Conceptualizing Welfare State Change

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1. Introduction

Measuring welfare state change is one of the most controversial tasks of comparative social policy research. The classical measure: Level and change of public expenditures or social expenditures as per cent of GDP will probably always remain important. But today, this is broadly recognized as insufficient - and besides, there are severe comparability problems (Adema & Ladaique, 2005). Often the problem is presented as a matter of selection of indicators or dimension of indicators – what has been described as the "dependent variable problem" (Pierson, 2001: 420-22; Green-Pedersen, 2004), but I shall argue that the problem goes much further. In the final analysis, it even involves basic questions about the conceptualization of the welfare state. The current confusion is reflected not only in the substantial differences in assessments of individual countries and/or policies, but also in the vast number of concepts that has been suggested to solve the problem, or to describe what is seen as the dominant trend in social protection. Furthermore, it is reflected in the increasing number of reservations to classic statements like "institutions matter", not to mention the break with earlier interpretations of path dependence as "stickiness" or "stasis". At least there seems to be one element of an emerging new consensus, namely that welfare states in fact change a lot.

Even though there are no simple solutions to the problem of conceptualising welfare state change, is seems possible to reduce current confusion substantially by identifying core aspects of change, and by clarifying which of these aspects some of the most widely used concepts of change are referring to. This paper identifies four dimensions as essential: Direction of change, level where change is measured, dynamic of change, and degree of change.

- *direction* of change: Retrenchment, re-commodification or something else?
- *level* of change: Change in paradigms/ discourse, policy, institutions, or outcomes?
- *dynamic* of change: Abrupt or incremental?
- *degree* of change: Transformative or non-transformative?

These dimensions have often been conflated so that change has been conceived as a one-dimensional concept. Long after Pierson's (1994) seminal work, most analyses ex-or implicitly assumed that change was basically about retrenchment, recommodification, or the like, and that transformative changes were rare and abrupt. Based on that, there have been some explicit discussions about level of indicators – should we focus on institutions, on outcomes, or on something else?

One of the important new (re-)discoveries is the transformative capacity of incremental change (Lindblom, 1959; Goul Andersen, 2001; Goul Andersen & Larsen, 2002; Hinrichs & Kangas, 2003) – or occasionally the transformative capacity of the very absence of change (Hacker, 2004). As pointed out by Streeck & Thelen (2005), most studies have implicitly assumed a "punctuated equilibrium model" (Sabatier & Jenkins-Smith, 1998) of welfare state change: Long periods of stability interrupted by periods of more far-reaching reforms. Streeck & Thelen (2005) provide us with important new concepts to describe mechanisms of transformative, incremental change. Streeck & Thelen are not in doubt about the direction of change, however: This is towards liberalization of the welfare state. And the main level of change in focus is institutional change.

However, there is increasing recognition that we need to consider other directions of change. Pierson himself has partly substituted "restructuring" for "retrenchment" and has distinguished between cost containment, recalibration and recommodification (Pierson, 2001: 422-27). Still, the somewhat ambiguous term of "recalibration" which indicates minor adaptations does not seem sufficient to describe what is going on. Further, there is increasing recognition that our dependent variable cannot only be institutions. Actually, Hall's (1993) famous distinction between first-, second- and third-order changes was mainly about paradigms and discourse and less applicable when it comes to institutions, let alone outcomes.

We shall argue that some of the most interesting institutional changes are about making the welfare states act more in conformity with markets, e.g. by changing division of labour between different providers of welfare, and that what is in the final analysis most interesting, is *outcomes*. Or more precisely: the relationship between institutions and outcomes, as this also includes an evaluation of the feedback process: For instance, institutional changes that provides high levels of equality and low levels of poverty, may be inherently unstable and subject to change. To assess these, we need to briefly review the "independent variable problem": what generates change in welfare states: Economic/functional necessity, political power struggles, institutional dynamics, or ideational factors?

In the following, we shall begin by emphasising that welfare states in fact are subject to considerable change. Next, we discuss *what* is changed - what *levels* of change should we consider? This is followed by a section on the *direction* of change, including a discussion of what are the basic characteristics of welfare states that can be transformed. The dynamic and degree of change is discussed in the penultimate section. And finally we briefly discuss the feedback process, the question of temporary equilibria, and the question of convergence vs. divergence. Hopefully, this can contribute to somewhat more precise and less arbitrary assessments of change.

2. Welfare states do change - but how?

In the 1990's, the "welfare modelling" literature (Abrahamson, 1999) and the retrenchment literature (Pierson, 1994) converged in the assumption that welfare states rarely changed very much. As far as *welfare institutions* (structures of policy) are concerned, the emphasis was on *path dependence* - often narrowly (mis-)interpreted as simple inertia - and in the analysis of *political institutions*[1], much attention was devoted to *veto points* that could block change. Although Pierson (2000) was among the first to criticise the static conception of path dependence and later (Pierson, 2001) substituted "retrenchment" with "restructuring", much research remained concerned with the strong resistance against change and the relatively marginal adjustments.

However, from the late 1990's it was increasingly recognized that welfare states exhibited "declining resistance to change" (van Kersbergen, 2000), that "elephants (were) on the move" (Hinrichs, 2000), and that even "incremental changes" (Lindblom, 1959) could have far-reaching potentials (Andersen & Larsen, 2002; Hinrichs & Kangas, 2003; Thelen, 2004). We also observe a "softening" of institutional approaches. "Institutions matter", but this does not rule out the possibility that quite substantial changes may take place even without formal institutional change, for instance due to political actors' control of the welfare apparatus and conversion of this apparatus to serve new purposes (Streeck & Thelen, 2005).

[1] Welfare institutions refer to the structure of welfare programmes, political institutions to the rules and procedures of decision-making (including informal "standard operating procedures").

“Recalibration”, “restructuring”, “transformation”, or simply: “reform” have gradually replaced “retrenchment” and "recommodification" as key concepts (Ferrera & Rhodes, 2000; Pierson, 2001; Rein & Schmähl, 2004; Larsen & Andersen, 2004; Taylor-Gooby, 2005; Ferrera, 2005; Streeck & Thelen, 2005; Rothgang et al., 2006). At the same time, a multitude of concepts are offered to describe (allegedly) new directions of change: Towards “targeting” (Gilbert, 2001), towards an “enabling state” (Gilbert & Gilbert, 1991; Gilbert, 2002), towards a “social investment state” (Giddens, 1998; Lister, 2004), towards “activation of social protection” (Barbier, 2004), towards “Active citizenship” (Pfau-Effinger, 2005; Jensen & Pfau-Effinger, 2005), or towards multipillarization in pensions systems (Ploug, 2001; Andersen & Larsen, 2002; Schmähl, 2004).

We shall try do sort out these concepts a little bit below. Some of them may indeed not last very long, and others may be subsumed under existing concepts of de- or recommodification, but most of them do not lend themselves to such simple classifications and should be taken seriously. This necessitates a wider discussion about the “dependent variable problem”, not phrased within the context of retrenchment, but within a much broader question of welfare state change. This article is so to speak about the dependent variable problem *writ large*. That is, it is not so much about selection of indicators, but more about the necessity to distinguish between different levels of change, and between different directions of change, as well as between different dynamics of change. What seems obvious by now is that there really is substantial change to analyse, but welfare state research is confused about how to deal with these changes. We need more adequate concepts to describe and analyse welfare state change. We begin by discussing which different levels of change should be considered.

3. Which level: Change in discourse, policies, institutions, or outcomes

As mentioned, the "dependent variable debate" has mainly been concerned with the choice of indicators of retrenchment. For instance, retrenchment can be measured by aggregate level indicators like social expenditures, by micro-level indicators like compensation rates, or by institutional variables (Korpi & Palme, 2003; Seeleib-Kaiser, 2002; Green-Pedersen, 2004). However, these concepts are insufficient. We have to consider changes in *paradigms* (or discourse), in *policies*, in *institutions*, and in *outcomes* separately. We cannot assume that they are congruent.

Changes in Paradigms / Discourse

One of the widely used distinctions between various degrees of change is Hall's (1993) distinction between first-, second- and third order change. This distinction represented a way to overcome some of the difficulties of purely quantitative measures of change. Hall's concepts were modelled on the transition from Keynesianism to monetarism during the Thatcher era in the UK. First-order changes denote simple changes in settings or levels of benefits which are usually believed to be quite "innocent" as they are usually small and purely quantitative. Second-order changes refer to changes in instruments to obtain the same goal. And third-order changes refer to paradigmatic change that alters the entire world view, perceptions of causality, and goals. Somewhat less dramatic changes than Thatcherism could include the changing perspective on unemployment from a matter of insufficient demand for labour power to "structural" or "natural" unemployment caused by "structural" supply-side problems like disincentives, high minimum wages and mismatch between wage and productivity for the lower-skilled.

However, in some countries like Denmark, the paradigmatic change in the perspective on unemployment was not associated with tense political conflict or with immediate changes in outcomes (Andersen, 2002a). It only served to structure policies in the longer run, by assigning priority to some types of policies and ruling out others. But in spite of some constraints, policies should still be written in the plural, as the Social Democrats would choose different policy options than Liberal or Conservative governments. In Denmark, Social Democrats wanted to use active labour market policies and upgrading of qualifications to meet the productivity requirements of high minimum wages, as well as discretionary strategies to avoid bottlenecks at regional labour markets. The bourgeois parties at that time preferred straight market strategies that would go further towards adapting minimum wages to productivity (and towards adapting unemployment benefits to lower minimum wages). And some centre parties preferred state subsidies for certain private services in order to reduce unemployment. All these competing strategies could to a large extent be formulated within a structural unemployment paradigm. The same holds for policies strengthening the works test of the unemployed (Andersen et al., 2003). As pointed out by Clasen (2000), as judged from the perspective of paradigmatic change, the changes in Danish labour market policies in the 1990's were probably more far-reaching than in the Netherlands, but as judged from an outcome perspective, one would probably reach the opposite conclusion, whereas the difference in terms of changes in institutions probably fall in-between.

At any rate, changes in paradigms and in (elite) discourse ("coordination discourse" as contrasted to "communicative discourse" aimed at persuading voters, see Schmidt, 2002) are important as they serve to constrain (but not fully determine) the selection of future policies.

Changes in policies and institutions

Institutionalism has taken two directions which could be labelled the *veto point* literature and the *path dependence* literature, respectively. The first is the classic one. A classic definition of Douglass North refer to institutions as “the rules of the game in a society or, more generally …… the humanly devised constraints that shape human interaction” (North, 1990: 3). The “rules of the game” has traditionally been taken to mean formal and sometimes informal *political* institutions. In accordance with this definition, one direction of institutionalism in comparative welfare state research has emphasized the “status quo bias of political institutions” (Pierson, 2004: 42), and in particular the multiple *veto points* in political institutions (Bonoli, 2001).

The most relevant field of institutionalism here is the one dealing with *policies as institutions*, however. As argued by Pierson (2004, 2006), policies can also be seen as a kind of institutions: “For the individuals and social organizations ... public policies are ... *central rules governing their interactions*. These rules specify rewards and punishments associated with particular behaviors, ranging from eligibility ... to large fines (or) incarceration .... the institutions that impinge on the modern citizen most directly and intensively ... are in fact public policies, *not* the formal political institutions that have preoccupied political scientists” (Pierson, 2004:165).

Unlike Pierson, however, most scholars distinguish between policies and institutions and maintain that some but not all policies count as institutions. But the distinction and the definitions are seldom very precise. Pierson in fact himself only refers to “*major* public policies” as "institutions" (2004: 165). Streeck & Thelen (2005: 12) argue that “policies ... are institutions ... to the extent that they constitute rules for actors other than for the policymakers themselves - rules that can and need to be implemented and that are legitimate in that they will if necessary be enforced by agents acting on behalf of society as a whole". Green-Pedersen (2002) has perhaps provided the most plausible delineation in defining institutions as the "programmatic structure" of (concrete) policies.

Policy changes like changes in the level of public expenditure or taxes, or changing compensation rates in a particular field, may be highly interesting in their own right, but what concerns us mostly here is institutional change. A three per cent reduction in unemployment benefits or a one per cent increase in social expenditure would count as a policy change, but if it's just a one-shot phenomenon, it would hardly count as an institutional change.

What *kind* of institutional changes, then, should concern us the most? This is debated further in the following section about *direction* of welfare state change. However, it should be noted that this discussion may often be related to basic conceptions of the welfare state. In the first place, if we take a *welfare regime approach,* we could focus on changes in the basic *principles* of eligibility, entitlements and financing. We could also find other *determinants of de- or recommodification*, and of de-familialization, as suggested by Esping-Andersen (1990, 1999). More concretely, this could involve questions about universalism vs. targeting (means testing), flat-rate universalism vs. income-replacement universalism, contribution financing vs. tax financing, degree of actuarial equity vs. equality (like the difference between defined contribution and defined benefit schemes), etc. As to de-familialization, indicators could be tax rules for couples, expenditures on social transfers vs. social services, etc. etc. However, *as such*, the concepts of de-commodification and de-familialization are basically *outcome* measures, unlike for instance Korpi & Palme's (1998) more precisely defined five ideal types of institutional principles: residual, voluntary state-subsidized, corporatist, beveridgean flat-rate universalism, and encompassing (earnings-related) model.

As Esping-Andersen (1999) reminds us, however, the welfare state can also be discussed as an insurance system, and/or as a division of labour. If we conceive of the welfare state as an insurance system, the crucial institutional variables are about *risk coverage* and *risk pooling*. Liberal welfare states have low scores on both dimensions; Conservative/ Christian Democratic welfare states are usually described as having moderately high risk coverage, but relatively low risk pooling - otherwise they become hybrids like the Dutch pension system; and Social Democratic welfare states score high on both dimensions. What is particularly interesting from this point of view may be tendencies towards *privatisation of social risk*. For instance when defined benefit pension schemes are changed into strictly defined contribution pension schemes, this involves a privatisation of social risk as risk pooling declines. This holds even more if these schemes are fully funded, and if they are limited to a specified number of years. Finally, from a *division-of-labour perspective*, the main question is how responsibility for welfare is shared between the state, the family, the market, voluntary associations, (social responsibility of) firms, and the social partners (collective agreements). For instance, collective labour market pensions or completely individual pensions may replace state pensions, user charges may be raised, or social services may be outsourced to private providers. This issue of privatisation is discussed further below.

However, it is typically insufficient just to look at institutional changes. We should also consider changes in *outcomes*. For instance, what is most interesting about changes in responsibilities for pensions is whether they contribute to increasing insecurity, inequality or poverty among pensioners. It is not at all difficult to imagine of institutionally similar systems that produce quite different outcomes in different national contexts. For instance, new public management may have quite different impact in an American and a Scandinavian context. Even more likely, institutionally different systems may produce similar outcomes. The Scandinavian pension systems is a case in point: They have all moved away from classical universalism and would currently be classified as multipillar systems and social insurance systems, respectively. But most likely, they will produce relatively similar outcomes (if anything, the most privatised system will probably produce less inequality than the most state-run systems in Scandinavia).

What is interesting about changing conditionality in labour market policies is to what degree it is actually implemented. For instance, unemployed people in Denmark can be required to commute up to four hours a day, and they are obliged to take any job from day one. But to what degree are these formal rules applied in practice? Unless we know about this, it is difficult to assess and classify the system. One can even imagine that formal institutions remain unchanged but that outcomes change dramatically if practices of administration suddenly change. Implementation may be extremely complex when we speak of conditionality on the labour market (Barbier, 2005).

Considering the output, it becomes crucial to consider the *ensemble* of institutions - for instance the entire configuration of a multipillar pension system (or at least its collective components). Looking at the state component in isolation would provide a highly biased impression.

4. Directions of change

Quantitative measures of growth and retrenchment: Budgets and compensation levels

The first generation of literature about welfare state change in the 1970's was concerned with growth in public budgets or social expenditures (Wilensky, 1975). This holds also for the “does politics matter” discussion about the sources of growth in the public sector (where a famous article by Cameron (1978) - worth remembering in a period of discussions about globalization - pointed out that a far more important variable than politics was the openness of the economy: The more openness and international competition, the more need for a large welfare state).

The social expenditure indicator was also used when the perspective on welfare state change shifted from growth to retrenchment (Pierson, 1994), However, the retrenchment perspective did not gain influence because of its conceptualization of change, but rather because of its specifications of changing political logics, mechanisms, or strategies - in short, the independent variables. Taking Reagan’s USA and Thatcher’s UK as worst case scenarios, Pierson felt safe in concluding that welfare states were highly resistant to change.

This raised the well-known “dependent variable debate”: Although Pierson was able to demonstrate that very little happened to social budgets at the aggregate level, others pointed out that in terms of compensation levels, or in terms of reduced spending for particular programmes, as compared to status quo, quite a lot had happened indeed in some instances (Korpi, 2002; Korpi & Palme, 2003; Green-Pedersen, 2002). Korpi & Palme (2003) also argued that aggregate measures were misleading as they did not really build on any strict conceptualisation of the welfare state. Compensation levels, on the other hand (along with eligibility and duration criteria), are more strictly linked to the notion of decommodification which has been seen by many welfare researchers as the essence of the welfare state (see below). Further, Korpi & Palme called attention to institutional change as this is also important for norms, mobilization and power (nobody would disagree on that point, however).

Although figures like compensation levels are in many respects more informative, changes in social expenditure (preferably cleaned for business cycle effects) will probably always serve as an important first indicator. Besides, compensation level figures are not without problems, either. In the first place, there will always be a selection problem: Which transfers should be included? Are they representative? Secondly, there is the practical problem that the most widely used household type (single-earner household) hardly exists anymore. And third, like welfare state theory in general, all such measures are biased towards the part of the welfare state that is constituted by social transfers; however, the service side may be equally important.

But all quantitative measures like social expenditures or replacement rates suffer from two common problems: In the first place, unless changes in such quantitative measures are really big, they do not necessarily tell us much about qualitative change. And secondly, there may be other, not strictly public arrangements that compensate. For instance, if (formally private) labour market pensions becomes a substitute for public earnings-related pensions, it makes little sense to compare average replacement levels of the public component across systems. If we want to restrict ourselves to the public component, minimum levels and poverty alleviation would be the most relevant indicators. If we want to have an impression of how the system works, however, such output measures are insufficient. Rather, we would need outcome measures that take account of both the public and the private components, at least the collective ones.

Variations of retrenchment

As to *directions*, Pierson himself (2001: 422-27) has pointed out that *retrenchment* is not necessarily a matter of *recommodification* (as implied by the power resources model); it can also be about simple *cost containment*, or it can be about *"recalibration"* – vaguely defined as (minor) "reforms which seek to make contemporary welfare states more consistent with contemporary goals and demands for social provision" - for instance "updating" to new problems, or rationalization" to remove obvious disincentives.

Others have spoken of "targeting" (Gilbert, 2001, 2002) which has somewhat different connotations as it implies *changing welfare regime principles* (see also Clasen & vanOorschot, 2002) towards a more "residual model", as advocated by international governmental organizations like the World

Bank (Estes & Phillipson, 2002).

In the Varieties of Capitalism literature, welfare state changes are typically conceived as *liberalization* rather than retrenchment (Streeck & Thelen, 2005). Still others have spoken of "activation of social protection" (Barbier, 2002), about increasing "conditionality" (Clasen et al., 2003, Clasen 2005), or about "social investment state" (Giddens, 1998; Lister, 2004) in order to underline the *adaptation of the welfare state to economic efficiency and competitiveness*. Discussions about "flexicurity" (Madsen, 2002; Wilthagen et al., 2004) belong to the same "family" of conceptualisations. Still others have underlined the right and duty of citizens to become *active and (self-) responsible*, as expressed in the notion of "active citizenship" (Pfau-Effinger, 2003; Jensen & Pfau-Effinger, 2005).

However, among most economists and among some political scientists, provision of welfare has traditionally been seen as a mix between different institutions (Kuhnle & Alestalo, 2000; Goodin & Rein, 2001), or as a matter of insurance principles. Esping-Andersen (1999: 32-46) has himself rephrased his regime theory in the language of both. From an insurance approach (Barr, 2001), basic questions are about *changes in risk management* (risk pooling and risk coverage) – to what extent do we witness a privatisation of social risk? From a welfare mix approach, the core question is about *changes in the division of labour*. A classic is Johnson's (1987) book about "welfare pluralism", elucidating new combinations of the state, the market, the family and voluntary associations, another is Gilbert & Gilbert's (1989) concept of "enabling state" which has remained vague but nevertheless portrays a vision of a broad array of institutions responsible for welfare provision (see also Gilbert, 2002). Apart from increasing emphasis on self-responsibility, this may also include the role of social partners and collective agreement as well as the social responsibility of firms (Martin, 2004). In the field of pensions, for instance, this has for long been discussed in terms of "multipillar" pension systems as far as macro level institutions are concerned, and in terms of "income packaging" at the micro level (Rainwater et al., 1987; Rein & Stapf-Finé, 2004).

To complicate things further, the very distinction between state and markets is quite difficult. In the first place, as pointed out by Barr (1998: 96), there are several possible combinations of production, regulation and financing of welfare tasks in-between pure state and pure markets (see also below). Further, speaking more narrowly about social services, many scholars have underlined the "marketisation" of the welfare state (Cutler & Waine, 1997). In short, we have to take a "governance" approach to the study of modern welfare states (Goul Andersen, 2000). In the Danish case, some of the most important changes did not even involve law-making in Parliament (see also Hacker, 2004).

To grasp restructuring of the welfare states along such lines, concepts like "retrenchment", let alone "recommodification", are not particularly helpful. Changing divisions of labour does not necessarily entail recommodification, not even retrenchment. And changes also go further than Pierson's notion of "recalibration" unless this is redefined as a more thorough restructuring.

5. Degree and dynamics of change

As pointed out by Streeck & Thelen (2005), most studies of welfare state change have implicitly assumed a "punctuated equilibrium model" of welfare state change: Long periods of stability interrupted by periods of more far-reaching reforms. An important recent (re-) discovery is the transformative capacity of incremental change (Lindblom, 1959; Goul Andersen, 2001; Goul Andersen & Larsen, 2002; Hinrichs & Kangas, 2003; to some extent, Pierson's (1994) "systemic retrenchment" could even be counted in here). Streeck & Thelen (2005) have identified a number of mechanisms of gradual transformation: *Displacement, layering, drift, conversion and exhaustion* - concepts to which we return below. This also undermines conceptualizations like Hall's (1993) distinction between first-, second- and third order change: A series of first- or second order changes may indeed lead to transformative change in the long run.

6. Independent variables and policy feedback

Finally, there is also an "independent variable problem": What are the *drivers* of change: Economic necessity, political power, institutional dynamics, or ideas? Even though Pierson (1994, 1998, 2001) has provided invaluable insights in the politics of retrenchment - and even though we shall present some very good cases of obfuscation below - it is doubtful whether determinants of change are fundamentally different now from what they were previously. It is also questionable to what extent welfare states are in a condition of “permanent austerity” – i.e. that economic necessity (sometimes labeled “crisis” or “challenges”) is the most fundamental underlying source of change. Politics and interest conflict arguably are as important as ever.

Among drivers of change, we have also included the term "institutional dynamics" which once could seem a *contradictio in adjectio*; however, in the first place, *path dependence* is exactly about "positive feedback" (Pierson, 2000), not a static phenomenon. Moreover, some institutional configurations are inherently unstable and far from any "lock in", let alone "deep equilibrium" (Pierson, 2004). Not least when we measure change in a snapshot, considerations about future developments - *policy feedbacks* - are crucial.

The conceptualisations above are to some extent related; yet they are different. In the following analysis, we shall be alert to all the directions and levels, including "classic" retrenchment, but changing division of labour, changing welfare state governance and impact on outcomes receive particular attention. Before addressing the main policy areas, we briefly discuss the overall context and the expenditure figures in this and the following section.

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