

**The Development of Welfare States
in Europe and America**

Edited by
PETER FLORA
and
ARNOLD J. HEIDENHEIMER



Transaction Publishers
New Brunswick (U.S.A.) and London (U.K.)

Europe. These considerations make it more understandable that the welfare state should have become more vulnerable to attack in Britain than in most other countries.

For those who seek to predict the future, as for those who want to understand better the past, this volume seeks to distill some answers from the century that has elapsed since the German emperor delivered his social message in 1881. But to encompass the broad analyses required by such a task makes it necessary to incorporate the experiences of individual nations—be it Germany the innovator, or Britain the adapter and propagator—into the larger body of experience.

II. The Welfare State as an Answer to Developmental Problems

We can try to define the core of the welfare state and to delineate its changing boundaries by seeing it as a more or less conscious or reactive response to long-term processes and basic development problems. But what were these developments and problems? To this fundamental question of classical macrosociology we of course find different answers in the works of de Tocqueville or Weber, Marx or Durkheim. But they would agree that, in the context of European history, the growth of the modern welfare state can be understood as a response to two fundamental developments: the formation of national states and their transformation into mass democracies after the French Revolution, and the growth of capitalism that became the dominant mode of production after the Industrial Revolution.

The prehistory of the modern welfare state, the "Poor Law Period,"¹⁶ was closely related to the early state building efforts of fifteenth- and sixteenth-century Europe. The later consolidation of the absolutist state was accompanied by a gradual, though by no means continuous, "nationalization," differentiation, and extension of welfare institutions. National differences within Europe in the creation of absolutist states with strong bureaucracies and paternalistic traditions may explain the earlier or later beginnings of the welfare states (for example, Germany versus Great Britain or Sweden versus Switzerland).

The real beginning of the modern welfare state, however, had to await the transformation of the absolutist state into mass democracy in the last third of the nineteenth century, after a variable intermediary period of liberal democracy with restricted suffrage. In thus linking welfare state development with the evolution of mass democracy, one may interpret the welfare state as an answer to increasing demands for socioeconomic equality or as the institutionalization of social rights relative to the development of civil and political rights.¹⁷

But the welfare state is far more than the mere product of mass democ-

racy. It implies a basic transformation of the state itself, of its structure, functions, and legitimacy. In a Weberian tradition, the growth of the welfare state may be understood as the gradual emergence of a new system of domination consisting of "distributing elites," "service bureaucracies," and "social clienteles."¹⁸ With the structural transformation of the state, the basis of its legitimacy and its functions also change. The objectives of external strength or security, internal economic freedom, and equality before the law are increasingly replaced by a new *raison d'être*: the provision of secure social services and transfer payments in a standard and routinized way that is not restricted to emergency assistance.

At this point, however, the welfare state is no longer primarily interpreted as a response to the demand for socioeconomic equality, but to the demand for socioeconomic security. We turn from the evolution of mass democracy and the transformation of the nation state to the second fundamental development in modern European history: the growth of capitalism. In the Marxist tradition, the welfare state is seen as an attempt to deal with specific problems of capitalist development, class conflict and recurring economic crises: welfare measures represent an effort to integrate the working classes without fundamental challenge to the institution and distribution of private property. As with the early state building efforts, the prehistory of the welfare state is also tied to the emergence of capitalism in sixteenth-century Europe—to a growing labor market, agrarian capitalism, rural unemployment, and overpopulation. And as with the democratic transformation of the state, the creation of the modern welfare state did not precede the aggravation of business cycle effects and the intensification of organized class conflict in the last decades of the nineteenth century.

Both perspectives—that of political sociology in the tradition of de Tocqueville and Weber, and that of political economy in the tradition of Marx and others—do not necessarily contradict one another and may in fact be complementary. They are an expression of the historical constellation in which the European welfare state emerged, a constellation of growing mass democracies and expanding capitalist economies within a system of sovereign national states.

In Chapter 2, it will be shown, however, that the most democratic and capitalist of the European societies at that time were not the first to develop the institutions and policies of the modern welfare state. Furthermore, the fascist states after World War I did not completely change these institutions and even developed them to some extent. Finally, the experience of Russia after 1917¹⁹ illustrates that nondemocratic and noncapitalist societies have established very similar institutions. Thus, the welfare state seems to be a far more general phenomenon of modernization, not exclusively tied to its "democratic-capitalist" version.

The generality of this phenomenon may be illuminated by some of

Durkheim's ideas and concepts. Using his perspective, the welfare state may be understood as an attempt to create a new kind of solidarity in highly differentiated societies and as an attempt to respond to problems in the division of labor, which for him is the basic process of structural change in modernizing societies. Division of labor weakens old associations and intermediary powers and thus increases the opportunities for individualization. Responding to the need to regulate the manifold new exchange processes, social life is centralized. These fundamental processes are reflected in the institutions of the welfare state; public bureaucracies take over many of the functions formerly filled by smaller social units, and their services and transfer payments tend to become more and more individualized.

In Durkheim's view, the integration of highly differentiated societies is threatened by two main problems: anomie and inequality. His famous concept of anomie refers to a lack of normative or moral regulation that manifests itself on two levels: social relationships and individual personalities.²⁰ He first applied this concept to the unregulated socioeconomic relationships produced by the growth of the capitalist market economy that resulted in recurring economic instability and increasing industrial conflict. He later extended it to define an imbalance between individual needs and wants and the means of satisfying them.

From a Durkheimian point of view, the contemporary welfare state represents only a partial, and to some extent inadequate, answer to the problems of anomie. The democratic welfare states have met with only limited success in attempting to institutionalize industrial relations and conflicts and to stabilize markets. Although they have developed institutions of income maintenance and tried to secure the provision of specific services, they still respond primarily to material needs and have remained somewhat helpless in shaping and defining those needs themselves. Thus the welfare state would here represent an answer not to the more general problem of anomie in modern societies, but rather to the limited problem of economic insecurity. This limitation may explain some of the more recent problems of the welfare states in creating feelings of security and satisfaction.²¹ The fact that economic security is usually called social security is perhaps a hint of this underlying difficulty.

For Durkheim, the answer to the problem of anomie was normative regulation. In order to create solidarity, however, such regulation had to be considered just, which for him meant equality of opportunity and just contract on the basis of an equality of exchange conditions. In the Western cultural tradition as a whole, however, the concept of equality is broader and has two different meanings that are at least partially contradictory.²² The first is a major component of the socialist ethic, often called equality of result. It implies an equalization in the disposal of resources, commodities,

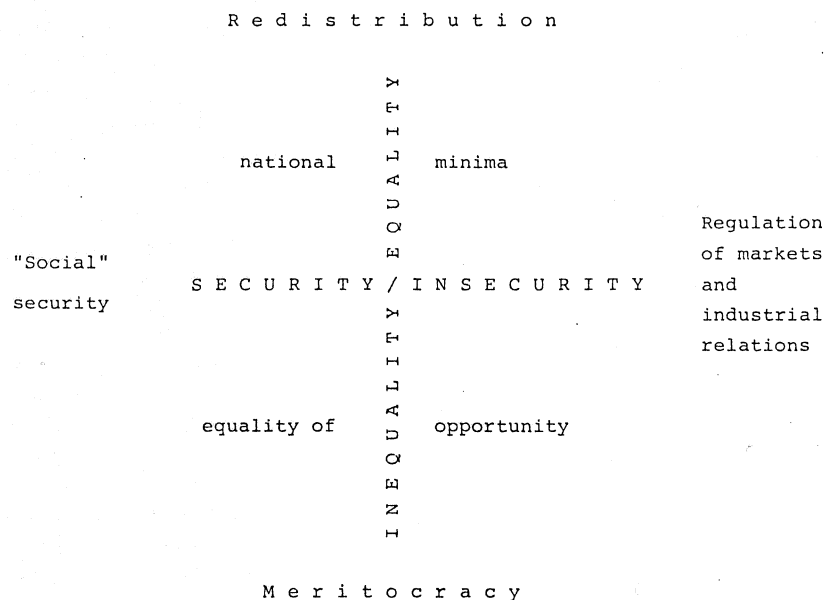
and services, a redistribution according to needs. In interpreting the welfare state as a response to equality demands of this kind, one must distinguish between efforts to establish national minima (poor relief, minimum wage, national pensions, compulsory education, certain social services) and efforts at redistribution in a stricter sense (above all, progressive income taxation). This distinction has been of great historical importance and still has institutional consequences. The second meaning, a major component of liberal ethic, is equality of opportunity and is most relevant in the field of public education. The development of comprehensive secondary education would be an example of an attempt to realize this principle. In its emphasis on merit, however, equality of opportunity inherently legitimizes inequality, mainly in the form of income and status differences. This is most obvious in income-related social insurance programs and the higher levels of public education financed by general taxes.

Security and equality are here seen as the two fundamental dimensions of the welfare state. These dimensions may be shown graphically, in Figure 1.1. This schematic view, however, does not answer empirical questions about the relative importance of these two objectives or the degree to which they have been realized. Has the goal of security always been more important than the goal of equality? What were the different priorities among the Western nations and how have they changed over time? Furthermore, both objectives may interact to supplement as well as contradict one another. Thus, as soon as social security develops into a security of social status, it contributes to the stabilization of inequality. But in so doing, even such a stabilization modifies inequality in that the poorer parts of the population have usually been the most insecure.

There are three basic means by which the welfare state pursues its goals: the direct payment of cash benefits, the direct provision of services in kind, and the indirect extension of benefits through tax deductions and credits. The essential function of transfer payments, the first of these means, is income maintenance for typical phases of nonemployment in the life cycle (maternity, childhood/parenthood, education and training, old-age, widowhood), typical situations of employment incapacity (sickness, injuries, invalidity), and unemployment among the active labor force. These benefits may be financed either with earmarked taxes or general revenues. In addition, benefits in cash and kind such as public assistance may be given in less standardized situations of need that are not covered by differentiated income maintenance schemes. An analysis of transfer payments must also take into account family allowances and subsidies for specific goods and services ("vouchers").

The direct public provision of services in kind is the second basic instrument of the welfare state. In interpreting and evaluating this means, one has to see it in close connection with governmental intervention in

Figure 1.1
Dimensions of the Welfare State



private markets, like the housing market, and subsidization of market goods, like food supplies. Today, four such services predominate: education, medicine and medical care, social care and advisory services, and housing. Of course, the "social service basket" varies a good deal among the Western welfare states, and it has naturally changed in the process of political and economic development. The regulation of food supply was formerly an essential public function,²³ and in the future new services, such as recreational facilities, may be more important on a continuing basis.

Finally, tax credits, the third and often neglected method, may serve as a functional equivalent to direct benefits in cash or kind.²⁴ In a still broader perspective, the more indirect instruments of economic policy and protective legislation would have to be added to these three basic tools, insofar as they are concerned with security and equality.

The objectives and instruments discussed above provide the conceptual elements and coordinates for a definition of the welfare state. In themselves, however, they do not define the historical core of the welfare state or describe how its boundaries change in the process of development. It has become usual to identify the beginning of the modern welfare state with the

innovation of social insurance. Should we therefore define the historical core of the modern welfare state by its attempt to "insure" the working classes against the danger of losing their income through industrial injuries, sickness, or old age?

Let us look at the case for doing so. In comparison with earlier poor relief, social insurance had several new traits:

- its main intention was not to help destitute people in cases of emergency, but to prevent destitution through routine measures;
- it was a differentiated institution aiming at the maintenance of earned income in specific situations;
- it focussed on the male laborer rather than on women and children, the main beneficiaries of previous poor relief;
- it usually compelled potential beneficiaries to contribute to its financing, thus strengthening their legal claim to benefits.

A major distinction of the social insurance mechanisms, however, lay in how the internal dynamics of its routine procedures differed from those of poor relief. By its very nature poor relief covered only a small part of the population, although it could be extended and become more widespread. Social insurance, on the other hand, is characterized by a double dynamic. One tendency has been to extend income maintenance schemes to additional contingencies, most obviously to unemployment. These extensions may also have contributed to generalizing demands for public income guarantees through other methods, such as price regulations for agricultural products.

Probably even more important, is that social insurance resembles suffrage to some extent. Once the right to vote is given to one population group, other groups will sooner or later also be enfranchised; usually, in the modern context, there is no way back other than to abolish elections altogether. The extension of social insurance is a similar process, though differing in two respects. Whereas the right to vote was extended from the top to the bottom of the social ladder, social insurance usually was broadened in the other direction. And whereas elections have been abolished in modern societies, social insurance institutions scarcely have.

But one can entertain reservations about regarding social insurance as the historical core of the welfare state. From the very beginning it was surrounded by other institutions and policies, both old and new. Some of these became more and more important and certainly have changed the boundaries of the welfare state; they may even have shifted its core. For example, the old institution of poor relief remained significant, even though it changed its nature and name. Protective legislation and factory inspection preceded social insurance in many countries, as did the freedom of association and the development of trade unionism and collective bar-

gaining. Furthermore, the institution of other policies with related objectives fall into the same period as social insurance legislation: the introduction of income taxation for higher income levels; the extension of public primary education in some countries and reform of secondary education in others. National policies dealing with housing and employment usually did not develop before World War I, but communal efforts started much earlier.

III. Changing Welfare State Boundaries

The difficulty in defining the boundaries of the welfare state lies at least as much in how to formulate the question as it does in how to interpret measurements that would provide a tangible answer. Should the question be posed in terms of the goals of policies and programs, the reach of bureaucratic institutions, the magnitude of budgets or of the needs of social groups and their power to elicit governmental response to them?

This problem came to be faced in Germany in the 1920s, after the core institutions had been established and legitimated through the inclusion of social rights in the Weimar constitution. In 1929, shortly after the last of the four basic social insurance programs had been put into place, the economist Eduard Heimann addressed himself to the question of defining the boundaries of what he called social policy. He answered that there could be no such boundaries: "The diminution of capitalism which social policy brings about does not create a vacuum, but the creation of something new and different in those areas which are extricated from the sphere of pure capitalism. But everywhere these structures attach themselves to the remaining capitalist institutions. . . . In general, the boundaries of social policy can only be related to the existing boundaries of social power, but this sentence is itself tautological if one refers not to the institutions as such, but to the social forces that operate through them."²⁵

Up to 1914, and to a large extent through the interwar period, the social forces most relevant to welfare state development were those of the working class. But in the post-1945 period the benefits of both social insurance and social services were extended on a massive scale to increasing proportions of the middle classes. This was done either by universalizing income transfer programs and public services or by adding middle-class beneficiaries in incremental steps. The main instruments for this expansion were mass political parties, and Wilensky demonstrates in Chapter 10 that European Catholic parties competed very effectively with Social Democratic ones in "blanketing" these strata into the security guarantees of public programs.

The social insurance mechanisms that buttressed the security goals of the working class had by the 1950s become institutionalized, with the support

of unions, so as to constitute a sphere distinguishable from the core capitalistic institutions. But the inclusion of middle class beneficiaries again complicated the boundary questions, especially as regards the relationship between public and private programs. The affluent middle classes already possessed extensive security supports, and their organizations were frequently sharply divided over how the private and public programs should complement each other. Where middle class providers and client organizations were relatively stronger, as in the United States, the share of many education, health, and income maintenance guarantees supplied through private organizations remained larger. This complicates the boundary questions because functionally similar structures may be classified as belonging, or not belonging, to the welfare state complex, depending on the degree of public control, which is usually clear-cut, but sometimes a matter of degree.

In 1961, after the middle classes in Britain and elsewhere had become beneficiaries of many welfare state guarantees, Asa Briggs ventured a definition of what a welfare state is:

A "Welfare State" is a state in which organised power is deliberately used (through politics and administration) in an effort to modify the play of market forces in at least three directions—first, by guaranteeing individuals and families a minimum income irrespective of the market value of their property; second by narrowing the extent of insecurity by enabling individuals and families to meet certain "social contingencies" (for example, sickness, old age and unemployment) which lead otherwise to individual and family crises; and third by ensuring that all citizens without distinction of status or class are offered the best standards available in relation to a certain agreed range of social services.²⁶

This definition can be used to delineate more clearly the question of welfare state boundaries.

The attempt to circumscribe more precisely the kind of governmental activities encompassed by the welfare state has provoked two kinds of border disputes, one related to definitions of minima, the other related to range of services. The disputes over minima flared up as the consequence of the redefinitions of poverty that were articulated in all countries during the late 1960s and early 1970s. Critics applied concepts like relative deprivation to identify demands for equalization of resources for much larger population groups than those who had up to then benefited from the implementation of national minima, as established in the Beveridge and similar plans.

This led proponents of the older, more limited definitions of poverty and welfare state goals to expostulate heatedly that

the new formulation appears to be that everyone who is not able to enjoy middle-class standards is assumed to be living in poverty and must be rescued from his state of relative deprivation. . . . The new definition makes inequality