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Globalization, political discourse, and welfare systems in comparative perspective: The Federal Republic of Germany, Japan, and the US

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Contents

| | |
|--|----|
| Introduction..... | 5 |
| Does Globalization Limit Social Policy Development?..... | 6 |
| The Concept of Welfare Systems..... | 8 |
| Globalization and Welfare Systems in Political Discourse..... | 11 |
| Germany..... | 13 |
| Japan..... | 15 |
| United States..... | 17 |
| Discourses in Comparative Perspective..... | 19 |
| The Changing Nature of Welfare Systems..... | 19 |
| Germany..... | 19 |
| Japan..... | 23 |
| USA..... | 26 |
| Policy Developments in Comparative Perspective..... | 29 |
| Conclusion: Some Theoretical Reflections on Comparative Social Policy..... | 29 |

Figures and Tables

| | |
|---|----|
| Figures and Tables..... | 4 |
| Fig. 1:Social Spending in Germany as a Percentage of GDP: 1975–1998 | 20 |
| Fig. 2: ..Employers’* Contributions to Social Insurance Schemes in Germany as a Percentage of Gross Wage: 1975–1999..... | 21 |
| Fig. 3: Male Unemployment Rate in Japan by Age Cohorts: 1973–1999..... | 25 |
| Tab. 1.....Workers with employer provided health insurance: 1979–1996 | 26 |
| Fig. 4: Outlays in Billions of US–Dollars for Training and Employment: 1975–2001 | 28 |

Introduction

Welfare states are currently challenged by a number of developments: the globalization or internationalization of the economy, changing demographics, a transformation from industrial to post-industrial economies, as well as social and cultural changes.¹ Although all of these variables might be very important for specific changes in social policy arrangements, in this paper I will only address the effects of globalization on social policy arrangements. It will be argued that the specific perception of globalization and the constructed links to social policy arrangements within the political discourse will have to be taken into account as a key variable in analyzing the effects of globalization on social policy arrangements. Hence, the central questions addressed in this paper are: Was globalization causally related to changes of welfare systems within the political discourse? Did the constructed links between globalization and the welfare system become dominant or even hegemonic within the political discourse? Have welfare systems changed in a way consistent with the specific perception of globalization? Furthermore, I argue that focusing solely on the *state's* activity within the social policy realm might lead to distorted and misleading results. As case studies I have chosen Germany, Japan and the United States. These three countries constitute the centers of the current globalization process while at the same time they have large domestic markets and therefore seem less vulnerable to external economic developments. Furthermore, Germany, Japan, and the U.S. have three very distinct welfare systems.

In the following part of the paper, I will briefly take up the debate within social sciences about the economic limits of state social policy and highlight the importance of analyzing the political discourse, before I will discuss the concept of welfare systems in the second part. Third, I will show how various links between globalization and the welfare system are socially constructed in different welfare systems. Fourth, I will sketch the more recent reform tendencies at the policy level. Finally, I discuss the different dynamics of welfare systems in an era of globalization in a broader theoretical framework. It will be argued that the concept of path dependency, which has often been used to characterize recent social policy developments,² underestimates the changes that have taken place in the various welfare systems.

¹ Franz-Xaver Kaufmann, *Herausforderungen des Sozialstaates* (Frankfurt/M.: Suhrkamp, 1997).

² The major proponent of this school is Paul Pierson. Cf. Pierson, "The new politics of the welfare state," in: *World Politics*, Vol. 48, 1996, No. 2. From a regime perspective see also Gøsta Esping-Andersen, *Social Foundations of Postindustrial Economies* (Oxford: Oxford University Press, 1999). For a critique see Richard Clayton, Jonas Pontusson, "Welfare-state retrenchment revisited: Entitlement cuts, public sector restructuring and inegalitarian trends in advanced capitalist societies," in: *World Politics*, Vol. 51, 1998, No. 1, 67–98; Peter Taylor-Gooby, "Eurosclerosis in European Welfare States: Regime Theory and the Dynamics of Change," in: Michael Hill (ed.), *Income Maintenance Policy*. The International Library of Comparative Public Policy Vol. 15 (Cheltenham: Edward Elgar, 2000), 411–425.

Does Globalization Limit Social Policy Development?

The discussion concerning the economic limits of welfare states has a long tradition within politics and social sciences. It first received substantial attention among German social scientists as early as the late 1920s. These scholars argued that state social policy not only constitutes a burden but also a significant benefit for a capitalist economy.³ In a more recent book entitled *Contradictions of the Welfare State* Offe argues: "The contradiction is that while capitalism cannot coexist *with*, neither can it exist *without*, the welfare state."⁴ In other words, in addition to being a burden for the economy or the individual company, social policy can have various economic benefits, including: 1. Social policy can retain and enhance the physical ability to work; 2. Social policy can stabilize the demand function in times of economic crisis; 3. Additional economic benefits can occur as a result of the effects of social policy on the society as a whole, e.g. through its pacifying potential.⁵ The extent of these economic benefits cannot be determined in an absolute and abstract manner and will likely differ among countries.

At the end of the 20th century social policy is once again perceived as a burden. It is argued that the global economy increasingly determines the limits of the welfare state and will eventually lead to a transformation of welfare states into competition states.⁶ Various studies that are primarily based on quantitative empirical analysis, however, contest these findings. They come to the conclusion that globalization has not, or at least not yet, had significant effects on welfare state development. Therefore, one could not speak of a secular transformation from welfare to (neo-liberal) competition states or even of an outright convergence on the basis of an Anglo-American model. It is argued that primarily domestic variables, especially demographics and party politics, still determine welfare state development.⁷

³ Cf. Eduard Heimann, *Soziale Theorie des Kapitalismus – Theorie der Sozialpolitik* (Frankfurt/M.: Suhrkamp, 1980 [1929]); Götz Briefs, "Der wirtschaftliche Wert der Sozialpolitik," in: Vorstand der Gesellschaft für Soziale Reform (ed.), *Die Reform des Schlichtungswesens – Der wirtschaftliche Wert der Sozialpolitik* (Bericht über die Verhandlungen der XI. Generalversammlung der Gesellschaft für Soziale Reform in Mannheim am 24. u. 25. Oktober 1929, Jena, 13. Band, H. 3, 1930), 144–170.

⁴ Claus Offe, *Contradictions of the Welfare State*, edited by John Keane, 5th printing (Cambridge: MIT Press, 1993 [1984]), 153.

⁵ Cf. Georg Vobruba, *Jenseits der sozialen Fragen* (Frankfurt/M.: Suhrkamp, 1991), 49–89.

⁶ Bob Jessop, "The Transition to Post-Fordism and the Schumpeterian Workfare State," in: *Towards a Post-Fordist Welfare State?* Edited by Roger Burrows and Brian Loader (London: Routledge, 1994), 13–37; Joachim Hirsch, *Der nationale Wettbewerbsstaat. Staat, Demokratie und Politik im globalen Kapitalismus* (Berlin: ID-Archiv, 1995); Elmar Altvater, Birgit Mahnkopf, *Grenzen der Globalisierung. Ökonomie, Ökologie und Politik in der Weltgesellschaft* (Münster: Westfälisches Dampfboot, 1996).

⁷ Geoffrey Garrett, *Partisan Politics in the Global Economy* (Cambridge: Cambridge Univ. Press, 1998); Geoffrey Garrett, Deborah Mitchell, "Globalization and the Welfare State: Income Transfers in the Industrial Democracies, 1965–1990." Paper to be presented to: Comparative Research on Welfare State Reforms, Pavia September 14–17, 1995; Klaus Armingeon, "Globalisierung als Chance: Zwei Wege zur wohlfahrtsstaatlichen Reform in den OECD-Ländern," Diskussionspapier für die Drei-Länder-Tagung in Wien, June 1998; Esping-Andersen (ed.), *Welfare States in Transition – National Adaptations in Global Economies* (London: Sage Publications, 1996).

Although this research has addressed very important issues, the political decision process has largely been treated as a black box. We still do not know empirically in what way, globalization influences social policy in different cultural and political settings. Does social policy constitute an asset or a burden in a global economy? Furthermore, past research on the effects of globalization did not address the fact that, 'reality' is shaped to a large extent by social construction⁸ or, in other words, by the outcome of political discourse, although the *sociology of knowledge* has stressed the substantiality of competition within the sphere of knowledge for some time.⁹ Ian Hacking in his recent work entitled *The Social Construction of What?* has convincingly illuminated the different dimensions and the comprehensive reach of social construction.¹⁰ This is not to say that an increase in international trade or capital flows does not matter at all, rather these indicators might frame the political discourse. Thus, no magical, automatic process of functional adjustment and system adaptation exists. Moreover, political discourses define "the norms that determine when certain conditions are to be regarded as policy problems. Objective conditions are seldom so compelling and so unambiguous that they set the policy agenda or dictate the appropriate conceptualization."¹¹ In other words, for globalization to influence social policies it has to be acknowledged as a relevant issue by political actors. Actors will generally have to take into account different normative priorities, issues and challenges as well as the various interpretations relating to them before they develop "interpretive patterns" [*Deutungsmuster*] that make sense and give meaning to social issues.¹² Accordingly, actors in different countries might interpret globalization differently and relate their understanding of these processes to social policy arrangements in various ways, depending on past experiences and cognitive focal points.¹³ Finally, policy proposals are adopted and succeed in the long run, only if they reflect the dominant interpretive patterns, which have evolved within the political discourse.

Although there have been important contributions by political scientists to advance the understanding of the influence of ideas in policy making,¹⁴ there has been almost no systematic

⁸ Peter Berger, Thomas Luckmann, *The Social Construction of Reality. A Treatise in the Sociology of Knowledge* (Garden City, NY: Doubleday, 1966).

⁹ Karl Mannheim, *Wissenssoziologie*. Auswahl aus dem Werk eingeleitet und herausgegeben von Kurt H. Wolff (Berlin, Neuwied: Luchterhand, 1964).

¹⁰ Ian Hacking, *The Social Construction of What?* (Cambridge: Harvard Univ. Press, 1999).

¹¹ Giandomenico Majone, *Evidence, Argument and Persuasion in the Policy Process* (New Haven: Yale University Press, 1989), 23f.

¹² Jürgen Gerhards, "Kultursoziologie und die Theorie rationalen Handelns: Die rationale Verwendung von politischen Deutungsmustern," in: *Journal für Sozialforschung*, Vol. 35, No. 3–4, 1995, 224.

¹³ Cf. the arguments made by Herbert Kitschelt et al. "Convergence and Divergence in Advanced Capitalist Democracies," in: *Continuity and Change in Contemporary Capitalism*, edited by Kitschelt et al. (Cambridge: Cambridge Univ. Press, 1999), 440.

¹⁴ See e.g. the work by Judith Goldstein and Robert Keohane on the influence of ideas in foreign policy ["Ideas and Foreign Policy: An Analytical Framework," in: *Ideas and Foreign Policy – Beliefs, Institutions, and Political Change*, edited by Goldstein/Keohane (Ithaca; London: Cornell University Press, 1993), 3–30], and the work by Peter Hall in regard to the influence of ideas on the political economy ["Conclusion:

empirical work on the influence of globalization – conceptualized as an idea or political discourse – in the study of comparative social policy.¹⁵ Based on these considerations and building on the argument of Cerny, whereby "[globalization's] most crucial feature is that it constitutes a *discourse* – and, increasingly, a hegemonic discourse ...",¹⁶ it seems to be more than appropriate to empirically study the effects of globalization on welfare systems by analyzing the political discourse.

The Concept of Welfare Systems

As I indicated in the introduction, I will not only focus on *state* social policy, but take a broader approach. What are the reasons to include other than state social policies in the analysis? State social policies constitute the predominant way of securing against social risks in most European countries. Accordingly, the concept of the state as providing various means to limit social risks has shaped comparative social policy research to a great extent. However, state social policy is only one option to insure against social risks. Consequently, functional equivalents of state social policy will have to be included in a comparative analysis, which wants to address the effects of globalization on post WW II social compacts and goes beyond the European welfare states. Hence, I define a welfare system as the sum of all social policy arrangements within a society. In order to give meaning to the concept of the welfare system and to operationalize it in a comparative setting, one needs a well-defined reference point to determine *what* is functionally equivalent. Otherwise, the meaning of the concept would remain very vague.¹⁷ In general the concept of the welfare system can be related to an ideal understanding of welfare, put forward by Kaufmann. He defines welfare as a political exercise "to establish or guarantee societal situations in which the individual benefit and the common benefit do not diverge, but reinforce each other in the sense of synergic effects."¹⁸ Based on this definition of welfare, the reference point used in

The Politics of Keynesian Ideas," in: *The Political Power of Economic Ideas: Keynesianism across Nations*, edited by Peter A. Hall (Princeton: Princeton University Press, 1989), 361–391; "Policy Paradigms, Social Learning, and the State. The Case of Economic Policymaking in Britain," in: *Comparative Politics*, April (1993), 275–296].

¹⁵ Exceptions are Dietrich Rueschemeyer and Theda Skocpol (eds.), *States, Social Knowledge, and the Origins of Modern Social Policies* (Princeton, New York: Princeton Univ. Press/Russell Sage Foundation, 1996), Peter Taylor–Gooby, "Eurosclerosis", and Robert Henry Cox, "The Social Construction of an Imperative," in: *World Politics*, Vol. 15, No. 3 (2001), 463–98, who have analyzed the impact of ideas and political discourse on social policy development; and the volume edited by Petra Stykow and Helmut Wiesenthal entitled *Globalisierung ökonomischen Handelns und ihre Folgen für politische Steuerung*, Forschungsberichte der AG TRAP, H. 8 (Berlin: Max–Planck–Gesellschaft, 1996) analyzing the effects of globalization on domestic policies in Germany.

¹⁶ Philip G. Cerny, "Paradoxes of the Competition State: The Dynamics of Political Globalization," in: *Government and Opposition*, Vol. 32, No. 2 (1997), 256.

¹⁷ Cf. Jürgen Schriewer, "Vergleich und Erklärung zwischen Kausalität und Komplexität," in: Hartmut Kaelble, Jürgen Schriewer (eds.), *Diskurse und Entwicklungspfade – Der Gesellschaftsvergleich in den Geschichts- und Sozialwissenschaften* (Frankfurt/M.; New York: Campus, 1999), 53–102.

¹⁸ Franz–Xaver Kaufmann, "Staat und Wohlfahrtsproduktion," in: *Systemrationalität und Partialinteresse*, edited by Hans–Ulrich Derlien; Uta Gerhardt; Fritz W. Scharpf (Baden–Baden: Nomos, 1994), 357 f.; my

this study is defined as a social arrangement, which insures against the key social risks of age, sickness and unemployment or poverty in a collective and redistributive manner with a relatively high degree of security for future claims [*Erwartungssicherheit*].¹⁹

State social policy is commonly defined in a narrow sense, i.e. mainly focusing on nominal social programs, e.g. old age, sickness, or unemployment insurance provisions. Usually, these programs would meet the above-defined criteria. In my conceptualization of the welfare system I will keep to this narrow perspective when I talk about state social policy. A second very important pillar of the welfare system is *work policy*. Work policy can be defined as the organization of work and production conditions through the state or industrial relations. Its aims are to promote social integration and stability in order to reduce the risk of unemployment and/or poverty due to market forces. Such a policy encompasses redistribution and can – at least in principle – provide the same level of *Erwartungssicherheit* as state social policy in the narrowly defined sense does. In other words, if the state or the industrial relations system guarantee sufficiently paid jobs, there might not be a widely acknowledged 'need' for social transfer programs, and thereby effectively substituting state social policy.

In addition to state social policy and family arrangements the concept of the welfare mix and regime theory²⁰ stress the importance of the market in terms of welfare production. Yet, the welfare mix approach and regime theory do not methodologically differentiate between individually bought insurance schemes based on market conditions and fringe benefits negotiated by social partners. It can be argued that there is a great difference between these two forms of providing insurance against social risks. Fringe benefits in general have a redistributive element and are widely regulated by the state to provide a relatively high level of *Erwartungssicherheit*.²¹ Based on these considerations, I will regard fringe benefits, or "private social benefits,"²² as functionally equivalent to state social policy.

translation.

¹⁹ See Georg Vobruba, "Entrechtlichungstendenzen im Wohlfahrtsstaat," in: Rüdiger Voigt (ed.), *Abschied vom Recht?* (Frankfurt/M.: Suhrkamp, 1983), 99–101.

²⁰ Richard Rose, "Common Goals but Different Roles: The State's Contribution to the Welfare Mix," in: Richard Rose, Rei Shiratori (eds.), *The Welfare State East and West* (New York, Oxford: Oxford University Press, 1986), 13–39. Esping-Andersen, *Social Foundations*; and Gøsta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Cambridge: Polity Press, 1990).

²¹ Insurance against social risks bought in the private market usually has a very low *Erwartungssicherheit*, it is dependent on personal characteristics – such as personal health conditions, income etc. – and therefore, does not entail elements of redistribution. Cf. Joan Higgins, *States of Welfare – Comparative Analysis in Social Policy* (Oxford: Basil Blackwell, 1981).

²² Willem Adema, *Net Social Expenditure*, Labour Market and Social Policy Occasional Papers No. 39 (Paris: OECD, 1999).

Taken together, fringe benefits, work policies, and state social policies are the three key pillars of the welfare system as defined in my work.²³ Although each of these three pillars will be developed at least to some extent in all industrial societies, the extent of each of these pillars within the overall welfare system will differ. If we consider Germany, Japan and the United States it becomes evident that these countries established very different welfare systems during the 'golden era' of post-World War II capitalism. In Germany, state social policy constituted the corner piece of the welfare system. State social policy was based on the concept of social insurance, whose major aim was to secure the standard of living (*Lebensstandardsicherung*) in case a social risk should occur. A regulative work policy emphasizing the standard employment relationship was the normative precondition of the social insurance system. Fringe benefits only played a negligible role in terms of insuring against the risks of age, sickness and unemployment.²⁴

In Japan, work policy traditionally constitutes the corner stone of the welfare system, although fringe benefits played a significant role in the overall make-up.²⁵ Work policy was largely achieved through protectionism and governmental regulation in terms of securing the livelihood of less productive workers through work in sheltered sectors as well as the normative reach of the 'Japanese employment system'. Well into the 1980s, workers with unstable and atypical employment very often used their stable income from farming, which was state guaranteed, to secure their standard of living. In addition, the comparatively overextended and highly regulated retail sector offered a huge reservoir of protected jobs. These arrangements did not only 'hide' the true employment situation, but would offer income to workers, who had retired from a regular job and returned to self employment in order to increase their pension. In the 1980s, e.g. "[r]etailing [was] filled with underemployed workers who in other societies might well be unemployed"²⁶ and receive unemployment insurance or old-age benefits which would add to the social spending figures very often used in comparative analysis.²⁷ However, these arrangements were largely not

²³ Although I acknowledge that the family and voluntary associations can play significant roles in securing the social risks of age, sickness, and unemployment, past developments have shown that these social policy arrangement score very low on the dimension of *Erwartungssicherheit*.

²⁴ For a historical and systematic overview of social policy in Germany see Manfred G. Schmidt, *Sozialpolitik in Deutschland – Historische Entwicklung und internationaler Vergleich* (Opladen: Leske+Budrich, 1998); and Johannes Frerich, Martin Frey, *Handbuch der Geschichte der Sozialpolitik in Deutschland – Band 3: Sozialpolitik in der Bundesrepublik Deutschland bis zur Herstellung der Deutschen Einheit*. 2. Ed. (München, Wien: Oldenbourg Verlag, 1996).

²⁵ Cf. Toshimitsu Shinkawa, T.J. Pempel, "Occupational Welfare and the Japanese Experience," in: Michael Shalev (ed.), *The Privatization of Social Policy – Occupational Welfare and the Welfare State in America, Scandinavia and Japan* (London: Macmillan, 1996), 280–326.

²⁶ Hugh T. Patrick, Thomas P. Rohlen, "Small-scale Family Enterprises," in: Kozo Yamamura, Yasukichi Yasuba (eds.), *The Political Economy of Japan*, Vol. 1: The Domestic Transformation (Stanford: Stanford Univ. Press, 1987), 350.

²⁷ Cf. Lonny E. Carlile, Mark C. Tilton, "Regulatory Reform and the Developmental State," in: *Is Japan Really Changing Its Ways? Regulatory Reform and the Japanese Economy*, edited by Carlile and Tilton

financed by the state, but through high consumer prices. Furthermore, the 'Japanese employment system' guaranteed so-called lifetime employment for its core work force in large companies by keeping workers employed even in economic crisis, whereas in Germany as well as in the United States economic considerations would have led to dismissals of the redundant workers.²⁸ In the domains of securing income for (less productive) workers and seniors, work policy dominated the Japanese welfare system in the post-World War II era.

The US welfare state is often described as liberal or residual in comparative analysis, meaning that the market would dominate and state intervention be minimal. However, this approach is biased because it does not systematically take into account the role of fringe benefits. Up until the early 1970s, one can argue that fringe benefits secured an increasing part of the working population and their dependents against the risks of age and sickness. These benefits were largely negotiated collectively between the employers and the unions and at the same time highly regulated by the state. From the perspective of the unions fringe benefits were considered to be 'social rights'²⁹, similar to those rights granted by the state. In this sense fringe benefits substituted state social policy.³⁰ So if we consider the insurance against social risks as the main indicator, the United States had developed a substantial welfare system, in which fringe benefits constituted the main pillar in securing the risks of sickness and old age. Securing income for workers was largely left to the market.

To summarize: Germany, Japan and the US developed very different welfare systems during the golden post-war era in regard to the key institutions they rely on in securing the core social risks of age, sickness, and unemployment. Thus, analyzing only the state dimension in a comparative analysis can very likely result in a partial and distorted picture of the possible effects of globalization on social policy arrangements.

Globalization and Welfare Systems in Political Discourse

Before addressing the substantive political discourses within the three welfare systems a few remarks concerning the methodology are necessary. In order to identify possible links between the globalization process and the welfare system a qualitative content analysis was used. I searched the political discourses from the mid-1970s to the late-1990s for statements linking elements of the three welfare systems to the globalization process, i.e. to the liberalization of

(Washington, D.C.: Brookings Institution Press, 1998), 5 f.

²⁸ Angelika Ernst, *Dauerbeschäftigung und Flexibilität in Japan – Beschäftigungspolitik japanischer Unternehmen in Rationalisierungs- und Krisenphasen* (Frankfurt/M.: Campus Verlag, 1988).

²⁹ Michael K. Brown, "Bargaining for social rights: unions and the reemergence of welfare capitalism, 1945–1952," in: *Political Science Quarterly*, Vol. 112, No. 4 (1997); also see Michael K. Brown, *Race, Money, and the American Welfare State* (Ithaca: Cornell Univ. Press, 1999), 135–164.

³⁰ Beth Stevens, "Labor Unions, Employee Benefits, and the Privatization of the American Welfare State," in: *Journal of Policy History*, Vol. 2, No. 3 (1990), 233–260.

trade, capital flows, and the issues of sovereignty and autonomy.³¹ Since the number of political actors participating in a national political discourse is very large, including all of them in the analysis would have made this comparative study impossible. Rueschemeyer and Skocpol have stressed the role of epistemic communities in generating social knowledge.³² Although this might be a very good approach in identifying the origin of ideas, it does not seem to fit the key problem addressed in this study, i.e. linking the political discourse to policy changes. To reiterate: It is assumed that for ideas to successfully influence the decision-making process they have to evolve into (dominant) interpretive patterns that are persuasive to political actors. Hence, I focus exclusively on the political discourse as shaped by key political actors.³³

Who are these key actors? In the literature, Germany is very often characterized as a "party state,"³⁴ stressing the importance of parties within the political system. In addition, both major political parties, i.e. the Christian Democratic Party and the Social Democratic Party, have been identified as welfare state parties (*Sozialstaatsparteien*).³⁵ For globalization to have any influence on the welfare system one can expect that it is raised as an issue in the political discourse by the political parties. Therefore, I have analyzed all party programs and the major social policy debates within parliament.

Although it is generally assumed that party politics play a less significant role in the US than in most European countries, recent research has shown that parties and their platforms do matter when it comes to economic policy.³⁶ In general we witnessed a polarization of party politics during the 1980s and 1990s in the US. This polarization centered on the question of the adequate role of the state in the economy.³⁷ Hence, as source material I have relied on party platforms, central social and trade³⁸ policy debates within Congress, as well as presidential statements. Based on the governance structure of fringe benefits, I have included trade unions and employers' associations as key actors in my analysis.

³¹ For an overview of the different dimensions of globalization see David Held, Anthony McGrew, David Goldblatt, Jonathan Perraton, *Global Transformations – Politics, Economics and Culture* (Stanford: Stanford University Press, 1999).

³² Theda Skocpol, Dietrich Rueschemeyer, "Introduction," in: Rueschemeyer/Skocpol, *Social Knowledge*, 3–14.

³³ Cf. Hall, "Conclusion", 376 f.; and "Policy Paradigms", 280.

³⁴ Wilhelm Hennis, *Auf dem Weg in den Parteienstaat – Aufsätze aus vier Jahrzehnten* (Stuttgart: Reclam, 1998).

³⁵ Schmidt, *Sozialpolitik*, 168 f.

³⁶ Terry J. Royed, Stephen A. Borelli, "Parties and Economic Policy in the USA," in: *Party Politics*, Vol. 5, No. 1 (1999), 115–127.

³⁷ See Margaret Weir (ed.), *The Social Divide – Political Parties and the Future of Activist Government* (Washington, D.C.; New York: Brookings Institution; Russel Sage, 1998).

³⁸ I have included trade policy in the US case since the expansion of trade was directly related to an expansion of social policy for those workers who have been negatively affected by an increase of imports since the 1960s.

In contrast to Germany and the United States, party politics play a less important role in Japanese politics in determining political discourses. Moreover, advisory committees (*shingikai*) have a very important role in shaping public debates. Usually their reports reflect the consensual perceptions of its members and define national policy aims. The members of these advisory committees come from business associations, unions, public institutions and the government.³⁹ Therefore, I have relied primarily on the various reports of advisory committees in order to analyze the political discourse in Japan, i.e. the *Ad Hoc Committee for Administrative Reform (rincho)*, the *Maekawa Reports*, and various reports issued by the advisory committees of the Labor Ministry. Furthermore, statements of key collective actors relating to the *Structural Impediments Initiative* and their respective policy statements in the latter part of the 1990s were scrutinized. Finally, secondary literature was used to supplement the analysis.

Germany

In Germany, the political discourse of globalization and the welfare system was primarily linked to state social policy. At the center of the debate were the financing structures of the wage earner-centered social policy, i.e. the social insurance contributions. Already in the mid-1970s, the Social Democrats, who were in a coalition government with the Free Democrats at that time, raised the issue of globalization and the increasing loss of autonomy in regard to pursuing an independent national economic policy. Generally speaking the Social Democrats emphasized the overall economic benefits of state social policy in times of increasing internationalization, while at the same time arguing that, the international economic situation made cuts into social policy programs a necessity.⁴⁰

Although the Christian Democrats initially rejected the argument brought forward by the Social Democrats in the 1970s, they utilized the increasingly global economy and developments in other countries to urge for a reduction of social security contributions and to demand cutbacks in state social policies in the early 1980s.⁴¹ After the Christian Democrats, in coalition with the Free

³⁹ See Frank J. Schwartz, *Advice and Consent – The Politics of Consultation in Japan* (Cambridge: Cambridge Univ. Press, 1998); and Gesine Foljanty-Jost, "Shingi-kai – ein Beitrag zur Konkretisierung des Konsensbegriffs in der japanischen Politik," in: JDZB (ed.), *Harmonie als zentrale Wertvorstellung der japanischen Gesellschaft – Erklärung oder Verklärung*. Reihe 1, Bd. 9 (Berlin: JDZB, 1991), 107–122.

⁴⁰ See SPD, "Ökonomisch-politischer Orientierungsrahmen für die Jahre 1975–1985," in: Bayerische Landeszentrale für politische Bildung (ed.), *Programme der politischen Parteien in der Bundesrepublik Deutschland*, Vol. 2 (München: Bayerische Landeszentrale für politische Bildung, 1979), 338–402; SPD, *Weiter arbeiten am Modell Deutschland* (Bonn: Vorstand der SPD, 1976) as well as the address given by Chancellor Helmut Schmidt on September 17, 1975 (Stenogr. Prot. 7/184: 12885).

⁴¹ See the parliamentary inquiry by the CDU/CSU faction titled "Maintenance and Improvement of International Competitiveness" [Erhaltung und Verbesserung der internationalen Wettbewerbsfähigkeit], BT-Drs. 9/904 and the CDU campaign platform for the 1980 federal elections, "Für Frieden und Freiheit in der Bundesrepublik Deutschland und der Welt," in: Bayerische Landeszentrale für politische Bildung (ed.), *Programme der politischen Parteien in der Bundesrepublik Deutschland*, Supplemental Vol. for the 1983 Election (München: Bayerische Landeszentrale für politische Bildung, 1980), 45–58, see especially p. 46.

Democrats, gained power in late 1982, the debate on the negative impact of state social policies on the competitiveness of German companies receded, before the debate resurfaced for a brief period in the late 1980s.⁴² The following unexpected German unification pushed the debate concerning the competitiveness of industry out of the forefront once again.⁴³ Finally however, only three years after the formal unification was completed and in the midst of a deep economic recession, the conservative coalition government placed the issue of staying competitive in the world market *again* on the top of its political agenda. It argued that the state social policy would have to be consolidated and reductions in social security contributions as well as corporate taxes were imperative to stay competitive globally.⁴⁴ Nevertheless, the governing coalition insisted that it was not its desire to unravel the state social policy and to implement a neo-liberal agenda. Indeed the coalition argued that state social policy would generally benefit the economy within the global market; however, current arrangements were overextended, and therefore put pressure on the competitiveness of German companies.⁴⁵

The opposition parties initially rejected the arguments put forward by the governing parties as an ideologically driven attack on state social policy, with the aim to redistribute from the bottom to the top.⁴⁶ Nevertheless, as the conservative coalition government continued to forcefully pursue the debate, the opposition parties accepted the general argument starting around the 1994 federal elections. By 1998, the Social Democrats as well as the Green Party included the demand to

⁴² CDU/CSU, "Das Wahlprogramm von CDU und CSU für die Bundestagswahl 1987," in: Bayerische Landeszentrale für politische Bildung (ed.), *Programme der politischen Parteien in der Bundesrepublik Deutschland*. Supplemental Vol. for the 1987 Election (München: Landeszentrale für politische Bildung, 1986), 12–41.

⁴³ During the unification process of the early 1990s, there was a broad consensus to expand the state social policy to the former East Germany, even if this meant higher budget deficits and social security contributions – politically speaking there did not seem to be any other viable option. E.g. see the statement by the Federal Finance Minister Theo Waigel given in the debate over the 'Consolidation Program' in May 1993 (Stenogr. Prot. 12/161: 13734) as well as the analysis based on interviews with various leading policymakers by Hubert Heinelt/ Michael Weck, *Arbeitsmarktpolitik – Vom Vereinigungskonsens zur Standortdebatte* (Opladen: Leske & Budrich, 1998), 131 ff.

⁴⁴ See Presse- und Informationsamt der Bundesregierung, *Bericht der Bundesregierung zur Zukunftssicherung des Standortes Deutschland* (Bonn: Presse- und Informationsamt der Bundesregierung, 1993), 60 f.; as well as the various parliamentary debates concerning the 'Consolidation Program', 'First and Second Saving, Consolidation and Growth Program', which all were debated during the year 1993, and the 'Employment and Growth Program' (1996).

⁴⁵ E.g. see Bundesministerium für Wirtschaft, *Jahreswirtschaftsbericht 1995* (Bonn: Bundesministerium für Wirtschaft, 1995), 64.

⁴⁶ See among other contributions the speech of Werner Schulz (Alliance 90/The Greens) in the first reading of the 'First and Second Saving, Consolidation and Growth Law' in September 1993 (Stenogr. Prot. 12/172: 14765) as well as the contribution by the social-democratic expert on state finances Ingrid Matthäus-Maier (Stenogr. Prot. 12/171: 14699; 14701). A comprehensive line of arguments concerning the benefits of social policy in times of globalization can be found in the position paper by the Social-democratic Working Group on Labor and Social Policy within the SPD Faction of the Bundestag; see SPD, "Sozialpolitik als Standortfaktor – Positionspapier der Arbeitsgruppe Arbeit und Sozialordnung der SPD-Bundestagsfraktion," in: *Fraktion Aktuell*, edition 10/93.

reduce social security contributions in their election platforms, justified by the argument that such a policy was needed to stay competitive in a global economy.⁴⁷

Summarizing the political discourse in Germany, one can argue that a strict budget consolidation policy and the need to reduce social security contributions in an era of globalization in order to stay competitive have become a dominant interpretive pattern held by the political elite in Germany during the 1990s. However, these arguments did not fundamentally challenge the underlying belief, whereby social policy promotes social peace and thereby creates a positive climate for business to flourish in the global economy.

Japan

Analyzing the political discourse in Japan, we witness that globalization was not primarily perceived as limiting state social policy, but that the cost of the work policy was the major issue in the debates of the 1980s and 90s. Since the late 1970s, export-oriented companies – largely in consensus with the enterprise unions of those companies – demanded a liberalization of agriculture and distribution policies. The high domestic prices, which were a result of protectionism in these sectors, so the argument ran, would increase wage demands, which would negatively affect the competitiveness of Japanese companies in world markets.⁴⁸ Furthermore, in the early 1990s, companies and unions feared that the United States would use trade policies to retaliate against Japanese protectionism.⁴⁹ Some governmental agencies even argued that an expansion of social provisions, such as the reduction in working hours, could counter accusations by foreign countries that Japan was relying on social dumping as part of its export strategy and thereby help to keep markets open for Japanese products.⁵⁰ Finally a consensus formed within the political elite that it was necessary to slowly open the market to foreign competition – a position

⁴⁷ Taken their strong focus on state social policy in the past, it is noteworthy that the Social Democrats have called for a greater amount of personal responsibility and company-level arrangements within the welfare system. This is especially the case concerning the pension system. In addition, both former opposition parties have distanced themselves from deficit-financed anti-cyclical investment policies in their party programs. SPD, *Das Regierungsprogramm der SPD. Reformen für Deutschland* (Bonn: Parteivorstand, 1994); SPD, *Arbeit, Innovation und Gerechtigkeit – SPD-Programm für die Bundestagswahl 1998* (Bonn: Parteivorstand, 1998); Bündnis 90/Die Grünen, *Grün ist der Wechsel* (Bonn: Bundesvorstand, 1998).

⁴⁸ E.g. see Nikkeiren, *Structural Reform – The Search for a Third Option. Employment Stability and Improved National Quality of Life. Nikkeiren Position Paper 1997* (Tokyo: Japan Federation of Employers' Associations, 1997), 13 f. For a similar interpretive pattern of Rengo see RIALS, "The annual Economic Report of RIALS. 1994: Entering New Era beyond Structural Adjustment," in: RIALS (ed.), *Rengo Research Institute Report No. 6* (Tokyo: Rials, 1995), 5f.

⁴⁹ Frances McCall Rosenbluth, "The Domestic Politics of Internationalization in Japan: Shifting Coalitions and Institutional Adjustment," prepared for presentation at the annual meetings of the American Political Science Association, Chicago, September 1992, 6; Ikuo Kume, "Cooptation or New Possibility? Japanese Labor Politics in the Era of Neo-Conservatism," in: *State and Administration in Japan and Germany – A Comparative Perspective on Continuity and Change*, edited by Michio Muramatsu and Frieder Naschold (Berlin, New York: Walter de Gruyter, 1997), 224.

⁵⁰ See Ikuo Kume, *Disparaged Success – Labor Politics in Postwar Japan* (Ithaca; London: Cornell Univ. Press, 1998), 199f. and Schwartz, *Advise*, 138 ff.

strongly supported by the United States –, while at the same time find new measures to maintain social cohesion. The proposed measures included increased investments in the social infrastructure, even if it meant increasing the government deficit, as well as a strong emphasis on employment policies⁵¹ to buffer the impact of liberalization. To a large extent the pressure from the outside, i.e. *Gaiatsu*, was instrumental in forming this new interpretive pattern, without it it would have taken much longer for the consensus among the political elite to build, since the sheltered sectors have such a great voice within the political discourse.⁵²

During the 1990s, enterprises were questioning another corner stone of the work policy, namely the ‚Japanese employment system’ itself. This was based on the perceived need for flexibility and cost reduction due to the globalization process. Against the vehement opposition of unions, the employers demanded a flexibilization of the ‚employment system’, which included a reduction in the percentage of lifetime employees.⁵³ In order to achieve this aim, Keizai Doyukai, an association of managers and executives, proposed a substantial improvement of the unemployment insurance. According to them, improved access to unemployment insurance benefits would increase the necessary flexibility in the labor market.⁵⁴ However, employers were not successful in dominating the political discourse, since unions and government officials remained adamantly opposed to the proposed strategy.⁵⁵ For example, Akira Takanashi, the long–time chairman of the Central Employment Security Deliberative Council, argued: "the view of the ‚flexible labor market’ and that of disintegrating ‚Japanese’ employment practices are not at all acceptable."⁵⁶ Finally, employers, employees and the government embarked onto a new project

⁵¹ The social partners supported measures of active employment policy since the 1970s, after they had realized that company level adjustment measures would be insufficient to adapt to the structural change; see Kume, *Disparaged Success*, 171 ff.

⁵² Advisory Group on Economic Structural Adjustment for International Harmony, "Maekawa Report," in: *Japan Economic Journal*, April 19, 1986, 7; Advisory Group on Economic Structural Adjustment for International Harmony, "Action for Economic Restructuring," in: *Japan Economic Journal*, May 23, 1987, 7+21. See Martin Seeleib–Kaiser, *Globalisierung und Sozialpolitik. Ein Vergleich der Diskurse und Wohlfahrtssysteme in Deutschland, Japan und den USA* (Frankfurt/M.: Campus, 2001).

⁵³ See Keidanren, *The Medium–Term Forecast for Japanese Industry and the Challenges it Must Face*. Policy Statements, Proposals and Reports 95/10/17_01 [http://www.keidanren.or.jp/english/policy/pol039/p_039-01.html]; Nikkeiren, *Structural Reform – The Search for a Third Option. Employment Stability and Improved National Quality of Life. Nikkeiren Position Paper* (Tokyo: Japan Federation of Employers’ Associations, 1997).

⁵⁴ Keizai Doyukai, *Structural reforms to enhance initiatives of the private sector – Chairman’s Address for the 1997 Annual Meeting*. April 24, 1997, tentative translation [<http://www.doyukai.or.jp/database/teigen/970424e.htm>].

⁵⁵ Cf. Machiko Osawa, Jeff Kingston, "Flexibility and Inspiration: Restructuring and the Japanese Labor Market," in: *Japan Labour Bulletin*, Vol. 35, No. 1 (1996) [<http://www.mol.go.jp/jil/bulletin/year/1996/vol35-01/04.htm>].

⁵⁶ Akira Takanashi, Akira, "Employment Practices and Unemployment in Contemporary Japan," in: *Japan Labour Bulletin*, Vol. 34, No. 4 (1995).

entitled "The Third Way", which would avoid the ills of the American and European responses to globalization (i.e. the phenomena of the working poor as well as high unemployment).⁵⁷

Analyzing the political discourse in Japan, it is obvious that the key pillar of the Japanese welfare system, i.e. work policy, came under pressure through the process of globalization. Eventually, a consensus formed among political actors, who considered change of the social policy arrangements within the Japanese political economy, a necessity; nevertheless, the proclaimed change should not go as far as unraveling the social fabric of Japanese society.

United States

With the increasing trade deficit during the 1980s, the possible loss of jobs and the costs of fringe benefits featured prominently in the political discourse.⁵⁸ Trade-oriented companies in traditional industrial sectors increasingly perceived fringe benefits as a cost factor, which impinged on their international competitiveness. During the late 1980s, demands by enterprises to reduce fringe benefits were the primary reason for strikes with more than 1000 involved workers.⁵⁹ Furthermore, trade-oriented companies supported a greater role of government regulation in order to reduce their costs, during the health care debate of the early 1990s. E.g. Curtis H. Barnette, CEO of Bethlehem Steel Corporation, argued in a congressional hearing:

Rising health care costs are becoming an increasingly important factor limiting the United States' ability to compete in the global market. ... Among our major foreign steel competitors, the United States has the highest per capita Health Care cost. In the United States, this cost is borne principally by the larger employers. Whereas in Canada, Europe, and Japan, the cost of Health Care is spread more equitably among all employers and/or the public.⁶⁰

According to this view, employer-provided health care benefits had a negative effect on international competitiveness. This reasoning was also reflected in arguments put forward by the Democratic Party starting in the mid-1980s⁶¹ and culminated in President Clinton's justification

⁵⁷ Cf. Nikkeiren, *A New Japanese Model: Searching for a Third Option – Nikkeiren Report on the Bluebird Plan Project (FY 1997–1999)* (Tokyo: Japan Federation of Employers' Association, 1997).

⁵⁸ Cf. Democratic Party, "Text of 1984 Democratic Party Platform," in: *Congressional Quarterly Almanac* 1984, 73–B–106–B.

⁵⁹ Kirk Victor, "Gut Issue," in: *National Journal*, March 24th, 1990: 704–707.

⁶⁰ See statement in Subcommittee on Health and the Environment, Committee on Energy and Commerce, U.S. House of Representatives, *Hearing on Health Care Reform*. Part 9, 103rd Cong., 2nd Sess., Serial 103–110 (Washington, D.C.: GPO, 1994), 113. Similar arguments were brought forward e.g. by Martin B. Zimmerman, chief economist of the Ford Motor Company [see Committee on Ways and Means, U.S. House of Representatives, *Effects of Health Care Reform on the National Economy and Jobs*, 103rd Cong., 1st Sess., December 15, 1993, Serial 103–55 (Washington, DC: GPO, 1994), 122–124], and by Michael R. Becker on behalf for the Corporate Health Care Coalition; see Ways and Means Committee, U.S. House of Representatives, *The Employer Mandate and Related Provisions in the Administration's Health Security Act*, 103rd Cong., 2nd Sess., February 3, 1994, Serial 103–62 (Washington, DC: GPO, 1994), 184–192.

⁶¹ See Democratic Party, "1984 Platform," 79–B.

for national health care reform. When he presented the *Health Security Act* in the fall of 1993 the president stated:

This legislation literally holds the key to a new era of our economy – an era in which we can get our health care costs under control; free businesses to compete better in the global economy; and make sure that the men and women who show up for work every day are more productive because they're more secure.⁶²

Similar to the debate on health care reform, the process of globalization was used to justify an expansion of active labor market policies by Democrats during the 1980s and 1990s. They argued that globalization demanded increased investments in human capital.⁶³ Along with these arguments, the justification for an expanded active labor market policy was based on older arguments, whereby those workers who had been displaced by the effects of new trade liberalization policies were entitled to government compensation and training.⁶⁴ In other words, an expansion of certain sectors of state social and active labor market policies was perceived by parts of the business community as well as the Democratic Party as an investment to promote the competitiveness of the United States. State social policy was increasingly not seen anymore as an instrument to primarily fight a war on poverty but as an instrument to boost the economy in a global setting.

The political debates concerning changes and reforms of the major public transfer programs, i.e. AFDC or Social Security, were not explicitly connected to issues of globalization. Even during the Reagan administration, conservative ideological demands rather than the imperatives of the global economy largely drove the debates.⁶⁵ Accordingly demands to expand state social and active labor market policies in times of globalization to increase competitiveness, as put forward by Democrats and parts of the business community since the late 1980s, met the fierce opposition

⁶² William J. Clinton, "Remarks on Presenting Proposed Health Care Reform Legislation to the Congress, October 17, 1993," in: *Public Papers of the Presidents of the United States, 1993, Book II* (Washington, D.C.: GPO, 1994).

⁶³ See Democratic Party, "1984 Platform," 79–B; Robert Reich, *The Work of Nations – Preparing for the 21st-Century Capitalism* (New York: Alfred A. Knopf, 1991); Bill Clinton/Al Gore, *Putting People First* (Times Books, 1992). Also see Cathie Jo Martin, *Stuck in Neutral – Business and the Politics of Human Capital Investment Policy* (Princeton: Princeton Univ. Press, 2000).

⁶⁴ See Message from the President of the United States Relative to the Reciprocal Trade Agreements Program, January 25, 1962, cited in: Committee on Ways and Means, U.S. House of Representatives, *Hearings on Trade Expansion Act of 1962, H.R. 9900* (Washington, DC: GPO, 1962), 8–9; for a comprehensive historical account see Charles R. Frank, *Foreign Trade and Domestic Aid* (Washington, DC: Brookings Institution, 1977). The interdependence of trade liberalization and an expansion of active labor market policy resurfaced in all of the major trade debates, during the 1980s and 1990s.

⁶⁵ See Martin Seeleib-Kaiser, *Amerikanische Sozialpolitik – Politische Diskussion und Entscheidungen der Reagan-Ära* (Opladen: Leske+Budrich, 1993). However, there seems to be some evidence that the increased competition at the subnational level has had a 'negative' effect on state social policy; cf. Paul E. Peterson/Mark C. Rom, *Welfare Magnets – A New Case for a National Standard* (Washington, DC: Brookings, 1990).

of the Republican Party. Once again, their opposition was rooted in the conservative ideological agenda and not based on possible economic limits determined by globalization.⁶⁶

Discourses in Comparative Perspective

The analysis of the political discourses in the three countries has shown that globalization was linked to specific social policy arrangements in all three countries, however, the interpretive patterns were quite distinct. According to this analysis, globalization per se does not constitute a limit for increased *state* social policy independent of the specific welfare systems, as perhaps some Marxist or neo-liberal analysis stressing the transformation of welfare states to competition states would suggest. Moreover, the specific welfare systems, themselves based on historically rooted interpretive patterns, seem to determine the nature of the debate concerning the relationship between globalization and social policy. Accordingly, the costs and benefits of the various pillars of the welfare system were interpreted differently. In Germany as well as in Japan one can talk of dominant interpretive patterns by the respective political elite concerning the links between globalization and the welfare system, whereas in the United States substantial differences among the elite persisted. The latter is due to the fact that the Republicans largely did not perceive the globalization process in relation to social policy arrangements.

The Changing Nature of Welfare Systems

Whether or not an overall change of a welfare system occurs is determined by the sum of the various perceived challenges it is facing. However, as has been shown, the challenge by globalization has been *one* more or less continuous justification by political elites in the *key* social policy debates over the last two and a half decades. This is not to say that other variables did not contribute to changes of the welfare systems. The point I am trying to make is that the perceived process of globalization obviously had an impact on the 'need' to reform the three welfare systems. In this section, I will address the major policy changes in social policy within the three welfare systems over the last two and a half decades. This will allow us to evaluate in the conclusion whether the policy changes were consistent with the perceived needs for change due to globalization.

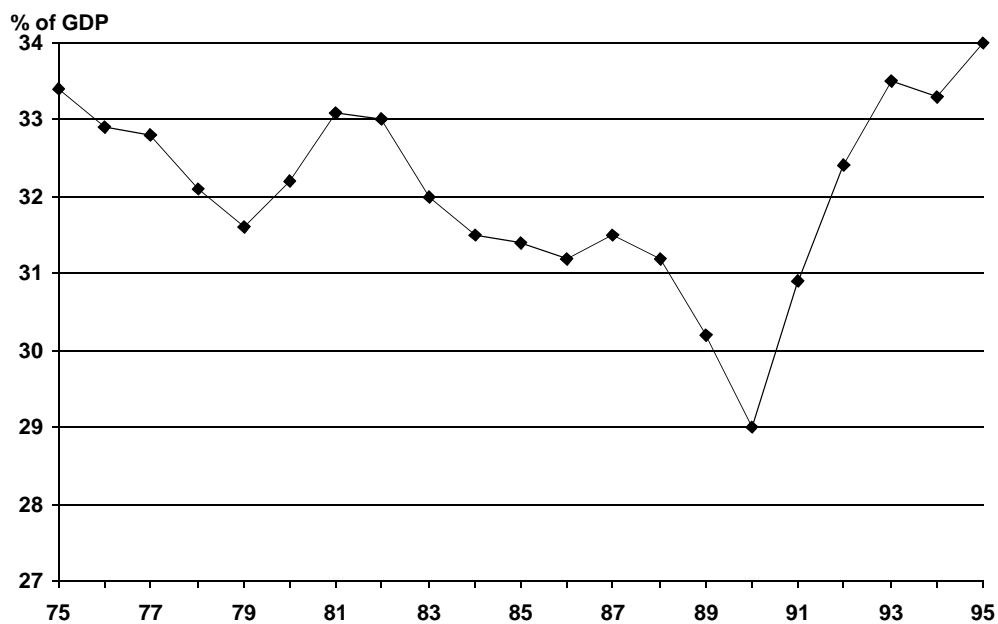
Germany

Let us first take a look at the quantitative side of the welfare state. Analyzing total spending for state social policy in Germany since 1975, we can clearly see major reductions in spending levels

⁶⁶ Newt Gingrich, Dick Armey, House Republicans to Change the Nation, *Contract with America*. Edited by Ed Gillespie and Bob Schellhas (New York: Times Books, 1994); House Republicans, *Restoring the Dream – The Bold New Plan by House Republicans. Strengthen the Family, Balance the Budget, Replace the Welfare State*. Edited by Stephan Moore (New York: Times Books, 1995).

prior to the unification process (Fig. 1), although an increase in social problems would have suggested a different development, i.e. an expansion.⁶⁷ The cumulative effect of the policy changes enacted since 1982 – according to calculations based on figures by the Ministry of Labor – reduced state social spending by almost three percent of GDP in 1997.⁶⁸ The German unification process reversed the prior trends in spending and in the level of social security contributions, since it was agreed upon in the German Unification Treaty to extend the state social programs to the East. This was not a programmatic expansion of state social policy, but a necessary measure based on the notion of justice in a united Germany. Consequently, after the extension of the West German social transfer state to the East was formally accomplished, the Kohl government successfully enacted substantial cuts in a wide variety of programs, which were all focused on getting back on the policy path that was pursued during the late 1970s and 80s. Retroactively one can characterize the period of the early 1990s as an exceptional situation, which was short-lived. The aggregate spending data for the late 1990s provide early quantitative evidence for this assessment.

Fig. 1: Social Spending in Germany as a Percentage of GDP: 1975–1998



Source: BMAS 1998: 7.1

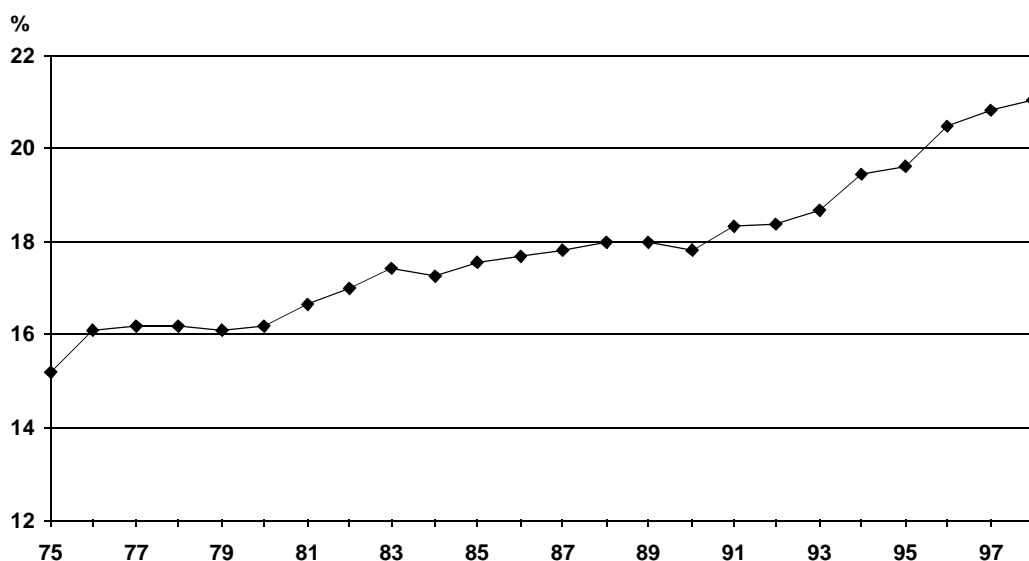
Without the spending reductions the social insurance contributions would have risen even more,

⁶⁷ Such developments were: the almost continuous rise of the unemployment rate over the business cycles in the last two and a half decades, the increasing population over 65 entitled to pension payments and the significant drop in the employment ratio of male workers aged 55 to 64. Cf. Peter Bleses, Martin Seeleib-Kaiser, "Zum Wandel wohlfahrtsstaatlicher Sicherung in der Bundesrepublik Deutschland," in: *Zeitschrift für Soziologie*, Vol. 28, No. 2, 1999, 125; FN 34.

⁶⁸ Manfred G. Schmidt, *Sozialpolitik in Deutschland*, 137.

since about 60 percent of the social policy outlays are financed through contributions.⁶⁹ The policy changes in the 1980s triggered a stabilization of the social insurance contributions in the latter half of the decade, before the German unification once again led to a significant increase. However, policy changes implemented since the mid-1990s once again slowed the increases and even led to a minor reduction (Fig. 2).

Fig. 2: Employers’* Contributions to Social Insurance Schemes in Germany as a Percentage of Gross Wage: 1975–1999



* Employers pay the same percentage.

Source: BMAS 1998: 7.7

If we now take a more qualitative perspective, one of the major conclusions is that in the case of unemployment and old age the former guarantee of the achieved living standard has become – to say the least – more fragile. The changes since the second half of the 1970s were primarily targeted at the unemployment insurance and the active labor market policy. Increasingly, prime-age unemployed workers have to rely on the means-tested unemployment aid benefit.⁷⁰ According to the Labor Promotion Reform Law enacted in 1997, an unemployed person could no longer reject a work offer outside his or her occupation or level of qualification as unsuitable. In addition, he or she now has to take a job offer, even if it pays up to 20 percent less than the previous job, during the first three months of unemployment and up to 30 percent in the following

⁶⁹ Own calculations based on data by the Bundesministerium für Arbeit und Sozialordnung, *Arbeits- und Sozialstatistik – Statistisches Taschenbuch 1998* (Bonn: BMAS, 1998), Tab. 7.3.

⁷⁰ In addition, based on data by the OECD the amount paid to the individual unemployed declined significantly between 1981 and 1993. The average benefit in the case of unemployment insurance dropped by 14 and in the case of unemployment aid by 21 percent respectively; see OECD, *Wirtschaftsberichte – Deutschland 1996* (Paris: OECD, 1996), 64.

three months. After six months the unemployed will have to take basically any job offer, which pays at least the amount of the unemployment compensation payment.⁷¹ These changes are contradictory to the notion of securing the achieved standard of living through the social insurance scheme; the state seems to be increasingly relying on a means-tested approach.⁷²

Although the institution of old-age social insurance was largely left intact during the social policy changes of the 1980s and early 1990s; this was to change by the mid-1990s. Through the implementation of the *Rentenreformgesetz 1999*, which was legislated in 1997, the replacement rate for the model pensioner [*Eckrentner*] would have been reduced from 70 to 64 percent. Based on this measure once again a substantial percentage of the elderly would have to depend on the means-tested social assistance, according to estimates by the Chairman of the Social Security Council.⁷³ However, at the same time, regulations were liberalized to strengthen the incentives for employers to provide fringe benefits.⁷⁴ With this legislation the former government coalition of Christian and Free Democrats implicitly decided to withdraw from the principle of publicly guaranteeing the former achieved standard of living. Although the incoming new red/green coalition government suspended the implementation of this law, a return to the *Lebensstandardsicherung* within the statutory old-age insurance is not on its agenda. Similar to the old government its goal is to limit the replacement rate at a considerably lower level and to encourage occupational and private arrangements in securing a larger part of the retirement income.⁷⁵ In part this has been accomplished by the pension reform enacted in early 2001.

Finally, if we look at the specific institutions of state social policy over the last 25 years, we witness a substantial change in the normative underpinnings and the institutional design. It becomes obvious that, the formerly overarching principle of guaranteeing the once achieved standard of living through a wage-centered social insurance system clearly is on the retreat. However, this development cannot be accurately described as a ‚neo-liberal‘ policy approach, moreover, it reflects a redefinition of the state role under changed circumstances.

⁷¹ Karl-Jürgen Bieback, "Der Umbau der Arbeitsförderung," in: *Kritische Justiz*, Vol. 30, No. 1 (1997), 15–29.

⁷² For a similar argument cf. Hubert Heinelt, Michael Weck, *Arbeitsmarktpolitik*, 48–56.

⁷³ Winfried Schmähl, "Rentenversicherung in der Bewährung: Von der Nachkriegszeit bis an die Schwelle zum neuen Jahrhundert," in: *Eine lernende Demokratie – 50 Jahre Bundesrepublik Deutschland*. WZB Jahrbuch 1999 (Berlin: edition sigma, 1999), 417 f.; cf. Bundesministerium für Arbeit und Sozialordnung, *Sozialbericht 1997*. (1998) BT-Drs. 13/10142, 57 f.

⁷⁴ Cf. Christian Wirth/Susanne Paul, "Bedeutung der betrieblichen Altersversorgung und Reformmaßnahmen des RRG 1999," in: *DAngVers*, No. 7, 1998, 232–240; and Bundesministerium für Arbeit und Sozialordnung, *Sozialbericht 1997*, 59.

⁷⁵ Cf. Sozialpolitische Informationen Spezial, July 31, 2000.

Japan

Analyzing the changes of the Japanese welfare system, we saw substantial changes in the legislation governing the agricultural and distribution sectors in order to liberalize the market. At the end of 1993 the government finally agreed to incrementally open the rice market to foreign competition and in 1994 it lifted the monopoly on the distribution of rice in order to promote market mechanisms. However, a new fiscal program to counter the possible negative effects – worth 6.1 trillion Yen – complemented these market liberalizations. About fifty percent of the money was set aside for public works programs to improve the infrastructure of rural areas and more importantly to provide employment opportunities for farmers.⁷⁶ In the retail sector, the so-called *Large Scale Retail Store Law* was substantially revised in the early 1990s, which made it easier for larger stores to compete in the market.⁷⁷ These changes have already led to substantial consequences in the retail sector by reducing the overall number of workers in this sector and especially the number employed in small retail shops. Together with the changes in the agricultural sector these changes will reduce the possibilities of less productive workers to be gainfully employed in sheltered sectors. Although the agricultural as well as the distribution sectors still absorb a substantial number of workers, these numbers are decreasing and consequently the role of these sectors as functional equivalents to unemployment and pension schemes will diminish.⁷⁸

While there had also been pressures to liberalize the 'Japanese employment system' it did not change fundamentally for the insiders throughout the 1990s. In 1998, almost 7 percent of the workforce could be considered as in-house unemployed, i.e. workers who are formally still employed but have become redundant in an economic sense.⁷⁹ In addition, the insiders can still rely on the fringe benefit system, which stayed largely unchanged over the last decade. However, the 'employment system' has lost its reach for the younger cohorts for whom it has become increasingly difficult to enter the labor market on a permanent basis, during the last two decades.⁸⁰ One indicator for this development is the sharp increase in unemployment among male youth (see Fig. 3).

⁷⁶ Foreign Press Center, *Food and Agriculture in Japan*. About Japan Series 18 (Tokyo: Foreign Press Center, 1996), 45 f.; Steven K. Vogel, *Can Japan Disengage? Winners and Losers in Japan's Political Economy, and the Ties That Bind Them*. BRIE Working Paper 111 (Berkeley: BRIE, 1997), 14.

⁷⁷ See Leonard J. Schoppa, *Bargaining with Japan – What American Pressure Can and Cannot Do* (New York: Columbia University Press, 1997), 146 ff.

⁷⁸ Martin Seeleib-Kaiser, *Globalisierung und Sozialpolitik*.

⁷⁹ Friederike Bosse, "Verschlechterung auf dem Arbeitsmarkt," in: *Japan Aktuell*, Vol. IV, No. 5 (1998), 438.

⁸⁰ See Yuji Genda, "Youth Employment and Parasite Singles," in: *Japan Labour Bulletin*, Vol. 39, No. 3 (2000).

At the same time, the state has extended its role within the welfare system in two ways: First, active labor market policies were expanded during the 1980s and 1990s. One primary focus was to give incentives to employers to keep especially older workers employed.⁸¹ Looking at the unemployment statistics this policy seemed to have been quite successful in reducing the unemployment rate of older workers, during the second half of the 1980s. In the 1990s the active labor market policy has been continued and even expanded.⁸² Second, the state greatly enhanced public work programs via massive deficit spending in order to cushion the structural changes – a policy which has been characterized as "Keynes in the orient".⁸³ At the end of the 1990s, the budget deficit had risen to about 10 percent and the debt to 116 percent of GDP, whereas at the beginning of the decade the Japanese government was still running a budget surplus.⁸⁴

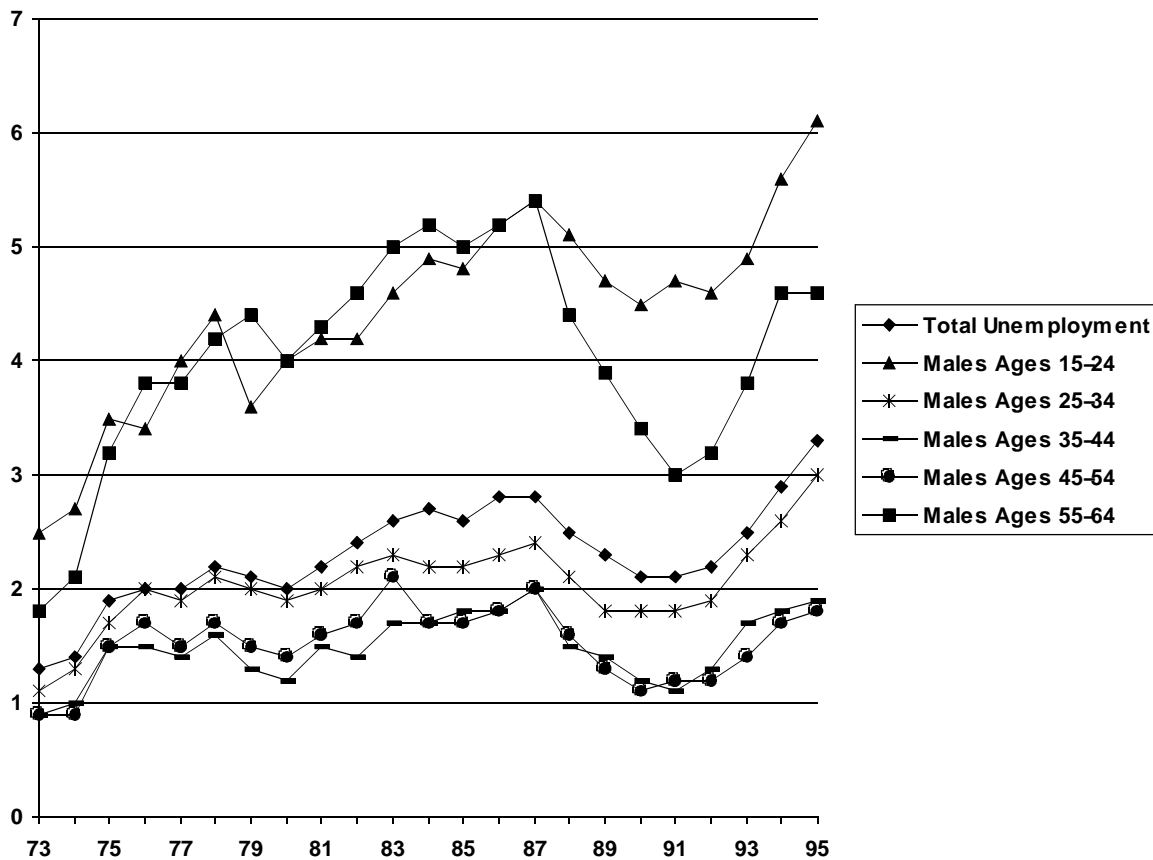
⁸¹ Kume, *Disparaged Success*.

⁸² Fumio Ohtake, "Special Employment Measures in Japan," in: *Japan Labour Bulletin*, Vol. 39, No. 12 (2000).

⁸³ Harold Chorney, "Debits, Deficits and Full Employment," in: *States Against Markets – The limits of globalization*, edited by Robert Boyer und Daniel Drache (London, New York: Routledge, 1996), 371.

⁸⁴ Cf. Sheryl WuDunn, Nicholas D. Kristof, "Though Japanese Save Diligently, The Nation Sinks Deeper in Debt," in: *New York Times*, September 1, 1999, A1+A10.

Fig. 3: Male Unemployment Rate in Japan by Age Cohorts: 1973–1999



Sources: Data for 1973–1994 provided by MoL, International Labour Affairs Division; Data for 1995–1999 Japan Institute of Labour, *Labour Statistics – Japanese Working Life Profile 2000* (Tokyo 2000: 48).

If we finally look at the state social policy, we witness a general consolidation in the early 1980s, especially affecting 'able-bodied', prime-aged workers, whose access to social transfers was restricted. Yet, these programs have always played a minimal role within the welfare system, since the Japanese traditionally attributed a very high value to work. In other areas we saw clear expansions: First the minimum public pension system was improved through a reform legislated in 1984; second expansions were enacted later in the 1980s and early 1990s in the areas of social services, including long-term care, and family policy.⁸⁵

To sum up, the Japanese welfare system is relying less on regulation and protectionism and more on fiscal policy and active labor market policies to reduce the risk of unemployment for less

⁸⁵ Martin Seeleib-Kaiser, Anna Maria Thränhardt, "Wohlfahrtsgesellschaft statt Wohlfahrtsstaat in Japan: Zwischen westlichen Vorbildern und eigenständigem Modell", in: Herbert Obinger; Uwe Wagschal (eds.), *Der gezügelte Wohlfahrtsstaat – Sozialpolitik in reichen Industrienationen*. (Frankfurt/M.; New York: Campus, 2000), 283–328.

productive workers and secure against the risk of old age. Although work policy still seems to be at the center of the Japanese welfare system, there has been a substantial change in terms of the instruments used to achieve social cohesion. To some extent these policies seem to resemble the stereotype, orthodox social democratic approach and in that sense differ clearly from the approach implemented until the 1970s. The role of direct state intervention has clearly increased.

USA

Looking at the US welfare system, we have also been witnessing changes that have increased the role of the state, while at the same time the reach of fringe benefits has declined substantially. The latter change can be traced to the restructuring of the workforce, which at least partly is the result of the globalization process. While in 1979, about 70 percent of the US population under the age of 65 had health insurance coverage through fringe benefits, the percentage declined to 63 percent in 1996 (see Table 1).⁸⁶ Low-skilled workers and those employed in the manufacturing sector, which is much more exposed to fierce international competition than other sectors of the economy, are most severely affected from this development.⁸⁷ Although we can observe a less dramatic decline within the domain of retirement benefits, workers are increasingly covered by defined contribution plans, whereas in the past they had been covered by defined benefit plans.⁸⁸

Tab. 1 Workers with employer provided health insurance: 1979–1996

| Group* | 1979 | 1989 | 1996 |
|---------------------|-------|-------|-------|
| All workers | 70.2% | 63.1% | 62.6% |
| Sex | | | |
| Male | 75.1% | 66.8% | 65.2% |
| Female | 62.2% | 57.9% | 59.1% |
| Education | | | |
| Without High School | 62.2% | 46.2% | 43.8% |
| High School | 70.2% | 61.7% | 59.5% |
| Some College | 71.8% | 64.3% | 63.4% |
| College | 79.4% | 75.1% | 74.8% |
| More than College | 79.5% | 78.4% | 79.5% |

* Private-sector wage and salary workers age 18–64, with at least 20 weekly hours and 26 weeks of work.

Source: John Mishel, Jared Bernstein, John Schmitt, *The State of Working America 1998–1999* (Ithaca: Cornell Univ. Press, 1999), 146.

⁸⁶ Also see Committee on Ways and Means, U.S. House of Representatives, *1996 Green Book. Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means*. WMCP 104–14 (Washington, D.C.: GPO, 1996), 1031 f.

⁸⁷ EBRI, *Trends in Health Insurance Coverage*. EBRI Issue Brief No. 185, May (Washington, D.C.: EBRI, 1997).

⁸⁸ With this structural change risk is shifted from employers to employees; cf. EBRI, *EBRI Databook on Employee Benefits* (Washington, DC: EBRI, 1997), 84; "The End of the Company Pension – Passing the Buck," in: *Economist*, May 15, 1999: 85–87.

Along with this retrenchment in the sector of fringe benefits the government has *expanded* its role in health and active labor market policies through incremental reforms during the second half of the 1980s and early 1990s. In 1995, almost 14 percent of the population under the age of 65 were covered through governmental health care programs, whereas only about 9 percent were covered a decade earlier.⁸⁹ Starting in the second half of the 1980s, the federal government has liberalized the eligibility criteria in the Medicaid program in order to make access to health care easier for former welfare recipients and children of poor families. Furthermore, through the legislation of the *Health Insurance Portability and Accountability Act of 1996* the state wants to reduce the risk of losing health care coverage when changing the employer and thereby increasing the flexibility on the labor market.⁹⁰

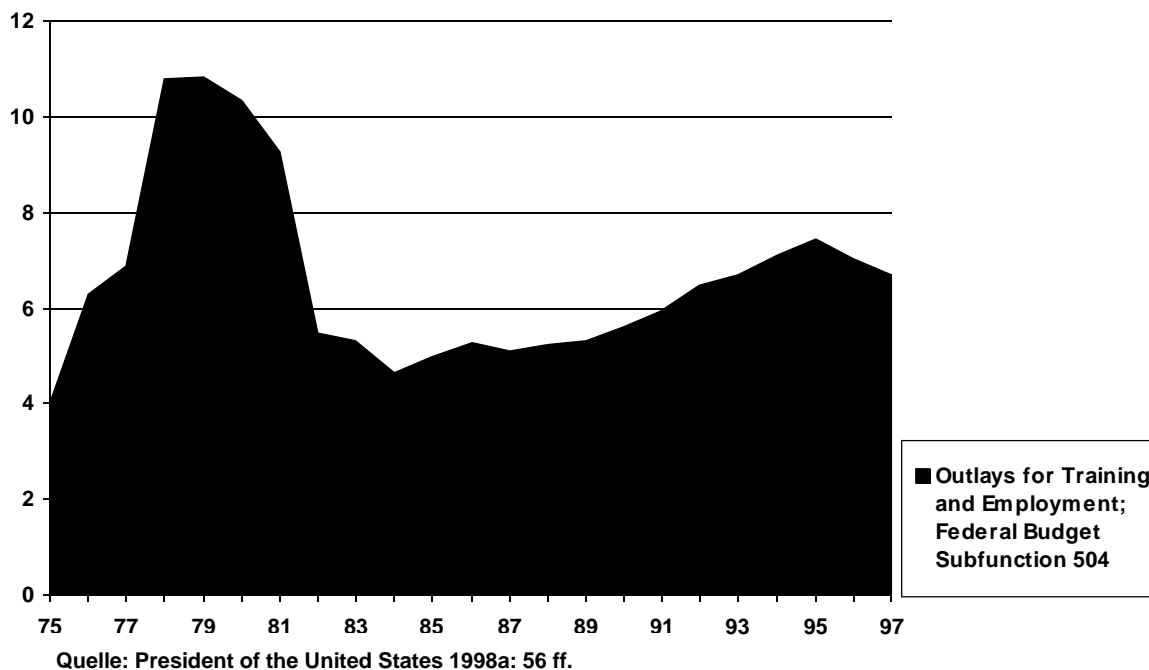
Although substantial cuts in active labor market policy were enacted during the first years of the Reagan administration, expenditures rose continuously until the mid-1990s, after the *Economic Dislocation and Worker Adjustment Assistance Program* was legislated in 1987 as part of the *Omnibus Trade and Competitiveness Act*, which gave the President the mandate for negotiations in the Uruguay Round (see Fig. 4). If we control for the percentage of the unemployed, the United States spent more on active labor market policies in 1995 than in 1975.⁹¹ Although the Clinton administration with its emphasis on improving human capital was unsuccessful to substantially reform the active labor market policy, it achieved a greater emphasis on and an increase of funding for programs addressing the needs of dislocated workers.⁹²

⁸⁹ Ways and Means Committee, *1996 Green Book*, 1031.

⁹⁰ See Mark A. Peterson "The Politics of Health Care Policy – Overreaching in an Age of Polarization," in: Margaret Weir (ed.), *The Social Divide*, 181–229; and Ways and Means Committee, *1996 Green Book*, 891 ff.

⁹¹ See Seeleib-Kaiser, *Globalisierung und Sozialpolitik*.

⁹² See President of United States, *Budget of the United States Government – Fiscal Year 1999* (Washington, D.C.: GPO, 1998), 53; Committee on Ways and Means, *1998 Green Book. Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means*. WMCP 105–7 (Washington, D.C.: GPO, 1998), 390 ff.

Fig. 4: Outlays in Billions of US–Dollars for Training and Employment: 1975–2001

Traditional public transfer programs, such as the old–age retirement program, and unemployment insurance did not undergo substantial changes at the federal level. In the area of public assistance (read AFDC) the federal government transferred the legal authority to determine eligibility and benefit standards to state governments and thereby withdrew its responsibility for the non–working poor.⁹³ At the same time, however, the federal government greatly expanded its support for the working poor through the Earned Income Tax Credit (EITC) program, which now covers about 18.5 million families, whereas at its peak in the 1994 the AFDC program supported about 5 million families.⁹⁴

Contrary to conventional wisdom, we see an expansion of the role of the federal government in social policy areas it in the past had neglected. An increasing part of the population is insured through the government against the risk of sickness, whereas the once dominant fringe benefits are on the retreat. In the policy area of active labor market policy the government is increasingly shifting the focus of programs on dislocated workers, who in the past had not been the primary target of its policies.

⁹³ However, compared with other programs the authority of the federal government in this program has never been comprehensive.

⁹⁴ Committee on Ways and Means, *1996 Green Book*, 467; Committee on Ways and Means, *2000 Green Book – Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means*. WMCP: 106–14 (Washington, D.C.: GPO, 2000), 813. For an historical account of the EITC see Christopher Howard, *The Hidden Welfare State – Tax Expenditures and Social Policy in the United States* (Princeton: Princeton University Press, 1997).

Policy Developments in Comparative Perspective

The policy changes that we have witnessed in the three welfare systems during the last two and a half decades indicate that, within each of them core elements of the post–World War II social compacts have undergone substantial changes. In Germany, the once dominant normative framework of securing social risks through social insurance and thereby guaranteeing the formerly achieved standard of living has become fragile. Even in the once sacred area of protecting against the risk of old age, we see new elements of private arrangements. Japanese work policies have undergone substantial changes, leading to a greater reliance upon direct state intervention through active labor market and fiscal policies within the welfare system to secure against the risks of unemployment and old age. An increase in state social and work policies has also been the approach followed in the United States in securing against the risks of sickness, unemployment, and low pay, whereas the once dominant role of fringe benefits has been on the retreat. Accordingly, describing these developments with the concept of path dependency would seem to exaggerate the stability of welfare systems. Although the three welfare systems still differ in a whole variety of dimensions, they are more similar today than they were two and a half decades ago, each losing some of its distinct characteristics. In how far these developments will continue into the future and whether they can be generalized is not yet fully clear. However, other recent research that shows a greater emphasis on the "formal welfare state", i.e. state social policies, in Australia and New Zealand⁹⁵ as well as a trend towards strengthening 'private' social policy arrangements in some Scandinavian countries⁹⁶, falls in line with the evidence presented here. We seem to be witnessing a broader development towards convergence among the different welfare systems.

Conclusion: Some Theoretical Reflections on Comparative Social Policy

The process of globalization was linked to 'necessary' changes within the three welfare systems analyzed. In Japan as well as Germany we see a dominant interpretive pattern, whereas in the US differences within the elite continue to exist. The policy changes implemented in the last two and a half decades largely correspond to the constructed links between the process of globalization and the welfare system. These findings contradict the analysis mentioned earlier in this essay, whereby globalization did not have any significant influence on social policy. In contrast to traditional comparative studies of social policy this analysis did not assume interests or party

⁹⁵ See the two articles by Herman Schwartz, "Internationalization and Two Liberal Welfare States: Australia and New Zealand," in: Fritz Scharpf and Vivian Schmidt (eds.), *Welfare and Work in the Open Economy – Diverse Responses to Common Challenges*, Vol. 2 (Oxford: Oxford Univ. Press, 2000), 69–130; and "Round up the Usual Suspects! Globalization, Domestic Politics, and Welfare State Change," in: Paul Pierson (ed.), *New Politics of the Welfare State*, (Oxford: Oxford Univ. Press, 2001), 17–44.

⁹⁶ See Mats Benner, Torben Bundgaard Vad, "Sweden and Denmark – Defending the Welfare State," in: Scharpf/Schmidt, *Welfare and Work*, 399–466.

preferences ex post, moreover, it systematically studied the justifications by the political elite for policy changes as well as the changes themselves. Demographics and power resources theory might be able to explain differences among various countries, such as the Federal Republic of Germany, Japan, and the US, but it cannot explain, why the three welfare systems have changed in the way they have changed. If we want to capture the meaning of the dynamics of and causal relationships for change, we have to place a greater emphasis on the analysis of the political discourse.

The interpretation of globalization can lead to a redefinition of the economic costs and benefits of state social policy within the various welfare systems. Generally speaking, we do not see an unrestrained development towards pure market solutions, as neo-liberal or Marxist analysis would suggest. On the one hand, we witness developments towards a greater emphasis on state social policies in those countries, which previously relied more on 'private' solutions, such as fringe benefits and work policies, due to the perceived needs of globalization. On the other hand, countries that have relied heavily on state social policy in the past increasingly focus on the introduction of at least some 'private' solutions to secure against the basic risks of modernity. Based on these findings, comparative social policy analysis should move beyond the standard repertoire of analysis, which is still very heavily biased towards analyzing public social expenditure data and nominal social policy. Moreover, we should also include functional equivalents of state social policy, if we compare social policy development and welfare systems across cultural boundaries. Only if we take a broad perspective can we understand the causal effects of globalization on the state's capacity and willingness to intervene in markets as well as the dynamics within the current welfare systems. In that sense we might conceive a welfare system as a space for options, which leaves room for national adjustments that do not necessarily have to lead to a race to the bottom.