

**The Dependent Variable Problem within the Study
of Welfare State Retrenchment:
Defining the problem and looking for solutions**

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Abstract

Since the publication of Pierson's seminal work, a scholarly debate about welfare state retrenchment has emerged. One of the debated issues has been the "dependent variable problem"; what is welfare state retrenchment and how can it be measured. In particular the pros and cons of different types of data have been discussed. The argument of this paper is that the "dependent variable problem" is a problem of theoretical conceptualisation rather than a problem of data. It is crucial to be aware that different theoretical perspectives on retrenchment should lead to different conceptualisations of retrenchment. Furthermore, different conceptualisations lead to different evaluations of the same changes in welfare schemes, just as the question of which data to use depends very much on the theoretical conceptualisation of retrenchment.

Introduction

Since the publication of Pierson's seminal work (1994, 1996), a scholarly debate about welfare state retrenchment has emerged.¹ This debate has several aspects: Pierson's work has provoked a discussion about the importance of economic, institutional, and political factors for explaining cross-national variation in retrenchment (Castles 2001, Ross 2000a, Kitschelt 2001, Bonoli 2001, and Green-Pedersen, 2001). Furthermore, Pierson's work has started a discussion about difference in vulnerability to retrenchment of social security schemes (Alber 1998, and Anderson 1998), as well as a debate about the persistence of the welfare state (Clayton & Pontusson 1998, Cox 1998, van Kersbergen 2000, Scarbrough 2000, and Stephens et al. 1999).

This paper addresses a fourth aspect of the retrenchment debate also sparked off by Pierson's work, namely what can be labelled the "dependent variable problem" (Pierson, 1994, 1996, 2001, Clayton & Pontusson 1998, Alber 1996 & 1998, Lindbom 1999, van der Veen et al. 1999). As the term suggests, the "dependent variable problem" is about defining the object of the entire retrenchment debate. This involves such questions as which changes to welfare states should be classified retrenchment?; how does one separate retrenchment from reform and reconstructing?; and which data are most appropriate for empirical investigations of retrenchment outcomes?

It is clear that the dependent variable problem is crucial for the entire debate, and that the disagreement about the dependent variable is a major obstacle for cumulative knowledge about welfare state retrenchment. As Pierson (2001) argues following Kitschelt (2001): 'It is difficult to exaggerate the obstacle this dissensus creates for comparative research... it is impossible to seriously evaluate competing *explanations* (original emphasis) when there is no agreement about the pattern of *outcomes* (original emphasis) to be explained'. To put it bluntly, the debate about explanations of variation in retrenchment cannot move beyond the stage of hypotheses before the dependent variable problem has been addressed, and the same goes for the debate about welfare state persistence or change. Addressing the dependent variable problem should have high priority within the retrenchment literature.

At times, the debate about these issues has been rather heated, and several suggestions of "ground rules" for the study of retrenchment have been seen (Pierson 1994, 13-17 and Alber 1996, 10-13). The first step forward in this debate must be to identify the nature of the dependent variable problem. This paper argues the dependent variable problem to be a problem of theoretical conceptualisation of retrenchment. Thus, it is not in the first place a question about the use of quantitative, especially expenditure data, versus "qualitative" data, which is often the impression left by the debate about the dependent variable (Pierson 1994, 1996, Clayton &

¹ Surveys of the retrenchment literature can be found in Ross (2000b), Pierson (2001), and van Kersbergen (2000).

Pontusson 1998, and Alber 1996, 10-13). One should distinguish between two questions. First, what should be measured in empirical investigations? In other words, what should the theoretical definition of retrenchment be? Second, how can retrenchment actually be measured? This is a question identifying the most appropriate data for empirical investigations of retrenchment, that is operational definitions. Both questions are clearly important. The first question is, however, more crucial in the sense that the question about the most appropriate data can only be answered when one knows exactly what to measure. The first question is theoretical since it can only be answered in light of each researcher's theoretical perspective and research question. Thus, much of the disagreement about the dependent variable originates from scholars having different theoretical perspectives and not being always being fully aware of the implications of their theoretical approaches to welfare state retrenchment. Part of the problem also originates from disagreement about defining the welfare state notion in the first place.

This argument will be substantiated by taking three steps. The first section looks at the dependent variable debate within the study of welfare state expansion and especially the work of Gøsta Esping-Andersen (1990). The reason for including this is Esping-Andersen's arguments about the dependent variable, which are often used in the dependent variable debate in the study of welfare state retrenchment. The next section discusses one source of theoretical confusion, namely defining the welfare state notion. Different definitions of the welfare state notion have consequences when it comes to defining welfare state retrenchment. The third and main section discusses different conceptualisations of welfare state retrenchment and especially the work of Paul Pierson (1994, 1996, 2001). The section argues that one should keep two different conceptualisations of retrenchment apart, namely retrenchment as an unpopular cutback in people's entitlements, and retrenchment as a change in the institutional structure of different welfare states.

The dependent variable debate in the study of welfare state expansion

The scholarly debate about the expansion of the welfare state also had its dependent variable debate. Most of the research into the growth of the welfare state was based on aggregate expenditure data. Esping-Andersen (1990) challenged this by basing his analysis of the three worlds of welfare capitalism on, among other things, a measurement of the degree of de-commodification resulting from different social security schemes.²

What is worth noticing about Esping-Andersen's reformulation of the dependent variable is not so much the fact that he used a different kind of quantitative data from what had

² De-commodification means upholding a living independently of the market (Esping-Andersen 1990, 22).

traditionally been used for research into the growth of the welfare state. The interesting point was Esping-Andersen's argument that the expansion of the welfare state should be analysed as a question of higher levels of de-commodification, not as a question of higher levels of social security expenditure. As Esping-Andersen (1990, 21) put it: 'It is difficult to imagine anyone struggled for spending *per se*'. What Esping-Andersen offered was in reality a 'theory-internal' criticism of the dominating theoretical perspective within research into the growth of the welfare state, namely 'power-resources theory' (cf. O'Connor and Olsen 1998). If power-resources theory should be taken seriously, it was misplaced to focus on social security expenditure. Social democracy, which power resources theory sees as the driving force behind welfare-state expansion, had struggled for the right of workers to uphold a living independently of the market, not for higher social security expenditure. The lesson to learn from Esping-Andersen's reformulation of the dependent variable is thus not so much that aggregate social security expenditure per definition is a bad way of conceptualising and measuring welfare state expansion. The lesson is better formulated like this: When analysing the question of welfare state expansion from the power-resources theory perspective, social security expenditure is inappropriate as a measure of expansion. In this way, Esping-Andersen underscored that the question about defining the dependent variable cannot be detached from a theoretical perspective and a specific research question. These are two sides of the same coin. From a different theoretical perspective and with a different research question, it may be perfectly justified to focus on the growth in social security expenditure.

What is the welfare state?

Before turning to the question of defining welfare state *retrenchment*, it is worth focusing on defining the *welfare state* since disagreements about welfare state retrenchment often originates from different theoretical notions of the welfare state.

Elaborations of this issue could easily take a whole book or more. The mainstream definition, which is not always explicit, is a policy definition where the welfare state means the benefits provided by the state in case of sickness, old-age, unemployment, etc., and services in the area of health, child care etc. As a starting point, retrenchment thus has to do with changes in these policies. Yet, the welfare state can easily be defined in different ways with consequences for defining retrenchment and the conclusions reached about the extent of retrenchment.

For instance, Clayton and Pontusson (1998) challenged Pierson's conclusion (1994, 1996) about persistence by arguing that Pierson ignores rising social inequality and insecurity. Focusing on policy changes is not enough. Yet, as claimed by Lindbom (1999, 23), this is not really a justified criticism of Pierson who explicitly argues that he is not addressing the question of

inequality. What has happened to the welfare state understood as certain policies is a question quite different from asking what has happened to the welfare state understood as a commitment to equality. Both questions are equally valid and important, yet they are not identical and cannot be researched in the same way. To take another example, Cox (1998) has argued that, even though policy changes might not be dramatic, numerous minor cutbacks and changes have changed the conception of social rights away from citizens' rights towards more "achievement oriented" principles. Thus, the conclusion about the persistence of the welfare state does not pertain to its normative foundation, i.e. its underlying principles. A final example is Schwartz (2001) who defines the welfare state as social protection in the sense of sheltering income streams for market pressures. Following this definition, for instance, changes in regulatory arrangements protecting particular economic sectors are also retrenchments.

We shall not enter here any discussion whether any definition of the welfare state is better or worse than others. For the debate about welfare state retrenchment two things are important to keep in mind. First, that when replacing one conception of the welfare state with another, then, as indicated by the above examples, the focus of a study is changed. Therefore, even though it is interesting if studies based on different definitions of the welfare state reach different conclusions from the more mainstream studies, the possibilities of engaging in a debate with studies based on the mainstream definition may be limited. Second, if the welfare state notion is defined so as to encompass both the more mainstream policy focus and some of the above mentioned elements, one may be facing a staggering task when it comes to operationalising the concept, especially in a way suitable for cross national or policy area comparisons. As stated by Pierson (2001):

‘Yet, as the concept of the welfare state, or welfare regime, “stretches”, it becomes inevitable that quite distinct processes and outcomes will be joined together under the umbrella of a single master variable.... The complexity of this multi-faceted concept cuts against our attempts to generate the relatively parsimonious measures of outcomes that make a serious enterprise of comparative explanation possible’

To sum up, one part of the dependent variable debate is simply a debate about defining the welfare state. A priori, there is no preferred definition of the welfare state, yet it is important to be aware of the consequences of defining the welfare state in different ways.

Different conceptualisations of welfare state retrenchment

Different notions of the welfare state only constitute one part of the dependent variable problem. The other part follows directly from the first, but is more delicate. What has not always been clear in the dependent variable debate, is that even though the same policies are in focus, different

research questions and theoretical perspectives should lead to different conceptualisations of retrenchment and consequently also to different measurements of it (cf. King et al. 1994, 55-63 and Peters 1998, 218-219). There is no such thing as retrenchment *per se*.

Exactly this was the gist of Esping-Andersen's criticism of research into social democracy and the welfare state based on social expenditure data: Given the research question and the theoretical perspective, welfare state growth should be conceptualised in terms of de-commodification, which cannot be measured by social security expenditure. When looking at the debate about welfare state retrenchment, two different theoretical perspectives on welfare state retrenchment are prominent, and even though they are not far away from each other, they are not identical and should lead to different conceptualisations of retrenchment.

From the first perspective, retrenchment is a question of cuts in people's welfare entitlements. By way of example, Green-Pedersen (2000, chap 5) defines retrenchment as changes in social security schemes making the scheme less attractive or generous to the recipients. Examples of such changes are cuts in benefit levels, stricter eligibility criteria, or shorter duration of benefits. The theoretical argument behind focusing on such changes is an expectation of negative reactions from the electorate. With a theoretical interest in how politicians avoid blame or are able to implement unpopular policies, focusing on such changes seems logical. Such a conceptualisation of retrenchment is also implicit in many studies of retrenchment which more or less equate retrenchment with budgetary cuts.

With such a theoretical definition of retrenchment, there would in principle be no problem in using social security expenditure as the operational definition of retrenchment. Expenditures would in principle be a reasonable summary measure of generosity, especially if some corrections are made for the number of recipients which potentially can claim benefits (cf. Siegel, 2001). However the problem with such data is the "time-lag" problem highlighted by for instance Pierson (1994, 14). This refers to the fact that many retrenchments are designed to have gradual rather than immediate effects. Consequently, many enacted retrenchments are not yet visible in expenditures. Some of these problems are avoided by using net replacement rates as done by Korpi (2002). However, this raises other problems. The development of net replacement rates is influenced by other factors than changes in social security schemes. These other factors include the tax system, but also development in average wages, which is not under government control. Further, changes in duration and eligibility criteria are not captured by net replacement rates.

Kitschelt (2001) suggests an alternative operationalisation, namely an index measuring changes made in social security in relation to the level of benefits, eligibility criteria etc. Thus, retrenchment could be measured by "micro-data", that is data providing a quantitative measure of the degree of retrenchment implied by individual changes in social security schemes. An example of such "micro-data" is provided by Green-Pedersen (2000, chap 5). There, the degree of retrenchment following from a change in a social security scheme is measured by its likely

budgetary effects as a percentage of the total amount of cash spent on the scheme. This measurement is calculated using statistical information about the scheme and material from the parliamentary reading of the proposals. The strength of this measure compared to aggregate expenditure data is the minimisation of the time-lag problem, and the provision of a measure for each individual change, hence giving a better idea of which changes have contributed to a certain degree of retrenchment of a scheme. The weakness of this method of measuring retrenchment is first of all the existence of some validity problems when calculating expected budgetary effects, especially when government documents are used. A further weakness is that it is a very time consuming exercise requiring language skills etc. Thus, for one single researcher studying more than a handful of social security schemes in a few countries, this solution is nearly impossible. Finally, it is also worth emphasising that using such a definition of retrenchment does not imply that other changes are uninteresting or unimportant. As a point of departure, the second theoretical perspective on retrenchment regards the above retrenchment definition as too narrow because it does not measure changes to the content or institutional structure of welfare schemes. Thus, Pierson (1996, 157) focuses on: “reforms that indicate structural shifts in the welfare state”. And further elaborates this into three criteria: 1) Significant increases in the reliance on means-testing; 2) major transfers of responsibility to the private sector; 3) dramatic changes in benefit and eligibility rules that signal a qualitative reform of a particular program. Another example is Lindbom (1999) who investigates whether “the Swedish welfare state has lost its defining characteristics”. Generosity is one of those characteristics, but there are others such as universalism.

The focus on content or institutional characteristics is much inspired by Esping-Andersen’s criticism of studies of welfare state expansion based on expenditure data. Yet, as outlined above, Esping-Andersen criticised such studies from the power-resources theory perspective. Therefore, the question in relation to Pierson’s definition of retrenchment presented above is why institutional changes such as increased means-testing or privatisation can be considered retrenchment. From the perspective of power-resources theory, it is clear why especially increased means-testing should be considered retrenchment. The labour movement has been striving exactly to avoid means-testing. However, Pierson actually criticises power-resources theory, and it is therefore, unclear why means-testing should be considered retrenchment from his perspective. This does not imply that defining retrenchment as certain institutional changes is invalid. However, the point is that it requires theoretical arguments why certain institutional changes should be considered retrenchment. Referring to Esping-Andersen’s criticism is only an argument in this regard, if one accepts *his* theoretical point of departure, namely power-resources theory.

The focus on “institutional” changes is clearly also inspired by the new-institutional wave within political science (cf. Hall & Taylor 1996 and Peters 1999). Thus, both Pierson (*op. cit.*)

and Lindbom (*op. cit.*) emphasise an interest in retrenchment as qualitative changes, that is a break with basic institutional principles. Again this is of course perfectly valid. The point, however, is that it requires a substantial theory of the welfare state to single out the institutional features being so central that changes in them can be considered qualitative change or structural shifts.

With regard to the operational definition of such institutional conceptualisations of retrenchment, it is important to notice that the question is not one of quantitative versus “qualitative” data. Following Esping-Andersen’s argument presented above, social security expenditure are very problematic measure of retrenchment defined as institutional change. The reason is not so much the time-lag problem, but rather that social expenditure data do not measure institutional characteristics. However, Esping-Andersen’s alternative was not “qualitative” assessments, but indices measuring de-commodification and stratification, that is quantitative data. Thus, there is no a priori reason why one should use “qualitative” assessment as the operational definition of “institutional” conceptualisations of retrenchment. Yet, where social expenditure data is a fairly straightforward operational definition of retrenchment conceptualised as cutbacks in entitlements, there is no similar straightforward operational definition of retrenchment conceptualised as institutional change. Therefore, there is probably a tendency to use “qualitative” assessments when retrenchment is conceptualised in this way. This may be adequate in many cases, yet qualitative assessments are vulnerable to the kind of “fuzzy judgment” criticism launched by Alber (1996). Part of the problem is that the exact criteria for such assessments are often blurred and the evaluations can, therefore, be hard to reproduce by others. Thus, especially in studies comparing retrenchment across countries and social security schemes, “qualitative assessments” are often too flimsy.

The kind of data used by Esping-Andersen in the “Three Worlds of Welfare Capitalism” (1990) is one way of avoiding the problem. Another interesting way is to use the “fuzzy sets” idea developed by Ragin (2000). These ideas have, for instance, been used by Kvist (1999) to evaluate whether welfare state reforms have moved the Scandinavian welfare states away from the Nordic welfare model. In other words, there are quantitative ways of operationalising institutional conceptualisations of retrenchment, but they are not always recognised.

As way of ending the discussion of different ways of conceptualising and measuring retrenchment, two questions should be addressed: First, whether different conceptualisations of retrenchment make any difference for, say, evaluations of cross-national variation in retrenchment; second, whether institutional changes can be considered an indirect way of achieving cutbacks in entitlements.

The short answer to the first question is yes, but how much depends on which institutional traits are in focus. If generosity is defined as the central institutional trait of a welfare state, the difference to the cutback-in-entitlements perspective is likely to be small. However, as soon as

other institutional traits are in focus, evaluations of concrete changes can be markedly different depending on the conceptualisation of retrenchment. Two small examples serve the evidence.

In 1982, a means-testing of the basic amount of the Danish old-age pension was carried through. Since the means-testing was related exclusively to significant job earnings and only affected pensioners between age 67 and 69, it only affected very few people's entitlements significantly. From an entitlement perspective, the change can be considered irrelevant (cf. Green-Pedersen, 2000 chapter 6). However, from the power-resources theory perspective, the change can be seen as a significant break with the principle of universalism in the Danish old-age pension, and consequently be considered an important retrenchment (Esping-Andersen 1985, 542 and 545).

The second example is the privatisation of Dutch sickness benefits in 1996. Sickness benefits from the government were abolished for most employees, but instead the new law stipulated that all employees were entitled to sickness benefits from their employer for the same time period and at the same level as they had been before (van der Veen and Trommel 1999). Thus, there were no changes to the entitlements of the employees, but according to Pierson's definition of retrenchment outlined above, this privatisation is a significant retrenchment. Finally, the Danish welfare state experienced considerable cuts in a number of benefits during the 1980's but little change in entitlements; under the Social Democratic coalition governments in the 1990's, on the other hand, there were no significant cuts but quite significant institutional change (Goul Andersen, 1997). The general point here is that a significant cutback in entitlements is possible without changing institutional traits and vice versa.

The second question is to some extent an offshoot of Pierson's work on retrenchment (1994 and 1996). He argued persuasively that governments seek to retrench welfare states in indirect and obfuscated ways. Thus, one could argue that even though retrenchment is conceptualised as a question of cuts in entitlements, institutional changes are still very important (cf. also Bonoli & Palier 1998 and Taylor-Gooby 1999). A good example is recent changes in the Danish disability pension (Christiansen 2000). Danish governments have transferred the authority to award disability pensions from independent boards, which had no financial interest in the number of pensions being awarded, to the municipalities. At the same time, the municipalities have been provided with a fiscal interest in keeping down the number of pensioners. The result of these changes is a significant reduction in the number of pensions being awarded (op. cit.).

The argument that institutional changes may indirectly lead to cutbacks in entitlements is clearly convincing, yet the question is what implications it has for the conceptualisation and measurement of retrenchment. One implication would be to collapse the two conceptualisations of retrenchment into one broad conceptualisation. Certain institutional changes could be defined as retrenchment because they indirectly may lead to cuts in entitlements. However, at this point it is important to realise that arguing that such changes *may* lead to cuts in entitlement does

not imply that they will *necessarily* do so. A broad conceptualisation including institutional changes possibly leading to cuts in entitlements is problematic since the effects of the institutional changes will often be rather uncertain. The risk is that institutional changes having no effects on entitlements are measured as cuts in entitlements. Therefore, as a research strategy it seems more sensible to measure separately direct cuts in entitlements and institutional changes possibly leading to the same result.³ Having focused on the direct cuts in entitlement, one can always investigate whether there is empirical evidence that institutional changes have actually lead to or will in the future lead to cuts in entitlements (cf. Green-Pedersen 2000, chap 6).

The same argument relate to what Pierson (1994, 15-17) labels “systemic retrenchment”. This refers to, for instance, a de-funding of the welfare state or a weakening of pro-welfare interest groups. Such contextual changes (van der Veen et al. 1999) may lead to retrenchment, yet it is not necessarily the case. Therefore, such changes should be kept apart from the ones which by definition imply cuts in entitlements.

Conclusion

Questions about definition and measurement of the dependent variable not being easy to answer is nothing special for the study of welfare state retrenchment. Identifying such phenomena as policy change and policy convergence is always difficult (cf. Hall 1993 and Seeliger 1996). Such questions are, however, extremely important. It has already been argued that thorough investigation into defining and measuring retrenchment is crucial for further progress on the question about which factors cause variation in retrenchment, and for the discussion about change or persistence of the welfare state.

This paper has not tried to offer the ultimate solution to the dependent variable problem. There is no ultimate solution to this problem. Instead the paper has focused on identifying the nature of the problem. Here, the problem is claimed to be more about theoretical ambiguity than about the pros and cons of different types of data. Different definitions of the welfare state notion is one theoretical problem, but more importantly, welfare state retrenchment can be conceptualised in two different ways, namely as either cuts in entitlements or changes in institutional characteristics. These two conceptualisations are not unrelated but the same changes may be evaluated very differently from the two perspectives and, therefore, they should be kept apart. Which conceptualisation of retrenchment to use for a specific study depends on one’s theoretical perspective. Thus, the main solution to the dependent variable problem is to be very clear-cut about one’s theoretical perspective and research question. This should be helpful in deciding

³ Further, such broad conceptualisations may be difficult to operationalise.

which of the two conceptualisations are most in line with one's theoretical interest.

Questions about qualitative vs. quantitative data and the use of expenditure data have taken up a very prominent place in the dependent variable debate. This paper does not claim that debate to be unimportant. All forms of data have their specific drawbacks and limitations to which one should always pay attention. Yet, discussions about data have a theoretical side which has not always been sufficiently included. The question about the most appropriate data can only be answered once one knows exactly what to measure, and that is a theoretical question. By way of example, expenditure data are much more appropriate when retrenchment is conceptualised as cuts in entitlements than when conceptualised as institutional changes.

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