

The Three Worlds of Welfare Capitalism

Gøsta Esping-Andersen

Princeton University Press
Princeton, New Jersey

on unsound socialist footing. The source of confusion was twofold. One source had to do with an interpretation of the 'ability-needs' nexus, so central to classical Marxism. If social amelioration was to be a function of need, the socialists easily found themselves operating in the largely liberal mold of means-tests and benefit standards tailored to the living conditions of the poor. In many cases, such as Australia and Denmark, the social-assistance model was embraced by the labor movements on such grounds. The socialists struggled, perhaps, to upgrade benefits and minimize social stigma, but they saw the assistance type of scheme as clearly the most egalitarian: helping the really needy.

Another source of confusion had to do with the clientele for de-commodification. Until World War II, labor parties were strongly 'workerist', seeing themselves as the defenders of the industrial working class. Under such conditions, it was natural to espouse class-exclusive schemes. But, where the socialists moved towards the broader image of embracing 'all the little people', they were politically compelled to approach rights in terms of universal coverage. This, as we discuss in chapter 3, was the root of universalist solidarity in socialist social policy.

What characterizes almost all early socialist social policy is the notion of basic, or minimal, social rights: the idea was to install strong entitlements, but at fairly modest benefit levels, and typically limited to the core areas of human need (old-age pensions, accident insurance, unemployment and sickness benefits). Financial constraints surely played a role, but the modesty in their approach can also be seen as a reflection of how early socialists defined the problem – they saw the issue in workerist terms, in terms of providing a basic floor beneath which no one would be allowed to fall. Indeed, until the 1950s and 1960s, the social programs of the labor parties were almost universally of modest scope and quality, although providing for very generous eligibility criteria. The goal was to stave off poverty, not really to emancipate workers from market dependency. To do so would have required a major realignment of social policy, including two basic changes: first, the extension of rights beyond the narrow terrain of absolute need; and second, the upgrading of benefits to match normal earnings and average living standards in the nation. In reference to the former, what mattered especially was the introduction of a variety of schemes that permit employees to be paid while pursuing activities other than working, be they child-bearing, family responsibilities, re-education, organizational activities, or even leisure. Such programs are, in spirit, truly de-commodifying. With respect to the latter, the crucial issue was that the status of welfare client should impose no decline in living standards, even over an extended time.

In sum, the gist of de-commodification in the socialist paradigm is the emancipation from market dependency. It is in the quality and arrangement of social rights, not in their existence *per se*, that we can identify a distinct socialist approach. In contrast to the conservative models, dependence on family, morality, or authority is not the substitute for market dependence; the notion is rather that of individual independence. And, in contrast to liberalism, socialism's aim is to maximize and institutionalize rights. Where the fully developed socialist paradigm is pursued, it should, in principle, facilitate a de-proletarianization of the worker's status: the worker's relationship to work will begin to approximate what privileged strata (such as the civil service) had enjoyed for decades and even centuries.

Welfare States and De-Commodification in the Real World

Variations in the de-commodifying potential of social policies should be empirically identifiable across time and nations. This potential can clearly not be captured solely by social expenditure levels, but requires analysis of the rules and standards that pertain to actual welfare programs. The question is how we adequately operationalize the crucial dimensions.

One set of dimensions must speak to the rules that govern peoples' access to benefits: eligibility rules and restrictions on entitlements. A program can be seen to harbor greater de-commodification potential if access is easy, and if rights to an adequate standard of living are guaranteed regardless of previous employment record, performance, needs-test, or financial contribution. The other side of the coin of 'entry' is exit. If programs provide benefits for only limited duration, clearly their capacity to de-commodify is diminished.

A second set of dimensions has to do with income replacement, for if benefit levels fall substantially below normal earnings or the standard of living considered adequate and acceptable in the society, the likely result is to drive the recipient back to work as soon as possible. We will therefore have to consider the levels of income replacement.

Thirdly, the range of entitlements provided for is of utmost importance. Almost all advanced capitalist countries recognize some form of social right to protection against the basic social risks: unemployment, disability, sickness, and old age. A highly advanced case would be where a social wage is paid to citizens regardless of cause. The idea of a *de facto* guaranteed citizens' wage, as has been under discussion in Scandinavia and the Netherlands, and with more modest aspirations in

the case of the American negative income-tax proposal, comes close to this scenario.

CONDITIONS FOR ENTITLEMENTS

Social rights are hardly ever unconditional. Claimants will at least have to satisfy the condition of being ill, old, or unemployed to receive the benefits. Beyond the mere presence of a problem, however, conditions are usually linked to type of social security arrangement.

We may in general distinguish three kinds of arrangements, each one with its own peculiar effect on de-commodification. One type of system, historically most pronounced in the Anglo-Saxon nations, builds entitlements around demonstrable and abject need. With its mainsprings in the poor-law tradition, the social-assistance tradition is characterized by the application of a means- or income-test with varying degrees of stringency. These systems do not properly extend citizen rights. The main examples of this tradition are the early pension schemes in Scandinavia, the British scheme of supplementary benefits, the American SSI, and virtually the entire Australian welfare system. Every nation has some type of means-tested social assistance or poor-relief arrangement. What counts most heavily in this type of regime are the restrictiveness of means/incomes tests and the generosity of benefits.

A second type of system extends entitlements on the basis of work performance. This variant has its roots in the insurance tradition that was most consistently developed first in Germany, and then across the European continent. Rights here are clearly conditional upon a blend of labor-market attachment and financial contributions, and have usually been subjected to a logic of actuarialism; i.e. the idea that the individual has a personal entitlement of a contractual nature. The degree to which this kind of regime offers opportunities for de-commodification depends largely on how much it relaxes the actuarial principle: how much a person will have to have worked or contributed to qualify, and how strict is the relationship between prior performance and benefits.

The third type of system springs from the Beveridge principle of universal rights of citizenship, regardless of degree of need or extent of work performance. Eligibility rests instead on being a citizen or long-time resident of the country. Invariably, these types of programs are built on the flat-rate benefit principle. In principle, this 'people's welfare' approach has a strong de-commodifying potential, but obviously circumscribed by the largesse of the benefits. The people's-welfare system has taken strongest hold in the Scandinavian nations, and has been a long-standing principle in the socialist tradition of social policy.

Although never implemented, it has been a perennial ideal in German social democracy.

To an extent the three system-types mirror Titmuss's well-known trichotomy of residual, industrial-achievement, and institutional welfare states (Titmuss, 1958). In reality, however, there are no one-dimensional nations in the sense of a pure case. In the Anglo-Saxon countries, such as Australia, Canada, and the United States, the social-assistance system may be dominant, but is complemented by alternative programs. In the United States, the social security system falls into the social-insurance category; Canada has a blend of a people's pension and a social-insurance based pension, and even Australia is approaching the principle of a people's pension. In the continental European nations, where the social-insurance tradition is strongest, a host of alternatives has emerged over the years: in Italy, the social pension; in France, the 'solidarity funds'. And, finally, almost all countries dominated by a people's-welfare approach have developed earnings- and work-related schemes to complement the usually modest benefits awarded by the flat-rate universal plans. In short, every country today presents a system mix.

Despite the complexity this involves, it is possible to empirically distinguish welfare states' variable capacity to de-commodify. We will here present combined scores of de-commodification for the three most important social-welfare programs: pensions, sickness, and unemployment cash benefits. The scores summarize an array of variables that illustrate the ease with which an average person can opt out of the market: first, the prohibitiveness of conditions for eligibility, such as work experience, contributions, or means-tests; second, the strength of in-built disincentives (such as waiting days for cash benefits) and maximum duration of entitlements; and third, the degree to which benefits approximate normal expected earnings-levels. The overall de-commodification scores are weighted by the percent of the relevant population covered by the social security program. This reflects the probability that any given person will possess the right to a transfer. A program may very well offer luxurious benefits and liberal conditions, but if it addresses solely a small clientele, it has obviously a limited capacity to de-commodify.

Table 2.1 presents de-commodification indices for the leading 18 industrial democracies in terms of old-age pensions. We have used five variables to construct the index for pensions: 1) the minimum pension as a percent of a normal worker earnings (replacement rate net of taxes) for a single person; 2) the standard pension replacement rate (net) for a single person; 3) number of years of contributions required to qualify;

TABLE 2.1 The degree of de-commodification in old-age pensions, sickness benefits, and unemployment insurance, 1980

	<i>Pensions</i>	<i>Sickness</i>	<i>Unemployment</i>
Australia	5.0	4.0	4.0
Austria	11.9	12.5	6.7
Belgium	15.0	8.8	8.6
Canada	7.7	6.3	8.0
Denmark	15.0	15.0	8.1
Finland	14.0	10.0	5.2
France	12.0	9.2	6.3
Germany	8.5	11.3	7.9
Ireland	6.7	8.3	8.3
Italy	9.6	9.4	5.1
Japan	10.5	6.8	5.0
Netherlands	10.8	10.5	11.1
New Zealand	9.1	4.0	4.0
Norway	14.9	14.0	9.4
Sweden	17.0	15.0	7.1
Switzerland	9.0	12.0	8.8
United Kingdom	8.5	7.7	7.2
United States	7.0	0.0 ^a	7.2
Mean	10.7	9.2	7.1
S. D.	3.4	4.0	1.9

* The higher the score the greater is the degree of de-commodification. For scoring procedure, see appendix to this chapter.

^a Program non-existent and therefore scored 0.

Source: SSIB data files

4) the share of total pension finance paid by individuals. The scores for these four variables are added, and then weighted by 5) the percent of persons above pension age actually receiving a pension (the take-up rate). For sickness and unemployment benefits, the procedure is almost identical, with the following exceptions: here we include only the replacement rate (net) for standard benefits, omit share of individual financing, and include data on number of waiting days to receive benefits and number of weeks of benefit duration. For all three programs, we have scored the benefits double, since for any given person's work/welfare decision, expected income-levels will be absolutely decisive.

To prevent any misunderstanding, it must be clear that we are trying to measure a program's potential for de-commodification, and not its general qualities. We are capturing the degree of market-independence for an average worker. Thus, it is possible for a country normally regarded as having a first-rate pension system (like Germany) to score

low. Indeed, in this case, Germany scores low because it requires long periods of contribution and a large individual financial contribution, and because its pension benefits are relatively modest. Australia and New Zealand score exceedingly low on both sickness and unemployment because they offer only means-tested benefits.

In table 2.1 we see that the three programs differ considerably in their degree of de-commodification potential. Invariably, unemployment insurance is associated with greater disincentive effects. Table 2.1 also indicates that there is a substantial variation among the advanced welfare states with regard to de-commodification. Some nations score consistently low on all programs, while others are strongly de-commodifying across the board. Thus, we confront a situation in which national welfare systems appear to harbor systematic traits. The Nordic countries are, in particular, consistently de-commodifying, while the Anglo-Saxon countries tend to be consistently least so. This is precisely what we would have expected in terms of our typology of welfare-state regimes.

The idea that welfare states cluster into distinct groups becomes more evident when we examine table 2.2. Here we present the total combined de-commodification score for the three programs in the same 18 nations. Based roughly on how nations cluster around the mean, we can distinguish three groups of countries: the Anglo-Saxon 'new' nations are all concentrated at the bottom of our index; the Scandinavian countries at the top. In between these two extremes, we find the continental European countries, some of which (especially Belgium and the Netherlands) fall close to the Nordic cluster.

Even if table 2.2 shows a number of borderline cases, the clustering remains strong. And the clusters bring together the countries which, *a priori*, we expected would look similar in terms of our welfare-state regime arguments. We would anticipate a very low level of de-commodification in the nations with a history dominated by liberalism. And this we find in the first cluster. And in the 'high de-commodification' cluster we find the social democratically dominated welfare states, exactly as we would have expected. Finally, the continental European countries, with their powerful Catholic and etatist influence, tend to occupy the middle group – prepared to extend a considerable modicum of rights outside the market, but nonetheless with a stronger accent on social control than is the case within social democracy.

How do we account for cross-national differences in de-commodifying capabilities of welfare states? As we have already discussed, a simple explanation in terms of economic development or working-class power

TABLE 2.2 The rank-order of welfare states in terms of combined de-commodification, 1980

<i>De-commodification score</i>	
Australia	13.0
United States	13.8
New Zealand	17.1
Canada	22.0
Ireland	23.3
United Kingdom	23.4
Italy	24.1
Japan	27.1
France	27.5
Germany	27.7
Finland	29.2
Switzerland	29.8
Austria	31.1
Belgium	32.4
Netherlands	32.4
Denmark	38.1
Norway	38.3
Sweden	39.1
Mean	27.2
S. D.	7.7

For scoring procedure, see appendix to this chapter.
Source: SSIB data files

mobilization will hardly suffice. As we shall examine more closely in chapter 5, level of economic development is negatively correlated with de-commodification, and has no explanatory power.

As we will see, the degree of left power has a fairly strong and positive influence on de-commodification, explaining about 40 percent of the variance. Yet, the non-explained residual is large and must be uncovered in order fully to understand how and why welfare-state variations have evolved to the point they have. This issue will be taken up in chapter 5; at this point it will suffice to say that the explanation will be found in the interaction between political-power variables and nations' historical legacy. The relatively high de-commodification scores found in the continental European countries are not solely the product of left political mobilization, but also of a long tradition of conservative and Catholic reformism. In converse, the exceedingly low de-commodification scores found in countries with comparatively powerful labor movements, like Australia and New Zealand, can find an explana-

tion in the historically dominant legacy of institutionalized liberalism.

The fruitfulness of a more historically grounded account of welfare-state clusters is evident when we examine how the different countries clustered in earlier epochs, in particular prior to the advent of left or labor-party influence, on social-policy legislation. In this way, we can hold constant the 'social democracy' effect. In both 1930 and 1950, the low de-commodification group included most of the countries included in 1980: Canada, the United States, New Zealand, and (in 1950) Australia. It also included Italy and Japan, both nations under prolonged Fascist rule, and Finland. Finland's post-war rise in de-commodification can be seen as a case of social democratization; that of the two others cannot. In turn, the Scandinavian high de-commodification cluster of 1980 is nowhere to be found prior to 1950, again a case in favor of the influence of post-war social democratic power. Most significant, however, is the consistent historical position of the 'conservative-Catholic', or etatist, regimes of continental Europe like Germany, Austria, and France, all of which consistently score medium to high in the 1930s, in 1950, and in 1980. We may, on this basis, offer the following guiding hypotheses, to be further explored in later chapters.

1 Nations with a long historical legacy of conservative and/or Catholic reformism are likely to develop a fair degree of de-commodified social policy at an early date. Their welfare states, nonetheless, circumscribe the loosening of the market's bonds with powerful social-control devices, such as a proven record of strong employment attachment or strong familial obligations. The superior performance on de-commodification that we find in countries such as Austria, Belgium, and the Netherlands after 1950 can probably best be ascribed to the strong political position of the social democratic labor movements.

2 Nations with a powerful liberalist legacy will bifurcate, depending on the structuration of political power. Where social democracy comes to political dominance, as in Denmark, Norway, and Sweden, the liberal mold is broken and replaced with a highly de-commodifying social democratic welfare-state regime. Where, on the other hand, labor fails to realign the nation's political economy and assert dominance, the result is continuously low or, at most, moderate de-commodification. This is exemplified by Great Britain at one end, and by Canada and the United States at the other end. The Labour Party's breakthrough in Britain is evidenced by the fact that Britain scored in the top de-commodification group in 1950: the universalist social citizenship

The Welfare State as a System of Stratification

of the Beveridge model that was launched after the war placed Britain as the highest scoring nation internationally. The system certainly was not undone by the 1980s, but it failed to progress further; Labour's record of post-war power was too weak and interrupted to match the accomplishments in Scandinavia. The United States and Canada, in turn, are the 'pure' cases of liberal hegemony, virtually unchallenged by the paradigmatic alternatives of socialism or, for that matter, conservative reformism.

Appendix Scoring procedure for indices of de-commodification

PENSIONS

De-commodification in old-age pensions is measured in terms of the additive qualities of 1) minimum pension benefits for a standard production worker earning average wages. The replacement rate here (as elsewhere) is the ratio of the benefit to normal worker earnings in that year, both benefits and earnings net of taxes; 2) standard pension benefits for a normal worker, calculated as above; 3) contribution period, measured as number of years of contributions (or employment) required to qualify for a standard pension; 4) individual's share of pension financing. On the basis of the values on each of these four indicators for the 18 nations, we have given a score of 1 for low de-commodification; 2 for medium; and 3 for high de-commodification. The classification into the three scores has been done on the basis of one standard deviation from the mean, in a few cases adjusted for extreme outliers. Finally, the scores have been weighted by the percent of the (relevant) population covered by the program (for pensions, the take-up rate). Where, as in Australia, the pensions are based on a means-test, we have scored 0 for contribution period, and have given the weight of 0.5 for population covered. This 'negative' scoring reflects the fact that means-tested programs are highly conditional in terms of offering rights. To take into account the singular importance of replacement rates for people's welfare-work choices, we have given extra weight to these variables (multiplied by the factor of 2).

SICKNESS AND UNEMPLOYMENT CASH BENEFITS

In sickness and unemployment programs, we have measured de-commodification in terms of 1) benefit replacement rates (net) for a standard worker during the first 26 weeks of illness/unemployment; 2) number of weeks of employment required prior to qualification; 3) number of waiting days before benefits are paid; 4) number of weeks in which a benefit can be maintained. As with pensions, we have given scores of 1, 2, or 3 on the basis of the standard deviation to develop a summary de-commodification index. This, subsequently, has been weighted by the (relevant) population covered as a percent of the labor force. Means-tested programs have been dealt with as described under pensions. As with pensions, replacement rates have been multiplied by a factor of 2.

The welfare state may provide services and income security, but it is also, and always has been, a system of social stratification. Welfare states are key institutions in the structuring of class and the social order. The organizational features of the welfare state help determine the articulation of social solidarity, divisions of class, and status differentiation.

That the welfare state is an agent of stratification is well recognized, but, unfortunately, usually in a narrow and often mis-specified way. It is an aspect that has remained severely neglected, both theoretically and empirically. At the theoretical level, two views have dominated; one, common to a good deal of neo-Marxism, typically argues that even the advanced welfare state merely reproduces (and perhaps even nurtures) existing class society (Offe, 1972; O'Connor, 1973; Muller and Neussuss, 1973). Thus, O'Connor's argument is that welfare policies provide the legitimacy and social calm required by monopoly capitalism. In Piven and Cloward's (1971) study, government's willingness to provide relief to the poor depends less on acute need than on perceived threats to social stability.

The second view follows in the footsteps of T. H. Marshall and, to a degree, his pre-war forebears like Heimann. It sees welfare reforms as a major contribution to the declining salience of class (Lipset, 1960; Crosland, 1967; Parkin, 1979). Here, the argument is that welfare eliminates the essential causes of class struggle, incorporates the working classes, and democratizes popular access to the state; or, as Parkin argues, it transforms class conflict into status competition.

It was the alliance option which inspired Bauer's thinking and, even more clearly, the Scandinavians' 'People's Home' notion of welfare policy. In the inter-war years, the rural classes were the linchpin of a broad popular alliance, and the socialists tried with varying success to mobilize the agrarian classes. Where the socialist ghetto model was weak – as in Scandinavia – their capacity to make inroads in the rural social structure was vastly better. Where socialism was concentrated in urban working-class enclaves, such as 'Red Berlin' and 'Red Vienna', ideology and rhetoric was more likely to retain its traditional revolutionary, workerist flavor, and a rural outreach would be less likely to receive a favorable response.

The shift to a people's universalism was not merely instrumental vote-maximization. It spoke logically to the prevailing social structure and to the socialists' own comprehension of solidarity. The social structure was dominated by masses of rural and urban 'little people'. Solidarity does not have to be workerist, since many other groups are victims of forces beyond their control, and face poverty and basic social risks. Universalism, therefore, became a guiding principle because it equalized the status, benefits, and responsibilities of citizenship, and because it helped build political coalitions.

Still, universalism occasionally came into conflict with rival labor-movement objectives. In many cases, the labor movements found in the self-financed and controlled welfare funds a great source of both financial and organizational power. To relinquish this for the sake of universal solidarity was not always viewed with favor. In Germany, the trade unions jealously guarded their control over sickness funds. Even the Danish and Swedish labor movements, vanguards of universalism, would not accept loss of control over their unemployment insurance funds.

Australia and New Zealand constitute two cases in which the labor movements, despite being powerful, never fully embraced the universalist ideal. In these countries, labor retained the traditionally widespread preference for targeted income-tested benefits because they appear more redistributive. But the main reason seems to be the outstanding bargaining situation enjoyed by the trade unions for decades. Thus, as Castles (1986) argues, labor's demands for social protection could be equally, if not better, served via wage negotiations.

The socialists' adherence to universalism was put to a major test in the wake of social-structural modernization. In an advanced economy, the 'little people' disappear, only to be replaced by a new white-collar salariat and more prosperous workers who will hardly be content with a basic flat-rate benefit. Hence, unless social security could be upgraded, a massive exodus towards private-market schemes would likely ensue,

leading to new inequalities. Thus, to preserve the solidarity of a universalistic welfare state, the socialists were compelled to align social benefits to middle-class standards.

The Swedish social democrats were the first to pave the way for a universalism of 'middle-class' standards. The formula was to combine universal entitlements with high earnings-graduated benefits, thus matching welfare-state benefits and services to middle-class expectations. For the average worker, as social citizen, the result was an experience of upward mobility. For the welfare state, the result was the consolidation of a vast popular majority wedded to its defence. 'Middle-class' universalism has protected the welfare state against backlash sentiments.

Comparative Dimensions of Welfare-State Stratification

If all welfare states participate in the process of social stratification, they do so differently. The historical legacies of conservative, liberal, and socialist principles in their early construction became institutionalized and perpetuated, often over an entire century. The result is a clustering of regimes that is strikingly parallel to the one we discovered in the analyses of de-commodification.

To identify welfare-state clusters, we need to identify the salient dimensions of stratification. The corporatist model is best identified by the degree to which social insurance is differentiated and segmented into distinct occupational- and status-based programs. In this case, we would also expect large variations between the bottom and top in terms of benefits. To identify etatism, the simplest approach is to identify the relative privileges accorded civil servants. In contrast, we would identify liberal principles in terms of welfare states' residualism, especially the relative salience of means-testing; in terms of the relative financial responsibility accorded to the individual insured; and in terms of the relative weight of voluntary, private-sector welfare. And, to capture the socialist ideals, the relevant measure is clearly degree of universalism. The socialist regime ought to exhibit the lowest level of benefit differentials.

The degree to which clearly defined regime-clusters exist depends, then, on the extent to which regime-specific features are exclusively present only in one type. To give an example, we would not expect a conservative-type system (with strong corporatism and/or civil-service privileges) to also harbor liberalist traits (such as a large private market) or socialist traits (such as individualism). Since, however, the real world

TABLE 3.1 Degree of corporatism, etatism, means testing, market influence, universalism, and benefit equality in 18 welfare states, 1980

	Corporatism ^a	Etatism ^b	Means-tested poor relief (as % of total public social expenditure)	Private pensions (as % of total pensions)	Private health spending (as % of total)	Average ^d universalism	Average ^e benefit equality
Australia	1	0.7	3.3	30	36	33	1.00
Austria	7	3.8	2.8	3	36	72	0.52
Belgium	5	3.0	4.5	8	13	67	0.79
Canada	2	0.2	15.6	38	26	93	0.48
Denmark	2	1.1	1.0	17	15	87	0.99
Finland	4	2.5	1.9	3	21	88	0.72
France	10	3.1	11.2	8	28	70	0.55
Germany	6	2.2	4.9	11	20	72	0.56
Ireland	1	2.2	5.9	10	6	60	0.77
Italy	12	2.2	9.3	2	12	59	0.52
Japan	7	0.9	7.0	23	28	63	0.32
Netherlands	3	1.8	6.9	13	22	87	0.57
New Zealand	1	0.8	2.3	4	18	33	1.00
Norway	4	0.9	2.1	8	1	95	0.69
Sweden	2	1.0	1.1	6	7	90	0.82
Switzerland	2	1.0	8.8	20	35	96	0.48
United Kingdom	2	2.0	— ^f	12	10	76	0.64
United States	2	1.5	18.2	21	57	54	0.22
Mean	4.1	1.7	5.9	13	22	72	0.65
S. D.	3.2	1.0	5.1	10	14	19	0.22

^a Measured as number of occupationally distinct public pension schemes. Only major schemes have been included.

^b Measured as expenditure on pensions to government employees as % GDP.

^c Estimates of poor-relief expenditure exclude benefits from normal income-tested schemes (such as housing allowances in Scandinavia, unemployment assistance in Germany, or old-age, unemployment, and sickness assistance in Australia and New Zealand). It should be kept in mind that the borderline between these two types of targeting is difficult to draw. Our estimates here are based on an individual assessment of how the system operates in each nation.

^d Average for sickness, unemployment, and pensions. (Income-tested assistance programs, like the Australian and New Zealand unemployment and sickness benefits, have been scored 0 since none provides full citizen rights to benefits.)

^e Average differential between basic and maximum social benefits for sickness, unemployment, and pensions (based on net, after-tax, benefits). Benefit differentials are based on the ratio of guaranteed basic social benefit to the legal maximum benefit possible in the system.

^f Data are not available.

Sources: G. Esping-Andersen (1987b; table 3); United States Government Printing Office, *Social Security Programs Throughout the World* (1981); ILO, *The Cost of Social Security*, basic tables (Geneva: ILO, 1981); OECD, *Measuring Health Care, 1960-1983* (Paris: OECD, 1985, p. 12); SSIB data files

TABLE 3.2 Bi-variate correlation matrix of stratification attributes for 18 welfare states

	Corporatism	Etatism	Poor relief	Private pensions	Private health	Universalism
Corporatism	1.00					
Etatism	0.55	1.00				
Poor relief	0.16	-0.11	1.00			
Private pensions	-0.40	-0.64	0.49	1.00		
Private health	-0.02	0.01	0.60	0.45	1.00	
Universalism	-0.02	-0.03	-0.05	0.00	-0.28	1.00
Benefit differentials	0.40	0.14	0.73	0.21	0.51	0.21

of welfare states is most likely to exhibit hybrid forms, our task is to see to what degree there is sufficient co-variation for distinct regime-clusters to emerge.

In table 3.1 we present data on regime-specific program attributes. Representing *conservative* principles of stratification, the table shows, first, the degree of status segregation, or corporatism, measured as number of (major) occupationally distinct pension schemes in operation; second, it presents degree of 'etatism', measured as the expenditure on government-employee pensions as a percentage of Gross Domestic Product.

Table 3.1 also displays three variables designed to identify key attributes of *liberalism*: first, the relative weight of means-tested welfare benefits, measured as a percentage of total public social expenditure (excluding benefits to government employees); second, it provides data on the importance of the private sector in pensions, measured as private-sector share of total pension spending, and in health care, measured as private-sector share of total health spending.

Finally, table 3.1 includes two attributes most clearly associated with *socialist* regimes, namely degree of program universalism (measured as averaged percentage of population, 16-64, eligible for sickness, unemployment, and pension benefits), and degree of equality in the benefit structure. In the latter case, our measure is an average for the above-mentioned three programs in terms of the ratio of the basic level of benefits to the legal maximum benefit possible. We would clearly expect the socialist-inspired regimes to accentuate benefit equality, while in conservative regimes inequalities should be greatest.

Beginning with the conservative attributes, we discover a basically bi-modal distribution of countries with regard to both corporatism and etatism; the coincidence between the two characteristics is, moreover, quite marked. One group of nations scores very high on both: Austria, Belgium, France, Germany, and Italy, with the possible inclusion of Finland. It is worth noting that this is the very same group which we earlier identified as falling in the conservative tradition on de-commodification.

Turning to our liberal characteristics, the pattern is considerably fuzzier. The poor-relief variable clusters nations into three groups, one scoring very high (Canada, France, and the United States), one with medium levels, and one in which poor relief is truly marginal (the Nordic countries). The private-pension variable, in contrast, distinguishes sharply between one group with a preponderance of private pensions, and another in which they hardly exist at all. The private-sector health variable, like poor relief, clusters into three groups. Here

TABLE 3.3 The clustering of welfare states according to conservative, liberal and socialist regime attributes (cumulated index scores in parentheses)

	Degree of		
	Conservatism	Liberalism	Socialism
Strong	Austria Belgium France Germany Italy (8) (8) (8) (8) (8)	Australia Canada Japan Switzerland United States (10) (12) (10) (12) (12)	Denmark Finland Netherlands Norway Sweden (8) (6) (6) (8) (8)
Medium	Finland Ireland Japan Netherlands Norway (6) (4) (4) (4) (4)	Denmark France Germany Italy Netherlands United Kingdom (6) (8) (6) (6) (6) (8)	Australia Belgium Canada Germany New Zealand Switzerland United Kingdom (4) (4) (4) (4) (4) (4) (4)
Low	Australia Canada Denmark New Zealand Sweden Switzerland United Kingdom United States (0) (2) (2) (2) (0) (0) (0) (0)	Austria Belgium Finland Ireland New Zealand Norway Sweden (4) (4) (4) (2) (2) (0) (0)	Austria France Ireland Italy Japan United States (2) (2) (2) (0) (2) (0)

we may note the substantial degree of 'privatization' in countries like Austria and Germany, something which testifies to the ambiguity of private welfare organization. In these two countries, 'private' health care reflects the tradition of the Church's influence (Caritas, for example) rather than unbridled private entrepreneurship. But, all in all, there is one group that systematically scores high on our liberalism attributes: the United States and Canada, and also, slightly less distinctively, Australia and Switzerland.

Considering, finally, our socialist regime measures, we see that universalism is the reigning principle in the Scandinavian social democratic welfare states, and is to a degree approximated in a few liberal regimes such as Canada and Switzerland. At the other extreme lie a number of liberal cases where social rights are unusually underdeveloped (the United States, Australia, and New Zealand). The continental European countries which otherwise tend to score high on conservatism fall in the middle here, a result that is hardly surprising since their emphasis on compulsory membership along occupational lines will result in a situation in which a large share of the labor force has insurance coverage. The benefit-differential measure should in principle facilitate a sharp distinction between the 'socialist' and 'conservative' cases. In the former, an accent on equality should produce low differentials; in the latter, the principle of maintaining status and hierarchy should result in sharp inequalities. To correctly interpret this variable, we should for a moment leave aside Australia and New Zealand. Since their systems are based on the flat-rate social assistance tradition, benefits will, virtually by definition, be equal. Otherwise, the tendency is largely as one would have expected: the Scandinavian social democracies are among the most egalitarian. Yet the table is less able to distinguish the corporative systems (which do show high differentials) and their liberal counterparts (which also exhibit very extreme differentials).

A first attempt to identify to what extent regime-clusters exist is by the zero-order correlation matrix presented in table 3.2. Obviously, for regimes to exist there must be a strong relationship among the particular characteristics that supposedly identify the regime; and, in converse, these must be negatively correlated, or uncorrelated, with attributes of alternative regimes. The correlations in table 3.2 point towards the kind of regime-clustering that we had anticipated. The conservative attributes (corporatism and etatism) correlate positively (0.55), and they are negatively related or unrelated to both the liberal-regime attributes (poor relief, privatization) and to the socialist universalism variable. There is a positive correlation with benefit differentials, indicating that

conservative regimes tend to replicate inequalities in the welfare state.

The liberal regime-cluster is equally evident. Poor relief is strongly related to both private pensions and health ($r = 0.49$ and 0.60 , respectively), and the last two are also positively correlated. High benefit differentials are powerfully linked to the liberal-regime variables. We may therefore conclude that high inequalities in welfare benefits emerge both from hierarchal systems and from market adherence. The distinctiveness of the liberal regime is evident in that its traits are all negatively correlated or uncorrelated with both conservative and socialist attributes.

The socialist regime, finally, is more difficult to pin down because its two component variables, universalism and egalitarian benefits, are not strongly correlated. Some countries (like Canada and Switzerland) which are otherwise very liberalistic tend also to approach universalism, and other liberalistic nations (like Australia), whose systems are essentially of the flat-rate minimum-benefit kind, have low benefit differentials. Nonetheless, the universalism characteristic does stand on its own, distinguishing itself (by being uncorrelated) from both conservative- and liberal-regime variables. It is a surprise, nonetheless, that we do not find a stronger association between egalitarian and universalism.

As in chapter 2, these data can be developed into summary indices so as to more clearly and economically identify significant nation-clusters. As before, we will do this (roughly) on the basis of the mean and standard deviation in the distribution along each of our variables. In table 3.3 we present cumulated summary scores for 'conservatism', 'liberalism', and 'socialism'. As explained in Appendix 1, the higher the score, the greater the degree of conservatism, liberalism, and socialism, respectively. We have divided the table into high, medium, and low clusters.

From table 3.3 we cannot but conclude that clusters do exist. The nations which score high on our summary index of conservatism (Italy, Germany, Austria, France, and Belgium) all score low, or at best, medium on our indices of liberalism and socialism. In turn, the countries characterized by strong liberalism (Australia, Canada, Japan, Switzerland, and the United States) score low or medium on conservatism and socialism. Finally, the socialism cluster includes the nations of Scandinavia, and the Netherlands, all countries which score low (or medium) on the two other regime-clusters.

In other words, if we are willing to accept that welfare states play an important role in the patterning of social stratification, and that we have captured attributes of stratification which matter significantly in peoples' real and perceived experience of inequalities, status, and class differ-

ences, we find that it is misleading to compare welfare states as merely 'more' or 'less' egalitarian. We discover, instead, entirely different logics of social stratification embedded in welfare-state construction. In this sense, we may speak of regimes as we did with reference to de-commodification.

We can, additionally, begin to see that the clustering of de-commodification and stratification is very similar. Recalling the evidence presented in chapter 2, there is a clear coincidence of high de-commodification and strong universalism in the Scandinavian, social democratically influenced welfare states. There is an equally clear coincidence of low de-commodification and strong individualistic self-reliance in the Anglo-Saxon nations. Finally, the continental European countries group closely together in terms of being corporatist and etatist, and also being fairly modestly de-commodifying.

In chapter 4, we will conclude our specification of welfare-state regime-clusters by analyzing how the boundary between state and market emerged in pensions, the single most important welfare-state program. It is already clear that the public-private mix plays a key role in shaping both de-commodification and stratification. What we wish to explore more fully is the overall structuration of social policy or, more specifically, pensions, in the political economy.

Appendix Scoring procedure for stratification indices

As in chapter 2, we have developed indices based on the distribution of nations around the mean and standard variation on the individual variables. Conservative-regime attributes are captured via corporatism and etatism variables; liberal-regime attributes through social assistance and the relative importance of private health and pensions; socialist-regime attributes are mainly captured via the degree of universalism. The final variable, benefit differentiation, is expected to score low for socialist regimes.

To construct the index of corporatism, nations with less than, or equal to, two separate occupationally distinct pension programs have been given the score of 0; nations between two and five (inclusive) have been given a score of 2; and nations with more than five occupationally distinct programs are scored equal to 4.

The etatism variable reflects the degree to which the civil service is granted special welfare privileges, and is measured in terms of pension expenditures for civil servants as a percentage of GDP. Where the share is less than (or equal to) 1 percent, we have given an index score of 0; where the share is between 1 and 2.1 percent, we have given a score of 2; and where the share surpasses 2.2 percent, we have given a score of 4.

State and Market in the Formation of Pension Regimes

The index for the relative importance of social assistance is based on data on expenditures on means-tested benefits as a percentage of total social-transfer expenditures. The task of defining exactly the boundary between the classical type of means-tested benefits and the more modern income-dependent transfers is very difficult. We have decided to treat the Australian and New Zealand welfare states as essentially income-tested, and these countries will accordingly score fairly low. Similarly, we exclude housing allowances in Scandinavia. The variable, in other words, has been constructed to try to include program expenditure for what is genuinely means-tested social assistance in the traditional poor-relief logic. It therefore includes programs such as AFDC in the United States, *Sozialhilfe* in the Germanic countries, *socialhjælp* in the Nordic countries, and so forth. Great Britain poses a special problem because of the way in which both means- and income-tested benefits there have been consolidated under the general heading of 'supplementary benefits'. For comparative purposes, we have chosen (conservatively) to estimate the British share as being equal to 1 percent. The index construction on this variable follows the logic adopted previously: if the expenditure ratio on social assistance, relative to total transfer payments, is less than 3 percent, we give a score of 0; from 3 to 8 percent, we give a score of 2; more than 8 percent is given a score of 4.

The index for the relative share of private-pension expenditures to total pension expenditures is developed as follows: if the share is less than 10 percent, a country is scored equal to 0; if the share is between 10 and 15 percent, the score is 2; and if the share is more than 16 percent, we give the country a score of 4.

For the relative share of private health expenditures, we give a score of 0 to countries where it is less than 10 percent; from 10 to 20 percent, we give a score of 2; and if greater than 21 percent, the country receives a score of 4.

The universalism variable measures the percentage of the relevant population (labor force between ages 16 and 65) covered under the respective programs. A low degree of universalism is defined as less than (or equal to) 60 percent of the population being covered, and scored equal to 0; where coverage lies between 61 and 85 percent, we give a score of 2; and where coverage exceeds 86 percent, we give a score of 4. Note that income-test-based programs, such as the Australian and New Zealand unemployment and sickness benefit schemes, have been scored equal to 0. This is because these types of programs do not grant automatic universal rights.

Finally, our variable on benefit differentials is based on what a normal standard worker will receive as a standard benefit and what is the maximum benefit stipulated in the rules of the system. If the standard benefits are less than 55 percent of maximum benefits, we give the system a score of 0 (reflecting very high differentials); if they lie between 55 and 80 percent, the system is given a score of 2; and if they are above 80 percent, the system is given a score of 4.

Introduction

Neither state nor market was predestined as a locus of welfare provision. Yet almost every textbook on social policy will try to convince you otherwise. Sociologists generally equate welfare distribution with government social policy. Liberal dogma and contemporary economic theory want us to believe that the state is an artificial creation and that the market, if left untampered with, is the only institution truly capable of furnishing our various welfare needs. This may be true for automobiles, but it certainly is not true for social security.

In all advanced countries we find some blend of private and public welfare provision, and it is in this relationship that we will uncover some of the most important structural properties of welfare states. In this chapter, the relationship will be explored for pensions, by far the most important in the overall package of social transfers. We will discover that states created markets and that markets created states. For pensions, at least, it required the application of state power to build and nurture a viable private market. In turn, the state's role in furnishing pensions has been decisively shaped by the nature and limits of markets. State and market, or, if you will, political power and the cash nexus, have interacted continuously to manufacture the peculiar blend of social provision that goes into defining welfare-state regimes.

If an analysis of pensions appears somewhat narrow and pedestrian, keep in mind two circumstances: first, pensions account for more than 10 percent of GDP in many contemporary nations; second, pensions