European welfare states will have overcome the specific problems created by a historical coincidence of unfavourable developments. However, I believe that the troubles of the past ten years have also brought to the surface some more basic challenges which will require long and complex processes of institutional adaptation - which have already started. I would like to point to three challenges:

- (1) the ageing of the population and the necessity of a new contract between the generations;
- (2) the changing sexual division of labour and the necessity of a new contract between the sexes;
- (3) the change of values and the necessity of a new contract between the state and the citizens.

Today European populations have entered the last phase of their 'demographic transition' which started in the nineteenth century. Essentially, this long-term process has represented a transition from limited population growth at high birth and death rates to low or zero population growth at low birth and death rates, after a longer period of accelerated population growth resulting from an interval in the decline of the death and birth rates. In principle a uniform process, this transition was superimposed in Europe by erratic demographic movements as a consequence of war losses and several violent oscillations of birth rates, both of which have distorted the age structure of most European populations.

As is well known, the slowdown of population growth leads to an ageing of the population, i.e. to an increasing share of older people as a result of declining birth rates and a still increasing life expectancy. This may not only imply a loss of adaptive capacity as social change is largely achieved through a succession of generations; it may also mean that the older generation continues to gain political weight and that the age dimension becomes more pronounced in distributional conflicts. This is most obvious with respect to the pension systems on a pay-as-you-go basis which represent the most notable redistributive machineries of modern societies.

There can be no doubt that with a significant increase in the share of old people a new contractual basis must be found for the pension systems; and it must be found before the ageing process gains more momentum, making solutions politically ever more difficult. Solutions will certainly be sought in a mixture of increases in contributions, cuts in benefits, and a raising of pensionable age; they may also be sought in a strengthening of the basic universal element of the pension systems while at the same time allowing for a greater variety with respect to other - public, occupational or private - elements. Finally, solutions may lie in a greater flexibility of work and retirement at a time when fewer young people will enter the labour market.

It will be even more important, however, to redefine the basis of the contract between the generations. In legal terms, it is only a contract between two generations, the employed who pay contributions and the retired who draw pensions. In reality the contract is based on the relationships between three generations, i.e. it includes the young people who are not yet employed but will be held responsible for paying the pensions in the future, without adequately institutionalizing these relationships. Given the altered demographic parameters, we are thus facing an institutional maladjustment with considerable explosive force, in which the changing relationships between the generations is interwoven with a change in the relationships between the sexes. The nodal point lies in the structural underevaluation of that part of necessary work which is not involved in market exchange and therefore is usually done without independent income and adequate social rights.

Child-raising is an essential part of necessary but undervalued work in our society. Not surprisingly, therefore, the striving of women for equality and independence has become a striving to leave the home. At the same time, the demographic development has increased the possibilities of non-domestic activities for women. There are fewer children today, and the phase in the family cycle dominated by child dependency has become much shorter. This 'demographic release' of women was related with a long-term equalization of education opportunities between the sexes throughout Western Europe, although with a conservation of the century-old gradient from the Protestant North to the Catholic South.

Following an equalization of opportunities in education, female employment ratios have also started to increase slowly but steadily. This long-term trend was not even interrupted by the economic crisis of the mid-1970s, despite the fact that in most countries women were more affected by unemployment than men. Most significant perhaps in this general development is the tendency of younger women to return to their jobs after childbirth. This fundamental and irreversible change in the sexual division of labour requires an adaptation of many institutions, of marriage and family above all, but also of the institutions of the welfare state.

A first and obvious aspect of this process of adjustment is a further strengthening of independent and equal social rights for women, in particular with respect to old age pensions. The welfare state was originally built around the figure of the male provider of the family. Social rights of other family members were usually introduced much later and were derived from the provider's status and work. A greater equalization may be sought through an equalization of employment opportunities, but also by assigning rights to the work of child-rearing, or more generally, extending the universal elements of social rights.

Family policy, on the other hand, must be more than a policy for the equalization of opportunities and rights between men and women. An equalization of *individual* rights may even contradict the objective of making living conditions and social security of *families* more equal. From two-earner couples without children to one-parent families, there is today an increasing variety of family structures which will require a re-definition of many welfare institutions.

In order to combine a policy of sex equality and a policy of family stabilization with the objective of a more balanced population development, even more far-reaching institutional changes will be necessary. This refers above all to a more flexible co-ordination of work and family life, but also to a more flexible timing of the major life cycle phases: education, employment, and retirement. In its development, the welfare state has adapted itself to the strong tendencies of differentiation and standardization

inherent in the evolution of industrial societies, and has further strengthened these tendencies. With the transition from industrial to service society it appears possible to rediscover, in different form, some of the flexibility found in pre-industrial societies with respect to the linkage of life domains and life phases. But this would also imply a fundamental reform of the welfare institutions.

Such a reform seems to be called for also by the changes in basic values which social scientists believe to have observed since the late 1960s and early 1970s, and which they relate above all to the growth of prosperity, the expansion of higher education and the extension of the service sector, but also to the long period of peace in Western Europe as well as to specific consequences of the economic crisis of the 1970s<sup>29</sup>. Despite all healthy scepticism of survey-based observations, the very fact of a change of values, in particular among younger people, seems to be undeniable. One finds a certain 'neo-liberal' renaissance in the sense of a greater emphasis on self-determination, self-responsibility and freedom of choice, but at the same time a desire for more solidarity in everyday life and a more direct participation in public affairs.

The direction of these value changes runs counter to some of the fundamental characteristics of the modern welfare state, namely its bureaucratization, 'monetarization', and professionalization<sup>30</sup>. In principle these developments are irreversible, but to some extent the welfare state institutions can and must be adapted to the changing values to avoid a loss of legitimacy. This may imply a new 'contract' between the state and the citizens, according to which the citizen would no longer be reduced to a tax and contribution payer (and a recruit), but would also offer some services, in fields and forms of a mixed private-public character.

Thus, the ageing of the population, the changing division of labour between the sexes, and value changes challenge the adaptive capacity of welfare state institutions. Solutions will have to be sought in a greater flexibility of family and working life, and a more varied mix of public, semi-public, and private organizations. More individual responsibility and mobility will be necessary, but this will require at the same time a strengthening of the universal elements of the welfare state, of a basic social security.

It has been a classic idea in sociology (maintained by Marx in particular) to relate problems of 'system integration' and 'social integration'<sup>31</sup>, i.e. to search for cases of increasing maladjustment of institutions which produces social conflicts with a tendency towards a polarization of major population groups. It is my contention that the present situation is indeed characterized by serious problems of institutional adjustment, but *without* the emergence of relevant political cleavages. This judgement may be supported by the survey data included in the country chapters, but it is primarily derived from simple observations of changes in the employment structure and the growth of welfare clienteles.

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Another simple fact is that the employment structure has thoroughly changed from 1950 to 1980. Whereas in 1950 on average two-thirds of the labour force in Western

Europe were either blue-collar workers or white-collar employees, this share had grown to more than four-fifths, and in some countries more than 90 percent, thirty years later. The expansion of enfranchised 'welfare clientele' thus coincides with the structural elimination of the 'natural enemies' of the welfare state, namely the mass of self-employed in agriculture, trade and crafts.

A structural basis for a 'pro- or anti-welfare state cleavage' seems to be lacking therefore, although the necessity to stabilize and reorganize the welfare state will certainly result in a variety of distributional conflicts. The risk of institutional immobility appears much greater than the danger of large-scale polarization.

Very probably, the direction and extent of institutional reforms will strongly depend on the stance taken by the new middle classes. Their position is characterized by a combination of dependent employment status *and* relatively extended individual resources. They stand between collective interest organizations and state regulation on the one side, individual mobility and freedom of choice on the other. Institutional reforms combining a strengthening of basic rights with a greater flexibility may well find their political support, but the more concrete steps will depend on the very different ways in which the middle classes articulate and aggregate their heterogeneous and ambivalent interests. The direction and extent of institutional reforms will furthermore depend on the structure of the institutions themselves which may create very different obstacles or opportunities for reforms. It is therefore important to carefully examine the institutional variations, on the basis of the analyses given in the twelve country chapters.

## **5. The structure of the country chapters**

Each of the twelve country chapters is divided into five sections. The various analyses usually refer to the years 1950-1980. This period was selected mainly for practical reasons as data are often incomplete for the years immediately following World War II as well as for more recent years. The reforms carried out in many countries in the second half of the 1940s serve as a point of departure for analyses and are not treated as a subject in themselves.

The whole study is, however, embedded in a somewhat longer time period. The first of the five sections (I. Historical Synopsis) begins with an overview of the historical development of each national welfare state from the turn of the century, and the last section (V. Present Problems and Policy Choices) concludes with an analysis of the most recent changes from the second half of the 1970s to the first half of the 1980s. The three remaining sections tend to have a descriptive (II. Resources and Clienteles), evaluative (III. Achievements and Shortcomings), and explanatory (IV. Correlates and Causes) character.

In principle the definition of the welfare state is understood in relatively broad terms, despite the fact that the social security system is the focus of the major part of our analyses. This is especially true for Sections II and IV, while in Section III the various social services are more specifically addressed.

### **Section I**

By way of introduction, the first section provides an overview of the long-term development of the welfare state of each country. The specific national characteristics of the welfare state and its historical background are explored in this section, and a brief

survey of the central institutional changes and fundamental development trends after 1945 is given.

## Section II

The second more descriptive section is only modestly exciting, but nevertheless fundamental. It attempts to trace growth and structural change through two central aspects: the public household and the population groups affected by the various programmes. Emphasis is placed on a description of the quantitative changes, but an attempt is also made to relate these to institutional changes. In order to facilitate the reading of this data-ridden section, a graphic representation was decided upon (the sources for the data contained in the graphs, as well as in the tables appearing in the texts, are listed at the end of each country chapter; the figures for the graphs can be found in Volume IV). An attempt was usually made to characterize developments in terms of both absolute data and percent distributions.

The major part of Section II is devoted to the development of public expenditure. (For the treatment of the problems of deflating time series on public expenditure, the Appendix Volume IV should be consulted). The description of public expenditure development begins with a brief analysis of the share of total public expenditure in the national product and a breakdown of the total public expenditure by major purpose, economic category and level of government. Then social expenditure is analysed according to its major categories: usually income maintenance, education, health, and housing.

A detailed study of individual programmes follows, supplementing the examination of the aggregates and major expenditure categories. It begins with a description of the qualitative and institutional development of the various income maintenance programmes and concludes with a brief account of developments in public education, health, and housing.

The relatively extensive investigation of the development of public expenditure is accompanied by a brief overview of the development of public revenues: first, the development of total revenues and public deficits, then the major sources of public revenues, and finally, the financing of individual programmes through the state, employees, and employers.

The second central aspect of the expansion of the welfare state examined in Section II refers to these population groups affected by the programmes. The term 'clienteles' was chosen for these groups, despite its somewhat negative connotation deriving from the concept of 'clientelism'. In our context it is thought of as a purely neutral term. It refers to the fact that the welfare of ever-increasing population groups has become the result of political rather than market mechanisms.

The expansion of these clienteles has been reconstructed for the different income maintenance programmes in five-year intervals in absolute numbers, as well as in relation to the relevant population groups (e.g. the population over 60 years or children at a certain age). In order to compare the relative weight of the diverse clienteles across countries, the development of their respective shares of the total population has been graphically represented.

The political significance of clienteles is certainly not only a function of their number, but also of the relative weight of the respective social transfers, i.e. their importance in relation to earned income. Section II therefore concludes with a specification of the various social transfers according to three types of indicators: (a) legally fixed

It will be even more important, however, to redefine the basis of the contract between the generations. In legal terms, it is only a contract between two generations, the employed who pay contributions and the retired who draw pensions. In reality the contract is based on the relationships between three generations, i.e. it includes the young people who are not yet employed but will be held responsible for paying the pensions in the future, without adequately institutionalizing these relationships. Given the altered demographic parameters, we are thus facing an institutional maladjustment with considerable explosive force, in which the changing relationships between the generations is interwoven with a change in the relationships between the sexes. The nodal point lies in the structural underevaluation of that part of necessary work which is not involved in market exchange and therefore is usually done without independent income and adequate social rights.

Child-raising is an essential part of necessary but undervalued work in our society. Not surprisingly, therefore, the striving of women for equality and independence has become a striving to leave the home. At the same time, the demographic development has increased the possibilities of non-domestic activities for women. There are fewer children today, and the phase in the family cycle dominated by child dependency has become much shorter. This 'demographic release' of women was related with a long-term equalization of education opportunities between the sexes throughout Western Europe, although with a conservation of the century-old gradient from the Protestant North to the Catholic South.

Following an equalization of opportunities in education, female employment ratios have also started to increase slowly but steadily. This long-term trend was not even interrupted by the economic crisis of the mid-1970s, despite the fact that in most countries women were more affected by unemployment than men. Most significant perhaps in this general development is the tendency of younger women to return to their jobs after childbirth. This fundamental and irreversible change in the sexual division of labour requires an adaptation of many institutions, of marriage and family above all, but also of the institutions of the welfare state.

A first and obvious aspect of this process of adjustment is a further strengthening of independent and equal social rights for women, in particular with respect to old age pensions. The welfare state was originally built around the figure of the male provider of the family. Social rights of other family members were usually introduced much later and were derived from the provider's status and work. A greater equalization may be sought through an equalization of employment opportunities, but also by assigning rights to the work of child-rearing, or more generally, extending the universal elements of social rights.

Family policy, on the other hand, must be more than a policy for the equalization of opportunities and rights between men and women. An equalization of *individual* rights may even contradict the objective of making living conditions and social security of *families* more equal. From two-earner couples without children to one-parent families, there is today an increasing variety of family structures which will require a re-definition of many welfare institutions.

In order to combine a policy of sex equality and a policy of family stabilization with the objective of a more balanced population development, even more far-reaching institutional changes will be necessary. This refers above all to a more flexible co-ordination of work and family life, but also to a more flexible timing of the major life cycle phases: education, employment, and retirement. In its development, the welfare state has adapted itself to the strong tendencies of differentiation and standardization

inherent in the evolution of industrial societies, and has further strengthened these tendencies. With the transition from industrial to service society it appears possible to rediscover, in different form, some of the flexibility found in pre-industrial societies with respect to the linkage of life domains and life phases. But this would also imply a fundamental reform of the welfare institutions.

Such a reform seems to be called for also by the changes in basic values which social scientists believe to have observed since the late 1960s and early 1970s, and which they relate above all to the growth of prosperity, the expansion of higher education and the extension of the service sector, but also to the long period of peace in Western Europe as well as to specific consequences of the economic crisis of the 1970s<sup>29</sup>. Despite all healthy scepticism of survey-based observations, the very fact of a change of values, in particular among younger people, seems to be undeniable. One finds a certain 'neo-liberal' renaissance in the sense of a greater emphasis on self-determination, self-responsibility and freedom of choice, but at the same time a desire for more solidarity in everyday life and a more direct participation in public affairs.

The direction of these value changes runs counter to some of the fundamental characteristics of the modern welfare state, namely its bureaucratization, 'monetarization', and professionalization<sup>30</sup>. In principle these developments are irreversible, but to some extent the welfare state institutions can and must be adapted to the changing values to avoid a loss of legitimacy. This may imply a new 'contract' between the state and the citizens, according to which the citizen would no longer be reduced to a tax and contribution payer (and a recruit), but would also offer some services, in fields and forms of a mixed private-public character.

Thus, the ageing of the population, the changing division of labour between the sexes, and value changes challenge the adaptive capacity of welfare state institutions. Solutions will have to be sought in a greater flexibility of family and working life, and a more varied mix of public, semi-public, and private organizations. More individual responsibility and mobility will be necessary, but this will require at the same time a strengthening of the universal elements of the welfare state, of a basic social security.

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earnings-replacement ratios, (b) standard benefits at current and constant prices, and (c) average benefits, which have simply been calculated by dividing total expenditure by the number of beneficiaries; they are presented at constant prices and as a percentage of average income (which, however, is defined differently from country to country).

Such systematic information has never before been available for any of the twelve countries under investigation and is an essential precondition for an empirically based analysis of the development of the welfare state. Nevertheless, it is still far from the theoretically desirable. What we would need for a more detailed understanding of the interest structure of the national welfare states is a type of 'interest matrix' in which we could enter, for the most important social categories, the respective costs and benefits of the various programmes and their change over time.

### Section III

Whereas the description of the development of welfare state resources and clientele in Section II refers mainly to *aggregates* and averages, the more evaluative analysis of Section III is also based on statistics on the *distribution* of social transfers and services. This section contains numerous additional tables which have not been included in the Appendix Volume. Because of their much greater complexity, these tables refer to much shorter time periods, or merely single points in time.

Of course, in order to evaluate achievements and shortcomings, one needs criteria. Do such general criteria actually exist? Certainly they do not exist in the sense of general values, i.e. values shared by all, which could be used to evaluate welfare state developments. In this section it is not possible to assess 'welfare' in any fundamental sense, or to discuss its complex relationships to other basic values. The section also does not deal with the complicated question of whether certain services could not be better supplied by non-state institutions such as private enterprises or the family. Finally, it does not deal with an evaluation of unintended consequences such as the effects of welfare state programmes on the functioning of the market economy or the growth of public bureaucracy.

The goal is much more modest. It lies in the assessment of long-term developments according to criteria which are 'inherent' to the welfare state. The two criteria applied here are the 'adequacy' of the social transfers and services and their impact on the distribution of the life chances of the population.

With respect to the transfer payments, the adequacy is defined in terms of 'income replacement'. The question is to what extent these payments adequately replace income from work. In studying this question, a considerable problem results from the fact that alternative income sources (e.g. from private or occupational pensions) are normally insufficiently recorded. In reference to social services, the 'adequacy' is measured primarily through the level and development of the average provision of services for the population. Here the major assessment problem, especially at higher developmental levels, involves the question of to what extent an improved provision, (e.g. of hospitals) results in greater 'welfare' (in this case: health).

A change in the inequality of life chances is the second central criteria for the evaluation of welfare state development. Without doubt one of the most frequently put questions in the literature is to what extent the welfare state balances out the inequalities created by the market and the family. Yet our knowledge in this area is still insufficient today, and varies greatly from country to country. In all the chapters a distinc-

tion is made between problems of poverty in a narrow sense and inequality in a broader sense. The analysis of poverty has to overcome considerable data problems, as well as conceptual difficulties resulting from the varying concepts of relative poverty. In the analysis of inequality, the data problems increase as one progresses from the inequality of primary incomes to the incidence of taxes, social transfers and social services.

#### Section IV

Section IV attempts to provide explanations for certain aspects of the development of welfare states. These developments are of course very complex phenomena, and 'causality' is a difficult concept in the social sciences. Our goal has therefore been relatively limited. Various methods are applied to examine certain demographic, economic, and political factors and correlates in welfare state development. The influence of the demographic and economic factors is examined using strictly quantitative methods, the demographic factors with the 'component method', and the economic factors with the help of a regression and correlation analysis. In contrast, the analysis of the political factors and correlates is based mainly on qualitative interpretations and illustrative data. Two types of 'dependent variables' were utilized as *explanandum*: social expenditure items and institutional changes of the welfare programmes.

The various welfare programmes have a varying impact in the different phases of the individual and family life cycle. This means that demographic changes, especially changes in the size of families and the age structure, have direct effects on the size of clienteles, and thus on the development of social expenditure. In a series of studies in the 1970s, the OECD utilized a so-called component method to measure the weight of demographic factors in the development of various social expenditure items<sup>32</sup>. We have adopted this method in order to be able to compare our results with those of the OECD studies which comprise a greater number of countries, but are based on more limited data for a shorter time period.

The component method may be applied whenever a social expenditure aggregate can be defined as the product of various multiplicands or components. It may be utilized for decomposing the level or change of expenditure in absolute terms (i.e. in money terms at current or constant prices) or in relative terms (i.e. as a share of GDP or more general of available resources). Here the method has been used mainly for analysing *changes in expenditure ratios*.

For a study of the impact of demographic changes on social expenditure one of the components must of course be a demographic parameter in the stricter sense (e.g. a parameter of the age structure). The respective expenditure aggregate (e.g. pension expenditure) is then usually analysed in terms of three components: demographic structures, beneficiaries in a given 'target' group, and average payments per beneficiary. For an analysis of expenditure ratios, these components must also be expressed as ratios:

- (a) a *demographic ratio*, i.e. the 'relevant' population (e.g. people aged 65 and over) as a percentage of total population;
- (b) an *eligibility ratio*, i.e. the beneficiaries (i.e. old age pensioners) as a percentage of the 'relevant' population;
- (c) a *transfer ratio*, i.e. the payments per beneficiary (e.g. total pension expenditure divided by the number of pensioners) as a percentage of 'average income' (calculated as GDP per head).

The component method makes it possible to find out how much a change in one component (or a combination of changes in two or more components, the so-called interaction effect) has contributed to an increase (or decrease) of social expenditure. This means that one can decompose, for a given period, the relative weight of demographic changes, the extension or restriction of welfare programmes, and the improvements or curtailment of benefits, for the expenditure development.

The enormous expansion of the welfare state after the Second World War would obviously not have been possible without the historically unparalleled economic growth of this period. What results, however, when one investigates the short-term correlations instead of those of the entire time span? To arrive at an answer to this question, an analysis of the correlation between the annual real growth rates of the national product as the independent variable and various social expenditure items was carried out. Relatively low correlation coefficients were the usual outcome, indicating the possibility of varying period-specific relationships. This possibility was investigated in a graphic regression analysis of the relationships between the annual economic growth and the annual growth of total social expenditure. The resulting country-specific periodizations were then interpreted in relation to political developments.

The inquiry into the political factors and correlates is more complex than the demographic and economic developments and utilizes more qualitative and illustrative methods. An attempt is made not only to trace the influence of political changes as reflected in party platforms, election results, parliamentary strength of parties, or the party composition of the government, but also the influence of certain interest groups or even the Catholic Church on the institutional development of the welfare state.

Because of the complexity of the subject and the differing availability of data, this part of Section IV shows the greatest variations between the country chapters. The relationship between the party composition of government and the development of social expenditure is investigated in almost all of the chapters, and in many, institutional changes are incorporated in this analysis (based on a listing and brief description of 'core laws' governing the various welfare programmes since 1945 provided in the Appendix Volume). Furthermore, for some countries the development of party platforms and/or of parliamentary voting on social welfare legislation are studied. In the case of Italy, a very extensive roll-call analysis of pension legislation after 1945 is attached as a special appendix to the country chapter. Finally, some of the country chapters also include case studies on crucial reforms, in which the specific national context of the welfare state development and its place in the political process and system are examined.

## Section V

The focus of our project lay in the long-term development of the European welfare states and not on their most recent changes. It was to be expected, however, that the problems faced by the welfare states since the second half of the 1970s would be of particular interest to the reader. A systematic treatment of recent changes was difficult due to the often insufficient data and the gradual step-by-step production of the chapters which would have made a later updating of the whole text very difficult. For this reason a concluding section on the developments and problems of the welfare states from the end of the 1970s into the early 1980s was added to the three central sections.

The basic issue of this section is whether the economic and political framework of the European welfare states has fundamentally changed since the late 1970s. To go into greater detail, the following questions were posed:

- (a) In which way and to what extent have the European governments responded to the problems of growing public deficits by cutting social benefits and through other institutional adjustments?
- (b) What are the scenarios for the future development of social expenditure under varying economic and demographic assumptions, on the basis of the existing institutions or with certain institutional changes?
- (c) Has public opinion changed with respect to the legitimacy of the welfare state in general and the structure and functioning of single welfare programmes in particular? And based on these data, can one discover certain latent conflicts between social groups or even some polarization?
- (d) What are the options regarding the future development of the welfare state currently under public debate or under discussion among the political parties?

On the basis of this information and the preceding analyses, the country chapters conclude with a cautious and necessarily speculative look into the future.

## Notes

- <sup>1</sup> Cf., also in the following, Peter Flora, Franz Kraus and Winfried Pfenning, *State, Economy and Society in Western Europe 1815-1975*, Vol. II: *The Growth of Industrial Societies and Capitalist Economies*. Frankfurt, Campus; London, Macmillan, 1986.
- <sup>2</sup> Cf. Charles Tilly (ed.), *The Formation of National States in Western Europe*. Princeton, Princeton University Press, 1975; esp. chapters 1 and 9.
- <sup>3</sup> Cf. e.g. Peter Laslett and Richard A. Wall (eds), *Household and Family in the Past*. New York, Cambridge University Press, 1972.
- <sup>4</sup> This argument was developed by Hartmut Kaelble, 'Was Prometheus most unbound in Europe?'. *Journal of European Economic History*, 14, 1985.
- <sup>5</sup> Cf. Arnold J. Heidenheimer, 'Education and social security entitlements in Europe and America', pp. 269-304 in: Peter Flora and Arnold J. Heidenheimer (eds), *The Development of Welfare States in Europe and America*. New Brunswick and London, Transaction Books, 1981.
- <sup>6</sup> The first and most famous exponent of this view was T.H. Marshall, *Class, Citizenship, and Social Development*. New York, Doubleday, 1964.
- <sup>7</sup> Cf. Max Weber, *Wirtschaft und Gesellschaft*. 5th ed., Tübingen, Mohr, 1976.
- <sup>8</sup> This concept was developed by Anthony Giddens, *The Class Structure of the Advanced Societies*. London, Hutchinson, 1973.
- <sup>9</sup> This is the argument of Rainer M. Lepsius who introduced the concept of *Versorgungsklassen*, in the sense of welfare clienteles. Cf. his 'Soziale Ungleichheit und Klassenstrukturen in der Bundesrepublik Deutschland', pp. 166-209 in: Hans-Ulrich Wehler (ed.), *Klassen in der europäischen Geschichte*. Göttingen, Vandenhoeck and Ruprecht, 1979.
- <sup>10</sup> Cf. Erik Allardt, *About Dimensions of Welfare. An Exploratory Analysis of a Comparative Scandinavian Survey*. Research Group for Comparative Sociology, University of Helsinki. Research Report No. I, 1973.
- <sup>11</sup> There are no systematic relationships between the expansion of the welfare state and the extent of nationalization, as shown by Anthony King, 'Ideas, institutions and the policies of governments: a comparative analysis'. *British Journal of Political Science* 3, pp. 291-313 and 409-423.

- <sup>12</sup> Cf. e.g. John O'Connor, *The Fiscal Crisis of the State*. New York, 1973, and Ian Gough, *The Political Economy of the Welfare State*. London, St. Martins Press, 1979.
- <sup>13</sup> For a synthesis see Peter Flora, 'Stein Rokkans MakroModell der politischen Entwicklung Europas: Ein Rekonstruktionsversuch'. *Kölner Zeitschrift für Soziologie und Sozialpsychologie* 33, 3, pp. 397-436.
- <sup>14</sup> Cf. J. Peter Nettl, 'The state as a conceptual variable'. *World Politics*, 20, 1968, pp. 559-592.
- <sup>15</sup> Cf. Margaret S. Archer, *The Social Origins of Educational Systems*. London, Sage, 1979.
- <sup>16</sup> See the article 'Armenwesen', pp. 1-169 in *Handwörterbuch der Staatswissenschaften*, 3rd ed. 1909.
- <sup>17</sup> Cf. Sheila B. Kamerman and Alfred J. Kahn (eds), *Family Policy*. New York, Columbia University Press, 1978.
- <sup>18</sup> See Brian Abel-Smith, 'The history of medical care', pp. 219-240 in: E.W. Martin (ed.), *Comparative — Development in Social Welfare*. London, Allen and Unwin, 1972.
- <sup>19</sup> Not only the absolutist break with old liberties was important, however, but also the 'liberal break' with old forms of social protection under the impact of capitalist industrialization. Cf. Gaston V. Rimplinger, *Welfare Policy and Industrialization in Europe, America and Russia*. New York, John Wiley, 1971. Cf. also Reinhard Bendix, *Nation-Building and Citizenship*. New York, John Wiley, 1964, pp. 80ff., who points to the important variations in the continuance of traditional organizations of crafts into the modern period.
- <sup>20</sup> Barrington Moore, *Social Origins of Dictatorship and Democracy*. Boston, Beacon Press, 1964.
- <sup>21</sup> Cf. Richard M. Titmus, *Social Policy*. London, Allen and Unwin, 1974; for earlier formulations see his *Essays on the Welfare State*. London, Allen and Unwin, 1958, and *Commitment to Welfare*. London, Allen and Unwin, 1968. For a discussion of his typology cf. above all R. Pinker, *Social Theory and Social Policy*. London, Heinemann, 1971 and R. Mishra, *Society and Social Policy. Theoretical Perspectives on Welfare*. London, Macmillan, 1977. Ugo Ascoli has invented the more appropriate term 'meritocratic-particularistic' for Titmus' 'industrial achievement-performance model'; cf. Ugo Ascoli (ed.), *Welfare State all'Italiana*. Roma-Bari, Laterza, 1984.
- <sup>22</sup> Cf. in the following the data on the evolution of social insurance collected by Jens Alber in Peter Flora et al., *State, Economy and Society in Western Europe 1815-1975*, Vol. I: *The Growth of Mass Democracies and Welfare States* Frankfurt, Campus; London, Macmillan, 1983. For data on the social expenditure development, see the country chapters and the Appendix Volume.
- <sup>23</sup> In judging these percentages, one should take into account that the labour force data also include the self-employed and family workers.
- <sup>24</sup> This concept was developed by Alon T. Peacock and Jack Wiseman, *The Growth of Public Expenditure in the United Kingdom*. Princeton, Princeton University Press, 1961.
- <sup>25</sup> Jens Alber, *Vom Armenhaus zum Wohlfahrtsstaat*. Frankfurt, Campus, 1982.
- <sup>26</sup> Cf. e.g. Harold L. Wilensky, *The Welfare State and Equality*. Berkeley, University of California Press, 1975 and *The 'New Corporatism', Centralization, and the Welfare State*. London, Sage Publications, 1976.
- <sup>27</sup> Cf. Peter Flora, 'Solution or source of crises? The welfare state in historical perspective', pp. 343-389 in: W.J. Mommsen (ed.), *The Emergence of the Welfare State in Britain and Germany*. London, Croom Helm, 1981.
- <sup>28</sup> Angus Maddison, *Phases of Capitalist Development*. Oxford University Press, 1982.
- <sup>29</sup> As an introduction to the vast literature on value change, see e.g. Helmut Klages and Peter Kmiecik (eds), *Wertwandel und gesellschaftlicher Wandel*, Frankfurt and New York, Campus, 1979.
- <sup>30</sup> Cf. Christian von Ferber, *Sozialpolitik in der Wohlstandsgesellschaft*, Hamburg, Zeitverlag, 1967.

- <sup>31</sup> Cf. David Lockwood, 'Social integration and system integration', pp. 244-257 in: George K. Zollschan and Walter Hirsch (eds), *Explorations in Social Change*. London 1964.
- <sup>32</sup> Cf. above all the OECD studies *Public Expenditure on Income Maintenance Programmes*. Paris 1976, and *Public Expenditure Trends*. Paris 1977. The component method has also been applied to an analysis of education and health expenditure; cf. the studies *Public Expenditure on Education*. Paris 1976, and *Public Expenditure on Health*. Paris 1977.



# Germany

JENS ALBER



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## I Historical synopsis

### 1. The German approach to the welfare state

In terms of expenditure on social programmes, Germany certainly qualifies as a modern welfare state. As a political concept, however, the term 'welfare state' usually has negative connotations in Germany denoting excessive state intervention, and the term 'social policy' is considered preferable. In the German tradition the core of social policy is defined in a limited way by 'social insurance plus labour legislation'. This definition pervades most of the standard literature on social policy which usually excludes education and says little about health and housing. It is also reflected in the governmental division of labour which limits the competence of the Ministry of Labour and Social Affairs to the social transfer schemes and to labour law.

On the programmatic level, the term 'social market economy' is frequently used in place of 'welfare state'. In this sense, the role of the state is to supplement the market as the best mechanism for the allocation of productive resources by social benefits, compensating for market failures in the distribution of incomes. The intervention, however, should be limited and not interfere too much with the incentive structure of the free market economy. This limited definition of state activity originated in the political philosophy of neo-liberalism and the social ethics of Catholicism, but should also be understood as a reaction to the bureaucratic state control experienced in the Nazi period and the presence of Communist collectivism in East Germany. Since the late 1950s even the Social Democrats (*Sozialdemokratische Partei Deutschlands*, SPD) have been moving, albeit reluctantly, towards acceptance of the social market economy model in an attempt to widen their electoral support.

Given the lack of political support for the construction of a broadly defined welfare state, German social programmes have developed within a relatively stable institutional framework. There are four main features of German social policy.

#### The fragmentation of programmes

Social programmes are fragmented into a large number of uncoordinated and decentralized schemes. At the national level, income maintenance, health, housing and education are dealt with by four different Ministries: Labour and Social Affairs; Youth, Family and Health; Building, Regional Planning and Urban Development; and Education. The administration and supply of services is further decentralized in a large number of autonomous carrier organizations: for different types of benefit (e.g. various social insurance programmes); for different beneficiary groups (e.g. workers, the self-employed, etc.); and for different regions or districts (in the case of education, social assistance).

#### The emphasis on cash benefits

Most benefits are income maintenance cash payments, which leave consumption decisions to the beneficiary and stress the importance of the private provision of services. With the exception of education, the state provision of services is of limited importance. Outside hospitals, which may be public or private, medical goods and services

are mainly provided by private suppliers (the pharmaceutical industry, private doctors and dentists, etc.). In the housing sector, state support is limited to subsidizing the supply of private housing, the provision of housing allowances for low-income families, rent regulation, and tenant protection.

#### The reliance on social insurance

Individuals are not normally entitled to income maintenance benefits in their capacity as citizens, but as members of social insurance programmes who have a certain contribution record. Benefits are usually earnings-related and seek to maintain the standard of living attained by the recipient during his working life. Income maintenance programmes are financed by the insured and their employers, with only a small amount of state financing.

#### The importance of labour legislation

All social programmes must be seen in the context of labour legislation which establishes a high degree of regulation regarding working conditions, dismissals and co-determination at the plant level. This aspect will not be dealt with further here.

## 2. Social protection in defence of traditional authority: the origins of the welfare state in Imperial Germany

The present structure of German welfare state institutions is not the result of a unified plan for social reorganization, but the product of long-term historical developments. The industrial revolution, which arrived relatively late in Germany, transformed society rapidly. The number of industrial workers more than doubled to 2 million in the period 1850-1867, and had risen to 6 million by 1895<sup>1</sup>. This growth was accompanied by a significant increase in the organizational capacity of workers. In 1863 Ferdinand Lassalle founded the first German Labour party. In 1875 the party merged with the SPD, founded in 1869 by Bebel and Liebknecht. During the second half of the 1860s, the first trade unions were organized, and the 'social question' (*Soziale Frage*) became a crucial political issue.

The Prussian state had for a long time relied on repression as the only way of reacting to the mobilization of workers. The Industrial Codes of 1845 and 1869 limited the freedom of association, and workmen's organizations were repeatedly disbanded. Nevertheless, the SPD continued to grow in parliamentary strength. Although universal male suffrage had been introduced from the outset of German unification, the government sought to combat the electoral success of the SPD with anti-socialist legislation that banned the political organization of workers and which remained in effect from 1878 until 1890<sup>2</sup>.

After Bismarck had opted for an interventionist economic policy with high protective tariffs for industry and agriculture, thus considerably increasing the cost of living for the working class, he realized that repression alone was not sufficient to prevent the political mobilization of the workers. With the establishment of public social insurance programmes he hoped to create a tight bond between the state and workers and to split the opposition of the SPD and the Liberals in the Reichstag who were pressing for the realization of parliamentary government.

Education never entered into Bismarck's plans for social reform. The principle of compulsory education was introduced in Prussia as early as 1717, and had become effective in all Prussian territory by 1825. The Prussian state had gained effective control of the education system by 1872 after fierce battles with the Catholic Church. The

democratization of (primary) education had thus already been achieved before the political mobilization of workers began to gain momentum: nearly all workers' children attended public primary school in the last quarter of the nineteenth century, and Germany had the highest educational enrolment figures in Europe<sup>3</sup>. This fact may help to explain why education is not usually considered an element of German social policy.

Bismarck's social insurance bills were only passed after heated debate and several modifications. When the compulsory insurance schemes against sickness (1883), industrial accidents (1884), and invalidity or old age (1889) were finally adopted, they were the outcome of a series of compromises rather than the result of a consistent reform plan. The consideration of a broad spectrum of interests may be one of the reasons why the German social insurance schemes displayed such remarkable institutional longevity. These three programmes embodied the basic principles of present day social insurance provision: that insurance is made compulsory by law, but administered by a plurality of autonomous bodies with representatives of employers and the insured; that entitlement to benefits is based on past contributions rather than on need; that benefits and contributions are earnings-related; and that financing should, on aggregate, be tri-partite (the insured, the employer, and the state).

The successful functioning of the new social protection schemes for workers soon generated feelings of relative deprivation among other social categories. In 1901, salaried employees established an association and demanded that social insurance coverage be extended to salary earners. Pressure from the association eventually led to an important reform of the social insurance system. In 1911 the three compulsory insurance laws were consolidated in a single uniform National Insurance Code (*Reichsversicherungsordnung*). The Code included the introduction of survivors' pensions for widows and orphans<sup>4</sup>. In the same year, another law established a pension insurance scheme for salaried employees. Although heavily amended, the 1911 legislation is still in force today.

The provisions for salaried employees were in many respects more generous than those for workers. Employees were entitled to: an invalidity pension in cases where their earning capacity had been reduced by half (two-thirds for workers); an old age pension from the age of 65 (70 for workers); and an unconditional survivors' pension for widows of the insured (for workers, only where the widow was disabled). Employees' coverage for sickness was also preferential. The 1891 Industrial Code and the 1897 Commercial Code established full wage continuation for employees in the case of sickness lasting for a period of six weeks. Workers, instead, were only entitled to sickness insurance benefit which covered 50 percent of earnings up to a certain maximum. By institutionalizing the differentiation between workers and employees, the establishment of special social rights for salaried employees became an important element in the fragmentation of the German working class.

Apart from the revision of 1911, a second modification was the reform of sickness insurance. The Sickness Insurance Law did not regulate the relationship between insurance funds and doctors - an area which became extremely prone to conflict. In 1892 the funds won the right to determine which doctors were to be licensed with the insurance system, and to draw up individual contracts with them. The doctors, in turn, pressed for unlimited access to licenses and the collective negotiation of contracts in order to strengthen their position vis-a-vis the funds. In 1900 they formed a central association (*Hartmannbund*) in order to pursue these aims. After a series of strikes they succeeded in reaching a national agreement with the insurance funds in 1913 which introduced a system of collective bargaining. Doctors became recognized as the contracting partners of the insurance funds, the number of licences issued was

regulated on the basis of the number of insured persons per district, and doctors' fees became subject to collective bargaining between the funds and doctors' associations. Although repeatedly modified, this system is still effective today.

Bismarck did not succeed in his objective of undermining the political mobilization of workers by the introduction of social reforms. The SPD voted against the social insurance bills, and by 1912 it had become the strongest faction in the *Reichstag*. Nevertheless, the new social protection schemes, although not halting the growth of the SPD, effectively strengthened its revisionist wing. The administrative bodies of the social insurance schemes gave party members access to power positions and gave workers the opportunity for upward mobility to white-collar status. When an amendment to the Invalidity Insurance Law was discussed in 1899, the SPD began to vote in favour of the insurance bills. Later, at the 1902 Munich Congress, it even endorsed a public unemployment insurance scheme which was still regarded with suspicion by the unions<sup>5</sup>. The fact that social insurance and public education were well developed long before a Labour Party participated in government may be considered one of the reasons why the development of the German welfare state differs from that of, for example, the Scandinavian countries.

In addition to social insurance, the German *Reich* had a fairly developed public assistance scheme. In 1870, the earlier Prussian laws were transformed into a consolidated Public Assistance Law which was extended to (almost) all regions of the *Reich* after the unification. The federal structure of the Empire and the limited share of revenues accorded to the central government, however, set tight limits to the development of further initiatives in social policy. The supervision of health conditions lay within the competence of the single states. An Imperial Health Office (*Kaiserliches Gesundheitsamt*) established in 1876 only operated in an advisory capacity.

Despite very severe housing problems - especially in the rapidly growing cities - the state remained remarkably inactive in the field of housing legislation. Until World War I all initiatives to subject the housing market to a certain degree of state regulation failed. Central government activities remained limited to the granting of modest public loans to building societies, paid for the first time in 1901.

In the field of education a series of national school conferences in 1873, 1890 and 1900 sought to standardize the federally fragmented school system. The rigid differentiation between primary and secondary schooling was confirmed. Although the depression of 1873 led to a slowdown of expansion in the post-primary sectors, Germany maintained its position as one of the leaders in public education until World War I<sup>6</sup>.

By 1913, educational expenditure (1,265 million RM) still accounted for the bulk (46 percent) of social expenditure. Outlays for social insurance and social assistance together amounted to 1,181 million RM (43 percent). Public expenditure on health (272 million RM), and housing (31 million RM) remained modest. Total social expenditure (2,749 million RM) corresponded to 37 percent of all public expenditure or scarcely 5 percent of GDP (see Graph 1).

World War I stimulated state intervention in previously neglected areas. Immediately after the onset of hostilities a federal decree introduced measures to protect tenants and control the housing market which were subsequently tightened during the war. A law of 1918 empowered the central government to subsidize the supply of housing. The state also took first steps to develop a labour market policy. In 1914 a central labour exchange was established in the Ministry of the Interior, and parts of the state's war loans were used to finance assistance payments for the unemployed. Social insurance benefits were also extended. Thus in 1916 the age limit for the receipt of

old age pensions under the workers' insurance scheme was fixed at its present (regular) level of 65 years, bringing it into line with the employees' scheme.

Shortly before the end of the war in 1918, collective bargaining was recognized. In the same year a special Ministry of Labour was established. Headed by a former trade union leader, it assumed the responsibility for social policy formerly held by a department of the Ministry of the Interior. This symbolized a change in the role of social policy, from being an instrument of social order to one of social change.

### 3. Social policy and the democratic class struggle: the Weimar Republic

The collapse of the monarchy in November 1918 was not accompanied by a basic change in societal power structures. The change in political regime was the result of a series of compromises between old and new elites rather than of a victorious revolutionary upheaval. As plans for the nationalization of key industries were soon abandoned, social reforms to calm public unrest became necessary. Important reforms of labour relations had already been realized as part of the transition from a war to a peace economy immediately after the establishment of the Republic. Decrees of 1918 established the eight-hour working day, set up a public labour exchange, recognized collective bargaining for determining wages and working conditions, and issued rules for the formation of arbitration committees.

Labour legislation of 1923 empowered the state to declare the results of collective bargaining legally binding and to settle unresolved labour conflicts by means of obligatory arbitration. The system of local labour offices, factory inspection and arbitration committees set up under the Ministry of Labour was completed in 1926 by the introduction of special labour courts, thus creating a differentiated machinery of state intervention in labour conflict<sup>7</sup>. The heavy involvement of the state in labour conflicts led to an enhanced politicization of the collective bargaining process, as the conflicting parties now increasingly sought to gain control over the Ministry of Labour.

In the context of fierce domestic conflicts during the postwar economic crisis of 1919-1923, the government - led by centre-left coalitions throughout most of this period - felt constrained to implement social reforms despite a lack of resources. In the field of labour legislation, a law of 1920 consolidated the wartime provisions on workers' co-determination by making the establishment of workers' councils obligatory in all firms with more than 20 employees. In the same year another law established a nationwide corporatist Economic Council with advisory functions in economic and social matters.

Other important innovations were made in the fields of housing and education. A federal school law of 1920 abolished private primary schools preparing for entry to the *Gymnasium* and introduced a four-year comprehensive system of primary schooling for all pupils. This law led to a considerable increase in *Gymnasium* attendance<sup>8</sup>. In the housing sector, a law of 1920 subjected the housing market to administrative controls. Other laws to regulate rents and to strengthen tenant protection were passed in 1922 and 1923. A 1921 law introduced a special tax (subsequently extended in 1924) for the financing of the public promotion of housing construction.

The most important income maintenance reforms included the introduction of war victims' benefits (1920), which temporarily accounted for a third of the central government's budget; and the transformation of the emergency postwar unemployment relief system into a regular assistance programme, financed by employees' and employers'



contributions (1923). The 1913 agreement between doctors and the insurance funds was incorporated into the National Insurance Code in 1923. The 1922 Youth Welfare Act established the basis for the present programmes for young people.

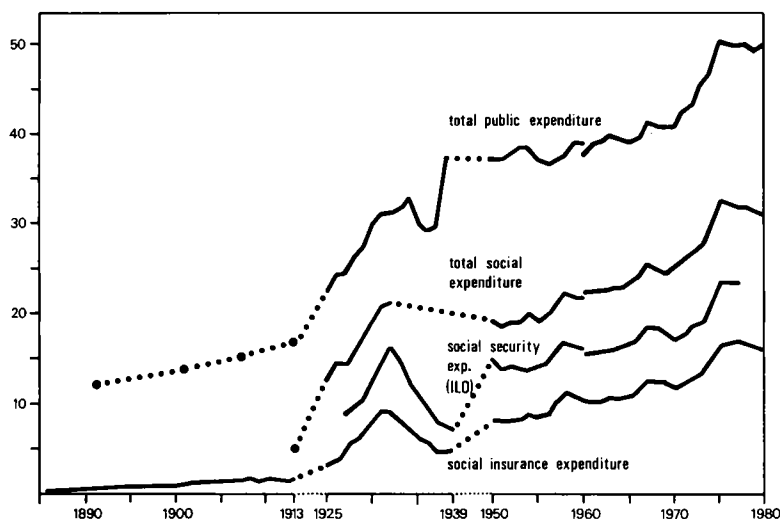
With the stabilization of the currency in late 1923, a period of economic recovery began which lasted until 1928. In the context of economic growth and a strengthened position of the unions, the social legislation of the new centre-right governments concentrated on the development of the income maintenance schemes, whilst considerably reducing the control of the housing market. A law of 1924 set up a modern public assistance scheme which replaced the old poor relief legislation of 1870, strengthening the legal position of recipients. The scope of the social insurance system was broadened through extensions to additional occupational groups and repeated increases of the income limits for compulsory coverage. The most important reform, however, was the introduction of a compulsory unemployment insurance scheme in 1927.

In late 1928 a period of economic downswing began, and the new unemployment insurance ran into financial difficulties. Its deficits had to be covered by the central government, which had itself faced deficits for several years. This generated a fierce debate in the newly formed centre-left government as to the appropriate strategy of financial consolidation. As the level of unemployment benefits sets limits to potential wage reductions, the controversy became linked to fundamental distributional conflicts. The SPD, backed by the unions, supported an increase in contribution rates, whereas the other coalition parties, supported by the employers' associations, favoured a reduction in benefits. The cabinet subsequently voted in favour of the latter, and the SPD withdrew from government. This opened the way to the replacement of parliamentary decision making by a system of presidential emergency decrees.

The new governments - first headed by Brüning - tried to balance the budget through a deflationary policy. A series of emergency decrees in 1930, 1931, and 1932 cut the public housing construction programme and drastically reduced practically all income

Graph 1

The long-term growth of total public and social expenditure  
as a % of GDP



maintenance benefits. In the unemployment insurance scheme, the level of benefits was halved between 1930 and 1932, and entitlement was considerably restricted. In 1933 only 10 percent of the unemployed were in receipt of insurance benefits, and another 28 percent were in receipt of unemployment assistance payments<sup>9</sup>.

On aggregate, social expenditure fell from 15.8 billion RM in 1930 to 12.0 billion in 1932. Social insurance expenditure (including unemployment insurance) was reduced from 10.5 to 8.5 billion RM<sup>10</sup>. However, as GDP shrank even faster than social expenditure, the social expenditure ratio rose, reaching an unprecedented level in 1932 (see Graph 1).

In the context of high unemployment, curtailed transfer payments and parliamentary stalemate, the National Socialist opposition increased its share of the vote in the national elections from 2.6 percent in 1928 to 37 percent in 1932. Together with the Communists it now held a majority of the seats in the *Reichstag*. Despite a setback of four percentage points at the second 1932 elections, the National Socialists came to power in 1933, and the Weimar Republic collapsed a few weeks later.

#### 4. Social policy as an instrument of totalitarian control: the National Socialist regime

Once in power the National Socialists transformed German society rapidly. By mid-1933 all rival political parties had been dissolved. The unions were destroyed and collective bargaining was replaced by a tight bureaucratic control of the labour market. In comparison with other institutions, the body of social programmes remained remarkably intact. The fragmented structure of the social insurance system resisted all unifying and centralizing tendencies of the new regime, but its administration and functions underwent significant changes.

A law of 1934 abolished the autonomous self-administration of social insurance by employees and employers. Each social insurance fund became headed by a 'leader' chosen by the new state authorities. The high contribution rates and reduced benefit levels fixed during the depression were preserved even when economic recovery increased the funds' resources. The funds were compelled to invest a sizeable part of their surplus in government loans. In the Nazi war economy, social insurance contributions were used as an additional source of government revenues and as a means to reduce the purchasing power of the masses. The social expenditure ratio fell far below the levels of the Weimar period (see Graph 1).

The Nazi period, however, was not merely one of welfare state dismantling. The scope of social insurance was repeatedly widened. When the intensive production of heavy armaments led to a labour shortage in the late 1930s, thus strengthening the bargaining position of the working class, the regime made some improvements in social benefit levels<sup>11</sup>. In 1937 the option of voluntary membership of the pension insurance scheme was introduced<sup>12</sup>. In 1938 compulsory insurance was extended to artisans as the first major category of self-employed persons to be so covered. Pensioners were included in sickness insurance coverage in 1941. In 1942 industrial accident insurance was extended to all wage-earners regardless of occupation. Benefit levels were improved when the restrictions imposed during the economic depression were lifted, and by the extension of entitlements. Among the most important innovations were the extension of the period of sick care (unlimited duration), and the introduction of a maternity allowance for a period of six weeks before and after the birth (1942).

From the outset, the regime paid special attention to family policy. In 1933 loans to newly-wed couples were introduced with the idea of reducing female employment. A

social insurance reform which increased benefits and contributions and made some tax reform of 1934 provided sizeable tax credits for large families. A year later an extraordinary benefit was introduced, being payable to families with more than four children. In 1936 this was transformed into a regular child allowance for the fifth child and any further children. Payment of this allowance presupposed 'faithful service to the German people', and similar mechanisms for social control were incorporated into legislation on youth welfare. A law of 1938 regulating the conditions of child employment made the minimum length of holidays dependent upon membership of, and participation in, the *Hitlerjugend*<sup>13</sup>.

Reorganization of the social assistance system was also used to cultivate loyalty to the party. The autonomous public assistance organizations were dissolved, and the system was centralized under the leadership of a National Socialist organization established in 1933 (*Nationalsozialistische Volkswohlfahrt* NSV). Administrative guidelines specified that the function of assistance was to promote collective rather than individual well-being and to educate recipients in National Socialist thinking.

In the health sector, a law of 1934 established health offices, still in existence today, to supervise medical standards throughout the country. In the sectors of housing and education, the state remained deliberately inactive. As all available resources were channelled into the war effort, public investment on housing was significantly reduced. Contrary to political promises, annual housing construction fell to below the levels reached in the Weimar period<sup>14</sup>.

Educational expenditure was reduced in real and even nominal terms<sup>15</sup>. In the period 1930-1939, the number of university students fell by more than half<sup>16</sup>. Enrolment ratios fell below the Weimar levels and also dropped to beneath the West European average<sup>17</sup>. Once a 'leader' in education, Germany was now becoming a 'laggard'. The 'educational catastrophe' discovered in the mid-1960s thus originated in the Nazi period.

Although the regime subjected the education system to strict central control and established standardized curricula, the structure of the school system remained remarkably stable. Apart from the establishment of some new types of secondary schools, the rigid differentiation between primary and secondary education was maintained. The number of private schools was drastically cut, however, and religious schools were almost completely replaced by non-denominational schools<sup>18</sup>.

After the defeat of the Nazi regime, the financial resources of the social insurance system were depleted, the universities were drained, and health and housing conditions were disastrous. Many able social administrators were either dead or had emigrated<sup>19</sup>.

### **5. Security and opportunity in the social market economy: the Federal Republic**

After the defeat of the Hitler regime most of the existing social programmes remained intact. Only child allowances and some other special schemes established under Nazi rule were discontinued. In 1946, however, the Allied Control Commission drafted a plan for the establishment of a unified national insurance scheme based on the Beveridge model. The project immediately met with strong opposition from German interest groups, including the trade unions. With the onset of the 'Cold War' the Western allies lost interest in its implementation.

In the Western zones the allied authorities began to shift legislative functions to German parliamentary bodies which were then being built up. In late 1948 the newly established assembly (*Wirtschaftsrat*) in the Anglo-American zone passed a law on

Table 1 Major institutional changes in the German welfare state, 1949-1980

## Pensions

- 1957 Indexation of pensions; compulsory insurance for independent farmers
- 1967 Abolition of income-limit for compulsory coverage
- 1972 Introduction of flexible age limit and other extensions of entitlements
- 1977 Modification of pension formula

## Sickness insurance and health

- 1955 Regulation of relationship between doctors and insurance funds
- 1957 Reform of sickness insurance with partial wage-continuation for workers
- 1969 Full wage continuation for workers; constitutional reform strengthening the role of the federal government in the health sector
- 1970 Indexation of income-limit for compulsory coverage; introduction of preventive medical check-ups
- 1972 Compulsory sickness insurance for independent farmers; regulation of hospital financing with participation of federal government
- 1977 Introduction of corporatist "concerted action" to contain cost explosion in the health sector

## Occupational injuries insurance

- 1963 Reform of occupational injuries insurance with indexation of benefits

## Unemployment insurance

- 1956 Reform of unemployment insurance with sizeable benefit increases
- 1969 Major re-organization of unemployment insurance introducing instruments for an active labour market policy

## Families and children

- 1954 Introduction of employer financed child allowances
- 1961 Youth Welfare Act
- 1964 Re-organization of child allowances shifting financing to federal government
- 1974 Introduction of universal child allowance scheme

## Social assistance

- 1961 Major re-organization of social assistance replacing legislation of 1924
- 1969 Reform of social assistance extending entitlements

## War consequences

- 1950 New benefit scheme for war victims
- 1952 Fund for equalization of burdens for refugees

## Housing

- 1950 Federal subsidies for housing production; promotion of social housing
- 1960 De-regulation of housing market
- 1965 Introduction of housing allowances
- 1971 Legislation on tenant protection

## Education

- 1964 Agreement among the single states to standardize the school system; compulsory education extended to 9 years
- 1969 Constitutional reform empowering federal government to legislate on education; introduction of education allowances
- 1976 First nationwide legislation on universities

structural changes to the existing schemes. The 1949 Constitution deliberately did not contain any commitment to a specific economic and social order. The result of the first national elections clearly indicated, however, that the majority of voters did not favour a socialist planning of the economy. The Communists and SPD together captured only 36.5 percent of the seats. The coalition government, formed by Christian Democrats (*Christlich Demokratische Union*, *Christlich Soziale Union*, CDU/CSU), FDP (*Freie Demokratische Partei*), and a conservative splinter party, opted for a liberal economic policy. Only the housing market remained subject to state controls.

The first social policy initiatives dealt mainly with a programme of subsidized housing construction, and with measures for the integration and compensation of war victims and refugees. A series of laws restored the social insurance principles of the Weimar Republic. The traditional self-administration by employers and employees was re-introduced<sup>20</sup>. Union and SPD plans for the establishment of a unified national insurance scheme were crushed when the first elections to the new administrative boards were overwhelmingly won by those advocating the differentiation of workers' and employees' schemes<sup>21</sup>.

The subsequent re-establishment of a special pension insurance scheme for employees signalled the persistence of the fragmented structure of German social insurance. Two 1955 laws confirmed the traditional structure of the health system with its dominance of private suppliers, collective bargaining between doctors and insurance funds, and the limited supervisory role of the public health services. Educational matters remained the sole competence of the single states.

At the beginning of the second legislature, Chancellor Adenauer announced his intention to introduce a fundamental social reform which would restructure the highly complex welfare system. A group of experts drafted a reform plan (*Rothenfels Denkschrift*) and several academics, committees, interest groups, and parties produced a mass of elaborate proposals. In this connection a General Secretariat of Social Reform was set up within the Ministry of Labour in 1955.

In practice, few of these ambitious reform plans were implemented. This was mainly due to the deep cleavage within the CDU, between the Social Christian Workers' wing and that of the neo-liberal employers. In the cabinet this cleavage took the form of a split between the Ministry of Labour and that of Finance, with the latter advocating a highly selective social policy based on means tests. Under these circumstances, and after Adenauer had sided with the workers' wing, the idea of a complete remodelling of the welfare state gave way to the gradual extension of single programmes. Adenauer not only needed the electoral support of the growing number of pensioners, but also wished to link the extension of political rights to broader political considerations. The rebuilding of the German army needed to be balanced by improvements in social policy in order to overcome opposition from the SPD and the unions to rearmament<sup>22</sup>.

With the sails thus set for a course of expansion, a new child allowance scheme was introduced in 1954. Subsidies to private builders were increased, with priority being given to the construction of family housing. Unemployment benefits were improved. The extension of benefits culminated in a thorough reform of pension insurance in 1957. This reform increased benefits, equalized entitlements for workers and employees, and introduced a pension scheme for farmers. Following a political strike by the unions, another law of the same year introduced partial wage continuation in the case of sickness, thus narrowing the gap between workers' and employees' entitlements.

During the third and fourth legislatures (1957-1965), reforms of social assistance (1961), child allowances (1961, 1964), and occupational injuries insurance (1963) considerably broadened the scope of individual entitlements. The deregulation of the housing market in 1960 was followed by the introduction of housing allowances for low-income families. Union demands for a further equalization of workers' and employees' sickness benefit entitlements led to an extension of workers' wage continuation in 1961. More fundamental plans to restructure sickness insurance and to introduce private cost-sharing were abandoned after a decade of contention with the unions and doctors' associations.

The mid-1960s marked the end of the expansion phase and the beginning of a period of transition. This change was linked to important political and economic changes. The rate of economic growth had declined considerably during the 1960s. The coalition government of Christian Democrats and FDP headed by Erhard, sought to develop mechanisms for increased social and economic planning. A standing committee of economic advisors (*Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung*) was set up to issue annual analyses of economic policy. In preparation for a reform of social policy, a committee was set up to examine the workings of social programmes. The resulting report initiated the publication of an annual governmental 'social budget', designed to link the planning of social and economic policy more closely.

In the meantime, an important political realignment brought an end to the long period of polarization between the bourgeois and social democratic camps, making all parties possible coalition partners. After a series of conflicts, the FDP moved away from the Christian Democrats. The SPD replaced its old manifesto of 1925 with a new party platform in which it reconciled itself to the social market economy and the country's integration into the Western alliance.

When a sudden recession in 1966/67 led to unresolvable conflicts between FDP and Christian Democrats over the budget, a 'grand coalition' (*Grosse Koalition*) of Christian Democrats and SPD was formed. To combat the economic crisis, the new government intended to shift public expenditure from social consumption to social investment. Various transfer payments were curbed, and for the first time, educational issues were given political priority. A wider access to higher education institutions was pursued as an investment in human capital and as a means to promote equal educational opportunities. The new coalition initiated a reform empowering the federal government to pass educational legislation and to participate in the provision of health services. A federal Ministry of Education and Science was established<sup>23</sup>, new universities were constructed and education allowances were introduced for low-income families. Changes in income maintenance schemes met some of the long-standing demands of the SPD. As a first step towards a more active labour market policy, the competence of the unemployment insurance scheme was extended to include the promotion of vocational training. A new system of wage continuation equalized the entitlements of workers and employees, and the pension schemes of both groups were financially consolidated by an obligation to mutually balance liquidity reserves.

The drive for a new social policy gained momentum when a SPD/FDP coalition was formed in 1969 and when the renewed growth of the economy replenished federal resources. In promising to 'democratize society', the new government sought to transform social policy into a tool for active social engineering. Several commissions were set up to develop broad-based reform plans. Special attention was given to the improvement of working conditions. Social services were expanded, particularly in

sickness insurance with the introduction of preventative treatment. In the educational sector, allowances were improved. Income maintenance entitlements were extended by reforms of all social insurance schemes, most notably pensions. Child allowances were increased and extended to all families with children. Housing allowances were improved and tenant protection was strengthened.

The new social policy suffered a sudden setback when the recession of the mid-1970s combined with deficits in the pension insurance scheme and a cost explosion in the health sector. Since 1975, the government has sought to bring the growth rate of social expenditure into line with that of economic growth. In this new phase of financial consolidation, most social benefits were cut (see Section V). Once again steps towards a systematic reform were initiated when the government set up a transfer inquiry commission in 1977 to examine the workings of welfare schemes and to issue recommendations for their reform. Up to the present, however, all attempts to reform the old-established fragmented system have failed. The growth of the German welfare state has therefore taken place within a fairly stable institutional order.

## II Resources and clienteles: descriptions

### 1. The postwar growth of public and social expenditure

After World War II the Federal Republic was faced with enormous economic problems. Around two million dwellings had been destroyed, almost ten million refugees had immigrated to the Republic from the former Eastern regions of the *Reich*, and unemployment was very high. Despite this, and despite the constitutional option of nationalizing private property, the new government led by the Christian Democrats chose a liberal economic policy, and sought the reconstruction of the economy by stimulating private initiative rather than by the imposition of state regulation.

In this context, the public expenditure share of GDP remained modest. Contrary to Peacock and Wiseman's famous 'displacement effect' hypothesis, public expenditure ratios even fell below the levels reached in the interwar period. In its most inclusive definition, the share of the consolidated public sector amounted to 37 percent of GDP in 1950 (see Graph 2) as compared with 39 percent in 1938. Excluding social insurance, public outlays claimed 29 percent of GDP in 1950 as against 34 percent in 1938<sup>24</sup>.

During the 1950s the volume of public expenditure more than doubled in real terms (see Graph 3). As annual growth rates corresponded closely to those of GDP, the expenditure ratio remained fairly constant at around 38 percent. Since 1960 there has been a growing disparity between the growth of public outlays and the rate of economic growth. Although both growth rates were subject to a downward trend, in most years public expenditure grew much faster than GDP, so that the expenditure ratio increased sharply. During the economic recession of the mid-1970s the threshold of 50 percent was passed for the first time, and the expenditure ratio has since stabilized at this level. Graph 3 shows that absolute growth in real terms has been much steadier than the growth of the expenditure ratio. In the entire postwar period, public expenditure has shown a sixfold (real) increase, as compared with a fivefold increase in GDP.

During the 1950s and 1960s the growth of the public expenditure ratio was almost exclusively due to the increase in social insurance outlays. Whereas the social expendi-