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WELFARE STATE REGRESS IN WESTERN EUROPE: POLITICS, INSTITUTIONS, GLOBALIZATION, AND EUROPEANIZATION

by

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Politics, Institutions, Globalization and Europeanization*

Abstract
In interdisciplinary research on welfare state regress in Western Europe, interest has focused on the causes and extent of retrenchment. Causal debates have concerned the role of globalization, post-industrialism, European integration, and partisan politics. The "new politics" perspective views pressures towards retrenchment as basically generated by post-industrial changes causing government budget deficits and permanent austerity, developments pressing all governments to attempt to cut welfare state programs. These attempts are resisted by powerful interest groups consisting of welfare state benefit recipients, and therefore retrenchment is likely to be a limited phenomenon. Such recipient-based interest groups generated by welfare states are seen as largely replacing left parties and unions once driving welfare state expansion, thus marginalizing the role of class-related politics in the retrenchment process. Conclusions pointing to only limited retrenchment and a minor role for partisan politics have been criticized because of the non-theoretical definition of the welfare state and because of the concentration on social expenditures. The power resources approach, focusing on the role of distributive conflicts between major interest groups for welfare states development, widens the theoretical definition of the welfare state to include full employment as well as social transfers and expenditures. In Western Europe full employment was one of the cornerstones of the postwar "Keynesian welfare state," entailing a social contract which markedly differed from the one in the United States. The return of mass unemployment in Europe since the mid-1970s constitutes a major welfare state regress, and at the same time generates government budget deficits and austerity. Analyses based on citizenship rights in social insurance programs indicate major retrenchment in some West European countries, with political parties and welfare state institutions in significant roles. In this perspective the return of mass unemployment and cuts in social rights appear as a reworking of the European post-war social contract. The widening of the scope of welfare state indicates that trans-nationalization may have differing effect on its different aspects.

Key words: welfare state retrenchment, globalization, European Union, partisan politics, unemployment.

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Once upon a time – not that long ago – there was consensus in Western Europe that the welfare states with full employment and expanding social citizenship rights inaugurated after the end of the Second World War had come to stay. In its 1945 election manifesto the British Labour Party had made "Jobs for all" and "Social insurance against the rainy day" its primary political objectives and had outlined "the means needed to realize them" (Craig 1975: 124-125, 130). Labour's unexpectedly great victory set the tone and impressed a lesson which was widely accepted in Europe. Scholars, politicians and the public came to see the continued existence of such welfare states as ensured by a supportive electorate. In the 1950s this mood was summed up by a leading British Labour politician: "Any Government which tampered seriously with the full employment Welfare state would meet with a sharp reversal at the polls" (Crosland 1956:28). In the mid-1970s, however, this stability began to evaporate. Before the end of the century, Western scholars had shifted their focus from the study of welfare state expansion to analyses of its regress, welfare state retrenchment. In the 1990s, the study of retrenchment became a growth industry with an outpouring of articles and books.

In scholarly debates on welfare state retrenchment, one key issue has concerned the extent of retrenchment. On this question the dominant view has been that in Western Europe no sweeping or radical retrenchment has occurred, a view which has recently been questioned. Other central questions have concerned the causes of retrenchment. Here the debate has been rather intensive. In the theoretical discussions, key issues have concerned the relative significance in this context of three factors: economic transnationalization, post-industrialism, and distributive conflict as expressed in partisan politics. Debates on economic transnationalization have included globalization but also the role of economic and political integration within Europe. On the significance of globalization for retrenchment, views have differed. The major proponent for post-industrial changes as causes for retrenchment has been Paul Pierson. In a series of pioneering and challenging works, Pierson (1994, 1996, 2001 a, b, and c) staked the claims for what came to be described as "the new politics of the welfare state." The new politics strand of thought rejects the hypothesis that globalization is a main cause of retrenchment, arguing instead that here post-industrialism exerted the major pressures. The new politics perspective partly counterposes itself also in relation to the power resources approach to welfare state development. As is well known, in the latter approach welfare states are to a significant extent seen as outcomes of distributive conflicts involving class-related interest groups and political parties, conflicts where the relative power of actors is significant (Esping-Andersen 1985, 1990; Huber and Stephens 2001; Korpi 1983, 1989; Myles 1984).

While Pierson holds that the power resources approach is very fruitful in explaining welfare state expansion, he argues that in crucial respects retrenchment is different from expansion. Basic to the new politics perspective is the hypothesis that in the retrenchment phase, the major forces driving welfare state change no longer come from distributive conflicts among socio-economic interest groups, but emanate instead largely from post-industrial changes (Pierson 2001b). Growing service sectors decrease economic growth rates, while the graying of populations, changing family patterns, the increasing share of women in the public sector labor force, and the maturation of government welfare commitments all tend to increase social expenditures. Such post-industrial changes generate intense and persistent pressures on government budgets (Pierson 2001c). The cold star of permanent austerity therefore guides governments of all political shades to attempt cuts in social expenditures.

The most central challenge by the new politics strand of thought to the power resources approach is that in the retrenchment phase, class-related political parties which once drove welfare state expansion have now largely receded into the background. Thus, although politics is still seen to matter, according to the new politics perspective "there are good reasons to believe that the centrality of left party and union confederation strength to welfare state outcomes has declined" (Pierson 1996:151). These forces are seen as to a large extent replaced by new client groups of benefit recipients generated by welfare states themselves, such as pensioners, health care consumers, and the disabled. Because of the size and concentration of interests in such groups of benefit recipients, they have been able to largely resist government attempts at cut backs. The resilience of the welfare state is further fortified by the new situation in which governments find themselves. While in the expansionary period, politicians could claim credit for carrying out generally popular reforms, in the retrenchment phase politicians have to overcome "the negativity bias" when strong interest groups are required to forego rights and benefits which they have come to see as entrenched parts of the status quo. Pierson thus advanced the hypothesis that for these reasons welfare state retrenchment is likely to be a limited phenomenon.

In this paper I will focus on Western Europe since the mid-1970s and discuss studies on the extent and causes on welfare state regress or retrenchment in. The latter terms are here used interchangeably to refer to policy changes involving or implying cuts in social rights in ways which are likely to increase inequality among citizens. Because of the large number of studies dealing with welfare state change, the review has to be highly selective, focusing on works which exemplify the various strands of thought concerning the driving forces and extent of retrenchment. [1]

The review begins with a consideration of the definition of the dependent variable in analyses of welfare state regress and with methodological problems in such analyses. I argue that while most analyses have focused on social transfers and services, post-war welfare states of Western Europe have typically included full employment as one cornerstone, making increases of unemployment an important indictor of welfare state regress. Furthermore, most comparative studies have been either based on expenditure data and/or focused on one or a few cases. Recent work permitting comparison based on social citizenship rights with data for a relatively large number of countries and long time periods has greatly improved the description of welfare state regress as well as causal analysis. The next section takes up a comparison between European countries and the

[1] As pointed out by several authors, welfare states change in a number of ways, only some of which can be described as regress or retrenchment (Ferrera and Rhodes 2000; Pierson 2001c). The numerous studies which do not concentrate on retrenchment are not included here. In Eastern Europe, developments in the countries of the former Soviet block are so different that they cannot be treated here.

United States with respect to the role of full employment in their respective welfare states and their different paths of development of unemployment since the end of the Second World War. The following section describes the extent of retrenchment in social insurance programs and discusses the role of welfare state institutions in this context. Thereafter I take up the question of the potential role of partisan politics during the period of retrenchment for differences among countries as well as the role of retrenchment for gender inequality. The pen-ultimate section takes up the effects of globalization as well as ongoing processes of political and economic integration in Europe for welfare state regress, differentiating between different aspects of welfare states. The last section discusses the findings in this review. In dealing with theoretical arguments and causal interpretations, attention is focused on a comparison between the new politics perspective and the power resources approach.

Definition and Measurement of Welfare States

In the study of retrenchment the dependent variable, the welfare state, has typically been defined in terms of social transfers and/or social services. While these two areas of course are central, in analyses of retrenchment it is necessary to have a theoretically based definition of the dependent variable. In the power resources approach post-war changes in welfare states are seen as to a significant extent reflecting power contests among major interest groups related to the relative role of markets and democratic politics in distributive processes. These conflicts also define and change institutions which set frames for continued distributive conflicts. Such an approach indicates that while transfers and services are important, here at least one more area must be considered, namely that of unemployment.

In the power resources perspective unemployment appears as a central variable because for categories of citizens with labor power as their main basic power resource, the efficacy of this resource in distributive conflict and bargaining is to a major extent determined by the demand for labor and the level of unemployment. In this perspective, the maintenance of low levels of unemployment appears an essential part of the welfare state (for example, Korpi 1983:188 ff). The right to employment is however very difficult to establish as a claim right. Yet, in almost all countries of Western Europe in the years after the end of the Second World War, full employment became what can be called a social proto-right in the sense that it was widely expected by citizens and that irrespective of partisan composition most European governments acted so as to maintain full employment.

As Blanchflower and Oswald (1994) have shown, the level of unemployment has a clear relevance for wage levels. In local labor markets and industries with high unemployment, wages tend to be lower than where unemployment is low. This empirical fact indicates that the level of unemployment is likely to be a main bone of contention between employers and employees, and a major factor determining outcomes of the positive-sum distributive conflict between them concerning the distribution of firm revenues. The state of the labor market and changes in levels of unemployment must therefore be seen as essential welfare state indicators and can not be overlooked in analyses of welfare state retrenchment.

As in earlier analyses of welfare state expansion, in the study of retrenchment the typical dependent variable has been welfare state effort, defined as the size of government social expenditures in relation to the gross domestic product. With basic data available in publications by the International Labour Organization (ILO) and the Organisation for Economic Cooperation and Development (OECD), this indicator has been widely used. Unfortunately, however, the well-known problems associated with the welfare effort indicator become aggravated in the analysis of retrenchment. Thus, for example, international developments and government policies can raise the level of unemployment, thereby increasing public expenditures for the maintenance of the unemployed and at the same time also tending to slow down GDP growth. Therefore a reliance on the conventional welfare state effort indicator may make an unemployment crises appear as an increase in welfare state effort. As argued by Swank (2001:215), with proper control variables some of these problems can be counteracted, yet in this context results based on expenditure changes are likely to remain problematic.

As a complement to studies on welfare state development based on expenditure data and case studies, within the Social Citizenship Indicator Program *(SCIP)* alternative measures of welfare state development are in the process of being developed, measures focused on describing and quantifying the nature of legislated social rights in major social insurance programs.[2] Preliminary data from this source have been used to analyze retrenchment in social insurance programs in the period 1975-1995 (Korpi and Palme 2000, 2001, 2002). Since social rights reflect welfare state development from an angel different from the one expressed in expenditure data, these analyses provide a relevant point of comparison with results from earlier studies.

The Regress of Full Employment in Europe

As noted above on the question of the extent of welfare state regress, the hypothesis of only limited retrenchment won rapid and widespread acceptance among Western scholars. This acceptance would appear to reflect not so much the weight and depth of the empirical data presented as the symbolic stature of the two cases originally studied by Pierson (1994). Choosing the United States under Ronald Reagan and Britain under Margaret Thatcher as his crucial test cases, if retrenchment could not be found under such militant anti-welfare state governments, where else? In the European context, Pierson's conclusion: "The British welfare state, if battered, remains intact" was especially persuasive (Pierson 1994:161). In retrospect it is however clear that owing to the pioneering nature of these studies, there are many problems associated with the empirical bases upon which these claims have been based. It can be argued that several of these claims are premature and reflect problems in the definition of welfare states, a reliance on

[2] This ongoing work is carried out at the Swedish Institute for Social Research, Stockholm University, and is directed by Walter Korpi and Joakim Palme. The data collection covers 18 countries at 14 time points during the 1930-1995 period. The five social insurance programs included are old age pensions, sickness cash benefits, unemployment insurance, work accident insurance, and family benefits. Net replacement rates (after taxes and social security contributions) are estimated at the level of average production worker wages, as well as for maximum and minimum benefits. Estimates are made for two types of households. These estimates cover replacements during two time periods, the first week (after waiting days) as well as half a year with absence from work (for details cf Korpi and Palme 2000, 2001, 2002).

case studies of few countries, and with social expenditure data as the prime outcome variable (Korpi and Palme 2000, 2001, 2002).

One central problem with most analyses of welfare state regress is that they have defined out changes in levels of unemployment, and have only indirectly dealt with the return of mass unemployment in Europe since the 1970s. In their impressive study, Huber and Stephens (2001) bring in high unemployment into the analyses in terms of contexts in which retrenchment is likely to occur, however without analyzing the demise of full employment as itself part of welfare state regress. Also Castles (2001) considers unemployment as a contextual variable in the retrenchment process.

The role of full employment in the welfare state differs greatly between Europe and North America. In almost all democracies of Western Europe, the first decades after the end of the Second World War witnessed a remarkable change in societal power relations when for the first time in the history of capitalism, left parties emerged as either government parties or major opposition parties, and union densities doubled in relation to levels obtaining between the world wars. This dramatic change forms the background for the expansionary period of European welfare states. The mobilization of labor force during the war had proved that in the real world full employment could be achieved. Keynesian ideas showed that also theoretically full employment was possible, and that deep recessions such as those appearing between the two world wars could be avoided.

In Western Europe the emergence of full employment as well as the expansion of social transfers and social services thus emerged at about the same time. The above quote from Crosland indicates that by contemporaries, this triplet was seen as constituting a unity, the full employment welfare state, where expanding social insurance and services were combined with unemployment rates below the three percent maximum level set by the British social reformer William Beveridge (1944). In Europe the concept of the "Keynesian welfare state" became widely used (e.g. Offe 1984). In European countries with an uninterupted political democracy during the postwar period, this type of full employment welfare state can be seen as an outcome of distributive conflicts and macro-political bargaining resulting from the changing relations of power in European societies noted above. It was a manifestation of what can be called an implicit social contract between main interest groups in these countries (Korpi 2002). Some differences can however be found among countries. Thus Ireland and Italy, with the weakest traditions of left government incumbency, retained relatively high levels of unemployment during the 1950s and 60s. Furthermore, when unemployment levels rose after the first oil shock in 1973, this rise was much more dramatic in the countries of the European Economic Community (EEC) than in the countries of the European Free Trade Area (EFTA), where the rise was delayed with about fifteen years (cf. below).

During the period after the Second World War, Western Europe and the United States have very different histories when it comes to levels of unemployment. In the United States the post-war social contract did not include full employment in the European sense. From 1955 to 1973, US unemployment levels averaged at 4.9% *(Figure 1)*. In the same period six core countries of the European Economic Community – Belgium, Denmark, France, Germany, Netherlands, and the United Kingdom – had less than half of the US unemployment level, 2.1%. But after the oil shocks in 1973 and 1979, the average unemployment level in these countries quadrupled and was 8.2% during 1982-2000, while changes in the United States were modest. In fact, after the Second World War and up to the end of the century, US unemployment rates show essentially trendless fluctuation. In a stark contrast Western Europe has experienced first the arrival of full employment and thereafter the return of mass unemployment.

(Figure 1 about here)

Clearly a number of factors were of relevance for the return of mass unemployment to Europe.[3] It can however be argued that here conflicts of interest between major interest groups were of significance. Long-lasting full employment in Europe came to have consequences unwanted by important interest groups. Thus business interest saw with increasing alarm the rising levels of labor force involvement in industrial conflict as well as the falling share of profits and increasing share of wages in the domestic product. Yet the fear of voter reactions pressed governments of all political shades to give top priority to full employment in the tradeoff between inflation and employment (OECD 1970). As argued by Rehn (1987), many European governments are likely to have used the window of opportunity created by the oil shocks of 1973 and 1979 for allowing levels of unemployment to escalate. In the 1990s, US unemployment rates decreased more than the European average.

In a European perspective, full employment was a constitutive part of the welfare state. When judged in relation to the reality prior to 1973, the return of mass unemployment must be seen as a major retrenchment, the eradication of one of the cornerstones of Western European welfare states. This radical change has however occurred outside the focus of the new politics approach, and has therefore not been considered as a case of retrenchment.

Social Insurance, Expenditures and Institutions

Pierson's pioneering work on welfare state retrenchment has been followed by a number of interesting studies.[4] Some are comparative and based largely on expenditure data.[5] Most of them are however examinations of a single or a few countries, often in qualitative terms.[6] These studies largely agree on the nature of the pressures towards retrenchment faced by modern welfare states: population aging, changing family patterns, new gender roles, decreasing economic growth rates, technological change, internationalization of the economy, and changing relations between nation states as a

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[3] For analyses of the arrival, continuation and demise of full employment in the Western countries, see Korpi (2002).

[4] Collective works of significance in this context are volumes by Clasen (2001); Bonoli, George and Taylor-Gooby (2000); Esping-Andersen (1996); Ferrera and Rhodes (2000); Kautto et al. (1999, 2001), Kuhnle (2000); Pierson (2001a); Scharpf and Schmidt (2000 a and b). Reviews of selected literature are found in Green-Pedersen and Haverland (2002); van Kersbergen (2000) and Lindbom (2002).

[5] Examples of such studies include Castles (2001); Clayton and Pontusson (1998); Hicks 1999; Huber and Stephens (2001); Swank (2001).

[6] Examples of case studies focused on single or a few countries are Bonoli and Palier (1998); Green-Pedersen (2001, 2002); Kautto (2000); Leibfried (2001); Levy (1999); Olsen (2002); Palier (2000); Palme (2002); Palme and Wennemo (1998).

result of the end of the Cold War and political-economic integration in Europe. These studies have also largely agreed that to a remarkable extent European welfare states have been resistant to change. Thus, for example, after a survey van Kersbergen (2000:25) concludes: "The general thesis that may be distilled from the literature is that while the context of welfare state policies has changed, this has not lead to a dismantling of existing welfare state regimes or single programmes…" Green-Pedersen and Haverland (2002:44) note that in the post-Pierson literature "the expectation of no sweeping retrenchment has largely been confirmed." And as the title of his edited book indicates, Kuhnle (2000) and his colleagues have observed "The Survival of the European Welfare State." Furthermore, in the newly re-democratized countries of Western Europe, such as Spain, welfare states have actually expanded (Moreno 2000). To account for this resilience, several authors point to the widespread popular support for the welfare state and the path dependency created by welfare states themselves.

As noted above, however, while clearly valuable and relevant there are major problems with many of the studies made on retrenchment. Apart from overlooking the demise of European full employment, analyses based on expenditure data face difficulties in disentangling consequences of factors such as increasing levels of unemployment and changes in benefit levels, while more qualitatively oriented studies offer rather weak benchmarks for studying change over time and differences between countries. The SCIP database discussed above provides preliminary data quantifying social rights in major social insurance programs and thereby an alternative empirical basis for the analysis of retrenchment (Korpi and Palme 2000, 2001, 2002). Here changes in net replacement rates in three programs for benefits in the case of short-term interruptions of work income – that is benefits during sickness, work accidents, and unemployment – are of particular interest. These programs are of major importance for government budget deficits and furthermore government decisions will usually have relatively quick effects on their replacement rates, something improving possibilities to relate cuts to political decisionmaking.[7] Net replacement rates in these programs give unidimensional variables for studying change over longer time periods and for a relatively large number of countries.

Analyses based on the above social rights data indicate that in the long perspective starting back in 1930, the average net benefits for 13 European countries in each of these three programs has had a monotonic increase with an acceleration from 1950 and up to about 1975, but thereafter a decrease up to 1995 (Korpi and Palme 2002). Although sizable, average decreases are not at a level which can be described as an overall dismantling of these social insurance programs. Unlike the wiping out of full employment from almost all European welfare states after 1973, in these three social insurance programs average changes have been less dramatic, yet with great differences among countries. Here Britain – established as the crucial test case in the earlier literature on the extent and causes of retrenchment – is a relevant example. After the coming of the Conservative government in 1979, by 1995 net replacement rates in these three programs have been cut back not only below the minimum levels established in the 1946 reform.

[7] These short-term programs thus differ from old age pensions, where political decisions may have consequences decades later.

Replacement rates in sickness insurance were actually down to about the same as in 1930, while in unemployment and work accident insurance benefits had plunged down to about half of their 1930 levels.

Path dependency has often been used as an explanation for welfare state resilience. Myles and Pierson (2001) have drawn attention to a major mechanism explaining such stability in pay-as-you-go pensions systems: the double payment problem. In countries with well developed pay-as-you-go pension systems, the working generation is paying the pensions for retirees and cannot easily accept to have to pay also contributions for their own future pensions into a funded system. Mature pay-as-you-go pension systems are therefore difficult to change into funded programs. It is important that we can explain differences in the extent of path dependency in terms of such specific mechanisms that generate more or less resistance to cuts. Often, however, the concept of path dependency is used to label absence of change rather than to explain resistance to change.

As noted above, in the new politics perspective it is widely assumed that resistance to welfare state cuts comes primarily from categories of benefit recipients, such as retirees, the unemployed, the handicapped, and health care consumers. While such categories of course are of relevance and especially retirees in most countries constitute a significant part of the electorate, other benefit recipients, for example the unemployed, have traditionally been very difficult to mobilize. It can be argued that of greater relevance here is the very much larger constituency of risk averse citizens, who benefit from insurance in terms of the reduction of risks they are likely to face during the life course. In Western societies risk averse citizens are however internally differentiated by a number of potential and partly cross-cutting lines of cleavages, such as occupation, status, income, education, ethnicity, religion and region. These cleavages also differentiate citizens in terms of risk they run during the life course as well as in terms of resources they control for handling these risks. Given these circumstances, reflecting theory formation within "new institutionalism" it is likely that major welfare state institutions are of relevance for the formation of values, attitudes and interests among citizens. This is because welfare state institutions tend to create templates which emphasize some of the lines of cleavages discussed above while downplaying others. The institutional contexts generated by welfare states are therefore likely to affect coalition formation among citizens of relevance for the extent of support and resistance which government efforts to cut backs of social rights are likely to face (Korpi and Palme 1998; Korpi 2001). Not the number of benefit recipients but instead the institutional organization of risk averse citizens is likely to be of main relevance for the degree of path dependency in welfare state programs.

To account for differences among countries in terms of welfare state development, it is fruitful to relate changes in social rights to a welfare state typology based on the nature of the institutional structures of the main social insurance programs in a country (Korpi and Palme 1998, 2001).[8] This typology differentiates social insurance institutions in terms of

[8] In contrast to Esping-Andersen's (1990) influential typology of welfare state regimes based on a broad set of indicators and fruitful for general descriptive purposes, this typology is thus focused on welfare state institutions, which can be seen as intervening variables, relating causes to outcomes. This institution-based

three criteria: basis for claiming benefits, principles for setting benefit levels, and forms of governance of insurance programs. On the bases of these criteria, it is possible to identify five different types of institutional structures, which historically have existed in Western welfare state, that is the targeted, voluntary state subsidized, basic security, state corporatist, and encompassing models. In present-day Europe the three last-named models are the most important ones.

The basic security model is universalistic and gives benefits to all at a flat rate, which typically is rather low. Because of the low benefit rates inherent in this model, it can not protect accustomed standards of living of better-off citizens, who therefore are likely to gradually develop private solutions such as occupational insurance and savings. In the long run, in this model social insurance programs will therefore be a concern primarily for manual workers, while for the middle classes their private programs assume main relevance. This type of institutions thus provides a context where government attempts to cut public programs are unlikely to meet widespread or unified resistance, and which thus are likely to suffer retrenchment. In contrast, the state corporatist model as well as the encompassing model offer clearly earnings-related benefits. Within these institutional structures, public programs therefore tend to safeguard accustomed standards of living also among the middle classes, thereby decreasing the need for private solutions and "crowding out" different types of private insurance. The state corporatist and the encompassing models do however bring in the middle classes within very different contexts. In the state corporatist model there are several separate occupation-related insurance programs, differentiated in terms of conditions, financing and benefits. Each program is governed by elected representatives for employers and employees, typically from the unions. In the context of state corporatist institutions, government attempts at retrenchment are therefore likely to meet resistance from pre-organized bodies of risk-averse citizens attempting to safeguard their specific interests. In contrast, in the encompassing model the middle classes are included in the same programs as all other citizens. In the expansion phase, this broad constituency was mobilized by political parties and therefore formed a major force in favor of welfare state expansion. When faced with cutbacks, however, such a heterogeneous assembly of citizens is difficult to mobilize from the inside. In this institutional context, the degree of resistance is therefore likely to reflect the extent to which political parties are willing to mobilize voters against cutbacks.

The widely accepted new politics hypothesis of only limited retrenchment has been called into question by analyses of cutbacks in terms of indicators of social rights, focusing on the three social insurance programs discussed above and on changes in net replacement levels in 13 European countries (Korpi and Palme 2001, 2002). One indicator was based on cuts measured as declines in benefit levels up to 1995 from peak levels 1975-1990. Important differences were found among countries, some part of which can be understood

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typology provides a much more precise basis for differentiation of welfare states and for measuring changes over time as well as for causal analysis. The social insurance programs used for the typology are old age pensions and sickness cash benefits, programs which are of major relevance for all socio-economic categories. In almost all of the countries sickness cash benefit programs have the same type of institutional structure as old age pensions.

in terms of the structure of their dominant social insurance institutions.[9] The largest cuts had clearly taken place in countries dominated by basic security institutions. Here Britain was clearly in the lead with almost halved average net replacement rates, followed by Ireland with cutbacks amounting to one third of peak rates. Denmark had cutbacks of the order of one fifth of peak rates, while lower ones were found in the Netherlands. Among the basic security countries, Switzerland had no major cutbacks.[10] Among the state corporatist countries cuts were on the average lowest. Thus while in Austria, France, Germany and Italy unemployment insurance programs had seen significant cuts, sickness and work accident programs had largely been spared. An exception here was Belgium, where net benefits decreased markedly also in sickness insurance.[11] In the encompassing category, cuts were on the average lower than in basic security countries, but both Sweden and Finland had made some important cuts, primarily during the early 1990s when their unemployment levels exploded. Norway with its oil economy did however largely escape cuts.

With reliable and comparable empirical data reflecting the character of social rights in a large number of countries over a longer period, quite a different perspective thus emerges on the extent of retrenchment in social insurance programs than the ones based on expenditure data and qualitative case studies. In at least a handful of European countries, major retrenchment in social insurance rights now appear. There is no general path dependency; instead the different types of welfare state institutions in combination with factors such as constitutional veto points would appear to play significant roles for the extent of path dependency and resistance to cuts.

Class and Gender

As noted above a central hypothesis in the new politics perspective is that while partisan politics and class-related parties were of major importance during welfare state expansion, in the retrenchment phase they are of little significance. Although debated, also this hypothesis has been accepted by many. Such a view would appear to be supported, for example, by observations that in Germany, the Christian Democratic-Liberal coalition government was very cautious in attempting to trim its state-corporatist welfare state. It has also received some support in empirical studies. On the basis of expenditure data, Huber and Stephens (2001) find that over time the role of partisan politics has decreased considerably. Similar findings are also reported by Castles (2001). Ross (2000) argues that according to the "Nixon-goes-to-China" logic, left parties traditionally associated with the welfare state expansion are likely to have more "degrees of freedom" to make cuts than do rightist parties.

On the issue of the role of political parties, we do however also find dissenting voices. Thus Hicks (1999:220-221) argues that the left-right dimensions has remained significant

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[9] Because of significant correlations between potential causal and contextual variables, such as the number of constitutional veto points, the type of dominant political parties, and the structure of social insurance institutions, it is however difficult to separate the different contributions of these factors to retrenchment.

[10] The relative stability in Switzerland is likely to partly reflecting the large number of constitutional veto points in its policy making system.

[11] In Belgium these cuts may partly reflect its difficult internal politics with severe linguistic conflicts in the midst of a serious economic crisis.

during the retrenchment phase. In a case study of the Netherlands, Green-Pedersen (2001, 2002) has analysed the role of the confessional political tendency, which has played a major role in all Dutch governments during the 20th century and up to 1995. He argues that because of the pivotal role of the Christian Democratic party, in the early 1980s it was able to make the reluctant but relatively weak social democratic party to accept cutbacks in welfare benefits. Levy (1999) suggests that when faced with the necessity to cut, social democratic governments in continental European countries attempt to turn "vice into virtue" by concentrating cuts, for example, to overly lenient pension programs while improving benefits for the most needy. Kitschelt (2001) as well as Ross (2000) have outlined what factors in political party systems that are likely to favor possibilities for retrenchment.

Analyses on the role of partisan politics based on SCIP data do however indicate clearly significant effects of partisan politics on retrenchment in social rights (Korpi and Palme 2002, 2001). Events of retrenchment were delineated in terms of at least 10 percentage point cuts in net benefit levels in sickness, unemployment and work accident insurance during the 1975-1995 period. Taking into account the relative number of cabinet portfolios by different parties and the duration of cabinets, the relative risk for major cuts was about four times higher for the secular center-right parties than for left parties. While in analyses of welfare state expansion based on expenditure data, confessional parties have often been seen as almost equivalent to social democratic ones, when it comes to retrenchment in social rights they were found to occupy a position between the other two party constellations. This pattern of partisan political effects was supported also by event history analysis and remained when a number of institutional and economic control variables were considered.

Attitudinal studies in several West European countries indicate that the welfare state has retained widespread public support, which continue to be structured by socio-economic class and the left-right continuum in expected patterns (Taylor-Gooby 1999, Svallfors 1999; Goul Andersen 1999). Yet also changes have been noted. Examining Sweden Svallfors (1996) finds that after the conversion by conservative-centrist parties and the employers' confederation to a very critical view of the welfare state, in the early 1990s top level employees in the private sector turned more negative while lower middle class employees and workers in private as well as in public sectors largely retained their positive views. The negative views did thus not find resonance among social democratic voters, but in this period parts of the social democratic leadership came to share some of these viewpoints. When the conservative-centrist government (1991-94) introduced major cuts in social insurance programs, it was unseated by a surge of social democratic support in the 1994 election. In its efforts to decrease large budget deficits, the new social democratic government did however continue to cut replacement rates, something contributing to a precipitous fall in the opinion polls. When it comes to welfare state retrenchment, the Nixon-goes-to-China logic may have a relatively limited sphere of application.

In the voluminous writing on welfare state retrenchment in recent years, one can not fail to notice the dog that did not bark: little attention has been paid to consequences of regress for gender inequality. This may reflect that retrenchment has not had very serious effect on the position and relative life chances of women. O'Connor, Orloff and Shaver (1999:113) note that in the welfare states of Australia, Britain, Canada, and the United States women have been disadvantaged by changes such as strengthened work incentives and increased targeting of programs, yet "while retrenchment has occurred, restructuring is perhaps a better overall description of the social policy changes during the last two decades." Sainsbury (1996: Chap. 9) does however argue that in countries such as Britain and the Netherlands, an increasing reliance on means-tested benefits in combination with restricted access to such benefits has increased gender inequality since women rely on such benefits much more than men, and since means-tested benefits for wives tend to deter their labor force participation. Montanari (2000: Chap. 3) observes that in Western countries the long-term trend towards an increasing reliance on universal cash benefits in child support was broken in the 1980s, when tax concessions increased in importance. Such a development tends to disadvantage, for example, single mothers.

In this context, it must also be pointed out that for example in the Nordic countries with their large public sectors "manned" largely by women, major cuts in the number of employees without a similar decrease in the clients of the public sector, have to a significant extent increased the burdens of those remaining there. In Continental Europe with relatively low female labor force participation rates, high unemployment is likely to have slowed down the rate of increase in female participation while increasing the role of often insecure part-time jobs.

Globalization and Europeanization

In the 1990s "globalization" became a term on everybody's lips and was used to suggest a variety of international challenges facing nation states, and especially their welfare state arrangements.[12] In the early stage, threats from globalization for welfare states were often seen as severe indeed, but gradually views have been shifting. Thus, for example, while Mishra (1998) saw globalization as a very serious threat to the foundations of welfare states, such views have been questioned by others (e.g. Boyer and Drache 1996; Garrett 1998). Many scholars have come to see the effects of globalization as conditional on national institutions and political interventions (Esping-Andersen 1996; Palier and Sykes 2001; Swank 2001). And as noted above, Pierson largely dismisses globalization as a source for fundamental welfare state change. In discussions of the effects of efforts towards economic and political integration within the European Union we also find considerable debates (Leibfried and Pierson 1995; Rhodes 1996, 2002).

In analyses of the role of international political and economic changes for national policy making, it is however fruitful to distinguish between different policy sectors in welfare states. One important distinction is found between, on the one hand, policies to maintain full employment, and, on the other hand, social insurance and social services. National policies to maintain full employment are likely to be much more sensitive to, and conditional on, international developments than are social insurance and service programs. Of relevance here is that with the exception of the largest economies, most

[12] As is well known, the term "globalization" has many meanings. I use it here to refer to the liberalization of cross-border capital movements and of international trade.

Western countries are markedly export dependent.[13] When countries in economic crises decrease their imports, export possibilities in other countries decline and their unemployment problems mount, something likely to create pressures on governments to cuts in social insurance and service programs. In Europe full employment after the end of the Second World War was conditioned by Bretton-Woods institutions, giving national governments influence over cross-border capital flows while liberalizing cross-border trade. With the dismantling of cross-border capital controls and increasing economic integration within Europe, if unemployment is allowed to rise in other countries, it becomes very difficult, especially for smaller countries, to maintain full employment.

A large-scale experiment on the role of economic interdependence and political factors for the rise of unemployment took place in Europe after the two oil shocks in 1973 and 1979. As discussed above, while levels of unemployment increased dramatically in the EEC countries, the EFTA-countries (Austria, Finland, Norway, Sweden, and Switzerland) where social democratic governments long had been in government position, attempted via various means to avoid the return of mass unemployment. For almost two decades, the EFTA-countries were relatively successful in these attempts but in the early 1990s, especially in Finland and Sweden, unemployment levels converged to the high European average (Korpi 2002).

Many economists have argued that globalization has interacted with technological developments to increase levels of unemployment in the economically advanced countries. The assumption here is that technological developments in these economies have escalated educational job requirements to levels where the low-educated no longer are qualified. At the same time less qualified production is moved to low-wage countries. In the advanced economies, job demands have thus outrun educational qualifications of significant sectors of the labor force. Such interpretations are often supported by the observation that levels of unemployment tend to be especially high among workers with low educational qualifications, a correlation interpreted in causal terms. But a similar correlation existed already during the period of relatively low unemployment. Furthermore, in all Western countries levels of education have been rapidly increasing. Several researchers have found that many employees are educationally over-qualification for their present jobs among (Åberg 2003; Borghans and de Griep 2000; Freeman 1976). The observed correlation between education and the risk for unemployment can to a significant extent reflect statistical discrimination among employers, who use educational levels as a shorthand when sorting among the increasing numbers of applicants to most jobs. An alternative explanation for the increasing levels of unemployment is therefore that overall demand for labor has been depressed and remains low.

In the 1990s, economic and political integration in Europe has been accelerating, with the creation of the European Union and the European Monetary Union as important landmarks. In the European Monetary Union we find institutional changes which tend to depress overall demand and thereby to counteract decreases in unemployment. In contrast to the Federal Reserve Bank of the United States, which is instructed to consider the

[13] As pointed out by Fligstein and Merand (2002), growth of trade has been especially pronounced between the countries of the European Union.

effects of its policies on employment and growth as well as on inflation, the new European Central Bank has a very low inflation target as its only goal. While in recent years the Federal Reserve Bank has tended to frequently decrease its prime rates in response to increasing unemployment, the European Central Bank has been steadfast in maintaining high interest levels during long periods, without regard to unemployment levels (Ball 1999; Carlin and Soskice 1997). The European Monetary Union and its associated stability pact place strict requirements on economic policies of member countries in terms of low levels of inflation and government debt. It can be argued that in several countries government attempts to achieve and to maintain these criteria have contributed to very high levels of unemployment (Guillén and Álvarz 2001; Kosonen 2001).

Yet most of the effects of economic and political integration within the EU on social insurance and social services appear to have been indirect, high unemployment serving as the main catalyst, while direct effects on social policy making have been limited. Most of the interventions of the European Commission in the social policy area have been issued not as binding directives but only as recommendations which member countries are free to follow or to disregard (Deacon 2000; Hantrais 2000; Montanari 1995, 2001). Based on the SCIP-data set, Montanari (1995, 2001) found little evidence for convergence of legislation on social rights within member countries in five main branches of social insurance in the period 1970-1990. The European Court of Justice has however had direct effects on social policy at the European level by its rulings barring some aspects of negative treatment of women on the labor market (Hobson 2000). In this area, however, future development remains open and to a large extent depends on outcomes of ongoing internal conflicts focused on the issue if this assembly of countries is to move towards a federal structure implying some form of a European government, or to remain a union for cooperation between relatively independent nation states.

Discussion

The dramatic changes taking place in the economies of the Western countries during the past two decades have generated a number of important and informative books and articles on the consequences of these changes for welfare states. A review of the rapidly expanding research on welfare state retrenchment points to the importance of clarifying the nature of the dependent variable, the welfare state. A definition focusing on social expenditures for transfers and services easily invites scholars to consider explanations in terms of general forces related to post-industrialism. In the early decades after the end of the Second World War, welfare state expansion was widely interpreted as a result of the development of industrialism generating universally shared needs for a well trained and internally differentiated labor force (Kerr et al. 1964). Three decades later, welfare state retrenchment has been explained in terms of post-industrialism, which via demographic and economic changes generates permanent austerity and thereby drives retrenchment. While it is obvious that both industrialism and post-industrialism significantly change the contexts and conditions for policymaking, the question is to what extent these changes basically alter the nature of distributive conflict in Western societies. In the power resources approach, viewing welfare states largely as outcomes of distributive conflicts between major interest groups differently endowed in terms of assets to be used in markets and in collective action via politics, conflicts concerning the determination of demand for labor and levels of unemployment emerge as key issues. Government budgetary pressures, the central causal factor driving retrenchment in the new politics perspective, is to a major extent correlated with the rise in unemployment levels.

The widely shared view that welfare state regress in Western Europe has been relatively limited partly reflects that many scholars on welfare state retrenchment have overlooked the return of mass unemployment, a central feature of West European retrenchment. Furthermore the widespread reliance on expenditure data has tended to blur the contours of retrenchment. While the many case studies of single or a few countries have given very valuable clues to the processes of retrenchment, such information has been difficult to forge into a larger picture of the extent and causes of retrenchment. In this context data on changes in social rights in social insurance programs provide a complement to earlier studies, offering limited sets of well-defined comparative measures for a large number of countries and a relatively long time period. Analyses based on such data question earlier interpretations of the extent and causes of retrenchment. Thus since 1975 in a handful of European countries citizenship rights in three main social insurance programs have changed in ways that must be described as major retrenchment. Differences in outcomes between earlier analyses and those based on social citizenship rights are especially stark when it comes to Britain, a crucial test case in the discussion on the extent and causes of retrenchment. In the debates on the role of class-related political parties for welfare state regress, analyses based on social rights data clearly support the hypothesis of a continued role of partisan politics in the retrenchment phase.

In discussions of the role of globalization and of European integration for welfare state regress, conflicting hypotheses have been advanced. Here it however necessary to consider different aspects of welfare states and their interactions. It can be argued that a major part of the effects of globalization and trans-national integration on welfare state retrenchment have been focused on full employment, one of the cornerstones of the postwar European welfare state, the undercutting of which in turn may have effects on social insurance and services. The liberalization of cross-border capital movements has to a significant extent turned the tables to the disadvantage of governments attempting to safeguard full employment. Within the European Union, also developments limiting the economic policy choices of governments in member countries are likely to have been significant. In the power resources perspective, the return of mass unemployment and attempts to cuts in social citizenship rights appear as a reworking of the implicit social contract established in Western Europe after the end of the Second World War.

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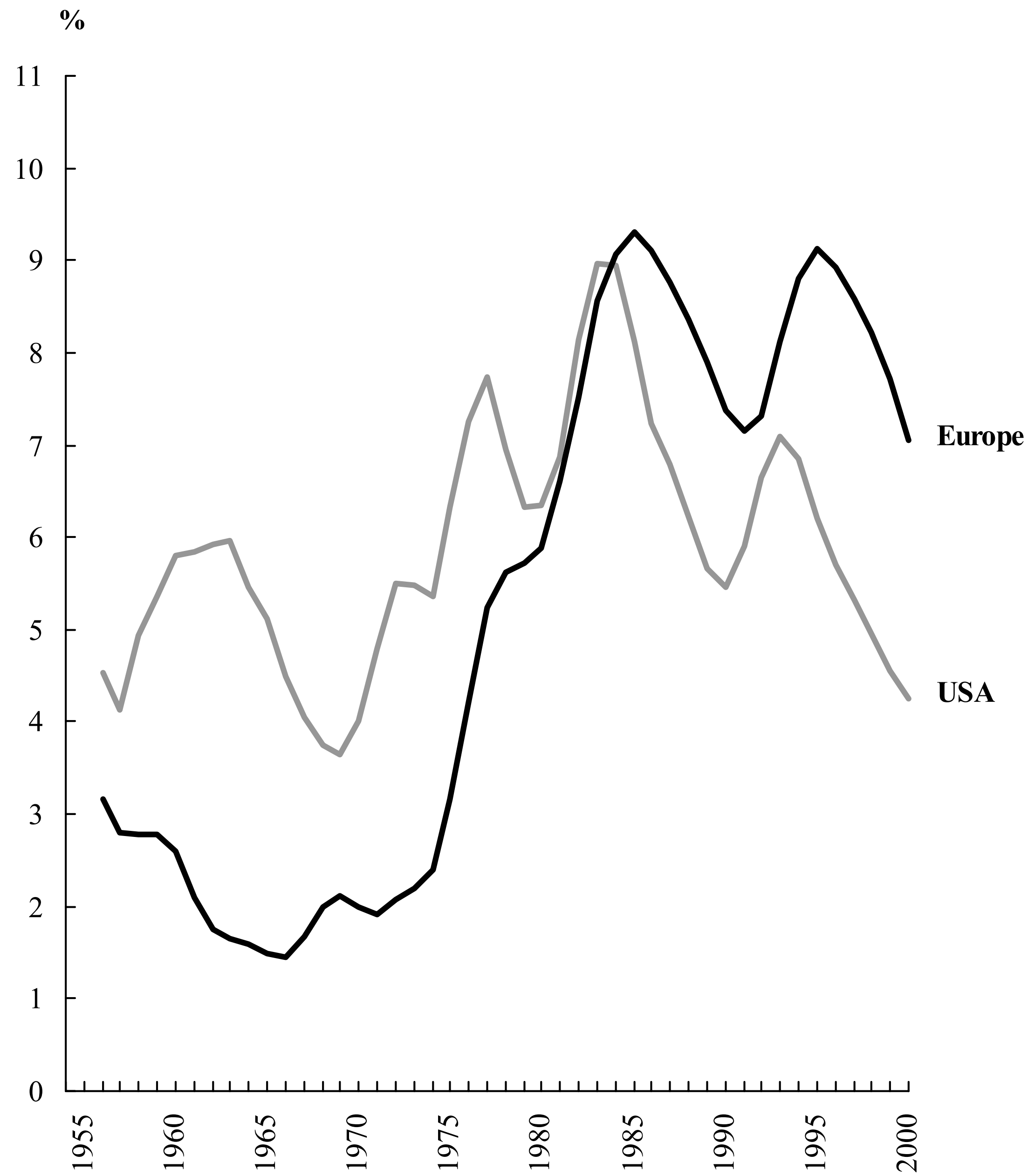
Figure 1. Unemployment Rates in Six European Countries and USA, 1955-2000*



* Belgium, Denmark, France, Germany, the Netherlands and the United Kingdom. (3-year moving average)