

Politics and social changes

Introduction

Important social policy changes have occurred during the last 20 or 25 years, in order to adapt social policies to the new socio-economic and political context, which has been transformed by the transition to post-industrialism, globalisation and europeanization, changes in demography and industrial relations. 'Welfare States in Transition' (Esping-Andersen, 1996), 'Recasting European Welfare State' (Ferrera and Rhodes, 2000), 'Welfare State Futures' (Leibfried, 2001) and the 'New Politics of the Welfare State' (Pierson, 2001), all of these are among the most important recent publications on the welfare state and try to propose an analysis of these changes beyond the topic of the crisis of the welfare state. According to Paul Pierson, some 'irresistible forces' are meeting 'immovable objects', and that induces the difficulty of the reforms. The term proposed by Pierson, 'the new politics of the welfare state', differentiates the popular politics of welfare expansion and the unpopular politics of retrenchment (Pierson, 2001). Indeed, when they propose social policy reforms, governments have to take into account the popularity and the attachment of the population to social programs, in order to avoid the risk of electoral blame.

What are the key differences between the various countries in the politics of welfare? How are they changing now in ways that affect welfare reform? First, we will present these social changes and show that the new politics differ from the politics of welfare expansion. Then, we will explain that the political challenges vary in accordance with two main variables: first the party-system and its specific constitutional and electoral rules; second the welfare design and its institutions.

Social changes

Because of the impact of the economic globalisation and of the assumptions about how welfare influences competitiveness in the context of national economies open to overseas competition, welfare states are supposed to change (Mishra, 1999). Especially the European 'model' of the welfare state that is based on the principle of universal coverage and on generous levels of protection is often accused of being 'unsustainable' and must be 'recast' (Ferrera and Rhodes, 2000: 1).

The economic environment has been modified in the last thirty years : the openness of the economy increased the competition on cost – especially the pay-roll taxes and the social contributions have been criticized - ; the organization of work changed and led to the post-industrial revolution and the development of services; the flexibility of work induced less linear careers and the development of geographical and professional mobility. These are also important societal changes : the male breadwinner model has been called in question because an increasing proportion of women is working and numbers of one-parents families are rising in most countries. Furthermore, population is ageing because of the rising life expectancy and the diminution in the number of births. The proportion of pensioners in comparison with the working age population is planned to increase rapidly in the next half-century and will have

an impact on the financing of pay-as-you-go pension schemes. Furthermore, welfare states still have to face with the problem of unemployment that rose in Europe during the oil price crisis of the mid-1970s and has not returned to the low levels of the post-war boom years. These transformations require a modification of social policies, in order to adapt them to the new social needs and risks, while reducing its fiscal weight and its economic cost (Taylor-Gooby, 2001).

In order to explain what leads welfare states to change, the literature differentiates between internal and external factors. F. Scharpf and V. Schmidt (2000) emphasize the importance of the globalisation and of the openness of the economies. The indirect impact of 'europeanisation' also tends to reinforce the exigencies of competitiveness. The impact of the four economic freedoms (freedom of movement for people, services, goods and capital) from 1992 onwards intensifies the impact of economic globalisation. Furthermore, the convergence criteria for EMU membership (low rates of inflation, low interest rates, the avoidance of large budgetary and national debt deficits; currency stability), reinforced by the macroeconomic requirements of the Stability and Growth Pact, have been one of the constraints which lead the development of a wave of social reforms in Europe in the 1990s (Palier, 2000).

In another point of view, Paul Pierson (2001) shows that internal factors exert the most important pressures on the welfare states and that globalisation only reinforced endogenous pressures. He identifies three main endogenous factors. The first endogenous factor is the augmentation of jobs in the service sector to the detriment of jobs in the industrial sector. Insofar as gains of productivity seem to be less important in services' sector than in industrial sector, wages increase slowly and few jobs are created, what has a direct impact on the financing of the welfare state. The second endogenous factor is that welfare states come to maturity (universal coverage, level of benefits), especially in the fields of pension and health care. In these fields, expenses increase faster than resources that depend on the economic activity. So, there is an increase in taxes and in social contributions. The third factor is the population ageing and its implications on health care and pension spending (Pierson, 2001).

The 'new' politics of welfare

In the 'golden age' of the welfare state, the objective was to extend the coverage and the generosity of the social security system. Nowadays, governments have to contain or to reduce the level of public social protection. The principal obstacle is that changes affect well-organized groups with the strategic resources to make their voice heard. The book directed by P. Pierson shows that the political conditions are different insofar as the social security systems come to maturity and are supported by well-organised interest groups which intervene in the policy-making system (retirees associations, social workers, civil servants, social partners...). These groups did not exist in the period of emergence and growth of the welfare state. They intervene to defend the *statu quo* and to impede reforms that would diminish their advantages. Trade unions and employers' organisations also participate in the process of reforms, and are more favourable to adjustments than to drastic reductions.

Furthermore, the political objectives are different. In a period of expansion, governments can obtain some benefits from the implementation of a new social policy. The gains associated with the governmental actions are real, while the costs remain diffuse. When the social security system is called in question, the political aim is different: it is to avoid to be seen as responsible for the negative consequences of the policies of reduction of social benefits. Costs and losses become more visible, while the gains are diffuse, and appear only in the long run.

So, Governments prefer to adopt a strategy of 'blame avoidance' (Pierson, 2001). They worry about electoral blame that could result from visible policies of retrenchment, and they implement 'hidden' or 'secrete' changes, which become automatically effective – for example changes in indexation mechanisms, an increasing complexity of the calculation formula – so that the impact of the measures becomes less visible (Pierson 2001).

The capacity of the government to implement this type of strategy depends on its political autonomy. If the actors able to block the reforms (veto points) are not numerous, the governments can introduce more radical reforms (like the British governments because the political system guarantees a large autonomy to the government), with the risk to be considered as responsible for all the consequences. When the veto points are numerous, reforms can only be negotiated, and the reforms are elaborated more slowly, but they are more difficult to reverse (at least political consequences are shared). Political actors may also be more successful if they can elaborate a "coordinative discourse", that takes in account the interests of different actors engaged in the reform, and a "communicative discourse" that may justify the reforms for the public opinion (Schmidt and Scharpf, 2000, chapter four).

However, beyond these general patterns characterising the new politics of welfare reforms, there are some variation between countries in the way reforms are negotiated, accepted, refused, implemented etc. The literature identifies two groups of institutional variables that may influence politics in the various countries and explain the differences between them; first the party system and competition, second the institutional design of welfare programmes.

The impact of party competition

Since the 1980's, governments make efforts to reduce expenditure in existing programmes, or to redesign and restructure the policies and institutions. The dynamic of party system and party competition impinges on social policy changes. To quote Kitschelt, because of the party competition, 'parties can engage in social policy retrenchment, only if the median voter withdraws support from social policy programmes' (Kitschelt, 2001: 268). They have to gain the approval of the voter to engage a process of reform. In many countries, there are alliances among parties. So the party that controls the median voter tends to become the 'policy dictator' of the entire coalition, because no majority is viable that does not include that party. If the median voter opposes social policy reform, then the party representing that voter will do likewise and no government will be able to pass social reform.

Kitschelt identifies four factors that may improve the prospects of social policy reforms:

- "the existence of a strong market liberal party and the declining credibility of parties defending the welfare states;
- mild electoral trade offs encountered by politicians when they diverged from the social policy preference of the party's electorate;
- a party organization that minimizes strategic inertia at the level of activists and party leaders;
- and a configuration of competition around economic rather than socio-cultural issues" (Kitschelt, 2001: 273).

These different variables may vary in accordance with the countries. Kitschelt differentiates four groups of countries that have different political configurations and shows how each specific configuration may influence social policy reforms.

1) The first configuration is the one of “united market liberals versus united social democrats”. This configuration refers to the liberal countries (UK, New Zealand, Australia, United States) where the competition is based more on economics than on social-cultural issues. In this configuration, the dominant actors are the two major parties, one more redistributive and the other one more liberal. In these countries the market-liberal party denounced the size of the public economy and the state involvement. These politics of retrenchment were especially successful in countries where the credibility of the left parties was undermined (UK in the 1970s and the 1980s). The conservative parties proposed in these countries reforms that led to liberalisation, by diminishing the size of the public economy and the state involvement in the economy.

In the case of the UK, the policy-making system facilitates the possibility of reforms, because of a unitary state and strong party government with weak traditions of consensus-building. This tendency has been reinforced in recent years and both main parties in opposition and the union movement became ineffective. Furthermore, there is a convergent trend of the main political parties about welfare reforms. The objectives of cost-containment and liberalisation have been strengthened and used to cope with the issues of the competitiveness of the national industry in the context of globalisation and the implications of population ageing for pension spending. They led to the development of labour market activation policies involving unemployment benefit cuts, trainfare, workfare, work incentives through subsidies to low wages, and in the field of pensions the reduction of the part of public schemes and the development of individually-funded private schemes. However, while liberal policies are developed in these fields of welfare, other one, like the National Health System does not change, protected by the strong support of the population (Taylor-Gooby, 2001).

2) The second configuration is the one of “divided market-liberals and Centrists versus united social democrats”. Empirical reference cases for this configuration are Sweden and Denmark. In these countries, market-liberal parties made efforts to reform social policy in the direction of retrenchment. After difficult trade offs, Social democrats proposed a “new progressivist” discourse that recognized how the creation of large public sectors and encompassing social policies had generated new privileged groups.

In Sweden, centralised government gives the executive considerable authority, combined with tradition of corporatism and consensus-building in policy making. There are close links between the parties and the social partners and social policy developments are negotiated with the relevant interest, what develops political support. Politics respond to social changes by negotiating consensus on reforms with the groups who have political influence. Under economic stress, the Sweden government reformed the pension scheme (ATP) in the mid-1990s. The reform introduced more contributive rules, changed the formula for calculating pension adjustments based on life expectancy and introduced a funded component. Social democrats paid for this unpopular action in the 1989-92 and 1995-8 terms with significant decline of electoral support. Nevertheless, social democratic voters could not turn to the more market-liberal bourgeois opposition parties. The social democrat electoral losses did not substantially reduce their bargaining power over policy or their capacity to hold executive office after 1998.

3) The third configuration is a “three way divide between liberals, centrists and social democrats” which occurs in Belgium and the Netherlands. In these countries, both parties have a reputation ‘as protectors of the welfare state’. As in the other configurations, some issues as the size of the public sector remain salient in a context of economic crisis.

4) The last configuration is characterized by 'Weak liberals, Strong centre and Strong social democrats' and is illustrated by the cases of Austria, France, Germany, Italy. In these countries, social policy reforms are the most difficult to implement.

The German case clearly reflects this configuration. This continental corporatist welfare regime relies on social insurance, is managed with social partners and enjoys strong political support. This configuration is characterized by the difficulty to implement social reforms insofar as the centrists and the democrats whether in opposition or in government do not want to offend its voters and its labour union wing. As other countries, Germany has to face with pressures of demography, rising costs and labour market change, but also to the costs of reunification.

The 1990s have been characterized by political confrontations that resulted in deadlocks and delays. For example, changes in the field of pensions have been progressive and modified by electoral promises. Reforms proposed by the governing party were criticized by the party in opposition and modified. After Helmut Kohl's Christian-Democratic-liberal government came into office in 1982, the major government and opposition parties agreed on a reform of the pension system in 1989 that reduced expenditure in the long run, but did not include losses for the current beneficiaries. This reform was based on a political consensus but was in the 1990s seen as insufficient. In 1997, the Christian-liberal government passed another pension reform law in 1997 that provided for a gradual fall of the wage replacement from 70% to 64% of final income, and introduce tighter eligibility rules and a higher age of retirement. Gerhard Schröder promised to revoke these measures upon coming into office and Christian democrats lost the control of the government after the September 1998 election (Kitschelt, 2001: 293). However, the SPD introduced a radical reform and created state-subsidised private funded pensions as a third pillar. This measure was possible because it was based on an implicit consensus between different parties on a neo-liberal direction of change (Taylor-Gooby, 2001).

In order to explain social reforms, the emphasis has mainly been put on the variables of general political systems, including constitutional rules, party systems, veto points or players and state structures (unitary versus federal, single actor versus multiple actor systems, strong versus weak, etc.). However, the role of welfare institutions themselves is rarely analysed in any systematic fashion. It might be argued that welfare institutions play a major role in shaping the problems which welfare states face, but they also partly determine the kind of resources which different actors can mobilise, and shape the kind of solutions adapted to face the problems.

The role of welfare institutions

During the last ten years, research has been emphasizing the importance of institutions in understanding the differences in timing in the development of the welfare states, as well as differences in the content of social policies. In order to account for these differences, it is necessary to refer to the general political institution of each country (Bonoli 2001) as well as the political orientation of governments (Levy, 1999; Huber and Stephens, 2001). There is a need for more attention to be paid to the institutional dimension of the social protection system itself in order to understand differences in timing and in the content of recent reforms (Bonoli and Palier, 2000).

Accordingly, a welfare state scheme may be characterised by four institutional variables:

Mode of access to benefits; for example citizenship, need, work, the payment of contributions or a private contract.

Benefit structure; benefits can be service-based or in cash. Cash benefits may be means-tested, flat-rate, earnings-related, or contribution-related.

Financing mechanisms; this can range from general taxation, to employment-related contributions or premiums.

Actors who manage the system; these are those who take part in the management of the system and might include state administration (central and local), social partners (representatives of employers and employees) and the private sector.

These welfare institutions shape the politics of the reform. Institutional factors structure debates, political preferences and policy choices. They affect the positions of the various actors and groups involved. They frame the kind of interests and resources which actors can mobilise in favour or against welfare reforms. In part they also determine who is and who is not participating in the political game which leads to reforms. Depending on how these different variables are set, different patterns of support and opposition can be encountered. In general, one may expect these variables to influence the politics of social programmes in the following ways:

Mode of access; as it delimits the beneficiaries and thus the likely supporters of a scheme this factor is crucial for shaping the politics of a given social programme. The mode of access also relates to the objectives of a programme, i.e. income maintenance, poverty alleviation or equality. As a result, support for a scheme might come from groups with an ideological orientation congenial to one of these objectives. Generally, left-wing parties have tended towards equality, Christian-Democrats have supported income maintenance and liberal parties have been keener to alleviate poverty (Esping-Andersen, 1990: 53).

Benefit-structure; to some extent this variable is related to the previous one, as typically earnings-related benefits are granted on a contributory basis while universal transfers are flat-rate. The nature and the generosity of benefits is also determining the kind of support they will receive. Targeted or (low) flat-rate benefits are less likely to be supported by middle and upper classes than earnings-related benefits. Moreover, the higher someone's income, the less flat-rate benefits will contribute to his or her living-standard. Politically, a flat-rate benefit structure – combined with a low level – might be related to lack of programme support from the middle and upper classes. As earnings inequality increases in many industrial countries, it will become ever more difficult to set a flat-rate benefit which is at the same time affordable and significant for a majority of the population. Targeted benefits are supported mainly for philanthropical reasons or fear, rather than based on material interest, and are thus more readily subjected to criticism. The political support of the benefits is the reverse image of their financial cost. As a consequence, it is more feasible to reduce flat-rate or means-tested benefits than earnings-related ones.

Financing mechanisms; while related to the two previous factors, this variable has some significance in its own right. If the mode of access delineates the beneficiaries of a programme, the financing mechanism determines who is paying for it. The political support for a financing mechanism is likely to be stronger if those who pay for a programme are also those who receive the benefit. The looser the link between benefit and payment, the less

legitimate the financing mechanism becomes. As a result, there is a crucial difference between tax- and contribution-financed schemes in their ability to attract public support. Whereas taxation goes to the state, social contributions are perceived as a 'deferred wage' which will return to the insured person at times of sickness, unemployment or retirement. Paying health insurance contributions for instance 'buys' a right to health care which guarantees protection during periods of sickness. From a political point of view contributions are raised much more easily than taxes, especially income taxes.

Actors who manage the system; this dimension determines the accountability and legitimacy of different actors. The more the state controls a system and its generosity, the more the political class is likely to be held responsible for any changes. When benefits are increased, the government is credited; when benefits are reduced it will be blamed (Pierson, 1996). When management is shared with trade unions and employers, responsibility tends to be diluted, thus diminishing the state capacity to control the development of the social protection system, and particularly levels of expenditure. This variable also determines the range of actors which are regarded as legitimately participating in welfare reform debates. In a state controlled system the debate is confined to political parties. When the management is handed to the social partners, their participation in the debate is legitimised. In the latter case trade unions are also seen as important actors in social policy-making, and widely regarded as defending the current system against retrenching governments. This institutional setting gives rise to tensions over controlling social security between governments on the one hand – often regardless of political persuasion – and trade unions on the other. Union involvement in the management of social security grants unions a de facto veto power against welfare state reforms.

The institutional design of the existing social policy landscape poses a significant constraint on the degree and the direction of change. For instance, a comparison between the UK and France, countries with extremely different social policy legacies, show two particular institutional effects. Schemes which mainly redistribute horizontally and protect middle classes well are likely to be more resistant against cuts. Their support base is larger and more influential compared with schemes which are targeted on the poor or are so parsimonious as to be insignificant for most of the electorate. The contrast between the overall resistance of French social insurance against cuts and the withering away of its British counterpart is telling. Also, the involvement of the social partners, and particularly of the labour movement in managing the schemes, seems to provide an obstacle for government sponsored retrenchment exercises (Bonoli and Palier, 2000).

Conclusion

Social changes induce social policy reforms in most industrial countries, but the different welfare states remain distinct. Reforms depend on the decision made at the national level, and result from specific political negotiations and compromises, but also from national politics, history and culture. However, if politics remain nowadays national, European influence may increase in the next years, modifying the notion of national social citizenship, and proposing new structuring (Ferrera, 2002).

The social policy-making system and the political configuration determine the ability of governments to introduce reforms: in the UK, the government has an important power, faced with weak opposition and is in good position to impose radical reforms, in the contrary,

Germany or France have to cope with well-organized groups and the necessity to gain the support of numerous actors. Nevertheless, it does not mean that a particular institutional or constitutional framework determines the ability to propose effective reforms: reforms imposed at the political level may be repealed if they are not adequate to social needs and take in account interests of all the groups involved. The great difficulty is to implement reforms that will meet social challenges and to ensure that the solutions proposed are acceptable to the groups involved. The capacity of negotiation is an important element that is essential to stable adaptation of social policies (Taylor-Gooby, 2001).

One of the key elements is also the evolution of the political discourse in the 1990s and the development of the logic of the competitiveness imperative, the necessity to 'modernise' social schemes, and the convergence towards the issues of labour market activation, cost-containment, the targeting of benefits, the support for private sector. These issues first developed by politics in liberal welfare states became in the 1990s common themes in Nordic countries, in Germany or in France, even if the political responses still vary in different countries. The development of such discourses may be the first step towards social policy shifts and lead to the introduction of active labour market policies and private schemes.

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