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PART 1: WELFARE STATE
THE WELFARE STATE INTO THE TWENTY-FIRST CENTURY

CHRIS PIERNON

Even for its severest critics, almost above all for these critics, the coming of the welfare state was one of the key transformations of the twentieth century world. In a century marked by dramatic and sometimes violent change, news of which became ever more instantaneously transmittable around the globe, the mundane and incremental growth of welfare states often went under-reported, at least until the 1970s when the welfare state emerged rather suddenly as prime suspect in the faltering of the West's 'thirty glorious years' of uninterrupted economic growth. Yet, however incrementally realised, the growth of welfare states was one of the key secular trends of the twentieth century. Changes in governments' social expenditure gives us one very simple indicator of the scale of this transformation. In 1900, Germany and Switzerland were probably the only states in which social expenditure exceeded three per cent of GDP. At the end of the period of its most rapid expansion in 1975, average social spending in the major OECD countries was 22 per cent of a vastly increased GDP (though with Japan something of an outlier at 13.7%). Expenditure continued to grow, though less rapidly, in the years of welfare austerity after 1975 with the average spend on social protection in the European Union, for example, standing at 26.5 per cent in the mid-1990s. Of course, spending is only one aspect of the changes associated with growth of the welfare state. Changes of public expenditure upon this scale bring with them a wholesale transformation in the pattern and incidence of taxation and a reconstruction of patterns of employment (both by sector and by gender). They help, by turns, to foster and to mitigate changing patterns of family formation. In time, these changes lead to new constellations of political (and industrial) interests that both support (and mobilise against) particular forms of social protection. A society which employs more university professors than miners may not have progressed but it has certainly changed! (Figures drawn from Pierson, 1998).

From the Olympian perspective of a new century we can now identify perhaps three key periods in welfare state development in the most developed economies after 1945 (or, a little more modestly and accurately, three characteristic phases in the attempts of academic commentators to make sense of welfare state developments in the last half-century). Broadly speaking, the earliest period belongs to the social democratic advocates of expanding social citizenship (even if this principle was always quite imperfectly realised in practice). At its simplest, the expectation was that societies of increasing affluence could afford to mitigate poverty and at the same time to extend the range and quality of social and public services provided to all its citizens outside the logic of the marketplace (the process later christened 'decommodification'; see Esping-Andersen, 1990). For parties of the reformist left this aspiration became a crucial element in a modernised progressive politics. Although a few voices were consistently raised against this general orientation (most consistently and intelligently, of course, that of Friedrich Hayek), a sort of grudging consensus emerged around the
parameters of this notionally social democratic regime (Hayek, 1944).

As the economic difficulties of the early and mid-1970s kicked in, in the Anglophone world at least, what had become a rather tired consensus seemed to vanish almost overnight in the face of the simple certainties of a revivified neo-liberalism, whose one-line account of the difficulties of Western societies and economies was ‘too much (welfare) state, too little market’. But even in what was widely regarded as the spiritual homeland of the New Right - Mrs. Thatcher’s Britain - welfare expenditures (and the overall tax take) continued to creep upwards and, despite the apocalyptic visions of both advocates and opponents, the welfare state corpse stubbornly refused to lie down (Pierson, 1994). There were certainly important changes. Initially, there was a pronounced reduction in the pace of welfare expenditure growth (in the face of rapidly growing need) and some relocation of spending effort (though very rarely did these changes spill over into a real fall in overall social spending). Entitlement tended to become more contingent (especially for the able-bodied working age population), co-funding expanded and the delivery of services moved (some way) from the traditional patterns of public administration towards semi-autonomous agencies. At some point, between Mitterand’s about turn in France in 1981/2 and the austerity measures of Sweden’s social democrats in the early 1990s, the citizenship welfare state yielded to a much more cost-conscious, employment-focussed and contingent welfare regime.

As the century moved towards a close, the welfare state as an object of analysis both for policy-makers and academic commentators appeared to have changed again. Amongst academics, attention increasingly shifted away from competing ideologies of welfare towards an understanding of welfare processes under the rubric of, and with the tools appropriate to, ‘normal politics’. At least in part because more ideological explanations (often derived from neo-Marxist or New Right foundations) fitted so poorly with our increasingly detailed knowledge of what had happened to actually-existing welfare regimes over the preceding twenty years, the ‘new politics of welfare’ tends to be written in the language of a more empirical political science or political economy - a language variously of rational choices, interests, institutions and inertia (Pierson, 1996). What these surveys tended to show was that, whilst there was real and across time substantial change in patterns of welfare state development, this process was driven less by ideology than by the accumulation of underlying social and economic transformations (with demographic change and globalization being the most frequently invoked). Nor were all these changes unambiguously in one direction. Whilst most commentators focussed upon the squeeze that globalization placed upon public expenditure, others saw it having precisely the opposite effect (Garrett, 1998;Garrett, 1999).

Amongst political practitioners attitudes to the welfare state have shifted perhaps even more decisively (since these views are not always tempered in the same ways by empirical evidence). Indeed, having once been cited as that which most decisively distinguished the post-war constitutional left from the constitutional right, attitudes to the welfare state no longer define a clear-cut ideological division. Whilst those on what remains of the left favour a little more redistribution and those on the right rather more selective targeting (and more space for private sector alternatives) a broad swathe of centrist political opinion represents the ‘problem’ of the welfare state as essentially ‘technical’. (Although this co-exists strangely with an aspiration to ‘re-moralise’ some welfare issues.) Democratic publics are thought still to want good quality public services (in education and health care, for example) and an undergirding system of income maintenance (for those, perhaps a decreasing number, who are
thought to deserve it) but they are reluctant to will (any additional) means to secure these desirable ends. Political elites and those who furnish them with policy advice have come to see social policy increasingly as the handmaid of economic policy and to operate with an essentially binary division of welfare expenditure into ‘social investment’ (good) and ‘social costs’ (less good). Generally the ambition has been to shift resources towards ‘investment’ (education, training, preventive health care) and to minimise (or reallocate) ‘costs’ (income transfers, especially amongst the working-age population). The lexicon of welfare has been suitably re-written. The problem of poverty (reflecting inadequate incomes and to be addressed through redistribution) is increasingly recast as a problem of social exclusion (whose solution lies in enabling participation and extending ‘real opportunities’). For those of working (and pre-working) age, a right to employment (at one time more or less underwritten by the state) gives way to employability (a personal responsibility for the client to be ‘work-ready’). The polarity of mutual obligation between state and citizen is reversed (from a state responsibility for the well being of the unemployed citizen to the responsibility of those without jobs to enhance their employability as a condition of the state’s support). In other areas (such as the provision of pensions and other elements of what has been social insurance), the aspiration is to encourage self-funding (or some public/private mix) amongst those citizens who can afford it. Increasingly, political parties contest an ever more crowded political centre ground by offering to better each other in maximising efficiency (in both public and private sectors), increasing employability (with a galaxy of assorted sticks and carrots) and thus increasing the fruits of economic growth out of which an enhancement of public services can be more or less painlessly reconciled with expanding private consumption (ironically, an echo of the ‘win-win’ device of ‘classical’ social democracy).

Just such an agenda appears increasingly as the collective common sense of the international policy-making community — housed in agencies such as the OECD and the World Bank. It can also be found in the more directly political context of advocacy of a Third Way. In its best known formulation (Giddens, 1998; Giddens, 2000) the Third Way set outs to describe a new politics (of welfare amongst others) that is ‘beyond’ the older and exhausted alternatives of neo-liberal right and ‘classical’ social democracy — thus opening up the possibility of a ‘renewed’ social democracy. For Giddens, the ‘classical’ social democratic welfare state was the radical politics of a ‘simpler’, less ‘reflective’ modernity and the welfare state an appropriate mechanism for dealing with external (rather than manufactured) uncertainty. Reflexive modernity generates a quite new set of circumstances and requires a much greater emphasis upon the active involvement of citizens (as individuals, families or groups) in making their own welfare arrangements in a process of active engagement with the state. In this context, Giddens calls for a new emphasis upon life politics - a politics which is about ‘how (as individuals and as collective humanity) we should live in a world where what used to be fixed either by nature or tradition is now subject to human decisions’ - and generative politics - a politics which ‘exists in the space that links the state to reflexive mobilization in the society at large .. a politics which allows individuals and groups to make things happen, rather than have things happen to them’ (Giddens, 1994, p. 15).

From this follows Giddens’s commitment to the idea of positive welfare: welfare as the creative, bottom-up, self-activity of citizens and their voluntary associations pursuing greater autonomy and happiness in a ‘reflexive engagement with expert systems’ (Giddens, 1994, p. 153). Traditional welfare states treated risks as external (as misfortunes, such as ill health or
unemployment, which just happen to people) and its citizens as passive recipients of the state’s largesse. They also operated with a set of assumptions about people’s lifestyles (full-time lifelong employment for men, childrearing in stable heterosexual marriages for women) which just do not square with the ways we (choose to) live now. Increasingly, so Giddens argues, we have to recognise that social contingencies, such as ill health, are often the product of individuals’ perverse behaviour or neglect (as in the case of smoking or obesity). Remedies lie not just in the hands of the state but in individuals, families and groups exercising ‘lifestyle responsibility’ (and making themselves happier in the process), often, though not necessarily, in partnership with the state. Given the greater diversity and changeability in individuals’ lives (in terms of employment, marital status, household composition and so on) we need welfare arrangements which foster a politics of second chances (Giddens, 1994, p. 172). Giddens insists that existing ‘passive’ welfare states can create demoralising patterns of welfare dependency and social exclusion arguing, for example, that retirement at 65 is an arbitrary imposition of inactivity upon a (growing) group of the population which is generally healthy and keen to be economically active (Giddens, 1994; Giddens, 2000, pp. 39-40). What is needed is a welfare regime which is empowering, which provides the opportunities (and sometimes the resources) which will enable individuals to take responsibility for their own well-being.

The welfare state that emerges from these changes is enabling or facilitating rather than providing. Globalization requires that states should focus upon the ‘competitiveness’ of their increasingly exposed economies — above all, raising the productivity of its domestic labour supply (justifying expenditure upon education and training). If standards of living are to be protected in an increasingly competitive global marketplace, developed economies have to secure a productivity premium. They have to be able to develop a workforce which is multi-skilled, flexible, adaptable and ‘clever’ — or they will find themselves engaged in a battle to provide cheap labour which they cannot win. Demographic changes (above all the ageing of the population) reinforce this imperative for greater productivity and require that states seek to displace social costs (i.e. the income maintenance of the elderly) upon citizens themselves. Increasingly there is an attempt to redefine the role of the welfare state for the elderly in terms of the guarantee of incomes (and thus selective intervention) rather than universal provision on the basis of a shared citizenship. Overall this suggests a future in which welfare states focus upon social investment rather than social costs. Welfare states should be enabling rather than providing, customised rather than generic, smaller but smarter.

This is not the only possible response to those changes that are said to make more traditional forms of the welfare state unsustainable. For a really radical alternative — one which its supporters see as uniquely suited to the new circumstances of the twenty-first century — we might turn to the advocates of a Citizen’s Basic Income. Advocates of BI turn the issue of employment and participation on its head. The core initiative is to introduce for all citizens an unconditional basic income:

... an income paid by the government to each full member of society (1) even if she is not willing to work, (2) irrespective of being rich or poor, (3) whoever she lives with, and (4) no matter which part of the country she lives in. (Van Parijs, 1995, p. 35)

Advocates of a BI begin from some of the same social and economic changes as do more mainstream advocates of reform. They too focus upon the changed world of work, but draw quite opposite conclusions. The attempt to reconcile justice and efficiency under post-war welfare state regimes was built around progressive taxation, full employment, corporatist
industrial relations, massified semi-skilled labour, Fordist labour processes and constrained capital mobility. That world is gone. Where lifelong employment (and its attendant pensions and social insurance rights) are much less certain, where relations between men and women and between both and the world of formal employment are so changed, where marriage is increasingly a serial experience, the old remedies are increasingly unworkable. The key ambition of newer employment-oriented social policies is to seek to reproduce a political economy of full employment (though in an updated and gender-neutral way). But this is impossible. Jobs can only be created (with great difficulty) by ‘flexibilisation’—lowering wages and conditions—and stable careers or, a little less grandly, steady employment from 16 to 64 (which made many aspects of social insurance work) seem to have disappeared. Those who are employed claim to have too much work, whilst those who cannot get a job have inadequate incomes. This is perverse. Technology has rendered much work redundant and the aspiration to grow our way to fuller employment comes up against real ecological limits. The problem is not a shortage of work but the relationship between employment and income. To secure the coupling of social justice to economic efficiency (and ecological sustainability) now means partially disengaging income from employment—and moving to the maximum-sustainable Basic Income for all citizens.

In the face of those who argue that with a BI no one would ever leave the beach, supporters insist that a maximal BI would actually prove to be economically efficient (as well as socially just). Critics insist that a BI set at even a quite modest level would undermine incentives, discouraging the less skilled from entering the labour market and placing a fiscal burden upon capital and more skilled workers which would encourage them to lessen their effort or withdraw from the formal economy altogether. Supporters of a BI are generally sanguine about these objections. At one level, they resist the idea that maximising growth and employment are unqualified goods. Insisting that there is an ecological limit to ‘justice through growth’, they encourage us to think of solutions that would involve both working and consuming less. Philippe Van Parijs (1995), for example, argues that what we should be seeking to maximise is not income but ‘real freedom for all’ (allowing individuals to choose as freely as possible what it is they want to do with their lives). Supporters of BI argue further that traditional accounts (and welfare states) have always privileged paid employment over other forms of work (especially the unpaid labour of women within the household) which have often been seen not to count as work at all. But even within a more traditional economic mode of accounting, BI is said to be efficient. It allows individuals to take on work at very low wages (because of the income support that BI would provide). It would allow workers to retrain without excessive cost, to start new enterprises without undue personal risk. It would encourage greater flexibility in forms of work and easier movement between household and employment. In general, a BI is said to deliver ‘flexibility with security’, a combination which ‘completely overshadows’ concerns about the disincentive effects of the new (and extensive) tax regime upon which it would be based.

Conclusion

I have confined my comments here to two quite differing responses to the challenges of the new century’s changing world of welfare. It seems clear that, for now at least, the future is
much more likely to belong to the advocacy of Giddens and the OECD than the supporters of a Basic Income. Given this, it is important to record that the belief that the future shape of welfare policy is unavoidably given by processes of globalisation and societal ageing has been systematically overstated. Although it is an argument that cannot be developed here (see Pierson, 2001), globalisation is an uneven process and societal ageing will vary substantially amongst OECD states (consider, for example, the contrast between the UK and Japan). It is not the absolute level of social expenditure but its relation to other aspects of government policy (above all, taxation) that is crucial. Simply put, international investors tend to punish not big spenders but persistent debtors (Swank, 1998). It also clear that even where the challenge is pressing there are a range of options open to policy-makers (Boix, 1998). At the same time, we need to be sure that our overview is broad enough to capture all the significant elements of any given social protection regime. Australia is an interesting case. Australia has featured frequently in OECD and World Bank accounts of ‘good’ welfare regimes, largely because it is comparatively inexpensive and strongly targeted. But, in fact, it is a country which has managed historically to combine comparatively low levels of welfare expenditure with a relatively low dispersion of incomes, largely through the judicial manipulation of labour markets and wage arrangements.

Experience suggests that however severe may be the challenges of delivering welfare in the new century, policy change is likely to be incremental (if cumulatively substantial). It will also vary substantially from place to place. (The impact of globalisation varies significantly from state to state and the same is true of the extent and consequences of demographic change). At least two aspects of the traditional welfare regime which have persisted through the recent changes and into the new century look set to present a challenge in the longer term. First, welfare states remain (despite the growth of international policy communities and the experience of the European Union) essentially national institutions and principally the domain of more developed (and affluent) states. Whatever happens to redistribution (whether of resources or opportunities) within the more affluent states, one of the great challenges of the new century will be to address the question of widening inequalities (and apparatuses of redistribution) at the global level. Secondly, welfare states have always relied upon economic growth to make their politics run. Whilst Giddens has brought an ecological sensibility into the mainstream of welfare debate, it remains the case that welfare state solutions still rely upon economic growth to finesse distributional issues. If global ecological problems are real problems in the new century (and surely the disagreement is only over the location and extent of the challenge) the attendant problem is to find solutions to the first issue (global inequality) without a straightforward recourse to the growth option. Herein lie the really big challenges for the politics of welfare in the twenty-first century.

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