



THE LONDON SCHOOL
OF ECONOMICS AND
POLITICAL SCIENCE ■



LSE 'Europe in Question' Discussion Paper Series

Collapsing *Worlds* and *Varieties* of welfare capitalism: In search of a new political economy of welfare

Waltraud Schelkle

LEQS Paper No. 54/2012

November 2012





Editorial Board

Dr Mareike Kleine

Dr Vassilis Monastiriotis

Dr Jonathan White

Dr Katjana Gattermann

All views expressed in this paper are those of the author and do not necessarily represent the views of the editors or the LSE.

© Waltraud Schelkle



Collapsing *Worlds* and *Varieties* of welfare capitalism: In search of a new political economy of welfare

Waltraud Schelkle*

Abstract

The study of welfare capitalism is concerned with a founding question of political economy, namely how capitalism and democracy can be combined. Ever since the publication of Esping-Andersen's *Three Worlds of Welfare Capitalism* in 1990, the answer was sought in identifying ideal types of welfare states that support a class compromise. *The Varieties of (Welfare) Capitalism* literature is increasingly used as a complementary theory of production systems although its rationale for social policies is largely incompatible with the Worlds typology. This article argues, first, that popular regime typologies have degenerated as a research programme, notwithstanding their many achievements. The main reason for this lies in a simplistic notion of the relationship between politics and economics in modern society. Secondly, the article outlines an alternative for analysing welfare provisions and their evolution, drawing on insights of the new politics and the new economics of welfare. This framework can give a systematic account of welfare program restructuring that undermines regime typologies. It suggests a different question for the political economy of welfare, namely how capitalism and democracy can be kept distinct.

JEL Classification: P16-Political Economy, H53-Welfare Programs, A12-Relation of Economics to Other Disciplines

Keywords: welfare state, political economy, comparative politics, varieties of capitalism

* London School of Economics and Political Science
European Institute, Houghton St, London WC2A 2AE, UK
Email: w.schelkle@lse.ac.uk

Table of Contents

Abstract

Introduction	1
Collapsing <i>Worlds</i> and <i>Varieties</i> of Welfare Capitalism	4
Why are regime typologies so attractive?	4
What are the symptoms of a research programme in crisis?	8
What has been done to restore the research programme?	11
In search of a new political economy of welfare	15
Insights of the new economics and the new politics of welfare	17
Contours of a new political economy of welfare	21
The value added of the new political economy of welfare	26
Concluding remarks on democracy, capitalism and the welfare state	30
References	34

Acknowledgements

In writing this paper, I have greatly benefited from discussions with Wolf-Hagen Krauth (Berlin-Brandenburg Academy of Sciences) and Deborah Mabbett (Birkbeck, University of London). Christa van Wijnbergen (LSE) gave me excellent comments on a first draft. Helen Bolderson (Birkbeck), Richard Bronk (LSE), Bernhard Ebbinghaus (Mannheim), Alison Johnston (LSE), Andreas Kornelakis (LSE), Costanza Rodriguez d'Acqui (LSE), Iyiola Solanke (East Anglia) and in particular Abby Innes (LSE) and Gwen Sasse (Oxford) were very helpful with encouraging and critical remarks on a version that was presented at the ESPAnet conference in Helsinki and at the Oxford Centre for the Study of Inequality and Democracy (OCSID) in 2008. Many thanks also to Peter Hall (Harvard) and Mark Vail (Tulane) for their insights and generosity in commenting on a late version of this paper while we were at the Hanse-Wissenschaftskolleg in Delmenhorst.

Collapsing *Worlds* and *Varieties* of welfare capitalism: In search of a new political economy of welfare

Introduction

The question of how to study welfare capitalism brings us back to one of the founding questions of comparative political economy: ‘how is it possible to combine capitalism with democracy?’ (Iversen 2006, 601) Capitalism produces inequalities that distribute economic power unevenly while democracy assigns political power, in terms of the vote, evenly. So why do the many poor not elect politicians that expropriate the rich; or if they do, how can capitalism survive? One answer is: the class compromise enshrined in the welfare state prevents the poor from soaking the rich.

Ever since the publication of Esping-Andersen’s *Three Worlds of Welfare Capitalism* in 1990, this answer was sought in identifying distinct ideal types of welfare states that can explain different variants of the class compromise. Power resource theory claimed that the size and structure of the welfare state shows the historical importance of the political left and its alliances with the middle classes (Korpi 1974, 2006). The three *Worlds* classification is a direct descendant of this social policy tradition. Another set of comparative political economists concentrated on the role of organized labour and the extent to which it was co-opted by the state (Goldthorpe 1984). The *Varieties* of (welfare) capitalism typology is in this industrial relations school of thought, following Swenson (1991, 2002) in the shift of research interest to the role of big business and organized employers.

Collapsing *Worlds* and *Varieties* of welfare capitalism

This contribution has the same point of departure as these regime typologies, namely that the co-evolution of capitalism and welfare states raises fundamental questions about political economy, both as a theoretical field of study and as an empirical phenomenon of public policymaking. But in contrast to these two approaches, I suggest that the construction of ideal types at the country level no longer generates interesting research puzzles and in this sense has degenerated as a research program, despite the many achievements of these regime typologies. Throughout, I will focus on the time-honoured *Worlds* (Esping-Andersen 1990) and the newly imported *Varieties* derived from research coordinated by Hall and Soskice (2001a) because they are the two most popular typologies. The second part of my paper is then devoted to outlining a different theoretical and analytical framework for studying welfare capitalism in comparative political economy. It combines the insights of the new politics of welfare (eg Pierson 2001; Hacker 2002) and of the new economics of welfare (eg Barr 1992; Sinn 1995, Atkinson 1999). They were unrelated attempts at explaining the resilience of the welfare state after the Golden Age of expansion had come to an end. Their insights are not easy to reconcile but this lack of a pre-ordained, harmonious relationship between the politics and the economics of welfare in modern society is itself an insight and a crucial ingredient of what might be called a new political economy of welfare. The lack of a pre-ordained relationship means that we cannot simply assume the direction of causation between economics and politics: neither that economic pressures will generate predictable problem-solving responses in the political sphere, nor that the political institutions will determine how much economic change there can be.

The proposed framework seeks an answer at another level of political economy analysis than the nation state, starting from the assumption of the new politics of welfare, namely that once in place policies create their own

constituencies and, adding insights of the new economics, shape the economic processes of which they become a part. The main difficulty for advancing an alternative that retains at least some of the synthesizing and mapping capacity of regime typologies is to conceptualise social policies in a generic and meaningful way. I suggest generalizing the notions of insurance, residual assistance and universal public goods that are common in social policy research and were also important for the *Worlds* classification.¹ The generalization is necessary to include not only cash transfers, but also services and regulations that provide safety nets. But, and this must be stressed so as to prevent false expectations, rather than proposing a full-fledged new theory, this proposal uses findings in comparative social policy research and shows how they fit into richer and yet systematic accounts of policy reform if they are not bound to demonstrate each time that the object of study fits into the straitjacket of a national regime.

The next section explains what makes the *Worlds* and *Varieties* typologies so attractive but also why they both show signs of a Kuhnian paradigm crisis where empirical anomalies abound and require ever more ad hoc explanations (Kuhn 1962, ch.8). This part does not go into details of just how ‘degenerative’ these typologies are as research programmes in Lakatos’ use of the term (Lakatos 1970) because it would give the wrong impression that I am dismissive of what many comparative welfare state researchers do, which I am not. I also leave aside many other valid points that have been raised by insightful critics and led to fruitful debates with the proponents of *Worlds* and *Varieties* (Esping-Andersen 1999; Hancké, Rhodes & Thatcher 2007a). The second main part outlines an alternative conceptualization of political economy and comparative methodology that can relate this alternative to

¹ Esping-Andersen (1990) assumed that the class compromise in conservative welfare regimes led to the dominance of insurance schemes, while residual assistance schemes prevailed in liberal welfare states and universal benefits were the social policy instrument of choice in social-democratic welfare states.

recent research on the political economy of welfare reform.² The conclusions come back to the question of how the welfare state relates to capitalism and democracy.

Collapsing *Worlds* and *Varieties* of Welfare Capitalism

The proponents of *Worlds* or *Varieties* see their regimes as ideal types of welfare capitalisms.³ For the comparative study of welfare states, regime typologies fulfilled a similar role to that of Weber's ideal types in sociology in the early 20th century, which made them understandably attractive. To the credit of all the research that has been done in their wake or in parallel, however, we are no longer in the phase where we need ideal types to map the terrain. An analytical framework built on ideal types captures this world as an aberration from the theory, of which there can obviously be an infinite number (Luhmann 1980, 244). These regime typologies give us rather distorted maps, typically out of date and missing crucial detail for some, while stressing irrelevant features for others.

Why are regime typologies so attractive?

The notion of a regime and of institutional complementarities that reduce to a few configurations brings order to a bewildering diversity of welfare schemes and their viable relationships. Esping-Andersen postulates that the

² The literature is vast; see for instance Ferrera & Rhodes (2000); Hacker (2004); Streeck & Thelen (2005).

³ Those who use his classification invariably think of *Worlds* as ideal types (eg Ebbinghaus & Manow 2001, 8-9; Arts & Gelissen 2002) while Esping-Andersen (1990, 49) noted that '[i]n reality, however, there are no one-dimensional nations in the sense of a pure case'. For *Varieties*, see Hall & Soskice (2001b, 8, 35); Ebbinghaus & Manow (2001, 5); and Hancké, Rhodes & Thatcher (2007a, 13, 25).

differences between OECD countries can be boiled down to three different *Worlds* of welfare capitalism. They are characterised by different degrees of decommodification (replacement of market earnings), types of stratification (ascription of social status) and different main providers of welfare (state, family, market) of the regime: There is, first, the *Scandinavian Social-democratic World* with generous decommodification and the stratification of inclusive social citizenship, financing universal benefits through taxes. The state is the main welfare provider in this regime. Second, we have the *Continental European Conservative World* with a varying degree of decommodification and stratification that preserves the status of workers, white collar employees, civil servants, or the self-employed through separate insurance schemes. The family is supposedly the main welfare provider in this regime. And third, the *Anglo-Saxon Liberal World* is characterised by minimal decommodification and stigmatising stratification through residual, means-tested benefits. Here, the market is the main welfare provider.

Hall, Soskice and their many distinguished co-authors claim that, from the point of view of the firm, there are two *Varieties* of capitalism, of which there may be some sub-varieties but the major institutional complementarities between labour markets, finance, corporate governance and training systems are captured by this alternative. The *Coordinated Market Economy* 'is characterized by non-market relationships, collaboration, credible commitments, and the "deliberative calculations" of firms'. The *Liberal Market Economy* 'is one of arm's length, competitive relations, formal contracting, and supply-and-demand price signalling' in labour, capital and product markets (Hancké et al 2007a, 5). The *Varieties* approach looks at welfare provisions insofar they serve to commodify the workforce in the interest of employers.

This systemic view has taken comparative welfare state research out of its traditional confines. Esping-Andersen (1990, 29-33) was quite explicit about

the necessity to reconnect the research of welfare states and regimes with political economy: ultimately, it is differences in political coalition-building across economically defined classes that gave contemporary welfare states their particular shape and ideological imprint. The *Varieties* typology draws the attention of researchers to the 'ways in which social policies can improve the operation of labor markets, notably from the perspective of the firm.' (Hall & Soskice 2001b, 50) Hence it provides arguments for 'social policy as a productive factor', which the *Worlds* classification attributes to the 'social investment state' in Sweden only (Esping-Andersen 1996, 3).

Regime typologies also became politically attractive since the 1980s when conservative governments' attack on welfare was in full swing (Pierson 1994). They seemed to provide effective counterarguments to the view that there is one best practice of a market economy and that economic pressures will force convergence on a minimalist welfare state. This is not to deny that those attacks and waves of trade liberalisation, socio-demographic change and deindustrialisation have an effect on the existing configurations of welfare systems. There are plausible orthodox responses to this, renewing the non-convergence hypothesis (Hancké et al 2007a, 10-13). One is that comparative institutional advantages and institutional complementarities will play themselves out and lead to even more pronounced regime formations.⁴ In welfare reforms, some may utilise their traditions of social partnership, while others promote effective targeting combined with absorptive labour markets (Featherstone 2004, 426-427). Another orthodox response is to identify regime-specific pathways of adjustment, for instance different welfare reform strategies of dealing with the trilemma of the expanding service sector economy between budgetary restraint, income equality, and employment

⁴ See Höpner (2005) and Crouch et al (2005) for a rich discussion of the concept of institutional complementarity. None seems to believe that identified complementarities can predict the path of adjustment.

growth; the social-democratic strategy compromises on budgetary restraint, the neo-liberal sacrifices income equality, and the corporatist strategy foregoes employment growth (Iversen & Wren 1998).

Shared attractiveness does not make *Worlds* and *Varieties* compatible, contrary to the claims of Hall & Soskice (2001b, 50-51) or Ebbinghaus & Manow (2001, 3, 7-8). It is not surprising that they differ, given their different origins in social policy research and power resources theory, industrial relations research and neo-corporatist theory, respectively. The *Worlds* classification is based on major transfer programmes of welfare states that it portrays as originating in modern state building in the epoch of industrialisation. By contrast, *Varieties* is a 'firm-centred political economy' and focuses on directly employment-enhancing social policies within an established set of institutions. Moreover, the decommodification and stratification indices in *Worlds* portray the welfare state as an institution that, to different degrees, emancipates individuals from the market and replaces class differences by status differences of its own. The liberal-coordination distinction of *Varieties*, by contrast, portrays social protection as commodifying, often reflecting the power of employers: '[E]mployment and income protection can be seen as efforts to increase workers' dependence on particular employers, as well as their exposure to labour market risks. Moreover, social protection often stems from the strength rather than the weakness of employers.' (Estévez-Abe et al 2001, 181) *Worlds* and *Varieties* are diametrically opposed in this respect which renders attempts at combining the two approaches questionable.⁵ Moreover, it requires not only political but also economic theory to explain how the promise of generous decommodification may lead to a more productive

⁵ This is true even if undertaken as competently as by Pierson 2000, 793-800; or in Ebbinghaus & Manow (2001b). Scharpf & Schmidt (2000: 18) have early on admitted that they 'struggled with these contingencies' created by overlapping typologies of welfare states (following *Worlds*), industrial relations systems (following *Varieties*) and governance systems (anticipating a later research strand in *Varieties*).

Collapsing *Worlds* and *Varieties* of welfare capitalism

economy. *Worlds* largely fails in this respect while *Varieties* focuses on labour market incentives. This does not suffice to explain why wealthy economies typically have generous welfare provisions and build them up to keep the economy afloat in a crisis, as in the US during the Great Depression once and again in the Great Recession of 2007-09.

What are the symptoms of a research programme in crisis?

Both the *Worlds* and the *Varieties* typologies have solicited much debate. The high quality of the criticism expressed in these debates is to their credit, indicating that it is worth engaging with these typologies. Despite these valid criticisms, however, the sociology and philosophy of science associated with the work of Thomas Kuhn (1962) and Imre Lakatos (1970) suggest that theories and their underlying research programmes are not simply abandoned if certain countries or phenomena do not fit. The anomalies and ancillary hypotheses will proliferate until the search for an alternative becomes imperative. The research puzzle why countries respond differently to the same pressure (be it industrialisation or globalisation) becomes repetitive rather than exciting, especially when there is not a response at the country level but, for instance, cross-country convergence in the thrust of labour market and family policies while in pensions governments have gone for very different mixes of public, occupational and personal sources of old-age security, not necessarily true to type (Palier and Martin 2007). The following concentrates on anomalies and ad hoc explanations that are most significant from a political economy point of view.

There is the anomaly, present from the start, that many countries do not fit the classification. For the *Worlds* typology, Scruggs and Allan (2006, 61) find in their re-estimate of the decommodification index that 'at least six of the

eighteen countries rank in a group inconsistent with type'. Their other attempt at replicating the *Worlds* classification finds that, on the socialist stratification index, two presumably liberal countries, the UK and Canada, score highest or higher than most social-democratic countries, respectively (Scruggs & Allan 2008, 659-660). Theirs is the most sophisticated attempt at replicating the *Worlds* classification to date for which they had to construct their own data set since the one used by Esping-Andersen was published only recently (Korpi & Palme 2008). Scruggs and Allan conclude that Esping-Andersen has come to his classifications in other, mysterious, ways than the ones stated in the Appendices of his book. A recent meta-review that claims that 23 studies confirm Esping-Andersen's typology exclude all studies that consider health care and education as part of the welfare state because these two social policy areas follow 'a distinct, different logic from decommodification [and] social stratification' (Ferragina and Seeleib-Kaiser 2011: 587). In other words, the review needs a massive selection bias to find that between two and three countries fit one of the three worlds while the rest of the OECD world is a mixed case.

Similarly, the *Varieties* classification had notorious difficulties with a number of countries.⁶ For instance, Denmark combines the traits of a coordinated market economy with genuinely liberal labour market regulation. Others, like France or Japan, are based on coordination by the state that is not captured by a firm-centric view with its simple dichotomy. Most former socialist countries of Central and Eastern Europe are notorious outliers in both *Worlds* and *Varieties*, even two decades after they started transition.

Both regime typologies are seriously disrupted if we look at social services and take the related issue of gender into account. It has been pointed out by many that the three *Worlds* classification is so neat only because Esping-

⁶ See, for instance, Crouch (2005, ch.2); Martin & Thelen (2007, 2); Schmidt (2009, 520-522).

Andersen left out all programmes based on services rather than transfers, for instance health care in contrast to sick pay.⁷ This is a particularly effective critique, because Esping-Andersen himself was critical of expenditure-based classifications – only to reproduce this expenditure bias in his decommodification index (Esping-Andersen 1990, 19-20; cf. Castles & Mitchell 1993, 103). Moreover, the *Worlds* classification is based on the notion of ‘regimes’, comprising welfare as provided by the state, the market and the family; yet the huge area of care services provided in the family and by the market is ignored.

This transfer bias has a male gender bias in its wake. Feminist scholars asked early on why defamilialisation is not a criterion of the typology, as fundamental as decommodification and stratification.⁸ But taking defamilialisation into account may upset the typology. Less dependence on the family as a welfare provider typically comes with a low-pay private care sector employing a predominantly female workforce, or at the cost of very high occupational segregation as in Denmark and Sweden where women provide the replacement services in less well-paid, often part-time public sector jobs. Hence, defamilialisation in the social democratic regime is supported by a workforce that is more commodified or stratified. To put it in Manow’s ingenious phrase, the ‘bad’ or ‘ugly’ are not alternatives but may constitute the other side of the ‘good’.⁹

The *Varieties* classification with its focus on occupational welfare includes services, in particular education, but confines itself to a narrow range of these

⁷ See Jensen (2008) for a recent deconstruction of the ‘Worlds of services’. Sick pay is included in the decommodification index, along with pensions and unemployment benefits (Esping-Andersen 1990, 54).

⁸ See for instance Lewis (1992); and Orloff (1993), early feminist critiques which Esping-Andersen (1999: ch.4) conceded without changing his *Worlds* classification.

⁹ Manow (2004) characterized the normative preferences of Esping-Andersen (1990) pertinently by translating the *Worlds* typology of social democratic, liberal and conservative welfare regimes into ‘The good, the bad and the ugly.’

services. For instance, all education is analysed only in terms of skills formation and vocational training, asking whether it serves the needs of the liberal or the coordinated market economy (Estévez-Abe et al 2001; Soskice 2007, 92-93). This leaves out all the social discipline and integration aspects of universal schooling. Care services are ignored in this typology as well, which is not surprising given the interest in macro-coordination and the large manufacturing firm as the prototypical key player. If care services are indirectly taken into account, namely insofar they affect women's career and employment prospects, Estévez-Abe (2006) finds that the coordinated market economy does worse in terms of both equality and flexibility of labour market outcomes for women with qualifications. This extends to women in low-skill jobs if the findings of King and Rueda (2008) are correct that low-paid workers are less protected in coordinated market economies than in liberal counterparts.¹⁰ Hence, the equivalence of the two regimes (low equality/ high flexibility in liberal, high equality/ low flexibility in coordinated market economies) breaks down if we take into account that gender differences matter in labour markets.

What has been done to restore the research programme?

First of all, ad hoc explanations have been added to the parsimonious typologies. This is inherent in the construction of ideal types that takes real cases and reduces them to a few important traits through 'reasoning from example' (Bolderson and Mabbett 1995, 123; cf Crouch 2005, 34-35), in the case of *Worlds* from Sweden, Germany and the US, in *Varieties* from Germany and the US or the UK post-Thatcher. It remains opaque why some traits are deemed important while others are not, or which real case is elevated to the

¹⁰ See also Orloff (1993, 316).

benchmark ideal type for all other cases. Specialists on other countries invariably feel that it does not quite fit their favourite example. But they can happily engage with the typology and contribute their case. Unfortunately, the typology tends to fall apart in the process as all other countries become hybrids (and sometimes even the original if it happens to change). This required, sooner or later, saying farewell to 'the idea of parsimony as meaning a kind of rough, tough macho theory that concentrates on the big picture' (Crouch 2005, 40).

The list of types gets correspondingly longer. In *Beyond Varieties*, the classification expands to four types of welfare capitalism, adding a statist and a compensating state variety, because the liberal and the coordinated market economies cover only OECD countries where the state-economy relationship is arm's length.¹¹ This add-on comes on top of talking about mixed and emerging market economies. Attempts to provide a less Euro-centric version and include Asian and Latin American countries extend the *Varieties* by two more, namely network and hierarchical market economies (Schneider 2008). Similarly, the *Worlds* classification was criticised early on for missing the 'Latin-rim' or Southern European welfare regimes that cannot be subsumed under the continental European type (Ferrera 1996). Castles (1993) was critical of the Anglo-Saxon liberal category and added the 'radical wage earners' regime for countries like Australia where means-testing prevails but provisions are not necessarily residual.

An interesting exception to the tendency of creating ever more fine-grained classifications is Hicks and Kenworthy (2003). They collapse the three *Worlds* into two, a 'progressive liberal' and a 'traditional conservative' cluster, expanding on Esping-Andersen's more recent emphasis on labour market

¹¹Hancké et al (2007a, 23-28); Schmidt (2009, 525-529) also emphasizes state-variants of *Varieties*.

regulation and family policies. However, these two *Worlds* are end-points of a continuous scale along which they assign countries, thus ‘shift[ing] attention from worlds of welfare capitalism to welfare state dimensions’ (Hicks & Kenworthy 2003, 52). It thus means abandoning the categorisation according to ideal types. They also link these dimensions to outcomes and find that the non-convergence hypothesis becomes problematic. Different ways of doing welfare are no longer equivalent; the ‘progressive liberal’ *World* cluster does clearly better on employment performance and gender equality. What this means is that focusing on welfare state dimensions, rather than entire fitting clusters of dimensions, does not necessarily lead to an ever more confusing array of cases and this focus generates interesting research puzzles, for instance why governments and their electorates forgo policies that would lead to what most people would consider preferable social outcomes.

Scholars also tried to take the possibility of gradual and endogenous transformation more seriously and overcome a conservative bias in the institutionalist research paradigm of which regime typologies are one strand.¹² While still in the institutionalist tradition, their proposals amount to a potentially more radical step because it is no longer the assumed existence of regimes that guides the research effort but their possible dissolution. The five modes of ‘gradual yet transformative change’ that Streeck and Thelen (2005) identify are a good example. They argue, in contrast to Iversen and Wren (1998), that there is no reason to think that certain modes of reform are used only in particular *Worlds* or *Varieties*, they are generic ways of describing both the evolution of institutions and intentional reform strategies.¹³ In a similar vein, Crouch (2005, 13, 99) argues that ‘real-world institutions’ contain

¹² Ferrera and Rhodes (2000); Scharpf and Schmidt (2000); Streeck and Thelen (2005).

¹³ The five modes are ‘*displacement* of dominant with dormant institutions, institutional *layering* and subsequent differential growth, tolerated *drift* of institutions away from social reality, slow *conversion* of existing institutions to new purposes, and *exhaustion* due to systemic incompatibility and erosion of resources.’ (Streeck and Thelen 2005, 33; my emphasis)

'elements of complexity and incoherence' that provide room for change and innovation, sought by opportunistic actors. The outcome is hybridization as Streeck and Thelen (2005, 21) note: 'All societies are [...] in some way hybrids, some more or less so.' The problem is that each regime is hybrid in different ways, not linearly 'more or less so' as in a regression-type analysis to which the notion of regimes is opposed.

A parsimonious typology of welfare capitalism cannot be the maxim of a research programme. It is at best a desirable research finding that must be amenable to empirical scrutiny. Scrupulous attempts are still made; eg by Castles and Obinger (2008) who trace 'families of nations' over time but have to change their labels and the groupings; or by Amable (2003) who identifies five groups of countries derived from data about product and labour markets, financial and social protection systems. But it seems fair to conclude that the desirable research finding has not been established. And why should countries with their idiosyncratic histories and imagined communities, their different demographic composition and geopolitical dimensions, or the ideological swings of democratic government, fall neatly into a few boxes that exhaust the possibilities of welfare states in the past, present and future? The best we can hope to get from country typologies is a contrived analytics for area studies. There must be better ways of comparing welfare regimes, based on a theory of political economy in modern society.

In search of a new political economy of welfare

Thanks to the research that has been done within *Worlds* and *Varieties* but also in parallel research programmes, an alternative approach does not have to start from scratch. It can now be regarded as firmly established that national welfare regimes are hybrids or ‘mongrels’, rather than ‘thoroughbreds’ (Bolderson & Mabbett 1995). It is a moot point whether restructuring processes since the 1980s have led to this hybridization and layering of different schemes in social policy areas, as Streeck and Thelen (2005) claim, or whether we could have seen this all along, as Bolderson and Mabbett (1995) argue, if researchers had not been so hooked on classifying each country as one world of welfare capitalism.

The finding of hybridization seems to be a purely negative result. But it is not. We need to see it as a phenomenon in its own right, not merely as the outcome of failed reform or neoliberal intrusion. First of all, it means that there is no consistent welfare regime classification, so the unit of analysis has to be changed in line with the conclusion of Scruggs & Allan (2006, 69): ‘If, as our results suggest, scores among social-insurance programmes are so weakly inter-correlated, we might just as well talk about the individual welfare programmes, not regimes.’ Finding a pattern or a systematic way of scrutinizing the welfare mix is a challenge though. This conclusion could lead us (back) into the Balkanization of social policy research where studies of old age security, health care, labour market policies, family support etc. proceed independently of each other, with quantitative studies of expenditure levels or outcome indicators being the only vehicle to bring it all together. What is more, the borders between social policy areas are conventional, politically contested and subject to change. Early retirement schemes may belong to old age security or to labour market policy; long-term care provisions can be part

of health care or a family policy. Arbitrary partitions miss the opportunity to learn from reform strategies that deliberately transgress these borders and use the technique of issue linkage between policy areas to upset an institutional equilibrium.

To avoid Balkanization, a new political economy of welfare can build on the new economics and the new politics of welfare. From the new economics, it takes, first of all, a much richer set of economic justifications for social policies that can make sense of universal, residual and insurance-based interventions – they are not good, bad and ugly, respectively. It can even give us functional reasons why we rarely find just one principle applied in a social policy area. Each one has disadvantages that may be compensated by introducing another programme to make up for it. For instance, an insurance-based pay-as-you-go pension system may have coverage problems for all those who have no regular earnings history; means-tested benefits like free TV licences and universal benefits like free bus passes for all over sixty can make up partly for a low entitlement from the main scheme. This layering of schemes with different principles is the norm in virtually each social policy area (Bolderson and Mabbett 1995) that is ignored in all studies that claim the existence of welfare regimes (Ferragina and Seeleib-Kaiser 2011).

Secondly and closely related, the new economics provides the generic delineation of public policies, referring to social principles of resource allocation such as the provision through (public or private) insurance, public goods or (negative and positive) taxation. These principles can be applied to cash transfers, regulation and services alike. From the new politics, we can take the maxim that welfare politics follows social policies¹⁴. Different types of policy create 'arenas of power' (Lowi 1964, 688) since they generate

¹⁴ Pierson (1994, 39) presents it as Schattschneider's methodological principle that 'policies produce politics'; see also Hacker (2002, 40).

expectations about different outcomes and hence mobilise particular constituencies. This maxim is taken here as a rich and complex research hypothesis that can be challenged by scholars who see a leading role for politics (Gourevitch 1986, 17; Ross 2000, 29; Vail 2010, 19). Rather than cutting the evidence about reform processes to size so as to fit some type, these alternatives can serve as guides through the wealth of empirical material now available.

Insights of the new economics and the new politics of welfare

The new economics extended and qualified welfare analysis centred exclusively on the notorious equity-efficiency tradeoff.¹⁵ Rather than studying in ever more detail the disincentives for labour supply from high or progressive taxes and generous non-employment benefits, they explore the range of social policies that make the provision of equity or security complementary to the enhancement of efficiency. To the extent that social policies, through services, transfers or redistributive taxes, help to overcome market failures or allow individuals to take more gainful risks, the mixed economy of welfare generates more income than the private economy of pure market exchange.

The new economics of welfare provides a well-defined, if stylized account of social policy characteristics that are likely to matter economically and politically. The standard classification of social policy outputs is social insurance, universal benefits and means-tested benefits, underpinning as indicated the *Worlds* typology. What the new economics contributed to this classification is to look at them systematically as solutions to failures or

¹⁵ Cf Barr (1992), Le Grand, Robinson & Propper (1992), Sinn (1995), Atkinson (1996); the new economics of welfare has, among others, roots in Joseph Stiglitz' work on market failures and optimal taxation under uncertainty.

inefficiencies of the market economy of which a textbook summary can be found in Barr (2004, section 4.3). The rather selective take of the *Varieties* literature on social policy can be seen as a radical and one-dimensional lesson from the new economics, in that it claims that viable social policy programmes require support from the side of employers – or they are not viable. Far from taming labour markets, welfare state measures support and shape markets.

For instance, insurance markets suffer from information about risks being asymmetrically distributed between prospective insurer and those seeking insurance. The policy problem is that adverse selection (hidden information about insurance-seekers), moral hazard (hidden action by the insurance-seeker) or discrimination (cream-skimming by the insurer) will lead to less insurance and thus value added than the market could produce to mutual advantage. Social policies deliver solutions in that mandatory insurance overcomes adverse selection and discrimination while moral hazard may be contained by conditionality, for instance requiring a recipient of unemployment insurance to seek work and accept suitable job offers. The new economics is from the era of retrenchment in that it had a clear normative motivation, namely to provide technical arguments against retrenchment (cf Atkinson 1999). It identifies distributive effects but instead of leaving the verdict about their desirability to the normative welfare economists, by trading them off against efficiency effects, the new economics behaves more like the technocrat by leaving this verdict to the value judgements of political ideologies. What one might see as a weakness in substantive reach, I consider to be an analytical strength, consistent with finding more than one valid economic reason for doing social policy. But which of those valid reasons become practically relevant, is typically beyond the purely economic.

The 'discovery' of complementarities between social and economic policy pushes the economics of the welfare state almost inevitably into the study of political economy. The new welfare economics is useful in demonstrating the economic equivalence of different allocation mechanisms, for instance the equivalence of privately funded pensions and public pay-as-you-go pensions in dealing with the aging of society.¹⁶ They have different redistributive implications, create different risks and incentives but they can be designed so as to provide equivalent amounts of insurance. The choice of one over the other is thus ascribed to political preferences -- a black box in economics. Economists who want to take the analysis further, like Alesina and Glaeser (2004) or Amable et al (2006), must combine it with a political analysis of policy change. Non-economists tend to see more than preferences at work. What this calls for is a theory of political processes that can explain the specifics of diverse social policy choices and outcomes.

The new politics started from the premise that the process of dismantling the welfare state follows another political logic than its expansion during the Golden Age. Since the welfare state is popular with the electorate, blame avoidance and hiding retrenchment become the overriding strategies of reformers. Reformers try to respond to structural pressures, be it exogenous change like market integration or endogenous changes like a shift to the service economy and the transformations of families.¹⁷ But since the institutions of social policy create their own stakeholders, attempts at 'ending welfare as we know it' face an uphill struggle. The predictions of rather limited, at best regime-preserving change that could be read into the new

¹⁶ Barr (2000); but see Atkinson (1999, chapters 6-7) for an analysis of other relevant implications, such as the functioning of capital markets and the emergence of insurance lobbies as a political force.

¹⁷ The terms 'exogenous' and 'endogenous' apply here in the sense of 'largely independent of the welfare state' and 'induced by the welfare state itself', respectively. For instance, the transformations of families is an endogenous reform pressure in that the availability of public child care allows both partners to pursue a career which in turn calls for more public child care.

politics' emphasis on path dependency have not been borne out by the facts, however. This was noted by many, even for the supposedly most immovable of objects, namely the Bismarckian conservative regime (Levy 1999; Palier & Martin 2007; Vail 2010).

A lasting contribution of the new politics is the theorem that welfare retrenchment follows a different political logic than expansion. This still justifies the attribute 'new'. But blame avoidance and electoral politics proved to be unnecessarily reductionist and shallow ideas for the logic of retrenchment. They narrow down the institutional structures that deliver public services to 'obstacles' for change. By contrast, the analytical focus on structures of policymaking that shape or even generate reform politics has more potential and is more widely shared, for instance, by the state-centred, historically informed account of welfare state building of Theda Skocpol (1992). The 'institutional frameworks for the achievement of complex ends' (Hacker 2004, 246) define the space for different constituencies to advance their interests and ideas. Characteristics of policies like centralized or devolved, rule-based or discretionary, make welfare programmes more or less amenable to change and cut-backs.

This suggests a framework that takes types of welfare provisions as the unit of analysis. They have to be meaningful for social administration and distinct from politics in the electoral or ideological sense – only then can they be seen as creating, rather than being co-extensive with, 'arenas of power'. But scholars in this tradition have not paid much attention to this analytical detail. Lowi's own proposal, to differentiate between distributive, regulatory and redistributive types of policies, amalgamates policy with politics by defining, for instance, distributive policies as 'patronage' (Lowi 1964, 690). Pierson (1994, 46) takes big welfare programmes like pensions or housing as policies in the sense of 'politically consequential structures' which gives the

unwarranted impression that the politics of retrenchment is pension-specific or social housing-specific. It is in the delineation of types of welfare provisions that the new economics can amend the analytical framework of the new politics.

Contours of a new political economy of welfare

The maxim that welfare (reform) politics follows social policies is a substantive research hypothesis about the functioning and evolution of welfare systems, rather than a more or less useful methodological premise. It can therefore serve as a guide through the wealth of empirical evidence on the restructuring of single programmes such as unemployment insurance and whole systems such as income support to non-employed adults. This guide would urge students of reform processes to ask: what were the characteristics of the policies that made them vulnerable or prone to attack; and the attack likely or unlikely to succeed? Which constituencies were alienated, which were attracted by the proposed changes? And is the support for change robust or are cycles of policy reversal likely? Obviously, these are questions that scholars have asked all along and this proposal does not want to pretend anything else: it suggests a systematic way of asking these questions and thereby to recognize novel patterns, not to ask entirely different questions.

The new economics and the new politics cannot be reconciled straightforwardly. The economists' chain of reasoning -- from market failures to 'policy problems' to social policy solutions (Le Grand et al 1992) -- is a functionalist answer to the question why certain policies survive not how these policies have come about and hence bears little resemblance to the history of welfare state building. Social policy scholars with an intimate knowledge of public administrations will notice that in practice this chain of

reasoning is reversed. Policymaking frames the problem it tackles and proceeds from policy solution to problem to, if necessary, ex post rationale of market failure. Through this framing, policies favour or create stakeholders and constituencies, not only in a tangible sense of beneficiaries but also in the sense of acknowledging a legitimate need or risk that deserves to be compensated. This insight is, as Pierson (2001: 2) indicated, the most important reason for why the logic of retrenchment is not the mirror image of expansion. And it justifies in the new political economy of welfare starting with policies, not with some fundamental, objectively given policy problem as economists do¹⁸.

The air of functionalism can explain why the new politics could not relate to the new economics which tried to explain even before Pierson (1994) why the welfare state is so resistant to retrenchment. With the benefit of hindsight, we can see that taking it on board would have helped the new politics to avoid relying on the equity-efficiency tradeoff to formulate its research puzzle: despite an overwhelming need for reform, typically operationalised as high non-wage labour costs, there is resistance to reform (Esping-Andersen 1996, 18-20, 25; Pierson 2001, 448-451, 456). The new economics can ascribe this resistance to valid reasons, presumably when the welfare system still provides useful services that help markets function and individuals take gainful decisions, hence its stakeholders can beat neoliberal reformers on their own turf (Atkinson 1999). The new economics, stripped of its functionalist appearance, can thus explain why reforms over the last two decades were often taken by pragmatic, centrist social democrats who wanted to mend, not abolish public welfare, as political scientists have argued (eg Levy 1999). It can also explain why there are no overwhelming economic reasons that

¹⁸ To avoid misunderstanding: I think it is perfectly sensible for economists to take this line of reasoning as long as they do not claim that their rationales capture historical or political processes as well.

pressurize governments to cut back welfare (Amable et al 2006). On the contrary, it suggests that privatization and liberalization lead to partial market failures that are entirely predictable (Barr 2000, 25-26).

In sum, the new political economy therefore has more room for political choice than the new politics with its conventional economic underpinning. A good example for an analysis that uses this complementarity creatively is Levy (1999: 265) who explores how progressive governments in the 1980s and '90s furthered reforms which 'target inequities within the welfare system that are simultaneously a source of inefficiency'.

A systematic account of welfare provisions and their changes in the new political economy of welfare starts with a more general formulation of the standard classification of social policy (insurance, universal and means-tested benefits) that also covers transfers and services. Bolderson and Mabbett (1995, 124-127) distinguish market, public goods, and taxation principles.

- Market principles capture what is traditionally classified as insurance, i.e. welfare provisions based on a certain equivalence between contribution and entitlement or mutual contractual obligations; unemployment insurance and health care services paid by insurance are examples for a transfer and an in-kind service, respectively;
- Public goods generalise the notion of universal benefits, such as a universal child benefit or health and safety regulations at the workplace, ie anybody who qualifies categorically (has a child or works, respectively) has access and gets a uniform provision;
- Taxation principles generalize the notion of means-tested benefits for which unemployment assistance or free meals for poor children and the elderly are examples; both are ruled by law and allocated on the basis of (insufficient) income or assets.

Collapsing *Worlds* and *Varieties* of welfare capitalism

For the study of what drives hybridization and explains the anatomy of the welfare mix, these allocation mechanisms can be disentangled into components or seen as tiers of a system (Bolderson and Mabbett 1995). For instance, the contribution principle of an old age insurance scheme is often mixed with categorical public goods elements such as recognition for parenting or comes on top of a basic pension for all residents and a means-tested layer for low-income workers. These different risks (here: longevity, old-age poverty due to an interrupted contribution history or due to insufficient earnings) can also be separated and pooled in different schemes. Mixing components in one scheme versus layering schemes makes a difference for the politics of pensions, eg for the solidarity and inclusiveness thus projected. Both mixing and layering can be ideologically motivated which can draw on different economic underpinnings. Each allocation principle has drawbacks: insurance creates moral hazard and coverage problems since eligibility is based on contributions; public goods are one-size-fits-all and may be wasted on those who do not need them; means-testing creates earnings disincentives and low take-up due to stigma. How strongly (dis-)functionality supports ideology can be of interest for scrutinizing the hypothesis that politics follows policy.

For larger n comparisons of welfare reforms, a pragmatic approach is to start with the hypothesis that there is a certain correspondence between policy type and particular forms of politics – an assumption underlying the *Worlds* classification of entire countries. A full theoretical justification for this hypothesis is beyond the scope of this article. But to give the idea: insurance schemes favour (conservative-liberal) electoral but also corporatist politics as the sense of entitlement associated with market exchange is attractive for voters and labour market parties who seek some independence from the state. Similarly, public goods provision generates (social-democratic) electoral

politics because this allocation principle appeals to an egalitarian sense of citizenship. Taxation principles tend to be supportive of pressure group and/or bureaucratic politics that care about or take care of marginalized groups; it appeals to (social-liberal) constituencies that prefer well-targeted and depoliticized forms of welfare provisions. The scrutiny of how close these affinities are can use the literature on 'partisan effects' of welfare state change (Kitschelt 1999, Allan and Scruggs 2004, Amable et al 2006) but turn their line of argument around and ask not how do partisan leanings affect retrenchment and reform but what does retrenchment and reform tell us about the ideological underpinning of these changes? This is a relevant complementary line of research in times where social democrats march to market (Schelkle et al, 2012) and conservatives become compassionate so as to extend their reach beyond traditional constituencies.

This is not to deny that these policy-politics correspondences are rather crude. It makes a difference whether electoral politics centres on the median or the pivotal voter, whether pressure groups consist of social activists or private business, and whether bureaucratic politics is a power play between elected governments, on the one hand, and technocratic agencies or state administrations with no legal independence, on the other. Again, the role of ideological in relation to functional arguments may help to specify the particular politics thus created. Details of policy characteristics matter (Atkinson 1999: 186). For instance, institutional parameters like coverage, generosity, and 'ownership' (eg representation of social partners on the board of welfare agencies) decide how stigmatising a means-tested transfer or an affirmative-action regulation is, and how inclusive or 'near-market' the operation of an insurance scheme. This will attract and repel different potential constituencies of the policy. But it is still a research question that

Collapsing *Worlds* and *Varieties* of welfare capitalism

could be taken up more systematically, namely which policy characteristics matter; and to whom.

The answers would greatly enhance our understanding of how the welfare state forms social citizenship that dilutes and multiplies the distinctions of class (Marshall 1950). Being a mongrel that caters to all kinds of needs and risks, not a thoroughbred of a particular class compromise (Bolderson and Mabbett 1995), may be exactly how the welfare state overcomes the tension between capitalism and democracy and helps to maintain for each legitimate social space.

The value added of the new political economy of welfare

This proposal for a new political economy of welfare has two implications that can illustrate its value added. First, the maxim 'social policies produce welfare politics' is a hypothesis that can be proven wrong. If we find that the likely economic effects of a policy change contradict the ideological rationale, then there is at least reason to ask whether this inconsistency reveals that reforms were driven by politics and challenge the hypothesis. Such a potential challenge occurs regularly when means-testing is expanded or introduced on manifestly ideological grounds, for instance to end 'a culture of dependency' and to get the 'undeserving poor' back into work, as in the US welfare reform of 1996. Economic analysis reveals that this is an ideological statement with no strong functional underpinning, because means-testing is more prone to cause poverty traps (in various disguises) than any other form of allocating social transfers (Atkinson 1999, 83-91; 150-161). The trap is inevitable because means-tested benefits have to be withdrawn around the poverty threshold

which, together with the onset of explicit taxation, tends to create high effective tax rates on additional earnings or savings.¹⁹

Yet even if a reform looks like pure ideology producing (inconsistent) policy change, one may still ask whether the ideological justification was really the one proclaimed. The working hypothesis that politics follows policy would lead one to ask for the hidden agenda that may actually be consistent with the policy change. For instance, if the ideological goal is not charitable poverty relief but delegitimizing the welfare state in the eyes of middle-class voters, then introducing more means-testing is likely to produce exactly the politics needed to achieve this goal: policies targeted to the poor produce distinctively weak and marginalised political support (Korpi & Palme 1998). Thus, there may be cases where politics produces policy but the methodological principle on which the new politics was based can at least be used to ask substantive research questions, drawing also on economics (here: of poverty traps).

Second, the new political economy of welfare is not tied to employment-related social policy as *Worlds* and *Varieties* are. By distinguishing between the politics and the economics of welfare, it can grasp that, first, what was once an employment-based social policy may become detached from the wage nexus and, second, that the political significance of the labour market may be different from its economic relevance. To start with the latter: Labour markets have never been a particular focus of the new economics. They tend to be conceptualized as insurance markets that suffer from similar inherent information and incentive problems (Agell 1999, F144). The demise of the pervasive equity-efficiency tradeoff is closely related to a shift in analytical focus away from labour markets. At the same time, the politics mobilized by securing the wage nexus of work and welfare has been perhaps the single

¹⁹ The EU's Lisbon Agenda with its emphasis on making work pay suffers from an equally weak economic underpinning when it simultaneously asks governments to continuously review unemployment and low wage traps and try to avoid them (Schelkle et al, forthcoming).

most important building block of modern welfare, although not for all programs everywhere (Baldwin 1990; Skocpol 1992). Occupational welfare based on collective agreements and social insurance schemes, financed by wage-based contributions or income taxes, gave workers – and employers -- a stake in the welfare state and even institutionalised welfare independent of the state (Swenson 2002, ch.2). But policy choices may change, usually driven by a multitude of motivations and structural pressures, and with it the political and economic underpinning of this policy.

To elaborate this point: the various policy choices available for the support of families were for a long time seen through the lens of wages for male workers (Land 1980). Family allowances were considered to undermine the breadwinner's demand for a 'family wage'. Hence, trade unions and the Labour Party in Britain before the Second World War preferred an extension of social services, ie public goods provision in housing, health and education, even if they were less well-targeted on wage-earners than a cash benefit for parenting. Employers in France, by contrast, introduced family allowances for exactly the reason that it moderated wage demands (Land 1980, 65). The commonality in the different choices is that a particular policy, occupational insurance-based welfare, tends to frame every social policy problem in terms of what it does to wages or labour costs around which corporatist politics evolves.

But family policy moved on, not least for the policy-endogenous reason that insurance schemes have coverage problems. The employment focus is still alive, but a goal like reconciling work and care can also be motivated by concerns for the fertility rate in an ageing society or by the imperative of gender equality more generally. These motivations play themselves out in subtle variations of policy characteristics, eg the set of available formal care services and the interaction of cash benefits with the tax system that affects

the division of paid and unpaid work between partners. To stay with the example of France where family allowances were always a sizeable part of income support: in the 1930s, the occupational benefits for the control of workers became universal benefits paid to citizens by the state. This brought the latent pronatalist motivations – redistributing from childless workers to families with children – to the fore (Lewis 1992, 165-166). The public goods provision of family support lent itself to electoral politics for the median voter. Since the 1970s, however, centrist Gaullist governments introduced a number of means-tested benefits, mainly for destitute children and large families, which slowly transformed the family allowance system to poverty relief with more incentives for women to work part-time or to stay at home (Lewis 1992, 167). Subsequent Socialist administrations expanded the generosity of these benefits that redistributed from the rich to the poor: ‘Whereas in 1970, only 12 percent of family allowance funds were allocated on the basis of means testing, by 1996 the figure exceeded 60 percent.’ (Levy 1999, 248) From an economic point of view, this can be justified as increasing the target efficiency of family policy for low-income households. Yet the problem definition of poverty relief that means-testing purports came under attack from the party left that deplored the ‘deuniversalization’ of family allowances (Levy 1999, 249). A policy targeted on the poor does not create a sense of shared risks or the common ground of citizenship and becomes a matter of pressure group or bureaucratic politics; hence it cannot mobilise voters on the centre-left for whom poverty and exclusion are actually salient. The Socialist government restored universal family allowances in 1999.²⁰

What this example of French family policy shows is that a welfare provision once attached to the labor market may become detached over time. As the

²⁰ This is obviously not the end of the story about Socialist reforms of family policy as one commentator rightly pointed out; but the example of French family allowances are meant here to illustrate the analysis that the new approach leads one to pursue, not to make a substantive claim about French welfare reforms.

policy evolves, the functional framing of the policy problem and the politics that goes with it may be at odds with the politics that would give electoral support to the reformers and thus leads to policy reversal. This is a characteristic of reform politics that follows the 'Nixon goes to China' logic, for instance Social Democratic governments introducing market elements in welfare provisions. To grasp this puzzle, we need to keep the economics and the politics of employment-related welfare analytically separate.

Concluding remarks on democracy, capitalism and the welfare state

This paper had the same point of departure as popular approaches in the comparative political economy of welfare, namely that the study of the welfare state raises fundamental questions about the relationship between democracy and capitalism. But it argued that the national regime typologies around which their analyses revolve have outlived their purpose. These typologies presume that entire countries and their welfare institutions fall in line with (are caused by) an overarching idea, be it a dominant ideology (social democracy, conservatism or liberalism) or ways of achieving class compromise more narrowly (liberal or coordinated). It achieved this bold stylized portrayal of the welfare state by focusing on the employment relationship and the labor market. This left little room for politics and the constant battle between temporary public concerns, competing ideas and their operationalisation in administrative procedures. It has also no way of grasping the puzzle that many reforms over the last two decades went against the supposed complementarities of labor market institutions with the welfare system, for instance reforms that facilitated the creation of temporary and

casual employment that undermines the status and social security of all employees, if only because the financial basis of the welfare state shrinks.

One way forward for a new political economy of welfare is to recognize that modes of welfare provision are 'integral to the way political constituencies of social provisions are assembled and maintained in the face of budgetary pressures' (Bolderson & Mabbett 1995, 138). In other words, administrative principles of allocating welfare, here: analogous to insurance markets, public goods or taxation, create political arenas and lend themselves to varying degrees to economic rationales that capture real policy choices and reasons for their change. This approach of 'welfare politics follow social policy (change)' can be directly related to studies of major reforms in mature welfare states, which lead to an erosion of regime typologies. The interesting puzzles that this approach throws up are located at the level of policies and their reforms, how they shape or unsettle, respectively, the relationship of economics and politics, for instance: how does a reform of family policy affect labor market institutions and can we infer from the thrust of these reforms that the labor market institutions were their target all along? Such a question owes a lot to the systemic view that regime typologies established but rather than taking the system (the institutional complementarities) as given, the question takes as given that every public policy shapes a particular political-economic constellation. Here: family policy creates particular political stakeholders, often strongly value-oriented voters with either a conservative-paternalist or a progressive-feminist stance holding diametrically opposed views of how the policy should look like, while its design may have been strongly influenced by the economic needs of industrial relations.

A new political economy of welfare must take into account that over the last century ever more perspectives and interests have found representation in the political processes of mass democracy. It should grasp markets other than

labor markets that are or will become more salient politically. The ‘housing question’, as it was called in 19th century Germany after Engels’ series of pamphlets, is an immediate social policy concern wherever rapid urbanisation takes place. In the OECD, the instability of financial markets may well become the preoccupation of social policymakers, in particular markets for private pensions and real estate (Shiller 2003, Schelkle 2012). To tie the political economy of welfare regimes to an economic and political theory that centres on labor markets may render it obsolete.

The proposed reformulation suggests more generally that the classical question of political economy was overly impressed by classical political economy, from Adam Smith to Karl Marx. Class compromise was the all too obvious answer to a question framed as ‘how is it possible to combine capitalism with democracy?’ Modern welfare state building is arguably the practical answer to another question, namely ‘how is it possible to keep capitalism and democracy distinct?’²¹ In other words, how is it possible that democratically elected politicians are not (seen as) responding only to ‘the economy, stupid’ but to demands and needs of the economically non-active or undefined as well, be it pensioners, parents, future generations or migrants. The short outline of the set-up and reform of family allowances, based on three well-known sources (Land 1980, Lewis 1992, Levy 1999), was inserted to show how social policy responds to changing needs through the democratic process. This evolution is very rarely a direct emanation of economically-driven class conflict or even of producer group politics.²² Where it is, eg the obstruction of health care reform in the US by the private insurance industry

²¹ Thus, the new political economy of welfare would take on board the differentiation of economics and politics in modern society noted in the opening statement of the textbook by Caporaso and Levine (1998, 4) ‘It is often assumed that political economy involves an integration of politics and economics. It is less often conceded that the very idea of political economy rests on a prior separation of politics and economics.’

²² I owe this formulation to written comments by Peter Hall who put it as a question, not a statement.

despite crippling costs and manifest problems of coverage, this is deemed by all but the most cynical observers as a pathology, not as a normal state of affairs in a mature democracy.

Reform policies and politics over the last two decades, especially by Social Democrats, can be seen as trying to disentangle social policy from its corporatist embrace (Kitschelt 1999), partly because they feared that this embrace stifles the evolution of the capitalist service economy and thus leads to an erosion of their electoral appeal. In the process, reformers tend to come up with encompassing modernisation agendas. By catering to many requests for security, inclusion and social efficiency, the welfare state has diverted from the class compromise as its dominant political problem. Liberalisation and outsourcing of welfare services have been ways of reducing the influence of labor market parties on welfare programs, but reformers then typically risk having social policies captured by private provider interests. The boundaries between the economic and the political sphere are not a naturally given state of affairs, on the contrary, they are contested and more like lines in the sand, fragile but conspicuously maintained. This is why the separation, rather than the ever present combination, of capitalism and democracy may be more interesting to study in comparative welfare state research.²³ A more general question for political economy is thus: what prevents politicized economics taking over capitalism and economic politics taking over democracy? The welfare state is a good candidate for an answer.

²³ In a separate project, I analyze European integration as a redrawing of boundaries between the economic and the political sphere, claiming that this makes it such a transformative process, rather than the compliance with EU norms and legislation that research on Europeanization stresses.

References

- Agell, J. (1999). On the benefits from rigid labour markets: norms, market failures, and social insurance. *The Economic Journal*, 109, F143-F169.
- Alesina, A. and Glaeser, E. (2004). *Fighting Poverty in the US and Europe: A World of Difference* New York: Oxford University Press.
- Allan, J. P. and Scruggs, L. (2004) Political Partisanship and Welfare State Reform in Advanced Industrial Societies, *American Journal of Political Science* 48(3), 496-512.
- Amable, B. (2003). *The diversity of modern capitalism* Oxford and New York: Oxford University Press.
- Amable, B., Gatti, D. and Schumacher, J. (2006). Welfare-State Retrenchment: The Partisan Effect Revisited, *Oxford Review of Economic Policy* 22(3), 426-444.
- Arts, W., & Gelissen, J. (2002). Three worlds of welfare capitalism or more? A state-of-the-art report. *Journal of European Social Policy* 12(2), 137-158.
- Atkinson, A. B. (1996). Is the welfare state necessarily a barrier to economic growth? In A. B. Atkinson (Ed.), *Incomes and the Welfare State: Essays on Britain and Europe*. Cambridge: Cambridge University Press.
- Atkinson, A. B. (1999). *The economic consequences of rolling back the welfare state*. Cambridge, Mass.: MIT Press.
- Baldwin, P. (1990). *The Politics of Social Solidarity*. Cambridge: Cambridge University Press.
- Barr, N. (1992). Economic theory and the welfare state: a survey and interpretation. *Journal of Economic Literature*, vol 30(2), 741-803.
- Barr, N. (2000). *Reforming Pensions: Myths, Truths and Policy Choices*. IMF Working Paper WP/00/139, Washington DC: IMF.
- Barr, N. (2004). *Economics of the Welfare* (3rd edition ed.). Oxford: Oxford University Press.
- Bolderson, H., & Mabbett, D. (1995). Mongrels or thoroughbreds: A cross-national look at social security systems. *European Journal of Political Research*, 28, 119-139.
- Caporaso, J. A., & Levine, D. P. (1998). *Theories of Political Economy* Cambridge: Cambridge University Press.
- Castles, F. G. (Ed.). (1993). *Families of nations: patterns of public policy in Western democracies* Dartmouth: Aldershot and Brookfield.
- Castles, F. G., & Mitchell, D. (1993). Worlds of Welfare and Families of Nations In F. G. Castles (Ed.), *Families of nations: patterns of public policy in Western democracies* (pp. 93-127). Dartmouth: Aldershot and Brookfield.
- Castles, F. G., & Obinger, H. (2008). Worlds, Families, Regimes: Country Clusters in European and OECD Area Public Policy. *West European Politics*, 31(1-2), 321-344.
- Crouch, C. (2005). *Capitalist diversity and change: recombinant governance and institutional entrepreneurs*. Oxford: Oxford University Press.

- Crouch, C., Streeck, W., Boyer, R., Amable, B., Hall, P. A., & Jackson, G. (2005). Dialogue on 'Institutional complementarity and political economy'. *Socio-Economic Review*, 3(2), 359-382.
- Ebbinghaus, B., & Manow, P. (2001). Introduction: Studying varieties of welfare capitalism. In B. Ebbinghaus & P. Manow (Eds.), *Comparing Welfare Capitalism* (pp. 1-24). London and New York: Routledge.
- Esping-Andersen, G. (1985). *Politics Against Markets*. Princeton, NJ: Princeton University Press.
- Esping-Andersen, G. (1990). *The Three Worlds of Welfare Capitalism*. Cambridge: Polity Press.
- Esping-Andersen, G. (Ed.). (1996). *Welfare States in Transition. National Adaptations in Global Economies*. London et al: Sage Publications.
- Esping-Andersen, G. (1999). *Social Foundations of Postindustrial Economies*. Oxford: Oxford University Press.
- Estévez-Abe, M. (2006). Gendering the Varieties of Capitalism: A Study of Occupational Segregation by Sex in Advanced Industrial Societies. *World Politics* 59, 142-175.
- Estévez-Abe, M., Iversen, T., & Soskice, D. (2001). Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State. In P. Hall & D. Soskice (Eds.), *Varieties of Capitalism. The Institutional Foundations of Comparative Advantage* (pp. 145-183). Oxford: Oxford University Press.
- Featherstone, K. (2004). The political dynamics of external empowerment: the emergence of the European social model and the challenge to the European social model. In A. Martin & G. Ross (Eds.), *Euros and the Europeans. Monetary Integration and the European Model of Society* (pp. 226-247). Cambridge: Cambridge University Press.
- Ferragina, E. & Seeleib-Kaiser, M. (2011). Welfare Regime Debates: Past, Present, Futures?, *Policy and Politics* 39(4), 583-611.
- Ferrera, M. (1996). The Southern Model of Welfare in Social Europe. *Journal of European Social Policy*, 6(1), 17-37.
- Ferrera, M., & Rhodes, M. (Eds.). (2000). *Recasting European Welfare States*. London: Frank Cass Publishers.
- Goldthorpe, J. (Ed.). (1984). *Order and Conflict in Contemporary Capitalism*. Oxford: Clarendon Press.
- Gourevitch, P. A. (1986). *Politics in hard times: comparative responses to international economic crises*. Ithaca: Cornell University Press.
- Hacker, J. S. (2002). *The Divided Welfare State. The Battle over Public and Private Social Benefits in the United States*. Cambridge: Cambridge University Press.
- Hacker, J. S. (2004). Privatizing Risk without Privatizing the Welfare State: The Hidden Politics of Social Policy Retrenchment in the United States. *American Political Science Review*, 98(2), 243-260.
- Hacker, J. S. (2005). Policy Drift: The Hidden Politics of US Welfare State Retrenchment. In W. Streeck & K. Thelen (Eds.), *Beyond Continuity* (pp. 40-82). Oxford: Oxford University.
- Hall, P. A. (2007). The Evolution of Varieties of Capitalism in Europe. In B. Hancké, M. Rhodes & M. Thatcher (Eds.), *Beyond Varieties of Capitalism* (pp. 39-85). Oxford: Oxford University Press.

Collapsing *Worlds* and *Varieties* of welfare capitalism

- Hall, P. A., & Soskice, D. (Eds.). (2001a). *Varieties of Capitalism. The Institutional Foundations of Comparative Advantage*. Oxford: Oxford University Press.
- Hall, P. A., & Soskice, D. (2001b). Introduction to Varieties of Capitalism. In P. A. Hall & D. Soskice (Eds.), *Varieties of Capitalism. The Institutional Foundations of Comparative Advantage* (pp. 1-68). Oxford: Oxford University Press.
- Hancké, B., Rhodes, M., & Thatcher, M. (2007). Introduction: Beyond Varieties of Capitalism. In B. Hancké, M. Rhodes & M. Thatcher (Eds.), *Beyond Varieties of Capitalism* (pp. 3-38). Oxford: Oxford University Press.
- Hicks, A., & Kenworthy, L. (2003). Varieties of Welfare Capitalism. *Socio-economic review*, 1, 27-61.
- Höpner, M. (2005). What connects industrial relations and corporate governance? Explaining institutional complementarity. *Socio-economic Review*, 3(2), 331-358.
- Iversen, T. (2006). Capitalism and Democracy. In B. R. Weingast & D. A. Wittman (Eds.), *The Oxford Handbook of Political Economy* (pp. 601-623). Oxford: Oxford University Press.
- Iversen, T., & Wren, A. (1998). Equality, Employment and Budgetary Restraint: The Trilemma of the Service Economy. *World Politics*, 50, 507-546.
- Jensen, C. (2008). Worlds of welfare services and transfers. *Journal of European Social Policy* 18(2), 151-162.
- King, D., & Rueda, D. (2008). Cheap Labour: The New Politics of "Bread and Roses" in Industrial Democracies. *Perspectives on Politics*, 6, 279-297.
- Kitschelt, H. (1999) 'European Social Democracy between Political Economy and Electoral Competition', in H. Kitschelt, P. Lange, G. Marks and J. D. Stephens (eds), *Continuity and Change in Contemporary Capitalism*, Cambridge: Cambridge University Press, pp. 317-345.
- Korpi, W. (1974). Conflict, Power and Relative Deprivation. *American Political Science Review*, 68(4), 1569-1578.
- Korpi, W. (2006). Power Resources and Employer-Centred Approaches in Explanations of Welfare States and Varieties of Welfare Capitalism. *World Politics*, 58, 167-206.
- Korpi, W., & Palme, J. (1998). The Paradox of Redistribution and Strategies of Equality: Welfare State Institutions, Inequality, and Poverty in the Western Countries. *American Sociological Review* 63(5), 661-687.
- Korpi, W., & Palme, J. (2008). The Social Citizenship Indicator Program (SCIP). from Swedish Institute for Social Research: Stockholm University: <<https://dspace.it.su.se/dspace/handle/10102/7>>).
- Kuhn, T. (1962). *The Structure of Scientific Revolutions*. Chicago: University of Chicago Press.
- Land, H. (1980). The Family Wage, *Feminist Review* 6: 55-77.
- Le Grand, J., Robinson, R., & Propper, C. (1992). *The economics of social problems* (3rd ed.). London: Macmillan.
- Levy, J. D. (1999). Vice into Virtue? Progressive Politics and Welfare Reform in Continental Europe. *Politics & Society*, 27(2), 279-293.
- Lewis, J. (1992). Gender and the Development of Welfare Regimes. *Journal of European Social Policy*, 2(3), 159-173.

- Lowi, T. J. (1964). Review: American Business, Public Policy, Case-Studies, and Political Theory. *World Politics* 14, 677-715.
- Luhmann, N. (1980). Max Webers Forschungsprogramm in typologischer Rekonstruktion. *Soziologische Revue*, 3(1), 243-250.
- Luhmann, N. (1990). *Political Theory in the Welfare State*. Berlin and New York: Walter de Gruyter.
- Manow, P. (2004). 'The Good, the Bad and the Ugly.' Esping-Andersen's regime typology and the religious roots of the western welfare state. MPIfG Working Paper, Cologne: Max-Planck Institute for the Study of Societies.
- Marshall, T. H. (1950). *Citizenship and social class, and other essays* Cambridge: Cambridge University Press.
- Martin, C. J., & Thelen, K. (2007). The State and Coordinated Capitalism. *World Politics*, 60, 1-36.
- Orloff, A. S. (1993). Gender and the Social Rights of Citizenship: The Comparative Analysis of Gender Relations and Welfare States. *American Sociological Revue*, 58(3), 303-328.
- Palier, B., & Martin, C. (2007). Editorial Introduction. From 'a Frozen Landscape' to Structural Reforms: The Sequential Transformation of Bismarckian Welfare Systems. *Social Policy and Administration*, 41(6), 535-554.
- Pierson, P. (1994). *Dismantling the welfare state?: Reagan, Thatcher, and the politics of retrenchment*. Cambridge and New York: Cambridge University Press.
- Pierson, P. (2000). Three Worlds of Welfare State Research. *Comparative Political Studies* 33(6/7), 791-821.
- Pierson, P. (Ed.). (2001). *The new politics of the welfare state*. Oxford: Oxford University Press.
- Ross, F. (2000). Interests and choice in the 'not quite so new' politics of welfare. *West European Politics*, 23(2), 11 - 34.
- Scharpf, F. W., & Schmidt, V. A. (2000). Introduction. In F. W. Scharpf & V. A. Schmidt (Eds.), *Welfare and Work in the Open Economy* (Vol. 1, pp. 1-20). Oxford: Oxford University Press.
- Schelkle, W., Mabbett, D. & Freier, M. (2012). The transformation of employment services during the Lisbon decade. In M. Smith (ed.): *Europe and National Economic Transformation: The EU After the Lisbon Decade*, Basingstoke: Palgrave.
- Schelkle, W. (2012). 'In the spotlight of crisis: how social policies create, correct, and compensate financial markets'. *Politics & Society*, 40 (1). pp. 3-8.
- Schneider, B. R. (2008). *Comparing Capitalisms: Liberal, Coordinated, Network, and Hierarchical Varieties*. Manuscript, Chicago: Northwestern University.
- Schmidt, V. A. (2009). Putting the Political Back into Political Economy by Bringing the State Back in Yet Again. *World Politics* 61(3), 516-546.
- Scruggs, L., & Allan, J. (2006). Welfare state decommodification in 18 OECD countries: a replication and revision. *Journal of European Social Policy*, 16(1), 55-72.
- Scruggs, L., & Allan, J. (2008). Social Stratification and Welfare Regimes for the Twenty-First Century: Revisiting the Three Worlds of Welfare Capitalism *World Politics* 60(4), 642-666.

Collapsing *Worlds* and *Varieties* of welfare capitalism

- Shiller, R. J. (2003). *The New Financial Order: Risk in the 21st Century*. Princeton NJ: Princeton UP.
- Sinn, H. W. (1995). A Theory of the Welfare State. *Scandinavian Journal of Economics*, 97(4), 495-526.
- Skocpol, T. (1992). *Protecting Soldiers and Mothers: The Political Origins of Social Policy in the United States*. Cambridge, Mass: Harvard University Press.
- Soskice, D. (2007). Macroeconomics and Varieties of Capitalism. In B. Hancké, M. Rhodes & M. Thatcher (Eds.), *Beyond Varieties of Capitalism* (pp. 89-121). Oxford: Oxford University Press.
- Streeck, W., & Thelen, K. (2005). Introduction: Institutional Change in Advanced Political Economies. In W. Streeck & K. Thelen (Eds.), *Beyond Continuity* (pp. 1-39). Oxford: Oxford University Press.
- Swenson, P. (1991). Bringing capital back in, or social democracy reconsidered: Employer Power, Cross-Class Alliances, and Centralization of Industrial Relations in Denmark and Sweden *World Politics*, 43(4), 513-544.
- Swenson, P. (2002). *Capitalists against markets: the making of labor markets and welfare states in the United States and Sweden*. New York ; Oxford: Oxford University Press.
- Vail, M. I. (2010). *Recasting Welfare Capitalism. Economic Adjustment in Contemporary France and Germany*. Philadelphia PA: Temple University Press.

Recent LEQS papers

- Crescenzi, Riccardo, Pietrobelli, Carlo & Rabellotti, Roberta.** 'Innovation Drivers, Value Chains and the Geography of Multinational Firms in European Regions' LEQS Paper No. 53, October 2012
- Featherstone, Kevin.** 'Le choc de la nouvelle? Maastricht, déjà vu and EMU reform' LEQS Paper No. 52, September 2012
- Hassel, Anke & Lütz, Susanne.** 'Balancing Competition and Cooperation: The State's New Power in Crisis Management' LEQS Paper No. 51, July 2012
- Garben, Sacha.** 'The Future of Higher Education in Europe: The Case for a Stronger Base in EU Law' LEQS Paper No. 50, July 2012
- Everson, Michelle.** 'A Technology of Expertise: EU Financial Services Agencies' LEQS Paper No. 49, June 2012
- Cherrier, Nickolas.** 'EU Diplomacy at 27: United in Diversity?' LEQS Paper No. 48, May 2012
- White, Jonathan.** 'Parallel Lives: Social Comparison Across National Boundaries' LEQS Paper No. 47, January 2012
- Meyer, Niclas.** 'Political Contestation in the Shadow of Hierarchy' LEQS Paper No. 46, January 2012
- Hyman, Richard.** 'Trade Unions, Lisbon and Europe 2020: From Dream to Nightmare' LEQS Paper No. 45, December 2011
- Wagner, Peter.** 'The democratic crisis of capitalism: Reflections on political and economic modernity in Europe' LEQS Paper No. 44, December 2011
- Chalmers, Damian & Chaves, Mariana.** 'The Reference Points of EU Judicial Politics' LEQS Paper No. 43, September 2011
- Hassel, Anke.** 'The paradox of liberalization – Understanding dualism and the recovery of the German political economy' LEQS Paper No. 42, September 2011
- Hancké, Bob.** 'Endogenous Coordination: Multinational Companies and the Production of Collective Goods in Central and Eastern Europe' LEQS Paper No. 41, August 2011
- Crescenzi, Riccardo, De Filippis, Fabrizio & Pierangeli, Fabio.** 'In tandem for cohesion? Synergies and conflicts between regional and agricultural policies of the European Union' LEQS Paper No. 40, July 2011
- Somek, Alexander.** 'The Social Question in a Transnational Context' LEQS Paper No. 39, June 2011
- Mabbett, Deborah.** 'A Rights Revolution in Europe? Regulatory and judicial approaches to nondiscrimination in insurance' LEQS Paper No. 38, May 2011
- Karaman, K. Kıvanç & Pamuk, Şevket.** 'Different Paths to the Modern State in Europe: The interaction between domestic political economy and interstate competition.' LEQS Paper No. 37, May 2011
- Scharpf, Fritz W..** 'Monetary Union, Fiscal Crisis and the Preemption of Democracy.' Paper presented at the LEQS Annual Lecture 'Saving the Euro – at the expense of democracy in Europe?' on 12 May 2011 at the London School of Economics, LEQS Paper No. 36, May 2011

LEQS

European Institute
London School of Economics
Houghton Street
WC2A 2AE London
Email: euroinst.LEQS@lse.ac.uk

<http://www2.lse.ac.uk/europeanInstitute/LEQS/Home.aspx>

