

THE THREE

WORLDS

OF WELFARE

CAPITALISM

Costa Espino Anderson

The Three Worlds of Welfare Capitalism

Gøsta Esping-Andersen

Polity Press

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Preface

It may not show, but this is a book that stands on a veritable mountain of data and years of endless statistical manipulation. It uses three large data bases that have been constructed over the past eight years. In my analyses of the institutional characteristics of welfare-state programs, the data derive from the comparative welfare-state project begun by Walter Korpi and myself in 1981 at the Swedish Institute for Social Research. Joakim Palme contributed enormously in collecting, assembling, and now analyzing, the data. Here I must also acknowledge my gratitude to the Bank of Sweden Tercentenary Fund and the Swedish Delegation for Social Research for research funding. Several tables in the following chapters are constructed on the basis of these data; the reference used is '*SSIB data files*' (Svensk Socialpolitik i International Belysning).

Many of the analyses on welfare-state and labor-market interactions are based on our WEEP data base (Welfare State Entry and Exit Project); again, the reader will find a number of table references to '*WEEP data files*'. This is a multi-national project (covering ten nations over 25 years) that, begun in 1985, was directed by Jon Eivind Kolberg in Scandinavia and Lee Rainwater, Martin Rein, and myself at the Science Center in Berlin. It would fill at least a whole chapter to list all the underlying sources. In the main, however, the WEEP data derive from national labor-force surveys and census data. The WEEP data base would not have come into existence without the help of Kaare Hagen, Tom Cusack, and Frieder Nashold. Much gratitude is also owed to the Nordic Council and the Science Center in Berlin for research financing.

The third data set has been constructed here at the European

Introduction

The welfare state has been a favored topic of research for many years now. This is not very surprising when we consider its fantastic pace of growth in most countries during the 1960s and 1970s. What once were night-watchman states, law-and-order states, militarist states, or even repressive organs of totalitarian rule, are now institutions predominantly preoccupied with the production and distribution of social well-being. To study the welfare state is therefore a means to understand a novel phenomenon in the history of capitalist societies.

In the league of advanced capitalist democracies, states clearly vary considerably with regard to their accent on welfare. Even if the lion's share of expenditures or personnel serves welfare aims, the kind of welfare provided will be qualitatively different, as will its prioritization relative to competing activities, be they warfare, law and order, or the promotion of profits and trade.

The historical characteristics of states have played a determinant role in forging the emergence of their welfare-statism. In his recent book, Giddens (1985) highlights the causal influence of wars, a factor which has been almost wholly neglected in the large literature on welfare-state origins. In our account, this argument cannot be confronted directly. Yet, it is given some indirect support in our emphasis on the relative strength of absolutist and authoritarian rule. The leading theme in our account, however, is that the history of political class coalitions is the most decisive cause of welfare-state variations.

The welfare state has been approached both narrowly and broadly. Those who take the narrower view see it in terms of the traditional terrain of social amelioration: income transfers and social services, with perhaps some token mention of the housing question. The broad-

er view often frames its questions in terms of political economy, its interests focused on the state's larger role in managing and organizing the economy. In the broader view, therefore, issues of employment, wages, and overall macro-economic steering are considered integral components in the welfare-state complex. In a sense, this approach identifies its subject matter as the 'Keynesian welfare state' or, if you like, 'welfare capitalism'.

In this book, we follow the broad approach; this is why we begin with the issues of classical and modern political economy, and why we devote the last third of the book to issues of employment and general macro-economic steering. This is also why we prefer to employ terms such as 'welfare capitalism' and 'welfare-state regimes'.

'Welfare-state regimes' is, in a way, the organizing concept of the book. The reasons are several. First, as it is commonly used, the concept of the welfare state is too narrowly associated with the conventional social-amelioration policies. Second, what we will show is that contemporary advanced nations cluster not only in terms of how their traditional social-welfare policies are constructed, but also in terms of how these influence employment and general social structure. To talk of 'a regime' is to denote the fact that in the relation between state and economy a complex of legal and organizational features are systematically interwoven.

The broader approach implies a trade-off. Since our intention is to understand the 'big picture', we shall not be able to dwell on the detailed characteristics of the various social programs. So, when we study pensions, for example, our concern is not pensions *per se*, but the ways in which they elucidate how different nations arrive at their peculiar public-private sector mix. A related trade-off is that large-scale comparisons, such as ours, prohibit detailed treatments of individual countries. I am convinced that readers knowledgeable about any of the 18 nations included in the study will feel that my treatment of 'their' country is superficial, if not outright misrepresentative. This is unfortunately the price to be paid for making grand comparisons, given the intellectual limitations of the author and the page limitations set by the publisher.

This book has been written with two beliefs in mind. The first is that existing theoretical models of the welfare state are inadequate. The ambition is to offer a reconceptualization and re-theorization on the basis of what we consider important about the welfare state. The existence of a social program and the amount of money spent on it may be less important than what it does. We shall devote many pages to arguing that issues of de-commodification, social stratification, and

employment are keys to a welfare state's identity. The second belief is that only comparative empirical research will adequately disclose the fundamental properties that unite or divide modern welfare states. The distant dream of social science is to formulate laws of societal motion. Whether formulated in terms of the logic of capitalism, industrialism, modernization, or nation-building, they nearly always posit similar and convergent evolutionary paths. Obviously, laws are not supposed to have deviant cases.

The comparative approach is meant to (and will) show that welfare states are not all of one type. Indeed, the study presented here identifies three highly diverse regime-types, each organized around its own discrete logic of organization, stratification, and societal integration. They owe their origins to different historical forces, and they follow qualitatively different developmental trajectories.

In the first chapter, our task is to reintegrate the welfare-state debate into the intellectual tradition of political economy. This serves to bring into sharper focus the principal theoretical questions involved. On this basis we will be in a better position to specify the salient characteristics of welfare states. The convention of conceptualizing welfare states in terms of their expenditures will no longer do. In a sense, our ultimate goal is to 'sociologize' the study of welfare states. Most studies have assumed a world of linearity: of more or less power, industrialization, or spending. We will in this book understand welfare states as clustering into three different types of regime that we have labeled conservative, liberal, and 'social democratic'. Their crystallization and subsequent development can hardly be explained with analytical parsimony.

In chapters 2, 3, and 4 we offer a reconceptualization of what we believe to be the salient characteristics of welfare states. The extension of social rights has always been regarded as the essence of social policy. Inspired by the contributions of Karl Polanyi, we choose to view social rights in terms of their capacity for 'de-commodification'. The outstanding criterion for social rights must be the degree to which they permit people to make their living standards independent of pure market forces. It is in this sense that social rights diminish citizens' status as 'commodities'.

Social stratification is part and parcel of welfare states. Social policy is supposed to address problems of stratification, but it also produces it. Equality has always been what welfare states were supposed to produce, yet the image of equality has always remained rather vague. In some analyses it is simply taken for granted that social benefits diminish inequalities. In others, the focus is on the eradication of

poverty or the overall distribution of income. The really neglected issue is the welfare state as a stratification system in its own right. Does it enhance or diminish existing status or class differences; does it create dualisms, individualism, or broad social solidarity? These are the issues of chapter 3.

Both social rights and social stratification are shaped by the nexus of state and market in the distribution system. To a social democrat, reliance on the market for the basic means of welfare is problematic because it fails to provide inalienable rights and because it is inequitable. To a laissez-faire liberal, reliance on the welfare state is dangerous because it cripples freedom and efficiency. In chapter 4, we examine how the interplay of public and private sector has contributed to the crystallization of the pension-mix in different welfare-state regimes. The point is two-fold. First, we cannot grasp the welfare state without locating its activities in relation to the private sector. Second, it is a myth to think that either markets or the state are more naturally equipped to develop welfare. Instead, markets are often politically created and form an integral part of the overall welfare-state regime.

Part I of the book develops the dimensions of comparative welfare states, and demonstrates the clustering of advanced capitalist democracies into three distinct regimes. Part II examines how this came to be. In this analysis we can obviously not limit ourselves to why some welfare states score more or less than others on some attribute. We have to account for why the world is composed of three qualitatively different welfare-state logics. In chapter 5, we adopt the standard comparative correlational approach to identify the relative importance of political forces in the creation of welfare states. In line with the prevailing academic consensus today, we must conclude that politics not only matters, but is decisive. In contrast to most studies, however, it is not necessarily the political mobilization of the working classes that matters here. For some regimes, their role has been marginal and we must instead understand the evolution of welfare states here as the result of the state's history of nation-building and/or the influence of conservatism and Catholicism. We have tried to embed our explanations in the political histories of nations.

The second part of the book broadens the field of investigation considerably. Here the focus is not so much on what created welfare states as on what their effects are on our economies. Specifically, we examine three facets of welfare-state-employment interactions. To begin with, in chapter 6 we lay out an argument for why labor-market structures are closely tied to welfare-state regimes. We show that the coincidence of the two is striking, and that the behavioral characteris-

tics of labor markets cross-nationally depend on how the welfare state is constructed.

In chapters 7 and 8, we examine in greater detail how welfare states affect employment by selecting a representative country from each of our three types of regime. In chapter 7, the focus is on nations' capacities to maintain full employment; in chapter 8, it is on the post-industrial transformation of employment structures. In the former chapter, we analyze how welfare states have become key institutions in managing the dilemmas and tensions that emerge with a full-employment commitment. In the latter, we argue that it is false to believe in the emergence of a general post-industrial employment path. We identify three qualitatively diverse trajectories, each of which owes its dynamic to the structuring of the welfare state. We conclude that each trajectory produces its own stratification outcome, and results, therefore, in very different conflict scenarios.

The book, then, sees the welfare state as a principal institution in the construction of different models of post-war capitalism. Hence, the choice of its title, *The Three Worlds of Welfare Capitalism*.

The Three Political Economies of the Welfare State*

The Legacy of Classical Political Economy

Most debates on the welfare state have been guided by two questions. First, will the salience of class diminish with the extension of social citizenship? In other words, can the welfare state fundamentally transform capitalist society? Second, what are the causal forces behind welfare-state development?

These questions are not recent. Indeed, they were formulated by the nineteenth-century political economists 100 years before any welfare state can rightly be said to have come into existence. The classical political economists – whether of liberal, conservative, or Marxist persuasion – were preoccupied with the relationship between capitalism and welfare. They certainly gave different (and usually normative) answers, but their analyses converged around the relationship between market (and property), and the state (democracy).

Contemporary neo-liberalism is very much an echo of classical liberal political economy. For Adam Smith, the market was the superior means for the abolition of class, inequality, and privilege. Aside from a necessary minimum, state intervention would only stifle the equalizing process of competitive exchange and create monopolies, protectionism, and inefficiency: the state upholds class; the market can potentially undo class society (Smith, 1961, II, esp. pp. 232–6).¹

Liberal political economists were hardly of one mind when it came

* This chapter is adapted from an article which previously appeared in the *Canadian Review of Sociology and Anthropology*, Vol. 26:2 (1989) under the title 'The three political economies of the welfare state'.

to policy advocacy. Nassau Senior and later Manchester liberals emphasized the laissez-faire element in Smith, rejecting any form of social protection outside the cash nexus. J. S. Mill and the 'reformed liberals', in turn, were proponents of a modicum of political regulation. Yet they all were agreed that the road to equality and prosperity should be paved with a maximum of free markets and a minimum of state interference.

Their enthusiastic embrace of market capitalism may now appear unjustified. But we must not forget that the reality they spoke of was a state upholding absolutist privileges, mercantilist protectionism, and pervasive corruption. What they attacked was a system of government that repressed their ideals of both freedom and enterprise. Hence, theirs was revolutionary theory, and from this vantage point, we can understand why Adam Smith sometimes reads like Karl Marx.²

Democracy became an Achilles' heel to many liberals. As long as capitalism remained a world of small property owners, property itself would have little to fear from democracy. But with industrialization, the proletarian masses emerged, for whom democracy was a means to curtail the privileges of property. The liberals rightly feared universal suffrage, for it would be likely to politicize the distributional struggle, pervert the market, and fuel inefficiencies. Many liberals discovered that democracy would usurp or destroy the market.

Both conservative and Marxist political economists understood this contradiction, but proposed, of course, opposite solutions. The most coherent conservative critique of laissez-faire came from the German historical school, in particular from Friedrich List, Adolph Wagner, and Gustav Schmoller. They refused to believe that the raw cash-nexus of the market was the only or the best guarantee of economic efficiency. Their ideal was the perpetuation of patriarchy and absolutism as the best possible legal, political, and social shell for a capitalism without class struggle.

One prominent conservative school promoted the 'monarchical welfare state', which would guarantee social welfare, class harmony, loyalty, and productivity. In this model, an efficient production system comes not from competition, but from discipline. An authoritarian state would be far superior to the chaos of markets in harmonizing the good of the state, community, and individual.³

Conservative political economy emerged in reaction to the French Revolution and the Paris Commune. It was avowedly nationalistic and anti-revolutionary, and sought to arrest the democratic impulse. It feared social leveling, and favored a society that retained both hierar-

chy and class. Status, rank, and class were natural and given; class conflicts, however, were not. If we permit democratic mass participation, and allow authority and status boundaries to dissolve, the result is a collapse of the social order.

Marxist political economy not only abhorred the market's atomizing effects, but also attacked the liberal claim that markets guarantee equality. Since, as Dobb (1946) puts it, capital accumulation disowns people of property, the end result will be ever-deeper class divisions. And as these generate sharpened conflicts, the liberal state will be forced to shed its ideals of freedom and neutrality, and come to the defence of the propertied classes. For Marxism this is the foundation of class dominance.

The central question, not only for Marxism but for the entire contemporary debate on the welfare state, is whether, and under what conditions, the class divisions and social inequalities produced by capitalism can be undone by parliamentary democracy.

Fearing that democracy might produce socialism, the liberals were hardly eager to extend it. The socialists, in contrast, suspected that parliamentarism would be little more than an empty shell or, as Lenin suggested, a mere 'talking shop' (Jessop, 1982). This line of analysis, echoed in much of contemporary Marxism, produced the belief that social reforms were little more than a dike in a steadily leaking capitalist order. By definition, they could not be a response to the desire of the working classes for emancipation.⁴

It took major extensions of political rights before the socialists could wholeheartedly embrace a more optimistic analysis of parliamentarism. The theoretically most sophisticated contributions came from the Austro-German Marxists such as Adler, Bauer, and Eduard Heimann. According to Heimann (1929), it may have been the case that conservative reforms were motivated by little else than a desire to repress labor mobilization. But once introduced, they become contradictory: the balance of class power is fundamentally altered when workers enjoy social rights, for the social wage lessens the worker's dependence on the market and employers, and thus turns into a potential power resource. To Heimann, social policy introduces an alien element into the capitalist political economy. It is a Trojan horse that can penetrate the frontier between capitalism and socialism. This intellectual position has enjoyed quite a renaissance in recent Marxism (Offe, 1985; Bowles and Gintis, 1986).

The social democratic model, as outlined above, did not necessarily abandon the orthodoxy that, ultimately, fundamental equality requires

economic socialization. Yet historical experience soon demonstrated that socialization was a goal that could not be pursued realistically through parliamentarism.⁵

Social democracy's embrace of parliamentary reformism as its dominant strategy for equality and socialism was premised on two arguments. The first was that workers require social resources, health, and education to participate effectively as socialist citizens. The second argument was that social policy is not only emancipatory, but is also a precondition for economic efficiency (Myrdal and Myrdal, 1936). Following Marx, in this argument the strategic value of welfare policies is that they help promote the onward march of the productive forces in capitalism. But the beauty of the social democratic strategy was that social policy would also result in power mobilization. By eradicating poverty, unemployment, and complete wage dependency, the welfare state increases political capacities and diminishes the social divisions that are barriers to political unity among workers.

The social democratic model, then, is father to one of the leading hypotheses of contemporary welfare-state debate: parliamentary class-mobilization is a means for the realization of the socialist ideals of equality, justice, freedom, and solidarity.

The Political Economy of the Welfare State

Our forebears in political economy defined the analytic basis of much recent scholarship. They isolated the key variables of class, state, market, and democracy, and they formulated the basic propositions about citizenship and class, efficiency and equality, capitalism and socialism. Contemporary social science distinguishes itself from classical political economy on two scientifically vital fronts. First, it defines itself as a positive science and shies away from normative prescription (Robbins, 1976). Second, classical political economists had little interest in historical variability: they saw their efforts as leading towards a system of universal laws. Although contemporary political economy sometimes still clings to the belief in absolute truths, the comparative and historical method that today underpins almost all good political economy is one that reveals variation and permeability.

Despite these differences, most recent scholarship has as its focal point the state-economy relationship defined by nineteenth-century political economists. And, given the enormous growth of the welfare state, it is understandable that it has become a major test case for contending theories of political economy.

We shall review below the contributions of comparative research on the development of welfare states in advanced capitalist countries. It will be argued that most scholarship has been misdirected, mainly because it became detached from its theoretical foundations. We must therefore recast both the methodology and the concepts of political economy in order to adequately study the welfare state. This will constitute the focus of the final section of this chapter.

Two types of approach have dominated in explanations of welfare states; one stresses structures and whole systems, the other, institutions and actors.

THE SYSTEMS/STRUCTURALIST APPROACH

Systems or structuralist theory seeks to capture the logic of development holistically. It is the system that 'wills', and what happens is therefore easily interpreted as a functional requisite for the reproduction of society and economy. Because its attention is concentrated on the laws of motion of systems, this approach is inclined to emphasize cross-national similarities rather than differences; being industrialized or capitalist over-determines cultural variations or differences in power relations.

One variant begins with a theory of industrial society, and argues that industrialization makes social policy both necessary and possible – necessary because pre-industrial modes of social reproduction, such as the family, the church, *noblesse oblige*, and guild solidarity are destroyed by the forces attached to modernization, such as social mobility, urbanization, individualism, and market dependence. The crux of the matter is that the market is no adequate substitute because it caters only to those who are able to perform in it. Hence, the 'welfare function' is appropriated by the nation-state.

The welfare state is also made possible by the rise of modern bureaucracy as a rational, universalist, and efficient form of organization. It is a means for managing collective goods, but also a center of power in its own right, and it will thus be inclined to promote its own growth. This kind of reasoning has informed the so-called 'logic of industrialism' perspective, according to which the welfare state will emerge as the modern industrial economy destroys traditional social institutions (Flora and Alber, 1981; Pryor, 1969). But the thesis has difficulties explaining why government social policy only emerged 50 and sometimes even 100 years after traditional community was effectively destroyed. The basic response draws on Wagner's Law of 1883 (Wagner, 1962) and on Alfred Marshall (1920) – namely that a certain

level of economic development, and thus surplus, is needed in order to permit the diversion of scarce resources from productive use (investment) to welfare (Wilensky and Lebeaux, 1958). In this sense, this perspective follows in the footsteps of the old liberals. Social redistribution endangers efficiency, and only at a certain economic level will a negative-sum trade-off be avoidable (Okun, 1975).

The new structuralist Marxism is strikingly parallel. Abandoning its classical forebears' strongly action-centered theory, its analytical starting-point is that the welfare state is an inevitable product of the capitalist mode of production. Capital accumulation creates contradictions that compel social reform (O'Connor, 1973). In this tradition of Marxism, as in its 'logic of industrialism' counterpart, welfare states hardly need to be promoted by political actors, whether they be unions, socialist parties, humanitarians, or enlightened reformers. The point is that the state, as such, is positioned in such a way that the collective needs of capital are served, regardless. The theory is thus premised on two crucial assumptions: first, that power is structural, and second, that the state is 'relatively' autonomous from class directives (Poulantzas, 1973; Block, 1977; for a recent critical assessment of this literature, see Therborn, 1986a; and Skocpol and Amenta, 1986).

The 'logic of capitalism' perspective invites difficult questions. If, as Przeworski (1980) has argued, working-class consent is assured on the basis of material hegemony, that is, self-willed subordination to the system, it is difficult to see why up to 40 percent of the national product must be allocated to the legitimation activities of a welfare state. A second problem is to derive state activities from a 'mode of production' analysis. Eastern Europe may perhaps not qualify as socialist, but neither is it capitalist. Yet there we find 'welfare states', too. Perhaps accumulation has functional requirements no matter how it proceeds? (Skocpol and Amenta, 1986; Bell, 1978).

THE INSTITUTIONAL APPROACH

The classical political economists made it clear why democratic institutions should influence welfare-state development. The liberals feared that full democracy might jeopardize markets and inaugurate socialism. Freedom, in their view, necessitated a defence of markets against political intrusion. In practice, this is what the laissez-faire state sought to accomplish. But it was this divorce of politics and economy which fuelled much institutionalist analysis. Represented best by Polanyi (1944), but also by a number of anti-democratic exponents of the historical school, the institutional approach insists that any effort to

isolate the economy from social and political institutions will destroy human society. The economy must be embedded in social communities in order for it to survive. Thus, Polanyi sees social policy as one necessary precondition for the reintegration of the social economy.

An interesting recent variant of institutional alignment theory is the argument that welfare states emerge more readily in small, open economies that are particularly vulnerable to international markets. As Katzenstein (1985) and Cameron (1978) show, there is a greater inclination to regulate class-distributional conflicts through government and interest concertation when both business and labor are captive to forces beyond domestic control.

The impact of democracy on welfare states has been argued ever since J. S. Mill and Alexis de Tocqueville. The argument is typically phrased without reference to any particular social agent or class. It is in this sense that it is institutional. In its classical formulation, the thesis was simply that majorities will favor social distribution to compensate for market weakness or market risks. If wage-earners are likely to demand a social wage, so are capitalists (or farmers) apt to demand protection in the form of tariffs, monopoly, or subsidies. Democracy is an institution that cannot resist majority demands.

In its modern formulations, the democracy thesis has many variants. One identifies stages of nation-building in which the extension of full citizenship must also include social rights (Marshall, 1950; Bendix, 1964; Rokkan, 1970). A second variant, developed by both pluralist and public-choice theory, argues that democracy will nurture intense party competition around the median voter which, in turn, will fuel rising public expenditure. Tufte (1978), for example, argues that major extensions of public intervention occur around elections as a means of voter mobilization.

This approach also faces considerable empirical problems (Skocpol and Amenta, 1986). When it holds that welfare states are more likely to develop the more democratic rights are extended, the thesis confronts the historical oddity that the first major welfare-state initiatives occurred prior to democracy and were powerfully motivated by the desire to arrest its realization. This was certainly the case in France under Napoleon III, in Germany under Bismarck, and in Austria under von Taaffe. Conversely, welfare-state development was most retarded where democracy arrived early, such as in the United States, Australia, and Switzerland. This apparent contradiction can be explained, but only with reference to social classes and social structure: nations with early democracy were overwhelmingly agrarian and dominated by small property owners who used their electoral powers

to reduce, not raise, taxes (Dich, 1973). In contrast, ruling classes in authoritarian polities were better positioned to impose high taxes on an unwilling populace.

Social Class as a Political Agent

We have noted that the case for a class-mobilization thesis flows from social democratic political economy. It differs from structuralist and institutional analyses in its emphasis on the social classes as the main agents of change, and in its argument that the balance of class power determines distributional outcomes. To emphasize active class-mobilization does not necessarily deny the importance of structured or hegemonic power (Korpi, 1983). But it is held that parliaments are, in principle, effective institutions for the translation of mobilized power into desired policies and reforms. Accordingly, parliamentary politics is capable of overriding hegemony, and can be made to serve interests that are antagonistic to capital. Further, the class-mobilization theory assumes that welfare states do more than simply alleviate the current ills of the system: a 'social democratic' welfare state will, in its own right, establish critical power resources for wage-earners, and thus strengthen labor movements. As Heimann (1929) originally held, social rights push back the frontiers of capitalist power.

The question of why the welfare state itself is a power resource is vital for the theory's applicability. The answer is that wage-earners in the market are inherently atomized and stratified – compelled to compete, insecure, and dependent on decisions and forces beyond their control. This limits their capacity for collective solidarity and mobilization. The social rights, income security, equalization, and eradication of poverty that a universalistic welfare state pursues are necessary preconditions for the strength and unity that collective power mobilization demands (Esping-Andersen, 1985a).

The single most difficult problem for this thesis is to specify the conditions for power mobilization. Power depends on the resources that flow from electoral numbers and from collective bargaining. Power mobilization, in turn, depends on levels of trade-union organization, share of votes, and parliamentary and cabinet seats held by left or labor parties. But the power of one agent cannot simply be indicated by its own resources: it will depend on the resources of contending forces, on the historical durability of its mobilization, and on patterns of power alliances.

There are several valid objections to the class-mobilization thesis. Three in particular are quite fundamental. One is that the locus of

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