

**Impact of Public Policies:  
Economic Effects, Social Effects, and Policy Feedback.  
A Framework for Analysis**

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## Foreword

Due to coincidence in time, this working paper is written partly as a theoretical contribution to the research programme: *Danish Welfare Architecture in a Comparative Perspective*, partly as a contribution to a textbook in comparative politics: Daniele Caramani (ed.). *Comparative Politics*. Oxford University Press. 2008.

The paper is an unabridged version which is much longer and contains more theoretical and methodological discussions than the textbook version, in particular issues relevant for the development of welfare state theory. After some considerations, it was decided to maintain textbook elements like questions and a list of definitions also in the current version. The paper fits together with other theoretical papers written for the “Welfare Architecture” research programme (see list at the end of the paper).

October 2007

Jørgen Goul Andersen

## **Abstract**

This paper takes public policies as the independent variable and looks at the effects. It analyses different policies of regulation of the economy and the welfare system, and their impact on economic performance and social equality. Further, the chapter treats feedback effects on future politics and policies. As to ‘policy impacts’, the paper is less about the impact of concrete policies and more about the impact of broader patterns and principles of policies (often labelled institutions, that is, the programmatic structures of policies). First, the paper describes the overriding historical change in approaches to the economy, from Keynesian ideas of macroeconomic steering, towards more market-oriented economic perspectives. Next, the paper presents the main typologies of ‘welfare regimes’, ‘varieties of capitalism’, and ‘flexicurity’ that structures much of the debate about the independent variables. Thirdly, the paper addresses some of the empirical analyses of the effects of welfare policies and the tension between welfare and economic efficiency. This is followed by an inventory of methods that are used in analysing such questions. Finally, the paper discusses the feedback mechanisms from policy effects to new demands for policy change.

## 1. Introduction

Whereas political decisions (also called ‘policy’, or ‘output’) was traditionally taken as the final result of the political process, modern political science has increasingly turned attention towards ‘outcomes’ or the *impact* of policies. This change in focus has entailed a great interest in the *implementation* of political decisions, on the one hand, and in the *relationship between politics and the economy* - the economic and social effects of public policies - on the other. In this chapter which is about comparative politics, we shall deal only with the latter question.

Many of these issues are at the borderline between politics and economics. The so-called ‘new political economy’ approach seeks to combine insights from both disciplines. To some extent, this holds also for comparative welfare state research. Substantial parts of what follows is drawn from these approaches. In addition, we shall discuss the *political* impact of public policies, that is, the political *feedback* effects of policies which is also a field of increasing concern in political science.

Such discussions often revolve around the theme of reconciliation between welfare and economic efficiency in the broadest sense. In the ‘golden age’ of the welfare state from the 1950s to the 1970s, governments in the rich industrial countries applied Keynesian macroeconomic steering to secure economic growth, full employment and social welfare (Zürn and Leibfried, 2005). After the unsuccessful attempts to combat unemployment by traditional Keynesian measures in the 1970s, however, economists began searching for alternative diagnoses and solutions. The impact of Keynesian measures was questioned by theories of rational expectations arguing e.g. that rational economic actors would anticipate the inflationary impacts of such measures and behave accordingly. In the fields of welfare, labour market and tax policies, economists became increasingly concerned with the impact on economic incentives. The 1980s viewed a revival of neoclassical thinking with focus on distortions of the smooth functioning of the market and the corresponding loss of economic efficiency. When Ronald Reagan was elected president of the US, and Margaret Thatcher became Prime Minister of the UK, this sort of criticism of the welfare state moved from the margins to the mainstream of politics.

This turn in policies - more radical in some countries than in others - has set the stage for many subsequent debates about the impact of public policy. What is actually the impact of various public policies? How should it be measured? Is equality and effi-

ciency compatible, or is there a trade-off? Some researchers have claimed that globalisation aggravates such negative economic side effects and enforce a harmonisation towards more market conformity. Some have even questioned whether welfare policies at all have the intended welfare effects for those in need.

Addressing such questions, researchers have built various conceptualisations of clusters of policies that tend to go together because they are mutually connected. Such configurations of policies that are complementary may also be labelled *regimes*. In one branch of research, scholars have formulated conceptions of welfare regimes, emphasizing (re-) distribution and taking their point of departure in a ‘politics against markets’ way of thinking. Others have focussed on the positive interplay between the state and different types of market economies, arguing that there are different types of state regulations (or absence thereof) that work equally well - but differently. Still others - working at a somewhat lower level of abstraction - have discussed various conceptualisations of ‘flexicurity’ in labour market policies, that is, combinations of economic flexibility and social security. Assessment of the impact of public policies involves both intentional effects and unintentional side effects. We shall survey some main findings, but not least with the aim of discussing various methodological approaches.

Finally, policies also impact on politics, and on future policies. In the last section, we discuss such feedback effects on interest constellations and power relations, and on the paths of public policy development. Besides, we briefly discuss policy transfer and policy diffusion from one national context (or one policy field) to another, and finally, we return to the issue of convergence between public policies amid common exogenous pressures such as ageing, Europeanization, and globalization.

### *Key points*

- Political decisions is the starting point - the independent variable - in assessing the impact of policy.
- The impact of welfare policies on the economy is one of the most important - and one of the most controversial - issues in modern social science.
- Policies/institutions tend to cluster in characteristic configurations because they are complementary. This means that they may be viewed as regimes.
- Political decisions also have political effects. Past decisions is a major determinant of future decisions, sometimes also across policy areas or across countries.

## **2. Changes in economic paradigms and approaches to welfare**

The aftermath of the second World War witnessed a steady long-term expansion of the public sector, absolutely and relatively, in particular social expenditure (whereas traditional expenditures for the 'nightwatch state' went down, relatively). This took place in a climate of rapid economic growth. After the protectionist policies during the crisis of the 1930s which dramatically lowered international trade and economic growth, the Western capitalist countries had in 1944 decided for the so-called Bretton Woods system which linked American Dollar to gold at a fixed price, and other currencies to the Dollar at (in principle) fixed exchange rates.

This system, alongside a gradual lowering of tariffs, contributed to long-term uninterrupted economic growth, almost full employment and relatively stable prices. For twelve European countries where statistics are available for the entire period, average annual growth in GDP 1950-1973 was 4.6 per cent, as compared to 1.6 per cent 1890 -1913 and 1.4 per cent 1913-1950. From 1973-92 growth rates slowed down - but after all only to 2.0 per cent. (Table 1).

Until the 1970s, the growth in the public sector and social expenditures (see Table 2) was largely regarded as a 'natural' concomitant of industrialisation, economic growth and modernization in general, including ageing of the population (Wilensky, 1975: 47). Political scientists, usually taking a somewhat more conflictual and less functionalist view, also emphasized the political mobilization of the lower social classes and the strength of socialist parties (Korpi, 1983) - the so-called 'power resources explanation'. Cameron (1978) described this as a sufficient but not necessary condition:

**Table 1. Economic Growth in Europe, 1890-1992. Average annual growth in real GDP**

| Periods   | Average annual growth in real GDP |            |                 |
|-----------|-----------------------------------|------------|-----------------|
|           | total                             | per capita | per person-hour |
| 1890-1913 | 1.6                               | 1.7        | 1.6             |
| 1913-1950 | 1.4                               | 1.0        | 1.9             |
| 1950-1973 | 4.6                               | 3.8        | 4.7             |
| 1973-1992 | 2.0                               | 1.7        | 2.7*            |
| 1890-1992 | 2.5                               | 1.9        | 2.6*            |

\*) Last year for the calculation of GDP per person-hour is 1987.

*Source:* Maddison (1991) quoted in Crafts and Toniolo (1996), and Crafts and Toniolo (1996: 2).

*Notes:* Countries: Germany, France, Italy, Austria, Belgium, Netherlands, Switzerland, UK, Sweden, Finland, Denmark and Norway. For 1992-2005, real annual growth rate for EU-15 was 2.1 per cent (as against 3.2 per cent in the US); per capita in EU-15 was 1.7 per cent (as against 2.1 per cent in the US) (OECD, 2007a: Tables A3 and A.9). It is mainly low growth in Germany, Italy and France that accounts for the lower per capita growth rate in EU-15.

economic openness and corporatist coordination was more important (see also Katzenstein, 1985).<sup>1</sup> But there was a strong optimism about ‘The Possibility of Politics’ (Ringen, 2006) – about having politics prevailing over markets. Apart from some scholars complaining about insufficient redistribution (LeGrand, 1982; Goodin and LeGrand, 1987), few questioned the impacts on equality, welfare and employment, and few were concerned about possible negative side effects. Economists were almost silent about these issues which were largely seen as a matter of *political* choice about redistribution, or between private and public consumption. As such, these were outside the realm of economics.

**Table 2. Social expenditure as per cent of GDP**

| Countries   | Historical calculations*) |      | OECD Old Series+) |      |      | OECD Social expenditure database (2007) |      |      |      |
|-------------|---------------------------|------|-------------------|------|------|-----------------------------------------|------|------|------|
|             | 1900                      | 1930 | 1960              | 1970 | 1980 | 1980                                    | 1990 | 1998 | 2003 |
| Germany     | 0.6                       | 4.8  | 18.1              | 19.5 | 25.7 | 20.3                                    | 20.3 | 27.3 | 27.3 |
| Austria     | 0.0                       | 1.2  | 15.9              | 18.9 | 23.3 | 23.3                                    | 25.0 | 26.8 | 26.1 |
| France      | 0.6                       | 1.1  | 13.4              | 16.7 | 22.6 | 21.1                                    | 26.5 | 28.8 | 28.7 |
| Belgium     | 0.3                       | 0.6  | 13.1              | 19.3 | 30.4 | 24.2                                    | 24.6 | 24.5 | 26.5 |
| Netherlands | 0.4                       | 1.0  | 11.7              | 22.5 | 28.3 | 27.3                                    | 27.9 | 23.9 | 20.7 |
| Sweden      | 0.9                       | 2.6  | 10.8              | 16.8 | 25.9 | 29.0                                    | 31.0 | 31.0 | 31.3 |
| Finland     | 0.8                       | 3.0  | 8.8               | 13.6 | 19.2 | 18.5                                    | 24.8 | 26.5 | 22.5 |
| Denmark     | 1.4                       | 3.1  | 12.3              | 19.1 | 27.5 | 29.1                                    | 29.3 | 29.8 | 27.6 |
| Norway      | 1.2                       | 2.4  | 7.9               | 16.1 | 21.0 | 18.5                                    | 26.0 | 27.0 | 25.1 |
| Italy       | 0.0                       | 0.1  | 13.1              | 16.9 | 21.2 | 18.4                                    | 23.9 | 25.2 | 24.2 |
| Greece      | 0.0                       | 0.1  | 10.4              | 9.0  | 11.1 | 11.5                                    | 21.6 | 22.7 | 21.3 |
| Spain       | 0.0                       | 0.1  | .                 | .    | .    | 15.8                                    | 19.3 | 19.7 | 20.3 |
| Portugal    | 0.0                       | 0.0  | .                 | .    | .    | 11.6                                    | 13.8 | 18.2 | 23.5 |
| Czech Rep.  | .                         | .    | .                 | .    | .    | -                                       | 16.8 | 19.4 | 21.1 |
| Poland      | .                         | .    | .                 | .    | .    | -                                       | 16.2 | 22.8 | 22.9 |
| Switzerland | .                         | 1.2  | 4.9               | 8.5  | 14.3 | 15.2                                    | 19.8 | 28.3 | 20.5 |
| UK          | 1.0                       | 2.2  | 10.2              | 13.2 | 16.4 | 18.2                                    | 21.6 | 24.7 | 20.1 |
| Ireland     | .                         | 3.7  | 8.7               | 11.9 | 19.2 | 16.9                                    | 19.0 | 15.8 | 15.9 |
| Australia   | 0.0                       | 2.1  | 7.4               | 7.4  | 12.8 | 11.3                                    | 14.4 | 17.8 | 17.9 |
| NZ          | 1.1                       | 2.4  | 10.4              | 9.2  | 15.2 | 19.1                                    | 22.5 | 21.0 | 18.0 |
| Canada      | 0.0                       | 0.3  | 9.1               | 11.8 | 15.0 | 13.3                                    | 18.2 | 18.0 | 17.3 |
| USA         | 0.6                       | 0.6  | 7.3               | 10.4 | 15.0 | 13.1                                    | 13.4 | 14.6 | 16.2 |
| Japan       | 0.2                       | 0.2  | 4.1               | 5.7  | 11.9 | 10.1                                    | 10.8 | 14.7 | 17.7 |
| Turkey      | .                         | .    | .                 | .    | .    | 4.3                                     | 6.4  | 11.6 | 13.2 |

\*) Source: Lindert (1994). Quoted from Lindert (2004a: 12-13). Welfare, unemployment, pensions, health, and housing subsidies

+) Quoted from Lindert (2004a: 12-13)

This changed after the breakdown of the Bretton Woods system in 1971 when USA had to suspend the convertibility of Dollars to gold (which eventually made currencies free-floating), and after the first oil crisis in 1973/74 which released mass unemployment in most countries, often for the first time in a generation. In the first place, the largely unsuccessful attempts to combat unemployment by traditional Keynesian policies (such as stimulation of aggregate demand), and the anomaly of stagflation (stagnation combined with inflation),<sup>2</sup> paved the way for theories of rational expectations (Lucas, 1972, 1973). These theories implied that economic actors would anticipate the inflationary effects of fiscal and monetary policies and adjust their behaviour accordingly. Thereby, the negative effects of stimulating demand would so to speak come before the positive ones.

Further, more and more economists began questioning the assumption of economic neutrality of redistribution (Sandmo, 1991). Previously, economic redistribution via taxes and cash transfers to households had been described in textbooks as a matter of transferring a bucket of water from one person to another. This was challenged by Okun (1975) who argued that the ‘bucket is leaking’, i.e. there was an inevitable loss in economic efficiency entailed to this redistribution as it distorted the market mechanisms.

This was the beginning of a paradigmatic change in economic theory - away from a focus on macroeconomic steering, towards a more ‘neoclassical’ focus on the micro level and the supply side. The interpretation of unemployment is a case in point. Previously, it was seen as the responsibility of governments to ensure full employment. Unemployment was seen as an effect of insufficient demand for labour power, because of too low levels of consumption or investments (to be solved e.g. by stimulating effective demand), or because of insufficient competitiveness (to be solved primarily by wage moderation). But the legacy of policy failures constituted a kind of ‘learning process’ that could pave the way for new ideas.

From now on, economists and governments increasingly focussed on the supply side of the economy, not least on the economic incentives that could stimulate labour supply and growth. Unemployment in Europe came largely to be seen as a ‘structural’ or ‘natural’ unemployment, i.e. as an employment that would *not* disappear even if domestic demand or export-induced demand for labour power would increase. Only structural changes towards more market conformity in social policies, tax policies, labour market regulation and wage formation could help.

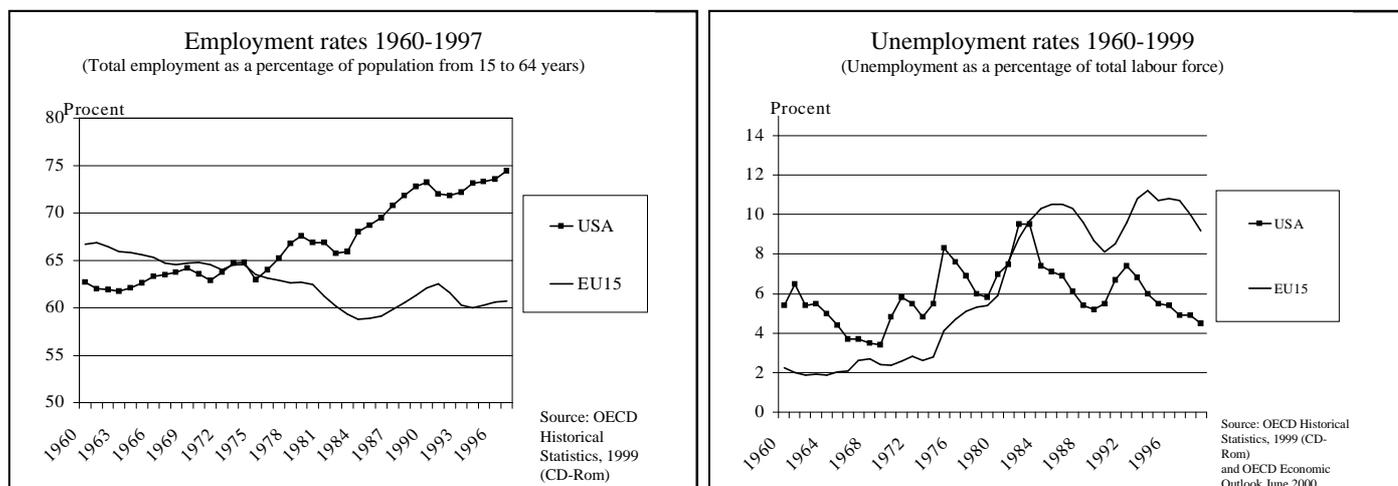
The impressive work *The OECD Jobs Study* (OECD, 1994) summarized the new approaches and underlined the constraints of globalization which would make it more and more difficult for governments to avoid the necessary labour market reforms. This was disputed, however. Rather than seeing this policy change as an instance of social learning, Korpi (2002) maintained that this was much more a matter of political choice. In his view, the shift should be interpreted mainly in terms of changing power balances between capital and labour.

At any rate, the policy impacts of the welfare state came to a large extent to be seen as adverse: Unintentionally, social protection aggravated the very problems which it was supposed to solve. Due to the phenomenon called ‘*hysteresis*’ (Blanchard and Summers, 1986) - loss of skills during long-term unemployment - persistent unemployment would furthermore tend to generate large-scale *unemployability* which, in turn, might lead

to the development of an underclass characterised by a dependency culture (Murray, 1984). Even researchers who had previously evaluated the welfare state positively, began speculating if the price of equality would in fact be less wealth - *plus* less equality if some groups were chronically marginalised from the labour market (Esping-Andersen, 1996; Esping-Andersen et al., 2002).

This diagnosis could furthermore be convincingly illustrated by the different employment/unemployment record of EU and the USA: In the 1960s and 1970s, the US seemed to suffer from a 'structural' unemployment problem which Europeans used to explain by the poverty caused by the underdeveloped welfare state in the US (see Figure 22.1). From the 1980s, however, it was the other way around: Unemployment in Europe was chronically higher than in the US, approaching twice the American level. Looking at employment, the situation seemed even worse. Employment rates in the US were steadily increasing whereas the European figures were constantly declining. Europe had tried to solve its unemployment problems by early retirement and other arrangements to reduce the active labour force, but (in accordance with the new economic theories) the long-term dynamic effect seemed to be fewer jobs rather than lower unemployment. Declining employment rates only aggravated the future ageing crisis - which for purely demographic reasons (not to mention pension systems) was also much more threatening in Europe than in the US, due to lower fertility and immigration rates.

**Figure 1. Employment/ Unemployment rates: EU-15 and US (1960–2000)**



In short, during the 1980s and 1990s it was more and more often argued that USA had the most efficient welfare system: They had the market. Europe, on the other hand, was hit by stagnation or at best faced a trade-off between equality and employment. Apparently, the European welfare states were less sustainable in a globalized economy (OECD, 1994; Nickell, 1997; Jackman, 1998). They had their successes in the 1950s and 1960s, but now, they were sometimes described as ‘virtual “time bombs” waiting to explode’ (Ljungkvist and Sargent, 1998: 546). European countries could choose to prioritise equality and security, but only at the price of persisting unemployment and long-term unsustainability of the welfare state. The welfare state and compressed wage structures with high minimum wages may have been beneficial in the 1960s and 1970s, it could be argued, but under intensified global competition after 1980, the effects were adverse. Similar arguments about loss of efficiency have repeatedly been put forward regarding the effects of taxation, not least in a context of global competition.

However, even though wage differentials typically increased (Förster and d'Ercole, 2005), and incentives were strengthened, most European countries were not willing to lower minimum wages or give up substantial elements of social protection. As can be seen from Table 22.2, social expenditures have stopped growing as proportion of GDP, but there are few instances of decline in proportions and virtually no examples of genuine cuts in aggregated budgets (see also Pierson, 1994).

In the Luxembourg Employment Strategy 1997, and at the Lisbon summit in 2000, the European Union confirmed its devotion to pursue a somewhat different path in its employment strategy with more emphasis on education and training, (state-supported) innovation, and social cohesion.

The question of reconciliation between regulation, welfare and equality on the one hand, and employment or economic growth on the other has been a core theme of discussion in comparative research on the impact of public policies. Theoretical arguments are clear, but modern economics has often been accused of putting too much emphasis on theoretical arguments and on model-based calculations. As argued by Lindert (2004b: 82) against the key findings of much neoclassical economics, ‘such findings ... are not really findings. Contrary to the words offered ... none of these authors actually ‘found’ or ‘showed’ their results. Rather, *they chose to imagine* the results’ as they are based on ‘a theoretical model laden with assumptions. It is educated, intelligent, plausible fiction - but fiction nonetheless ... We need empirical tests that can choose among competing views on the basis of factual evidence’.

This is very much what ‘new political economy’ has tried to accomplish. Also in economics, not least labour market economics, one finds strong empirical traditions. Even though research questions and methods are overlapping, however, economists and political scientists in the field often tend to work in rather separate networks.

#### *Key points*

- The failure of Keynesian policies to combat unemployment after 1973 paved the way for new economic perspectives focussing on the negative economic side effects of welfare/tax policies.
- This was further strengthened by the notion of globalization.
- European governments have been reluctant to reduce social expenditures; at best, they have managed to halt growth in expenditures relative to GDP.
- Theoretical arguments and simulations are useful, but comparative empirical research is needed to assess the impact of policies

### 3. Welfare regimes, varieties of capitalism, and flexicurity

One of the differences between analyses of the impact of public policy from an economic and from a political science perspective is that the latter more often addresses the effects of institutions from a ‘regime’ perspective. That is, they often take their point of departure in ideal types of welfare states or political economies that build on a *combination* of variables that are seen as interdependent or *complementary*. The two most well-known are the concepts of ‘Welfare Regimes’ (Esping-Andersen, 1990, 1999) and ‘Varieties of Capitalism’ (Hall and Soskice, 2001). In addition, there is a variety of concepts at a somewhat lower level of abstraction, among which the notion of ‘Flexicurity’ has been much debated since around 2000. These approaches bear many similarities, but they differ in their ideas about causes, classifications, and impacts of policies. As far as causes are concerned, welfare regime theory puts main emphasis on politics (interest conflicts) whereas varieties of capitalism theory is more ‘functionalist’ (with emphasis on what is beneficial for the economy). Theories of flexicurity are vague on causes but add the possibility that causes may be rather accidental. However, it is the questions about classifications and in particular about impact that is our concern here.

#### *The concept of welfare regimes*

The concept of welfare regimes builds on the observations (1) that welfare state characteristics tend to cluster, and (2) that there is a strong relationship between labour markets, the family, and the welfare state.<sup>3</sup> ‘Welfare regimes’ refers to the interaction, or the unison between these three elements (Esping-Andersen, 1999: 4). What differs between welfare states is not just the level of expenditures (Table 2) but even more the division of tasks and the ways entitlements and expenditures are structured. We shall focus here on the social and economic impact of these welfare regimes.

Inspired by the classical works of Titmuss (1974), Gøsta Esping-Andersen distinguished between three ideal types of welfare regimes in his seminal book on *The Three Worlds of Welfare Capitalism* (1990):

- Conservative welfare regimes (mainly found in Continental Europe)
- Liberal welfare regimes (mainly found in Anglo Saxon countries)
- Social Democratic welfare regimes (mainly found in Scandinavia)

It is important to underline that these are *ideal types*, that is, they are abstractions or models which are never found as ‘pure types’ in the real world. On the contrary, we find a vast array of different mixes. But we need theoretically defined models (1) in order to grasp the differences and similarities between welfare states, so that we can describe the distances on various dimensions, and (2) in order to understand the logic of functioning of different welfare systems, that is, how the various traits are working together.<sup>4</sup>

Esping-Andersen (1990) was not extremely precise about exactly what defines these ideal types. His underlying concern was the level of ‘de-commodification’, that is, the extent to which people are able to live unaffected of the fact that their labour power is a commodity that is traded on the market. Later (Esping-Andersen, 1999), he added the criterion of ‘de-familialization’, that is, the extent to which people are relieved from the economic dependency of the family. He went on demonstrating that on the basis of indicators of de-commodification and de-familialization, modern welfare states still tended to fall into three distinct clusters corresponding with the three worlds above.

Sometimes this operationalisation is taken as Esping-Andersen's true definition whereas we shall underline the institutional aspects of a somewhat implicit definition of the three types, for instance principles of financing, eligibility and entitlements etc. However, we shall comment briefly below also on the interconnection between the family, the labour market and the state.

In the *conservative* model (which was originally ‘invented’ by the German chancellor Otto von Bismarck in the 1880s), benefits are normally financed by mandatory social contributions, usually on a 50-50 basis, by employers and workers, paid to social insurance funds (often jointly controlled by the unions, employers and the state, and often slightly state subsidized). Eligibility depends on contributions, and entitlements depend on contribution record. Duration of unemployment benefits, for instance, is often related to employment record, and the level of pensions is more or less proportionally (actuarially) related to contributions.<sup>5</sup> The main aim is to secure income replacement, that is, the conservative model is aimed at security rather than equality. As pointed out by Iversen (2005), however, insurance almost inevitably has some redistribution as a side effect.

The Conservative model was designed to support - and maintain - a male breadwinner family structure with a marked family responsibility and a marked gender division of labour. Male breadwinners should be able to support their family even in a situation of temporary or permanent loss of income (unemployment, disability etc.). Women should be responsible for family care. Thus, the Conservative model for long managed to

maintain low labour force participation rates among married women, and as care was seen mainly as family duty, this welfare regime tends to have an underdeveloped public service sector. Even when there is a collective responsibility for financing, the work is often delivered by families, e.g. in old-age care (Theobald, 2007).

As to labour market regulation, this model logically corresponds with uninterrupted careers and strong employment protection of core workers (Esping-Andersen, 1999: 18). Like several other aspects of this model, employment protection is often claimed to come under pressure. This holds also for the financing via social contributions which is often considered less 'employment-friendly' due to the high 'social wage' in terms of social contributions that is levied on top of the actual wage (Scharpf, 2000: 79-91). Also the male breadwinner assumption has definitely come under pressure, and the same holds for the low provision of social services, not least what can also be termed low 'social investments' in childcare. Many scholars agree that the conservative model is in profound crisis (Esping-Andersen et al., 2002).

Some variant of a *liberal* welfare model was the point of departure for most of those countries that decided from the outset not to follow the Bismarckian path. The Liberal model is based on the selective support for those who cannot provide for themselves. Benefits are usually tax-financed, and even though benefits are targeted, coverage is in principle universal for all citizens, men and women alike. By its very residual nature, this model is aimed only at alleviating poverty, not at large-scale redistribution, let alone decommodification. But it does involve a higher degree of de-familialisation and a lower degree of gender segregation than the conservative model.

When it comes to labour market regulation, the liberal model is intrinsically linked to weak unionisation and weak wage coordination. The labour market is to a large extent allowed to function as a market with a minimum of public regulation.

It is important to note that whereas schemes with limited public responsibility originally arose out of scarcity, modern residualism is a matter of political choice. It is based on the conviction that there should be narrow limits to state responsibilities - in order to enhance personal responsibilities and the role the market. People should provide for themselves, and the state should encourage people to insure themselves, for instance via fiscal incentives.

A transitional stage between the Liberal and the Social Democratic welfare model (described below) is the Beveridgean social liberal model (named after Lord Beveridge who in 1942 issued a report about the future of social security). The core ele-

ment is *basic security* - a system of universal, but rather low flat-rate benefits which prevents poverty but encourages people to make additional arrangements for themselves - for instance private supplementary insurance.

The Social Democratic model took this one step further, either by very high basic security levels (as in Denmark), or - more typically - by adding an earnings-related tier on the top of the basic security protection (as in the other Nordic countries), all based on citizenship and financed through general taxes. The ideal is an encompassing model covering the entire population, enabling everybody to maintain a high standard of living regardless of employment record (de-commodification), and enabling even the middle classes to gain adequate protection by the common public arrangements in order to avoid 'crowding in' of privately financed welfare. High social protection for all individuals regardless of employment record by itself implies de-familialization, but this is taken much further by the actions of the state to expand the public care sector in response to - and with the deliberate aim of facilitating - women's labour force participation. In a Social Democratic welfare regime, dual earner models based on two life-long full-time (or almost full-time) is the standard.

To labour market regulation, this model goes together with relatively centralised - or at least strongly coordinated - wage bargaining. Because of the dual earner model, and the comprehensive coverage by the welfare state, however, the need for employment protection is lower. In actual practice, Social Democratic welfare states differ on the latter point. Unemployment protection is uniformly high, but employment protection legislation is unusually liberal in Denmark whereas Norway, Sweden and Finland have moved towards rather strong employment protection. Danish trade unions were heading in the same direction - supported also by EU regulations - but eventually decided for what came to be labelled 'flexicurity' - a combination of low ('flexible') employment protection, generous social protection for those unemployed, and active labour market policies to bring people back to employment (see below).

### Box 1 The distributional impact of welfare regimes

The liberal welfare regime with benefits targeted to the poor and financed by the rich might appear most redistributive. Basically, this sounds like the Robin Hood principle. However, all experience suggests that this regime is the least redistributive. The basic *economic logic* is simple: The amount of income that is redistributed is much smaller (Rothstein, 1998: 144-50). However, the *political logic* is equally important. Targeting benefits to the poor should make it possible to provide higher levels of welfare for this group. But at the same time, it leaves the poor politically isolated. People with higher economic resources have higher demands, and they have much more political power to defend these demands. Furthermore, people find it easier to identify with people who are like themselves. When there is a clear segregation between those who pay and a minority of people who receive state welfare, the latter become stigmatised and blamed for their own situation. Therefore, as Titmuss (1968) pointed out, 'welfare for the poor' almost inevitably ends up as 'poor welfare'.

Finally, even the small amounts of money for welfare in liberal welfare states like the US is often less targeted to the poor in real life than in theory. For instance, the American pensions system is basically Bismarckian and non-redistributive. Below is shown main indicators of inequality and redistribution for various countries: The Gini coefficient, the P90/P10 ratio, and the proportion of the potentially poor that is lifted above the poverty level by the tax/benefit system. The gini coefficient varies between 0 and 100. It is zero if everybody has exactly the same amount of disposable income (or, more precisely, 'equivalised disposable income', as it is adjusted for household size and economies of scale of large households), and it is 100 if one person has all disposable income. The P90/P10 ratio measures the ratio between the (equivalised) disposable income of the 90th and the 10th percentile: How much do a person close to the top of the income distribution earn, relative to a person close to the bottom? As revealed by the table below, regardless of measure we find a clustering with the Nordic welfare states at one extreme end the Anglo Saxon welfare states at the other, with the Continental European welfare states falling in-between. The main exception is Italy which is sometimes labelled 'sub-protective' because of its under-developed lowest safety net in terms of social assistance (Ferrera, 1997).

The proportion lifted above the poverty line exhibit the same pattern. Without the welfare system, there would be considerable poverty in most countries. *Relative* poverty is typically defined as 50 per cent of the median (equivalised) income (the EU, underlining its social ambitions, often use a 60 per cent limit). Most of this poverty is eliminated by the tax/benefit system in the Nordic countries. The Continental European welfare states are also quite efficient (notably France) whereas the Liberal welfare states are least efficient in alleviating poverty. This holds in particular for the US.

#### Inequality P90/P10 and Gini coefficients (2000 and previously):

|                     | P90/P10 |           | Gini coefficient |           | Relative poverty, mid-1990s, per cent |                                             |
|---------------------|---------|-----------|------------------|-----------|---------------------------------------|---------------------------------------------|
|                     | 2000    | mid-1980s | 2000             | mid-1980s | poverty total                         | lifted above poverty by tax/ benefit system |
| Denmark             | 2.7     | 2.8       | 22.5             | 22.9      | 4.3                                   | 81                                          |
| Sweden              | 2.8     | 2.4       | 24.3             | 19.8      | 5.3                                   | 81                                          |
| Norway              | 2.8     | 2.9       | 26.1             | 23.4      | 6.3                                   | 66                                          |
| Finland             | 3.1     | 2.7       | 26.1             | 20.7      | 6.4                                   | 76                                          |
| Average Nordic      | 2.8     | 2.7       | 24.8             | 21.7      | 5.6                                   | 76                                          |
| Netherlands         | 3.0     | 2.7       | 25.1             | 23.4      | 6.0                                   | 71                                          |
| Belgium             | 3.2     | ....      | 27.2             | ....      | 7.8                                   | 77                                          |
| Austria             | 3.3     | 2.9       | 30.5             | 31.2      | 9.3                                   | ...                                         |
| Germany             | 3.5     | 3.2       | 27.5             | 26.3      | 8.9                                   | 67                                          |
| France              | 3.4     | 3.3       | 27.3             | 27.5      | 7.0                                   | 81                                          |
| Average Continental | 3.3     | 3.1       | 27.5             | 27.1      | 7.8                                   | 74                                          |
| Italy               | 4.6     | 3.9       | 34.7             | 30.6      | 12.9                                  | 52                                          |
| Japan               | 4.9     | 3.9       | 31.4             | 27.7      | 15.3                                  | ...                                         |
| Australia           | 4.1     | 3.9       | 30.5             | 31.2      | 11.2                                  | 68                                          |
| Canada              | 3.8     | 3.8       | 30.1             | 28.7      | 10.3                                  | 54                                          |
| UK                  | 4.2     | 3.6       | 32.6             | 30.1      | 11.4                                  | 61                                          |
| USA                 | 5.4     | 5.5       | 35.7             | 33.8      | 17.1                                  | 37                                          |

Source: Calculated from Förster and d'Ercole (2005) and Förster (2000:151). Data are comparable over time, but not perfectly comparable across countries.

The realisation of these aims depends, it has often been claimed, first and foremost on the political mobilization of the working class and its ability to forge alliances with the middle classes (Korpi, 1983; Esping-Andersen, 1990). Welfare states express 'Politics against markets' (Esping-Andersen, 1985). Some scholars (e.g. Baldwin, 1990) have objected to this 'power resources model', claiming that universalism was rather the effect of a dialectic between working class representatives instinctively wanting to target benefits to the working class, and bourgeois parties who wanted to grant access to these social rights for the middle classes as well - given that these social rights were already there and had to be paid for anyway.

### *Varieties of capitalism*

Whereas neoclassical economics regards large welfare states as economically inefficient and welfare regime theory emphasizes 'politics against markets', varieties of capitalism theory claims that large welfare states, apart from being redistributive, could also have highly beneficial economic impacts. According to the varieties of capitalism theory, highly regulated economies with large welfare states develop competitive advantages of their own which can make for equal or even superior economic performance. The attraction of the varieties of capitalism approach is, first and foremost, that it provides explicit theoretical arguments for this claim which seems more in accordance with real-world observations than e.g. neoclassical economics.

Rather than decommodification, the point of departure for varieties of capitalism theory is companies' interests in using the market as the main instance of coordination, vis-a-vis using other forms of coordination (Hall and Soskice, 2001). These mechanisms tend to be self-reinforcing and create a permanent divide, the authors contend, between *Liberal Market Economies (LME)* and *Coordinated Market Economies (CME)*. The propensity of institutional traits to *cluster* or reinforce each other because they work together well (like in the case with welfare regimes) is called *institutional complementarities* (the opposite situation - 'either / or' - is described as substitutable institutions).

The key variable, according to this theory, is the nature of skills needed in production. Where companies demand specialised skills that are not transferable between branches and perhaps not even between companies, they are highly dependent on workers' willingness to invest in these skills. The willingness among workers to invest in specific skills, in turn, depends on some kind of insurance against the risk of losing jobs. Therefore employers are at least as dependent on such protection as workers – in particular unem-

ployment protection for those who get unemployed, but also employment protection against the risk of unemployment. Where companies demand general skills, by contrast, they are not interested in such protection, but prefer simple market regulation. Even workers do not have sufficiently strong interest in social protection in this instance.

Accordingly, theorists in this tradition have criticized power resources theories of welfare regimes for their notion of ‘politics against markets’. Social protection, according to Iversen (2005: 8), ‘can improve the operation of markets as well as undermine them’. Some researchers claim that historically, employers have been at least as supportive of social protection as workers (Baldwin, 1990; Swenson, 2002).

Explicitly trying to bridge between varieties of capitalism and welfare regime theory, Iversen (2005) underlines the common insurance interests of workers and employers in different types of economies. When wage earners have invested in specialised qualifications specific to a particular company, employers and employees have joint interests in insurance - otherwise both workers and employers would be reluctant to invest in such skills. In short, Iversen argues that the level and composition of human capital is the core determinant of welfare state characteristics: ‘Level ... determines income and hence worker's demand for redistribution ... composition ...determines workers' exposure to risk and hence their demand for insurance’ (Iversen, 2005: 13; see also Estevez-Abe et al., 2001). However, insurance and redistribution are impossible to separate. Redistribution entails insurance, and conversely, insurance inevitably involves redistribution.

Needless to say, protagonists of the power resources theory are critical of this theory. Korpi (2006) claims that historical accounts are flawed and points out that even if the theory of qualifications is accepted, it has a much more narrow range than the entire welfare state, let alone the entire system of political regulation. Besides, the allegation that power resources theory builds on a zero-sum concept of interests is simply wrong, according to Korpi.

Even though most of these arguments are quite convincing, however, they concern only the question of causes which is of secondary interest here. Korpi is far less critical of the arguments about *impact*, and here the Varieties of Capitalism theory has quite a lot to add to the ‘politics against markets’ perspective. Thus, according to the Varieties of Capitalism theory, the institutional differences constitute *comparative institutional advantages* (Hall and Soskice, 2001: 36-44). Liberal Market Economies where skills tend to be general, develop competitive advantages in ‘radical innovation’. Coordinated Market Economies, by contrast, with their strong emphasis on co-specific skills – includ-

ing, not least, a strong emphasis on skilled work (like the German 'Facharbeitertradition'), find themselves being particularly competitive in 'specialised quality production' – in what the Volkswagen car company has sometimes marketized as 'Bessermachen'.

This also explains why Liberal Market Economies and Coordinated Market Economies have reacted very differently to globalization - in fact, over the last 40-50 years, key indicators such as the proportion of GDP spent on government outlays do not reveal any convergence except for countries that are catching up (Table 22.3); in particular, there has been increasing *difference* between US and Europe since the 1960s. Apparently, Liberal Market Economies have found one way of adapting to globalization, Coordinated Market Economies another (Swank, 2002). This argument is quite similar to the arguments put forward about the impact of welfare regimes but expands the range of applicability.

In other respects, however, the range of applicability is narrower. Varieties of Capitalism theory is silent on the question of the relationship between family structure, the state and the labour market. The 'Varieties of Capitalism' approach also differs from the welfare regime approach by operating with only two worlds of capitalism. This is partly because of less emphasis on distribution. The Nordic welfare states, in this perspective, are at least as much Coordinated Market Economies as the Continental European countries, in spite of their universal welfare arrangements which tend to produce somewhat less poverty and more equality.

**Table 3. Total outlays as a percentage of GDP**

| Countries   | OECD Old Series+) |      |      |      | OECD Economic Outlook*) |      |      |      |
|-------------|-------------------|------|------|------|-------------------------|------|------|------|
|             | 1960              | 1968 | 1980 | 1990 | 1990                    | 1995 | 2000 | 2005 |
| Germany     | 32.4              | 39.1 | 48.8 | 45.8 | 44.5                    | 48.3 | 45.1 | 46.8 |
| Austria     | 35.7              | 40.6 | 48.9 | 49.3 | 51.5                    | 56.0 | 51.4 | 49.6 |
| France      | 34.6              | 40.3 | 47.0 | 49.9 | 49.3                    | 54.4 | 51.6 | 54.4 |
| Belgium     | 34.5              | 41.7 | 50.7 | 53.2 | 52.2                    | 51.9 | 49.1 | 50.1 |
| Netherlands | 33.7              | 43.9 | 56.9 | 57.5 | 53.1                    | 49.7 | 43.7 | 45.7 |
| Sweden      | 31.0              | 42.8 | 61.9 | 60.8 | 61.3                    | 67.1 | 56.8 | 56.4 |
| Finland     | 26.6              | 32.8 | 36.4 | 46.8 | 48.3                    | 59.0 | 48.8 | 50.8 |
| Denmark     | 24.8              | 36.3 | 56.9 | 58.6 | 55.9                    | 59.5 | 53.9 | 53.0 |
| Norway      | 29.9              | 37.9 | 50.7 | 51.3 | 54.0                    | 51.5 | 42.7 | 42.9 |
| Italy       | 30.1              | 34.7 | 42.0 | 53.9 | 53.5                    | 52.5 | 46.1 | 48.2 |
| Greece      | 17.4              | 23.5 | 30.5 | 49.6 | 50.2                    | 51.0 | 52.2 | 46.7 |
| Spain       | 13.7              | 21.3 | 33.1 | 43.0 | 42.6                    | 44.2 | 39.0 | 38.2 |
| Portugal    | 17.0              | 20.9 | 39.5 | 40.6 | 40.0                    | 42.8 | 43.1 | 47.8 |
| Czech Rep.  |                   |      |      |      |                         | 53.9 | 42.0 | 43.9 |
| Poland      |                   |      |      |      |                         | 47.7 | 41.0 | 42.8 |
| Switzerland | 17.2              | 20.7 |      | 28.8 | 30.0                    | 34.5 | 33.9 | 36.4 |
| UK          | 32.2              | 39.3 | 45.2 | 42.3 | 42.2                    | 45.0 | 37.5 | 45.1 |
| Ireland     | 28.0              | 35.2 |      | 40.9 | 43.1                    | 41.4 | 31.6 | 34.6 |
| Australia   | 21.2              | 24.1 |      | 37.5 | 35.2                    | 38.2 | 34.8 | 34.9 |
| NZ          |                   |      |      |      | 49.6                    | 43.5 | 40.4 | 40.6 |
| Canada      | 28.6              | 34.2 |      | 49.3 | 48.8                    | 48.5 | 41.1 | 39.3 |
| USA         | 26.8              | 30.3 | 34.1 | 36.2 | 37.1                    | 37.0 | 34.2 | 36.6 |
| Japan       | 17.5              | 19.2 | 33.0 | 31.9 | 31.8                    | 36.5 | 39.2 | 36.9 |

+) Source: OECD Historical Statistics (1999); Andersen and Christensen (1991)

\*) OECD Economic Outlook 79 (June 2006).

### *Flexicurity*

The concept of flexicurity simply refers to the combination of flexibility and security. It is a relatively novel concept and has its origin as much in political discourse as in academic theory (Bredgaard et al., 2001). It was developed as political discourse after the 1995 Dutch labour market reform, as a kind of post hoc rationalisation of what had been decided. In academic theory, it was introduced by Wilthagen (1998) and carried on e.g. by Auer (2000) and Madsen (2002). Having its origin in political discourse, it could be considered simply another ‘buzzword’, but like the concept of ‘social exclusion’ which also originated in political discourse, it has long ago entered a level of elaboration where it deserves serious academic consideration (even if one should be aware of its political underpinnings).

Theories of flexicurity are narrower in scope and less theoretically ambitious than the theories above. In particular, they contain no grand theory of the origin of various arrangements – but they add the observation that welfare and labour market institutions are not always deliberately constructed. For example, until the concept of ‘flexicurity’ was

invented, few experts in Denmark had at all noticed that the country had a particular combination of policies / institutions which could constitute a comparative advantage. Rather, the country was typically considered a 'laggard' in the development from 'numerical' to 'functional' flexibility (Piore and Sabel, 1984; Porter, 1990). At any rate, the development of the Danish flexicurity model was not intentional from the outset.

Theories of flexicurity are strongly about 'politics for markets' but implicitly criticize the Varieties of Capitalism approach by introducing new divisions among the Coordinated Market Economies. The theories have been formulated, however, in both a narrow and a much broader version. The broader version is more compatible with the Varieties of Capitalism approach than the former as it identifies varieties of flexicurity as well (e.g. numerical vs. functional).

The narrow concept of flexicurity refers to a specific combination of (1) liberal employment protection legislation (flexibility), (2) generous employment protection - high compensation levels, long duration (security), and (3) active labour market policies that is aimed at solving matching problems between supply and demand of qualifications. This is sometimes described as a 'golden triangle'. Key countries are Denmark and to some extent the Netherlands (Auer, 2000; Madsen, 2002).

Like newer economic approaches, the narrow notion of flexicurity approach acknowledges the need for flexibility. When employers are free to fire, they are less reluctant to hire. And when workers can rely on solid protection, they are more inclined to change jobs. Besides, they do not lose out much protection in terms of seniority as they can easily be fired anyway.

However, there is also another, much broader conception of flexicurity. Wilthagen et al. (2003) distinguish between four types of flexibility:

- external numerical flexibility (as above)
- internal numerical flexibility (working time, over time etc.)
- functional flexibility (workers move between tasks in the organisation)
- wage flexibility (wage dispersion according to productivity)

They also add different aspects of security:

- job security (as above)
- employment security
- income security (as above)
- combination security (combination of work, family etc.)

According to this conception, there is a 4 x 4 matrix of various flexicurity arrangements, and those countries which appear 'inflexible' on some combinations, may be flexible on others. Whereas Denmark and to a lesser extent the Netherlands tend to substitute job security with employment security and income security, other labour market regimes maintain job security but seek to enhance functional flexibility and/or internal numerical flexibility. As it recognizes the existence of some kind of flexicurity in most European countries and make no a priori assumptions that any model is superior, Wiltthagen's conception of flexicurity is largely in accordance with varieties of capitalism theory.

### *Small state theory*

The compatibility with varieties of capitalism theory also applies to the small-state theory launched by Katzenstein (1985). Basically, it is argued that small states are open economies which are vulnerable to international competition and therefore is in extra need of coordination. Therefore such states tend to develop consensual corporatist structures which serve to stabilize these economies and to enhance competitiveness. Basically the argument resembles those of varieties of capitalism, only it spells out why some countries are particularly inclined to develop that kind of structures.

### *Conclusion*

The important thing about the theories presented in this section is that they all refer to institutional complementarity and multiple equilibria. These clusters of policies or institutions can properly be labelled regimes, as they not only refer to state policies in the narrow sense, but also to a nation's entire political economy - and the institutions of daily life. Varieties of capitalism refers to large clusters of coordinating structures that may be either market-oriented or negotiation-oriented but both of these main varieties have their specific competitive advantages. The categories of welfare regime theory and varieties of capitalism theory largely coincide, apart from the number of categories. However, varieties of capitalism theory largely misses a conceptualisation of the interplay between the welfare state and the family. Small-states simply constitute a subset of coordinated market economies where size is conducive to coordination. Also the broad conception of flexicurity can serve to distinguish between sub-types of coordinated market economies. The narrow conception of flexicurity, on the other hand, partly counters the varieties of capitalism theory by introducing new hybrids that are allegedly better adapted to intensified global competi-

tion. Further, like welfare regime theory, the narrow conception of flexicurity is sceptical about the viability of the conservative/ corporatist welfare regime.

#### *Key points*

- Welfare Regimes refer to particular combinations of the welfare state, the family, and the labour market.
- Varieties of Capitalism refers to different methods of coordination in the economy: Via the market, or via negotiations and regulation. A key variable is the types of skills (general vs. specific) and, accordingly, the need for protection in order to secure willingness to invest in these skills.
- Welfare Regime theory emphasize conflict whereas Varieties of Capitalism is more 'functionalist' and emphasize common interests between employers and workers and beneficial impacts on the economy.
- Flexicurity in the narrow sense refers to a particular hybrid between liberal and coordinated market economies.

## **4. Core issues: tensions between welfare and economic efficiency**

### *Introduction*

As mentioned, a substantial part of the research about the impact of policy – including the theories referred to in the preceding section - is concerned with what can in broad terms be described as the tension between equality and welfare on the one hand and economic growth and employment on the other. What is the impact of public welfare policies (taxation, cash benefit systems and public services) and labour market policies/institutions on various aspects of economic performance? How can such policies be construed in order to minimize distortion effects on markets? Do welfare policies at all contribute to alleviate poverty and increase equality? And if the answers are positive: Are the negative economic side-effects so strong that even those worst off would be better served by less welfare because the entire economic cake in society would be larger, or because they would have better access to employment? Is there still a 'possibility of politics' (Ringen, 2006)?

Below, we survey a few main issues and findings. Our examples are drawn both from economics and political science. There is much overlapping interest, but there are also considerable differences between these disciplines. Traditionally, economics has

been concerned with "what works" whereas political science has focussed on "what happens". Next, economic analyses are typically more characterised by modelling and by somewhat more statistical sophistication, whereas political science analyses are typically more concerned with context (see also the section on methodology below). Further, economic analyses have traditionally followed a variable-by-variable approach and tended to neglect the impact of *regimes*, that is, the impact of particular *combinations* of policies and institutions. However, there is increasing emphasis on regimes in recent economic analyses as well (OECD, 2006: 183-206). For instance, OECD distinguishes between four regimes and concludes that 'extremely different degrees of 'interventionism' ... may lead to very similar employment and unemployment rates. This suggests that there is not a single road for achieving good employment performance.' (OECD, 2006: 192).

In the following sub-sections, we first describe a few findings from the literature that compares welfare regimes or varieties of capitalism. Next, we address the issues of welfare/tax expenditures, equality and economic growth. Finally, we discuss the impact of labour market policies. This is followed by a discussion of methodological issues in the subsequent main section: How should the impact of policies be studied?

#### *Comparing social and economic impact of regimes*

One line of research is preoccupied with comparing the social and economic impact of regimes - welfare regimes, varieties of capitalism etc. In an often quoted study, Goodin et al. (1999) compared the social and economic accomplishments of three welfare states (USA, Germany, and the Netherlands), representing three welfare regimes (liberal, conservative and social democratic, respectively). Although the Netherlands is typically classified as a conservative welfare state, it is after all considered the most 'social democratic' welfare state within this broad family. As far as equality and reduction of poverty is concerned, the authors find significant differences, confirming the predicted rank order with the social democratic regime being the most redistributive and the liberal regime being the least. Moreover, the American welfare state, in spite of being targeted to the poor (in principle, at least), turns out to be extremely inefficient in redistributing income and alleviating poverty (Goodin et al., 1999: 152-86; see also Korpi and Palme, 1998; Kenworthy, 2004: 102-05; see also Box 1 above). This corresponds with OECD studies showing an almost linear association between non-health social spending (towards working-age population) and poverty rate in percentages (Förster and d'Ercole, 2005: 29).

Goodin et al. (1999) also demonstrates that the social democratic regime has the highest score on social integration, stability in life and on securing autonomy in life, whereas the liberal model fails in most of these respects as well. More recent studies also show a decline in social capital (interpersonal trust) in nearly all liberal welfare regimes - and almost nowhere else (Larsen, 2006).

The economic performance of the liberal model is better. In particular, it performs well in terms of labour market integration (see also below). But contrary to predictions by economic theory, Goodin et al. (1999) find little difference in terms of economic growth and prosperity - confirming the classical statement (Marmor et al., 1990: 219) that 'incentives are not behaviours' (see also below).

In their book about European unemployment regimes, Gallie and Paugam (2000a) examine the impact of different welfare policies on the social conditions of those unemployed. They build on roughly the same regime clustering (although with different labels), but they single out the 'sub-protective' Southern European welfare states from the 'ordinary' conservative ('employment-centred') model in Continental Europe (Gallie and Paugam, 2000b: 17). Almost regardless of indicator: poverty, financial hardship, life satisfaction etc., they find the best conditions for the unemployed in social democratic ('universalistic') regimes, followed by the conservative ('employment-centred') regimes. In several respects, however, the long-term unemployed are worse off in the 'sub-protective' regimes than in the liberal ('minimal') ones.

Whereas the findings regarding the social impact of welfare regimes are extremely robust, the conclusions regarding the impact on economic performance are sensitive to the delineation of time periods, data sources, and to methods. This is even more significant when we come to the distinction between Liberal Market Economies (LMEs) and Social Market Economies (SMEs) in the varieties of capitalism literature (Hall and Soskice, 2001). This theory claims that SMEs have competitive advantages of their own which can make for equal or even superior economic performance.

The prediction that SMEs are not economically inferior is largely confirmed in empirical analyses, e.g. in Pontusson's study of 'Social Europe' vs. 'Liberal America'. Comparing averages, Pontusson finds that GDP growth rates have been roughly similar in the 1980s and 1990s; during the 1960s and 1970s, there were even superior growth rates in the SMEs (Pontusson, 2005: 5-7). On average, the two regime types also perform equally well as far as unemployment rates are concerned (Pontusson, 2005: 5, 9). However, at least

in the 1990s, it remains that LMEs have been the most successful when it comes to *employment* rates and *decline* in unemployment (Pontusson, 2005: 71, 81-82).

Again, however, these figures are averages. Some SMEs - notably the Nordic countries and the Netherlands - have managed very well also in this respect. At the same time we may note that in accordance with small-state theory (Katzenstein, 1985), economic performance and in particular employment performance has generally been quite good in small states with open economies, that is, large export and import rates.

Whether or not this is a temporary phenomenon remains to be seen, but Pontusson contends that one has to take the balance of payment into account: In the 1990s most SME's had surpluses on their balance of payment which means that they were under-spending; most of the Liberal Market Economies, on the other hand, were over-spending and had deficits (Pontusson, 2005: 95). This has even continued after 2000 where the Nordic SMEs have caught up on employment.

#### *Tax/welfare system, equality and economic efficiency*

To what extent do taxes and transfers harm economic efficiency, as claimed by Okun (1975) and by innumerable theoretical contributions since then? Theoretically, there are several arguments that welfare spending would also have beneficial effects on economic performance. Possible positive mechanisms are several. Everybody seems to agree welfare expenditures at least have positive effects up to a certain limit, and that some welfare expenditures, for instance in child care, not to mention education, should be seen as important investments in human or social capital. Social security may help avoiding child poverty and the transmission of poverty from one generation to the next. Unemployment insurance may boost 'good jobs' and make workers more willing to take risks etc. Thus Korpi (1985) has protested against Okun's metaphor of a leaking bucket and stated that it should rather be seen as an irrigation system.

At any rate, effects must be assessed empirically. As Atkinson (1999: 8) argues: 'The emphasis by economists on the negative economic effects of the welfare state can be attributed to the theoretical framework adopted in much policy analysis, which remains rooted in a model of perfectly competitive and perfectly clearing markets. In this first-best situation, any real-world tax or transfer necessarily causes a loss of efficiency. Put another way, the theoretical framework incorporates none of the contingencies for which the welfare state exists ... The whole purpose of welfare state provision is missing from the theoretical model.' Below, we address a small sample of empirical studies.

Among the most thorough studies we find Peter Lindert's two-volume book *Growing Public* (2004) that treats the economic impact of welfare state growth over more than a century and the technically more simple book of Pontusson (2005) referred to above. An earlier overview of findings and arguments is provided in Atkinson's (1999) *The Economic Consequences of Rolling Back the Welfare State*. In his book on *Egalitarian Capitalism*, Kenworthy (2004) has addressed the issue of compatibility of equality and indices of economic efficiency. Most studies make regressions (or scatterplots) of the variables. Usually, they include more or less sophisticated controls for third variables, complemented by more thorough accounts of individual countries or groups of countries.

As it emerges from the overview in Table 2, there is a large variation in social expenditures between countries. However, there are many pitfalls in such statistics as some countries pay most benefits as taxable incomes whereas others usually pay net benefits. When these differences are corrected for (OECD Social Expenditure Database 2007; see also Adema, 2000; Adema and Ladaique, 2005), however, the ranking looks somewhat differently (see Table 4).

**Table 4. Net social expenditures as a percentage of GDP (2003)**

| Countries   | Public expenditures | Total Publicly mandated expenditures | Net social expenditure including private |
|-------------|---------------------|--------------------------------------|------------------------------------------|
| Germany     | 27.3                | 29.5                                 | 30.8                                     |
| Austria     | 26.1                | 23.9                                 | 25.0                                     |
| France      | 28.7                | 29.8                                 | 32.2                                     |
| Belgium     | 26.5                | 26.0                                 | 29.5                                     |
| Netherlands | 20.7                | 20.6                                 | 26.0                                     |
|             |                     |                                      |                                          |
| Sweden      | 31.3                | 29.2                                 | 30.9                                     |
| Finland     | 22.5                | 22.7                                 | 23.6                                     |
| Denmark     | 27.6                | 23.8                                 | 25.2                                     |
| Norway      | 25.1                | 23.8                                 | 24.4                                     |
| Iceland     | 18.7                | 23.2                                 | 23.2                                     |
|             |                     |                                      |                                          |
| Italy       | 24.2                | 25.3                                 | 25.6                                     |
| Greece      | 21.3                | -                                    | -                                        |
| Spain       | 20.3                | 19.6                                 | 19.7                                     |
| Portugal    | 23.5                | 23.2                                 | 24.3                                     |
|             |                     |                                      |                                          |
| Czech Rep.  | 21.1                | 21.5                                 | 21.6                                     |
| Poland      | 22.9                | -                                    | -                                        |
|             |                     |                                      |                                          |
| Switzerland | 20.5                | -                                    | -                                        |
| UK          | 20.1                | 22.8                                 | 28.2                                     |
| Ireland     | 15.9                | 15.6                                 | 16.0                                     |
| Australia   | 17.9                | 20.6                                 | 23.4                                     |
| NZ          | 18.0                | 17.2                                 | 17.7                                     |
| Canada      | 17.3                | 19.5                                 | 24.0                                     |
| USA         | 16.2                | 18.9                                 | 27.0                                     |
| Japan       | 17.7                | 19.7                                 | 22.2                                     |
| Turkey      | 13.2                | -                                    | -                                        |

Source: OECD Social expenditure database (feb. 2007)

Further, if we include private welfare expenditures, the order changes almost completely. In particular, USA moves from the low-spending countries to the high-spending countries. The difference is that welfare in the European welfare states is mainly publicly financed, by taxes that are strongly dependent on income. In private insurance, people pay the same amount per head (or even according to risk). Taxes, by contrast, are much higher on high incomes than on low incomes. This holds not only for proportional or progressive income taxes, but even for the most regressive ones as taxes on consumption.

Still, by avoiding high taxes and economic disincentives, countries with high private welfare expenditures instead of public expenditures should theoretically be more efficient. However, decade by decade no significant correlations are found between social

expenditures on the one hand and level or growth of GDP on the other (see Table 22.5). Even though such bivariate correlations are helpful as first indications, they are of course insufficient as there may be numerous control problems.<sup>6</sup> However, summarizing empirical tests, Atkinson (1999: 32-33) and Lindert (2004b: 86-88) demonstrate that most studies have found no significant associations even in multivariate tests. In his own, more sophisticated test, including only genuinely *social* expenditures (which amounts to a somewhat stronger test), Lindert (2004b: 172-93) found no significant associations either.

**Table 5. Correlations between social expenditures as proportion of GDP and economic performance**

| Periods        | Correlation between social expenditures and... |                             |
|----------------|------------------------------------------------|-----------------------------|
|                | (a) Growth of GDP per capita                   | (b) Level of GDP per capita |
| 1880s          | 0.10                                           | -0.18                       |
| 1890s          | 0.34                                           | -0.05                       |
| 1900s          | -0.23                                          | 0.09                        |
| 1910s          | 0.12                                           | 0.31                        |
| 1920s          | -0.24                                          | 0.49                        |
| 1960s          | -0.17                                          | -0.07                       |
| 1970s          | 0.14                                           | 0.00                        |
| 1980s          | -0.07                                          | 0.12                        |
| 1990s          | 0.01                                           | 0.12                        |
| Simple average | 0.00                                           | 0-09                        |

Social expenditures (1980-1930: Welfare, employment, pensions, health and housing subsidies) as per cent of GDP, initial year in decade.

Source: Lindert (2004a: 17)

Lindert's analysis only covers the period until 2000, and one may ask whether his findings are not contradicted by more recent evidence indicating that not least after 2000, the American economy has been performing much better than the European ones. From 1992-2005, growth rates in the US moved significantly ahead of EU-15 (3.2 per cent as compared to 2.1 per cent). However, when discounted for population growth, the difference in per capita growth is much smaller: 2.1 per cent as compared to 1.7 per cent (Table 22.1). Moreover, as pointed out by Pontusson (2005), the US has generally been over-consuming (as indicated by a large balance of payment deficit) in this period. Further, Pontusson (2005) adds that high productivity increases in the US, relative to Europe, should be discounted by the long working hours in the US; by contrast, Europeans have enjoyed a significant shortening of weekly hours as well as longer holidays. As can be seen from Table 22.1 above, measuring GDP per working hour also gives a more optimistic picture of economic growth after 1973 more generally.<sup>6</sup> In short, there are few signs in these data that

emerging new pressures like globalization forces welfare states to adjust. This is also confirmed by a number of comparative studies which do not reveal any irresistible pressures towards a 'race to the bottom' in tax competition (e.g. Garrett and Mitchell, 2001; Swank and Steinmo, 2002).

Why is the bumblebee flying? In addition to the arguments about the beneficial economic impacts of welfare above (see also Andersen, 2007), Lindert (2004a: 234-49) points out that high-spending countries like the Scandinavian are quite careful about tax disincentives - for instance, they have light taxation of capital accumulation and high consumption taxes. Taxes on labour are high, but even here, the countries tend to be careful about marginals.

In line with these findings, Kenworthy (2004) demonstrates that there is no obvious tension between equality and economic performance. Adjusting for catch-up effects, Kenworthy (2004: 50) actually finds the highest growth rate 1980-2000 in countries with low inequality. The same association is found in comparisons between American states (2004: 56). The associations are weak, but they run counter to theoretical predictions.

As to the association between equality and employment, or employment growth, findings are more ambiguous. Many studies indicate a negative association between equality and private sector service job growth, sometimes also between the difference between pre- and posttax income and total job growth (Kenworthy, 2004: 90). Indeed, one of the major concerns in a period of globalization and de-industrialization is the potential surplus of unskilled labour (Esping-Andersen et al, 2002). However, surprisingly few studies consider the possibility that the number of unskilled workers may be lowered at an even faster speed than the number of jobs. In Denmark, about 20 per cent of all unskilled jobs disappeared from the early 1990s to the early 2000s. But the number of unskilled workers, due to generational replacement of lower-educated generations by higher-educated ones, dropped at an even faster speed (Andersen, 2006).

#### *Impact of Labour Market Policies and Institutions*

This brings us to the impact of labour market policies. As mentioned in the introduction, re-interpretation of unemployment has been one of the core issues of the paradigmatic change in policies from Keynesian demand-side policies to what has been called supply-side economics. It should be added, though, that many economists underline that their in-

terest in disincentives and distortions does not necessarily imply that Keynesian insights are scrapped. It can be an add-on policy rather than a replacement (Nickell et al., 2004).

Regardless, in many countries, in accordance with the *OECD Jobs Study* (1994), focus in economic policies and employment policies was shifted to the issue of structural unemployment. In economic terms, structural unemployment is defined as the Non-Accelerating Inflation (or Wage) Rate of Unemployment (NAIRU, or NAWRU), that is, the lowest level of unemployment compatible with stable price or wage increases (Eleskov & MacFarland, 1993). The level of structural (or 'natural') unemployment will always be well above zero due to so-called 'frictional unemployment', that is, the fact that people switch between jobs. Workers are involuntarily dismissed and cannot always find a new job immediately. Indeed, in a flexible labour market the absolute minimum level of structural unemployment is bound to be slightly higher than in an inflexible labour market due to a larger job exchange.

However, in most countries, structural unemployment is assumed to be far above that minimum level. In the mid-1990s it was typically estimated that structural unemployment was close to the actual level of unemployment in most countries (OECD, 1997), indicating that only structural reforms could bring about any significant improvement (see Table 6).

Theoretically, there may be several causes of structural unemployment:

- High minimum wages which means that low-productive labourers will not be hired; instead, employers will compete for the labour power of those already employed by bidding up wages.
- Insufficient incentives: too generous levels, and too long duration of unemployment benefits, social assistance, etc. This also serves to keep minimum wages high as unemployed usually have a 'reservation wage' well above unemployment benefits - reservation wage meaning the lowest wage that they are willing to work for. Otherwise they will prefer not to work.
- Employment protection legislation preventing employers to hire when they cannot fire, and enabling the core labour force to demand high wage increases without meeting competition from those unemployed who would be willing to work for less (the so-called 'insider-outsider' problem, see Lindbeck and Snower, 1988).
- Insufficient mobility between geographical areas, or across trade borders creating

bottlenecks and paradoxical co-existence of unemployment and demand for labour power. Stronger incentives can help solve such matching problems.

The recommendations in the 1990s from OECD and others generally focussed on more 'flexibility': More 'wage flexibility' (lower minimum wages, lower 'reservation wages', more wage dispersion), more 'flexible' employment protection legislation (i.e., less protection), more mobility across geographical regions, trades and occupations, and stronger work incentives and/or sanctions to make workers more flexible. Empirical research in the determinants of employment and unemployment has come up with somewhat more nuanced answers, however.

In the first place, it could be questioned whether the estimations of structural unemployment tend to be misleading. As can be seen from Table 6, some countries have experienced significant and rapid decline in unemployment levels. Of course, this could be attributed to structural reforms - and this may indeed be part of the explanation. But it also seems that the estimations that are in fact extrapolating from historical associations between unemployment and wage increases may exaggerate the risks of inflation and thus the level of structural unemployment.

**Table 6. Calculated structural unemployment in 1996 and subsequent development of unemployment (1996–2002)**

|                                                                     | Country     | NAWRU estimate 1996 | actual (standardised) unemployment rate |      |      | Inflation 2003 > 3 % |
|---------------------------------------------------------------------|-------------|---------------------|-----------------------------------------|------|------|----------------------|
|                                                                     |             |                     | 1996                                    | 1998 | 2002 |                      |
|                                                                     | USA         | 5.6                 | 5.4                                     | 4.5  | 5.8  |                      |
|                                                                     | EU-15       | ...                 | 10.1                                    | 9.3  | 7.6  |                      |
| UNEMPLOYMENT ALWAYS BELOW USA                                       | Norway      | 5.1                 | 4.8                                     | 3.2  | 3.9  |                      |
|                                                                     | Switzerland | 3.1                 | 3.9                                     | 3.6  | 3.2  |                      |
|                                                                     | Austria     | 5.4                 | 4.4                                     | 4.5  | 4.2  |                      |
| USA                                                                 | USA         | 5.6                 | 5.4                                     | 4.5  | 5.8  |                      |
| UNEMPLOYMENT BELOW USA BY 2002                                      | Netherlands | 6.3                 | 6.0                                     | 3.8  | 2.8  | +                    |
|                                                                     | Denmark     | 9.0                 | 6.3                                     | 4.9  | 4.6  |                      |
|                                                                     | Portugal    | 5.8                 | 7.3                                     | 5.2  | 5.0  | +                    |
|                                                                     | UK          | 7.0                 | 8.0                                     | 6.2  | 5.1  |                      |
|                                                                     | Ireland     | 12.8                | 11.7                                    | 7.5  | 4.3  | +                    |
|                                                                     | Sweden      | 6.7                 | 9.6                                     | 8.2  | 4.9  |                      |
| 'UNNATURAL DECLINE' IN UNEMPLOYMENT                                 | Belgium     | 10.6                | 9.5                                     | 9.3  | 7.3  |                      |
|                                                                     | Finland     | 15.4                | 14.6                                    | 11.4 | 9.1  |                      |
|                                                                     | Spain       | 20.9                | 18.1                                    | 15.2 | 11.3 |                      |
| CONFORM TO EXPECTATIONS OF USA SUPERIORITY IN FIGHTING UNEMPLOYMENT | Belgium     | 10.6                | 9.5                                     | 9.3  | 7.3  |                      |
|                                                                     | Germany     | 9.6                 | 8.6                                     | 8.8  | 8.1  |                      |
|                                                                     | France      | 9.7                 | 12.4                                    | 11.8 | 8.2  |                      |
|                                                                     | Italy       | 10.6                | 11.2                                    | 11.3 | 8.6  |                      |
|                                                                     | Greece      | 8.0                 | 9.7                                     | 11.1 | 10.3 | +                    |
| Trend in structural unempl. 1996 (N)                                |             |                     |                                         |      |      |                      |
| increasing                                                          |             | 10                  |                                         |      |      |                      |
| stable                                                              |             | 3                   |                                         |      |      |                      |
| declining                                                           |             | 3                   |                                         |      |      |                      |

NAWRU estimates refer to national unemployment rates which are normally slightly higher than standardised unemployment rates.

Source: OECD (1997) Implementing the OECD Jobs Strategy p.11 and OECD (2004) Employment Outlook.

Next, systematic studies of the impact of labour market and social policies give somewhat mixed results. As far as policy impact on unemployment is concerned, studies have focused on the following effects, among others (Nickell and Layard, 1999; Nickell et al., 2004; OECD, 2006):

1. *Unemployment protection* — There is consensus from most comparative studies that *duration* of unemployment benefits tends to have adverse effects; in particular, it tends to increase duration of unemployment spells and the proportion of long-term unemployed - even though the Scandinavian countries are outliers (OECD, 2006: 61) . As regards the effects of replacement rates, evidence is more mixed but overwhelmingly confirms the conventional wisdom (Nickell, 1997; Blanchard and Katz, 1996; Holmlund 1998; Nickell

and Layard, 1999; Nickell et al., 2004; OECD, 2006: 61). However, it is also underlined in OECD (2006: 190-91) that some countries have achieved low unemployment in spite of generous benefits, in particular if it is combined with a strict works test. Lindert (2004b: 119) adds that high replacement rates may harm employment, but tend to boost productivity, so that economic growth impact is small.

2. *Minimum wages* — This was a main concern in the OECD Jobs Study (1994); however, no studies indicate that high minimum wages are associated with higher unemployment rates (Holmlund, 1998; Galbraith et al., 1999), and more recently, OECD (2006: 88) has de-emphasised this factor, except for target groups, e.g. young workers and immigrants. Besides, there is increasing awareness of dangers of entrapment in low paid work (OECD, 2006: 174-79).

3. *Employment protection* — In actual practice, employment protection does not, on average, seem to have any impact on the *level* of unemployment (OECD, 2006: 95-96), but it has a strong impact on *structure* of unemployment. Long-term unemployment is most widespread in countries with strict employment protection (Bertola et al., 1999; Nickell and Layard, 1999; Esping-Andersen, 2000). This does not falsify theories of flexicurity, but it does mean that these systems should be analysed in relation to specific national contexts.

4. *Taxation* — There is some evidence that, in particular, targeted reductions in taxes may have effects on unemployment - and perhaps even more on employment; but this remains a contested issue (Jackman, Layard and Nickell, 1996; Blanchard and Katz, 1996: 67; Disney, 2000; Daveri and Tabellini, 2000). The OECD (2006: 95) was reluctant to give any strong advice on this issue, including the balance between social contributions and income taxes. However, it is underlined that negative effects of taxes may depend on corporatism and the feeling of responsibility among union leaders.

5. *Activation* — Activation was pointed out by OECD (1994) as a good second-best solution. However, both micro- and macro level evaluations of the impact of activation have been rather disappointing (Martin, 2000; OECD, 2006: 68). It is far from being a panacea as was believed in the mid-1990s. In particular, effects often seem small in relation to costs. However, some activation measures work in some contexts, and countries that put

emphasis on activation generally do tend to perform better, even if micro-level measures fail to document significant effects.

6. *Corporatism* — Probably the most robust finding in the literature is that corporatism and wage coordination has beneficial impacts on unemployment. OECD (1994) used to be sceptical about corporatism because it tended to lead to ‘compressed wage structures’ with high minimum wages. But facing quite unambiguous empirical evidence, OECD (2006: 82) has modified its view. Some studies indicate that *unionization as such* has a negative impact on employment (OECD, 2006). It is the *coverage and centralization* of bargaining that counts, probably because it inflicts a sense of responsibility for the economy on union leaders. This leads to wage moderation, in particular in periods with high demand for labour power. It is also important to underline that unionization is not straightforwardly related to collective bargaining coverage. In most Continental European countries, collective bargaining results among the minority of organized workers are extended to most of the labour market by so-called *erga omnes* arrangements. Often collective bargaining coverage is around 80-90 per cent, even if unionization is only 30, 20 or even 10 per cent.

It is a quite stable finding that the relationship is U-shaped or ‘hump-shaped’ (OECD 2006: 84-85; Calmfors and Driffill, 1988; Scarpetta, 1996; Elmeskov et al., 1998; see also Hemerijk and Schludi, 2000; Nickell and Layard, 1999; Scharpf, 2000). Both completely unorganised (market-determined) and centralised bargaining has beneficial impact whereas bargaining at the company or sectoral level is detrimental. The ability of trade unions to moderate wage demands even has a positive effect on the level of structural unemployment. This is basically in accordance with the varieties of capitalism predictions.

The preferred type of analysis in this type of research is analyses of aggregate data on country variations, time series - and increasingly on both (pooled cross-section and time series data). But one can also choose a very different point of departure in micro-level survey-based studies. This is what we find in search theory which examines the impact of various types of incentives (possibly including non-economic incentives) on job search and transition to job. As such studies are most often conducted within individual countries, it may be impossible to find any direct policy variations, at least in cross-section studies. However, even if the unemployment benefit system has to be treated as a constant, there may still be individual variations in compensation rates. Such studies serve to bring out some of the micro-level mechanisms that mediates macro-level associations, and they also

presents an additional way of testing hypotheses (Clement and Andersen, 2007). Furthermore, there are examples of cross-national studies that may bring out the effects of macro-level policy variations. This brings us to the issue of methodology.

### *Key points*

- Generous welfare policies do have a very strong impact on the level of poverty.
- Universal or social democratic welfare regimes have lower poverty rates and more equality, whereas the opposite is typically found in liberal regimes.
- There are few indications that generous welfare policies have adverse effects on economic growth.
- Incentive effects of social protection on unemployment are generally quite uncertain, but unemployment duration does seem to have negative effects, and on average, this holds also for compensation levels.
- Centralised and coordinated wage bargaining has a strong positive impact on employment.
- There is not one single equilibrium but different combinations of policies that may have the same impact.

## **5. Methodological issues**

As indicated above, quite a large part of the literature is oriented towards econometric (macro-sociological) analyses of those 15-20 Western countries from which data are available: How are quantifiable measures of bargaining structures, labour market regulation, public expenditures and welfare systematically related to employment and economic performance indicators? There are a few robust findings: For instance, corporatism and wage bargaining coordination does seem to have positive effects on levels of employment and unemployment, duration of unemployment benefits seems to have adverse effects, job protection affects the structure, but hardly the levels of unemployment, etc. But more typically, we find zero effects or effects that differ much from one study to another, depending on the delineation of period, selection of countries, selection of control variables, selection of model etc.

To quote Esping-Andersen (2000: 84), ‘the absence of solid empirical findings as regards both the impact of social policies, wage costs, and wage structure, may simply be due to the fact that social reality is too complex to model’. Thus, this type of analyses has been criticized as a ‘crazy methodology’ (Kittel, 2006), for substituting advanced econometric analyses for theoretical understanding of what is going on, and sometimes also for lack of methodological sophistication (bivariate correlations and regressions where there may be a large number of unresolved control problems).

Now, there is nothing wrong with examining policy impacts across countries, regardless of context, and studies are characterized by increasing methodological sophistication (such as control for initial levels and thereby for catching up-effects, introduction of country dummies, the uses of pooled time series cross-sectional analyses expanding the number of cases by including more years etc.). But if policies develop through a long-term selection process in each country, partly based on learning (occasionally mis-learning) about policy impact resulting from the interaction between policies and the national context, it is questionable how far such basically context-stripped econometric analyses could take us.

However, there are also a large number of methodological alternatives or supplements. Below a few are mentioned:

1. *Within country variations* — Based on roughly the same methodology, one may study differences within countries, e.g. at the state level in federal states, or between regions (e.g. Lindert, 2004a: 18). This often provides a larger number of cases, and it automatically means the inclusion of a very large number of control variables by holding the national context constant. The limitation is that the results may be difficult to generalize from one national context to another - or that there is no variation in the independent variable as it is fixed because policies are decided at the federal/national level. This is normally the case for labour market policies whereas taxes and public expenditures is subject to more variation.

2. *Natural experiments* — Another opportunity is sometimes provided by sudden and significant policy change. This also serves to keep other factors constant - except the economic situation. For instance, the effect of compensation levels in the unemployment benefit system may be more convincingly indicated if a country adapts a dramatic reduction like in Sweden where maximum unemployment benefits were reduced from 90 to 75 (later 80) per cent of previous wage (Carling et al., 2001).

3. *Controlled experiments* — Unlike natural sciences, social sciences are usually not able to conduct experiments. Social scientists are not allowed to make experiments with society! Still, experiments do occur, for instance, to measure the impact of labour market policies at the micro level, a few experiments have been conducted from time to time (Lindert, 2004a: 231; Michalopoulos et al., 2002).

4. *Micro-level survey or register-based analyses.*—This brings us to the typical micro-level analyses: Survey- or register-based analyses. Many, if not most, of the hypotheses in the field are based on underlying assumptions about individual-level behaviour, in particular of the impact of incentives on economic agents. Rather than inferring these from cross-national aggregates, it is often a more straightforward and superior strategy to examine such effects directly at the individual level. For instance, how do job search behaviour of those unemployed vary with economic incentives? how does labour supply vary with marginal taxes among individual workers? etc.

Even though they eliminate many of the problems of interpretation encountered in aggregate level studies, micro-level studies have problems of their own. In the first place, micro-level studies also have control problems. If we seek to infer effects of taxes on labour supply from variations between individuals with different marginal tax rates, it will always be difficult to control for *all* other differences between these groups - even if we know about education etc. Secondly, in such studies, we may encounter a lack of variation on policy-determined variables. For instance, in a country with generous unemployment benefits, we do find variations compensation rates, but we do not find anybody with very low benefits to indicate what could be the effect of a significant cut in benefit levels.

In principle, there are solutions to such problems: The problem with lack of variation may be solved by cross-national surveys. And some control problems may be solved by panel data. But in practical research there are many obstacles - not least the fact that cross-national surveys are very expensive. However, there are even more methods:

5. *Simulations* — Another widespread method to measure the impact of past and current policies - or the impact of suggested future policies - is simulations: Based on certain assumptions, and an economic model, we may try to estimate the impact of certain policies on specified economic measures. This is what any governments and their experts do as part of their everyday routines, and academic economists frequently do the same. Needless to

say, such calculations are based on a series of assumptions, but they are indispensable parts of measuring policy impact.

In economics, also microsimulations based on knowledge about household behaviour are widely used to estimate the economic impact of welfare policies (e.g. Gupta and Kapur, eds., 2000; Immervoll et al., 2007). Welfare researchers have mainly been concerned with assessing the social impact of policies. For instance, data bases on compensation levels for a typical worker ("Average Production Worker") is a standard tool in such analyses (Allan and Scruggs, 2006; Scruggs and Allan, 2006). Such analyses may sometimes reveal that people receiving welfare benefits have been subject to considerable decline in compensation rates even though aggregate social spending has continued to increase (Korpi and Palme, 2003).

6. *Case studies/comparative case studies* — Last, but not the least, a widely used method in assessing the impact of policies is case studies with one, two or a few countries (e.g. Visser and Hemerijck, 1997; Campbell and Hall, 2006). Even single nation studies conducted within this perspective may be considered comparative. By ‘comparative’ we mean not only systematic cross-national studies, but also longitudinal studies and more detailed single nation studies trying to identify the *causal mechanisms* and aiming at conclusions at a level of generalisation that is reaching beyond one particular political system.

It is also important to note that the same policies may have different impact in different contexts, that is, impact may be context-contingent. Conversely, different policies may sometimes have the same impact. In that case, we may speak of *functionally equivalent* policies. Contexts include e.g. economic political, institutional and cultural context. Context-stripped analyses are often very difficult indeed when it comes to assessing the impact of policies.

Case studies may be inferior when it comes to systematic, critical tests of hypotheses. But they are rich in information about context, processes and mechanisms. In short, they make it possible to explore more in depth how policies work. Often, such in-depth country studies are also used in conjunction with more systematic analyses. For instance, Kenworthy (2004: 125-45) and Lindert (2004a: 264-95) include case studies of Sweden in order to demonstrate that the country's economic crisis of the 1990s was more a matter of macroeconomic policy failure than an effect of the Swedish welfare policies. Such (within-)case studies remain essential in measuring policy impact even in a compara-

tive perspective because reality is too complex to model, because N's are too small, and/or because entities are entirely dissimilar (Ebbinghaus, 2005) - for instance, in many cross-country analyses, small states enter with the same weight as, say, the US. If the Nordic Union had not been dissolved in the 1520s, quite a few findings from many 15- or 18-OECD country studies would have been rather different.

### *Key points*

- Beyond correlation and regression analyses of OECD countries, there are a rich variety of methods by which the impact of policies can be tested.
- Macro level analyses of OECD countries suffer from the problem of small N's. Corresponding findings from micro-level studies may validate otherwise uncertain findings
- Micro-level analyses as well as case studies may provide deep insights into the *mechanisms* that link policies and impacts. But in micro-level analyses, there may be too little variation on policy-determined independent variables.
- Case studies are indispensable to include knowledge about context and contingency / interaction - but sometimes at the cost of generalizations, unless case studies are carefully designed.

## **6. Policy feedback and path dependence**

Until now, we have only looked at policy feedback on welfare or on economic measures. However, policies also have impacts on future politics and policy. This is also labelled *policy feedback* (Pierson, 1994: 39-50). During the last couple of decades, there has been an immense increase in political science interest in comparative studies of the dynamic impact of policy and policy change. This section elucidates how policy change affects politics, how *policy learning* takes place, and how feedback mechanisms may often mean that policy changes follow a particular course determined by pre-existing policy programmes. This is what has become known as *path dependence*. Finally, policies are *diffused* and *transferred* from one country to another, or from one policy field to another.

### *Policy feedback on politics*

The most obvious feedback effect of policies is the impact on the constellation of interests in society and thereby on future inputs to the political process. This may happen in several ways:

- policies generate "vested interests" in maintaining particular programmes;
- policies create entirely new interest groups;
- policies change distribution of power resources between interest groups;
- policies create divisions of interests as well as unity of interests;
- policies open or close access opportunities to influence future policies and shape actors' perceptions of interests.

These effects may be intentional or unintentional. All welfare programmes generate interest groups, many of which become organized. Perhaps the best example of unintentional generation of vested interests is found in early retirement policies in Europe in the 1980s. At that time, it became a popular strategy to combat unemployment, in particular youth unemployment, by means of various programmes giving older workers an incentive to retire before pension age. Very soon, however, most such arrangements came to be seen as vested interests, so that it could involve substantial political costs to change them. This is one of the main reasons why policy change is often nearly irreversible (Pierson, 1994).

Sometimes policy change involves the creation of entirely new interests which may contribute to new dynamics. A case in point is outsourcing of public services to private providers. Almost instantly, such policies create a new interest group of private service providers which will lobby for further increase in outsourcing. If these service providers manage to capture a substantial proportion of the market, there may also be a division in interest between privately and publicly employed service workers in such services.

Power distribution between interest groups is also strongly related to policy. For instance, trade unions have remained extremely strong in countries with voluntary state-subsidized unemployment insurance organized by trade unions (the so-called "Ghent system"). Another key example is universal vs. targeted welfare arrangements. Most likely, targeting would not in the short run leave those who are most in need worse off than before. It could even be legitimised by intention to improve conditions for those 'really' in need. But in the long run, those 'really in need' often find themselves worse off. In the first

place, if welfare arrangements are universal, their numerical basis of support is broader. Further, they may enjoy larger legitimacy as more people find it easy to identify with those receiving benefits when this group includes people like themselves. But perhaps most importantly, as noticed by Titmuss (1974), if the middle classes are enrolled in a programme, they will they not only make larger demands but also have more resources to have such demands heard.

### *Policy learning, social learning*

Another important instance of policy feedback is ‘policy learning’ or ‘social learning’. The notion of learning is based on Hugh Hecló's classical remark that ‘Governments not only ‘power’ ... they also puzzle’ (1974: 305). They try to find out how policies work and which policies can produce the intended effects. Sometimes the terms ‘policy learning’ and ‘social learning’ are used interchangeably, as describing ‘the process by which civil servants, policy experts, and elected officials evaluate the performance of previously enacted policies’ (Béland, 2006: 361).

The broad definition above includes learning that is relatively ‘detached and technocratic in nature’ (Béland, 2006: 361) and is aimed at more narrow adjustments of policies after evaluation of their impact. However, comparative research has been more concerned with broader changes in ideas and perceptions of entire policy networks (Sabatier, 1988), with change of the basic ideas and paradigms that define problems and possible solutions (Hall, 1993), or with development of ‘epistemic communities’ of people sharing the same general framework of ideas (Haas, 1992). Bennett and Howlett (1992) distinguished between ‘government learning’, ‘lesson drawing’ and ‘social learning’ on the basis of a classification of who learns what. They reserve the label ‘social learning’ for paradigm shift in an entire policy community.

At any rate, paradigm shift is particularly interesting from a comparative politics perspective. The concept which is borrowed from Kuhn's (1962) famous work on ‘The structure of scientific revolutions’ includes several aspects. A policy paradigm is an all-inclusive interpretation of the world including not only goals but also:

- problem definitions;
- interpretation of causal mechanisms;
- possible solutions;

- a framework for interpretation of evidence;
- exclusion of alternative world-views.

A shift in paradigm may have several sources. Generalizing from the Reagan/Thatcher experience, Pierson (1994: 49) suggests that learning is less important in this instance. Still, a standard source is some sort of crisis for the old paradigm which includes its particular set of problem definitions and possible solutions, i.e. policy instruments. When these instruments successively fail, the old paradigm comes into crisis. For instance, in Denmark, any thinkable Keynesian policy instrument was adopted between 1975 and 1986 to combat unemployment (Andersen, 2002). When all these instruments had failed, this paved the way for a paradigm change which redefined unemployment not as a matter of insufficient demand for labour power or excessive supply, but as a matter of ‘structural’ problems such as too high minimum wages in relation to qualifications, too low mobility, too weak incentives to work etc.

This interpretation gave meaning to unexpected phenomena such as apparent wage inflation already at a high level of unemployment. The new paradigm explained this as evidence that the ‘structural’ level of unemployment had been reached. Curiously, this paradigm shift was accepted by all major political actors in a very short time, partly because it included a variety of policy options, some of which were highly acceptable also to Social Democrats, not least ‘Active’ Labour Market Policy with its emphasis on enhancing qualifications and facilitating mobility for those unemployed.

In the Danish case, the paradigm shift happened as a ‘silent revolution’ since all major actors saw an interest in accepting the new problem definition (Andersen, 2002). In the British case, the change in paradigm was more radical than in Denmark, and the solutions that followed were not compatible with the interests of Labour (Hall, 1993).

It is important to underline that such policy learning is not always rational. As pointed out by Weyland (2005) and Béland (2006), the search for alternative paradigms is often steered by a ‘logic of availability’ where political actors make cognitive shortcuts because they *need* new ideas, that can give meaning to anomalies, ‘reduce uncertainty [and] propose a particular solution to a moment of crisis’ (Blyth, 2002: 11).

Once accepted, the new policy paradigm also installs its own standards of evaluating policy impact. This is by no means just an ‘objective’ assessment. The crucial premises are seldom questioned. If the expected results appear, nobody asks whether they may have been caused by other factors. And even if a certain policy *doesn't* work, this

rarely leads to a questioning of the underlying causal assumptions, but rather towards focus on implementation problems, of problems of giving the medicine in the sufficient doses, etc. In short, a paradigm carries its own learning and mis-learning from observed policy impacts (Larsen, 2002).

### *Path dependence*

Policy learning in relation to paradigm shift is one among several mechanisms that tend to make policies path dependent. Path dependence in the broadest sense means that policies at one point of time tends to impact on, or indeed determine, policies at a later point of time because of high switching costs. This also implies that initial policy choices are often very crucial as they determine or at least constrain later policy choices (Powell, 1991, 192-93). Thus, it is no accident that current variations in European welfare systems to a large extent reflect initial differences in choices that were made more than 100 years ago.

Actually, the theory of path dependence is borrowed from institutional economics where it was developed with the aim of explaining, e.g. why inferior technologies survived in the competition with more superior ones. For instance, if a certain technology, say, a particular software steering system, obtains a dominant position in the market, compatibility with this software by itself becomes a survival criterion for other products, and this in turn becomes an argument for adhering to this software. Or take the instance of a computer keyboard where the position of letters is determined by their previous position on the typewriter. Allegedly, however, the position of the letters on the typewriter was not designed with the aim of enabling typists to write as quickly as possible; on the contrary, it was deliberately developed with the aim of slowing down the speed of writing because a mechanical typewriter cannot function beyond a certain speed: the types will simply jam (Pierson, 1994: 43). Thus, it is in a sense completely irrational not to change the position of letters on the computer keyboard as this could almost double the speed of writing. But once everybody has learned this system, the switching costs are too high.

In politics, there are also switching costs. Quite a few of these costs may be mainly practical/administrative, but the most important switching costs are of course political ones: Switching policies usually involves losses and gains. For instance, incumbent governments will almost certainly be punished by many of those voters who suffer significant losses whereas they are far less likely to be rewarded by those who experience gains.

Now, there are three or four main lines of interpretations of path dependence in comparative social research. The first one emphasises 'lock in'-effects and the 'sticki-

ness' of policies - not least welfare policies - analogous with the example of the keyboard: Policies rarely change except in extraordinary situations where external pressures and/or political conjunctures enable path-breaking reforms. In particular, vested interests tend to block major reforms.

The second line of interpretation is very broad and simply suggests that decisions at one point of time tends to impact strongly on decisions at a later point of time. This is why comparative policy analysis should be extremely sensitive to history. However, this notion of path dependence has been criticised for being too indiscriminate and too vague; certainly, it does not run any risk of falsification.

More in line with economic institutionalism, Pierson (2000) has suggested that path dependence is in fact a highly dynamic concept that is based on a model of 'positive feedback' which is basically analogous to the example of competing technologies above. What we should do, is to look systematically for those *mechanisms* which produce path dependence, that is, positive feedback where each new policy step reinforces the current path.

Essentially, Pierson has tried to develop path dependence into a *theory*. Still others acknowledge the importance to identify mechanisms but adhere more to the notion of path dependence as a *perspective* which draws attention to such mechanisms whereby previous policies determine later policy choices. Probably this is the most realistic approach. As such, it can provide very powerful explanations. To take a classic example, universal flat-rate pensions have one great disadvantage, namely that they do not cover the pension needs of the new middle classes sufficiently: What may be an extremely generous level of compensation to an unskilled factory worker does not meet the needs of the higher middle classes. As a consequence, a pension system of purely flat-rate pensions tend to 'crowd in' private pension arrangements if it is not supplemented by some kind of earnings-related scheme (Esping-Andersen, 1990; Myles and Pierson, 2001). The predictable consequence is that those countries which seek to maintain universal flat rate state pensions will eventually find themselves ending up with a 'multipillar' pensions system with a large private component. By the same token, however, those countries who introduce a supplement will find themselves under pressures towards switching to a purely contribution-defined system. In short, due to mechanisms of path dependence, universal tax-financed flat-rate pensions as we knew them, with or without earnings-related supplements, tend to eliminate themselves. Even though some of the intervening variables do not

completely match these expectations, this is basically what has happened to the universal tax-financed pensions in Scandinavia (Larsen and Andersen, 2007).

However, this example is rather difficult to generalise beyond the field of pensions; other mechanisms of path dependence is found in other fields, and it seems unlikely that more broad-ranging theories can be developed to account for this. Often path dependence is more about changing interest constellations and power resources. Furthermore, some instances of path dependence really do match the very static view which has been widespread in welfare state research, resembling more a negative feedback model than a positive one.

Alongside differences in interest constellations and differences in exposure to exogenous or societal pressures, not least economic pressures, path dependence is the main explanation of continuing cross-national differences in policies, in particular welfare policies. However, the impact of policies is not always to reinforce existing policies. There may also be instances of policy feedback that leads to convergence.

#### *Policy transfer and policy diffusion*

Policy transfer and policy diffusion are examples of such policy feedback mechanisms that may lead to convergence between policies in different countries. Often the two concepts are used interchangeably. If we are to make a distinction, we should reserve *policy transfer* for the use of knowledge about policies and their impact in one system (or in one policy field) to deliberately change policies in another country (or in another policy field). Thus, policy transfer is about processes which does not always involve imitation or emulation but may indeed occasionally involve substantial change while implanting policies from one institutional and cultural context to another (Knill, 2005). It is a matter of deliberate cross-national or cross-sectoral policy learning.

Policy diffusion is a broader concept that refers to all conceivable channels of influence between countries (or between policy fields). Major emphasis is on studying various mechanisms of diffusion, from imposition to voluntary adoption of policy models that are communicated across borders or across policy fields in one way or another (Knill, 2005; Rogers, 1995).

The interest in diffusion of policies has increased, not least, with the intensification of European integration. What is most interesting here from a policy feedback perspective is not so much the imposition of common rules by joint decision making or by the Court of the European Communities, but perhaps even more the Open Method of Coordi-

nation (OMC) which is an instance of so-called 'soft law' regulation based on recommendations rather than sanctioned rules. Also, studies of the impact of OECD has been conducted from such perspectives (Armingeon and Beyeler, 2004). The OMC which was given this label in the EU Summit in Lisbon, 2000, is a deliberate attempt to encourage policy transfer by bringing actors together to formulate common goals on the basis of recognition of institutional differences. OMC builds on policy learning and policy transfer (de la Porte et al., 2001).

### *Policy convergence*

Policy diffusion constitutes a sort of disturbance in some cross-national research aiming to explain policy as an effect of structural, institutional or political forces (Knill, 2005). For instance, country variations in policy is often interpreted as an effect of either variations in economic pressures, variations in institutions, or variations in strength of political parties. But in addition to these determinants comes the problem that countries may simply have learned from each other. In purely quantitative analyses, this constitutes a serious 'disturbance' that is almost impossible to control.

However, there are some important problems relating to the issue of policy convergence by itself. In the first place, should convergence be measured by policy or institutions on the one hand, or by the *impact* of policies - policy outcomes on the other? Secondly, four different patterns are conceivable (Kautto & Kvist, 2002):

- *convergence*: policies or policy outcomes become more and more similar;
- *divergence*: policies or policy outcomes become more and more different;
- *persistent difference*: policies or policy outcomes remain as they are;
- *parallel trends, persistent differences*: policies or policy outcomes change in the same direction, but differences are maintained.

The last mentioned pattern is often conflated with convergence. For instance, Gilbert (2002: 138) notes a common trend towards more targeting (means-testing) of social benefits in nearly all welfare states. However, if we are to trust his indicators, this common trend is combined with persistent or even increasing difference between those (mainly Anglo-Saxon) countries that target mostly, and those countries (in particular Scandinavian ones) that only resort to targeting in rather exceptional instances.

At a meta-level, there may more easily be convergence. Welfare States have developed very differently, but if we add the private and public net expenditures, we find striking similarities across countries. Also if we look at the profile of the entire pensions system, it is obvious that in nearly all countries, some kind of earnings-related system has developed, either within the state arrangements, or as private proliferation of the welfare state. One could say that such highly different policies may nevertheless be *functionally equivalent* in the sense that they tend to produce similar social outcomes.

#### *Key points*

- Policies create politics and shape future policies
- Policies affect power resources and generate vested interests, or even new interest groups that may create new dynamics of change
- Policies are path dependent, at least in the broad sense that past decisions structure and constrain new ones, often also in the more narrow sense that precise mechanisms can be identified
- Policy learning often take place within a paradigm, but even paradigm shifts may partly be ascribed to learning
- Policy convergence may derive not only from "functional necessity", but also from policy transfer

## **7. Conclusion**

The study of the impact of policy is a relatively novel branch of comparative politics. It is also one of the most difficult because it is often very complicated to disentangle effects of policies from all sorts of other effects. Furthermore, it is difficult in the sense that it often involves cross-disciplinary insights in both politics and economics. Nonetheless, it is also a very important field of research: To determine what are the outcomes of different types of policies - or how policies should be designed to obtain desired outcomes - is one of the most challenging fields of research in political science. Furthermore, it is a field where economists increasingly begin to learn from political science, not least from the insights in complementarity between policies or institutions that are mutually interconnected.

When it comes to the political impact of policies, this is also a rapidly expanding field of research that helps understand policy change in general, and not least policy change across nations. It helps illuminate why countries exposed to the same external

pressures often pursue quite different roads, as the theory of path dependence learns us. It helps to understand some of the *political* forces behind policy convergence across programmes or across nations. And it helps to understand the *dynamics* of policy change - including the unintentional effects.

## Questions

1. What does institutional complementarity mean?
2. What is the difference between welfare regimes and the regimes of varieties of capitalism theory?
3. What is understood by flexicurity?
4. How does corporatism impact on unemployment, and why?
5. How do different welfare models impact on equality, and why?
6. How can policy effects be studied, and what's the strength and weaknesses of different approaches?
7. What is structural unemployment?
8. What generated a paradigm shift in the interpretation of unemployment?
9. What does path dependence mean, and are policies always path dependent?
10. What contributes to policy transfer between countries, and between policy fields?

## Guide to further reading

Classical texts on regimes are:

Esping-Andersen, Gøsta (1990). *The Three Worlds of Welfare Capitalism*. Cambridge: Polity Press.

Hall, Peter A. and David Soskice (eds.)(2001), *Varieties of Capitalism. The Institutional Foundations of Comparative Advantage*. Oxford: Oxford University Press.

Titmuss, Richard (1974). *Social Policy. An introduction*. ed. Brian Abel-Smith and Kay Titmuss. New York: Pantheon Books.

Useful guides to findings about impact of policies are:

Iversen, Torben (2005). *Capitalism, Democracy, and Welfare*. Cambridge: Cambridge University Press.

Lindert, Peter A. (2004). *Growing Public. Social Spending and Growth Since the Eighteenth Century, 1-2*. Cambridge: Cambridge University Press.

OECD (1994). *The OECD Jobs Study, 1-2*. Paris: OECD.

OECD (2006). *Employment Outlook 2006. Boosting Jobs and Incomes*. Paris: OECD.

Classical texts on policy feedback are :

Heclo, Hugh (1974). *Modern Social Politics in Britain and Sweden. From Relief to Income Maintenance*. New Haven: Yale University Press.

Pierson, Paul (1993). "When Effect Becomes Cause: 'Policy Feedback' and Political change", *World Politics*, 45, 3, 595-628.

## Web links

[www.lisproject.org/publications/welfaredata/welfareaccess.htm](http://www.lisproject.org/publications/welfaredata/welfareaccess.htm) Luxembourg Income Study (LIS) Comparative Welfare States Data Set.

[www.oecd.org/document/2/0,2340,en\\_2649\\_34635\\_31612994\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/2/0,2340,en_2649_34635_31612994_1_1_1_1,00.html) OECD Social Expenditure Database.

[www.sp.uconn.edu/~scruggs/wp.htm](http://www.sp.uconn.edu/~scruggs/wp.htm) Comparative Welfare Entitlements Dataset / Lyle Scruggs.

<http://naticent02.uuhost.uk.uu.net/archive/index.htm> European Social Survey (ESS): free downloadable data from 2002, 2004, 2006 and following years.

[www.scp.nl/users/stoop/ess\\_events/links\\_contextual\\_data2003.htm](http://www.scp.nl/users/stoop/ess_events/links_contextual_data2003.htm) Overview of websites with free information on European Countries (links).

[www.issp.org/](http://www.issp.org/) International Social Survey Programme (ISSP).

[www.worldvaluessurvey.org/](http://www.worldvaluessurvey.org/) World Values Survey (WVS).

## **Key terms**

### **Institutions**

The key term "institutions" is applied to two distinct phenomena. The most common reference in the political science literature is *political institutions*. This refers not only to the formal rules of political decision making (from election laws or distribution of competences between regional and central government, to representation in corporatist bodies), but also to less formal "standard operating procedures" (such as routine consulting with interest associations).

However, *in the policy literature* "institutions" also refers to (major) policies, or to the "*programmatic structure*" of policies - for instance to contributory vs. tax-financed welfare arrangements, to pension systems, etc.

### **Institutional complementarity**

Refers to *clusters or configurations* of (policy) institutions that are mutually supportive, for instance to combinations of various welfare arrangements, or combinations of regulation of the economy. The fact that institutions tend to cluster - and to have combined impact beyond simple addition (interaction) - is embodied in the notion of **regimes**.

### **Welfare regimes**

Refers to particular combination of welfare arrangements, and to particular combinations of the welfare state, family structures, and the labour market. Three or more such clusters are usually identified: Conservative (or corporatist), Liberal (or residual), Social Democratic (or universal). There are several traditions as to the choice of labels. The *political* labels are linked to one particular theory about the *origin* of these systems - the so-called "power resources theory" which emphasizes *political* determinants and in particular class mobilization.

### **Varieties of capitalism**

This concept refers to different methods of coordination between economic actors. Varieties of capitalism is a regime concept parallel to the welfare regime concept. But the cornerstone is completely different: It is the interest of firms (and to some extent other actors) in using the market vs. negotiations and public regulation as the main instance of coordina-

tion. This underlies a dichotomization into Liberal Market Economies and Coordinated Market Economies.

### **Ideal types**

Ideal types help us understand and describe a complex reality. Ideal types are theoretical constructs - there are no "pure" ideal types in the real world. The notions of Welfare Regimes and Varieties of Capitalism refer to a limited number of ideal types that both help us understand how systems work, and help us to describe and compare real-world systems on theoretically defined dimensions.

### **Institutional competitiveness**

Refers to the fact that different regimes develop different comparative advantages. There is not one single road to competitiveness (or to employment), but different strategies that fit into different institutional contexts.

### **Flexicurity**

Refers to combinations of flexibility and social protection (security). In a narrow version, this refers to a combination of liberal employment protection, generous social protection, and active labour market policies (the "golden triangle" version). In a broader version, it refers to a multitude of combinations between different modes of flexibility (e.g. numerical vs. functional) and security (e.g. job security, income security, employment security).

### **Corporatism**

There innumerable and often lengthy definitions of corporatism but a common denominator is the close coordination in law-making and wage formation between the state and interest organisations which are granted a privileged and more or less monopoly status as representatives. Trade unions and employers' associations are usually the key players at the nation level.

### **Policy feedback**

Policy feedback is the overall concept covering feedback effects from output and outcomes of policies to new input to policies. It includes e.g. path dependence, policy learning, policy diffusion, and changing power relations between political actors.

### **Path dependence**

The concept is originally developed from institutional economics where it refers to positive feedback *mechanisms* that are self-reinforcing and determines a lock in on a particular path as actors adapt. There will be large political as well as practical costs of changing path. In addition to this strict notion of path dependence as a *theory*, with emphasis on *mechanisms* (allowing predictions about the future) one also finds more "soft" versions that applies path dependence as a *perspective*. For both versions, critical junctures and timing/sequence are crucial factors.

### **Policy paradigms**

Policy paradigms refer to the overall world view underlying policies. The notion of paradigm is borrowed from the study of revolutions in the world view of natural sciences - e.g. from a geocentric to a heliocentric paradigm. Policy paradigms provide particular problem definitions, and to a large extent possible solutions. Policy paradigms tend to exclude each other and become hegemonic.

## Notes

1. This idea of openness was later challenged by Cusack and Iversen (2000) who argued that de-industrialisation is the decisive variable (and need for social protection of skills the hypothetical intervening variable).
2. This was avoided in a few countries where demand-stimulating policies were combined with unusually tight incomes policies (e.g. in Austria, see Scharpf, 1987; Hemerijck, Unger and Visser, 2000).
3. Esping-Andersen (1990) originally spoke of 'welfare *state* regimes' but because of increasing emphasis on the relationship between the state and the family in provision of care, this was later substituted by welfare regimes (Esping-Andersen, 1999).
4. By choosing political labels for the three regimes, Esping-Andersen wanted to underline which political forces that had, in his view, been the main architects of these welfare arrangements. Others treat this as an open empirical question. Instead of emphasizing the independent variables, they have wanted to emphasize key aspects of the dependent variable, that is, the main institutional traits of eligibility and entitlements, or of administration. Thus, the Conservative model is also sometimes labelled the social insurance model, the achievement-performance model, or the corporatist model. Others (e.g. Schludi, 2005) have used the label Bismarckian (after Otto von Bismarck - the Conservative German Chancellor who began to build the first social state arrangements from the 1880s - the term 'welfare state' was not invented until after WW II, however). Still others have called these welfare states 'Christian Democratic' (e.g. van Kersbergen, 1995). By the same token, Liberal welfare regimes are often dubbed the 'residual', 'selective' or 'targeted' welfare model. And the Social Democratic model is often labelled 'universal', institutional', or 'encompassing' (e.g. Korpi and Palme 1998).
5. In the 'golden age' of the welfare state, the association between contributions and entitlements was often loosened whereas pension systems since 1990 have typically moved from 'defined benefit' towards 'defined contribution', that is, towards more actuarially defined entitlements, or towards 'recommodification'.
6. Finally, the growth rate tends to be underestimated in countries with large public service sectors; productivity increases in public services are by definition zero in statistical accounts because output is measured simply by costs.

7. As pointed out by Korpi (2005), there are many other problems. The first generation of studies often failed to take account of initial settings (and thereby misinterpreted catching up effects). Such problems have increasingly been overcome, and complex multivariate techniques have made it possible to make more refined analyses. The analyses typically used in such studies are increasingly pooled time-series and cross-sectional analyses. Still, no sophisticated technique can solve the problem that the underlying data are often quite unreliable - even historical GDP data are continually revised (Korpi, 2005).
8. Note that this discussion is about what gives meaning to policy elites - about the 'puzzling' of governments, experts, politicians etc. - not about discourses that give meaning to mass publics. Such discourses may be highly important in persuading voters/citizens to accept otherwise unpopular retrenchment policies (e.g. Cox, 2001; Schmidt, 2001, 2002), but this is not so much a matter of policy impact, but more a question of political communication.

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## **Project Welfare Architecture (2005-2009)**

Project conducted jointly by Centre for Comparative Welfare Studies (CCWS, headed by Jørgen Goul Andersen) and Socialforskningsinstituttet (The Danish National Centre for Social Research, headed by Niels Ploug). Financed by a grant from the Danish Social Science Research Council. The overriding purpose of the project is to contribute to comparative welfare state theory by exploiting the Danish experience comparatively, and to write an encompassing, theoretically oriented book about the Danish welfare state.

The project is composed of 14 interconnected projects:

1. The Danish welfare state (book project)
2. New perspectives on welfare state theory (book project)
3. Conceptualisation of welfare and change: The dependent variable problem
4. Testing equivalence by fuzzy-set theory
5. Interests, ideas, institutions: The independent variable problem
6. Globalisation and economic challenges. Exogeneous problem pressures.
7. Social policy competition and mobility: EU and the welfare state
8. Intergenerational risk and social policy
9. Destandardisation and the welfare state.
10. Ageing and the pension system
11. Older workers and firms
12. Public and private provision of social welfare (supportive project)
13. Voter constraints and dynamics
14. Immigration and the legitimacy of the welfare state (supportive project)

The project is described at the home page:

<http://www.socsci.aau.dk/ccws/projects/AWelfaresystems/a22.htm>

## Project Welfare Architecture (2005-2009): Publications

### Contributions to books and journals and publications in press

- Albrekt Larsen, Christian (2007) "How Welfare Regimes Generate and Erode Social Capital". Accepted for publication in *Comparative Politics*.
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### **Working Papers**

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- Goul Andersen, Jørgen (2006) Immigration and the Legitimacy of the Scandinavian Welfare State. AMID Working Paper no. 53.
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- Goul Andersen, Jørgen (2007) Conceptualizing Welfare State Change. The "dependent variable problem" writ large. Paper presented at ECPR Conference, Pisa, Sep 6-8, 2007. *CCWS Working Paper* 51/2007.
- Goul Andersen, Jørgen (2007) Denmark: Welfare State Transformations in an Affluent Scandinavian State. *CCWS Working Paper* (abridged version in press).
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### **Conference Papers**

- Albrekt Larsen, Christian & Jørgen Goul Andersen (2006) Initial decisions, incremental change and mechanisms of path dependency in the development of the Danish multipillar pension system. Paper presented at Project Group Meeting no. 3, Tannishus.
- Albrekt Larsen, Christian (2006) How Welfare Regimes Generate and Erode Social Capital. Paper presented at Project Group Meeting no. 4, Vilvorde Kursuscenter. (Submitted & accepted for publication in *Comparative Politics*).
- Albrekt Larsen, Christian (2006) The institutional logic of welfare attitudes: How welfare regimes influence public support. Paper presented at Project Group Meeting no. 3, Tannishus.
- Bendix Jensen, Jan (2006) Solidarity and principles of redistribution. Paper presented at Project Group Meeting no. 3, Tannishus.
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- Goul Andersen, Jørgen (2005) Ambiguity of welfare state change. Discourse, institutions, output and outcomes. Paper presented at ESPA Net Conference, Fribourg, Sep. 22-24, 2005.
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- Goul Andersen, Jørgen (2006) Towards a better understanding of Welfare State Change. Directions, Degree and levels of change – and their long-term political Impact. Paper presented at Project Group Meeting no. 3, Tannishus.

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- Goul Andersen, Jørgen & Jacob J. Pedersen (2006) Continuity and change in Danish active labour market policy: 1990-2005. Paper presented at Welfare Architecture conference, St. Restrup, January 2006.
- Harrits, Gitte Sommer, "Individualizing Welfare and New Social Risks. Paper presented at Welfare Architecture conference, St. Restrup, January 2006.
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- Jensen, Per H. & Wim van Oorschot (2006) "Early retirement in Denmark and the Netherlands. A cross-national comparison of push and pull factors" (submitted for publication).
- Jensen, Per H. & Henrik Bang (2007) Active Citizenship and Governance in Local Social Policy: New modes of regulating age management. Paper fremlagt ved projektgruppemøde 5. 31. maj, Aalborg Universitet.
- Kvist, Jon & Lisbeth Pedersen (2007) "How does activation work? Types and effects of changing activation policies in Denmark". Paper presented at Project Group Meeting no. 5, Aalborg University.
- Kvist, Jon & Niels Ploug (2007) Active labour market policies: when do they work – and where do they fail? Paper presented at Project Group Meeting no. 5, Aalborg University.
- Lyngdahl Christensen, Theresa & Jørgen Goul Andersen (2006) De-standardisation of life courses in Denmark? Paper presented at Project Group Meeting no. 3, Tannishus.
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- Ploug, Niels (2007) What is new about the new welfare state? Paper presented at RC 19 seminar, Chicago, and ESCR seminar Paris, 2005 (submitted for publication).
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- Pedersen, Jacob J. (2007) "Beyond Incentives? - Policy Learning and Changing Directions in Active Danish Labour Market Policies", paper prepared for International Conference on Welfare State Feedbacks: From Outcomes to Input. St. Restrup Jan/Feb. 2007.
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## CCWS Working papers

| <i>No.</i> | <i>Author</i>                                                                                                                     | <i>Title</i>                                                                                                                   |
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| 8-1999     | Knut Halvorsen                                                                                                                    | Unemployment in disguise: The case of Norway                                                                                   |
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