

THE DEMOCRATIC WELFARE STATE

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SUMMARY

This essay examines relationships between democracy and social policy. It develops propositions on the origin, form, and consequences of the democratic welfare state. It also explores differences between democratic and non-democratic welfare states and discusses whether welfare states are capable of curing major defects to which they may have contributed.

I

The first section of the paper focuses attention on determinants of welfare state development. Among these, democracy is doubtlessly a major factor. But democracy is by no means the only political regime which fosters welfare state development, as the welfare states of authoritarian complexion in the European socialist countries have shown. A democratic regime is, thus, not a necessary condition of welfare state development, and it is, as the Indian case or any other democracy in a economically less advanced country demonstrates, not necessarily a sufficient condition either. However, where democracy coexists with a relatively high level of economic development it contributes massively to the reproduction and expansion of the welfare state. But democracy also tends to bias social policy in favour of a position close to the median voter. The case has been convincingly argued in Hans Zacher's recent interpretation of the German welfare state. According to Zacher, democracy and the principle of the social are both dynamic and permanent processes which reinforce each other, the one driven by power struggles and quantitative aggregation of social interests, the other pushed by the effort to generalise better-worse-relations. In particular, Zacher argues, the right to vote for all and the 'time rhythm' inherent in a democracy have a twofold impact on social policy: they fuel the expansion of social policy and shape it in a way conducive mainly to well organised groups in the middle of distribution on the one hand, and to meritocratic and possessive-individualist criteria of justice (rather than vertical solidarity) on the other. A fundamental bias results also from the 'time rhythm' in a democracy. The selection of social policy problems and issues depends not on social needs but rather on whether they fit the electoral issue attention cycle.

This results, according to Zacher, in placing emphasis on interest in instant consumption and short-term solutions, while disregarding long-term circumstances and the interests of future generations.

Democracy is, indeed, strongly related to welfare states. More detailed analysis also reveals significant patterns between the welfare state and different types of democracies. Four distinctions between different types of democracies are particularly relevant in this context: established versus fragile democracies, young versus old democratic regimes, representative versus direct democracy, and differences with respect to the relative strength of particular political parties.

II

The second section of the paper discusses differences between democratic and non-democratic welfare states. These include 1) differences in the degrees of freedom available to the citizens, and 2) differences in the degree of politicisation (with a high degree of politicisation as a major characteristic of a non-democratic welfare state and a significantly lower one as a defining characteristic of a democratic welfare state). 3) Goals of social policy differ also widely between democratic and non-democratic welfare states. Although they invest more in social security and social assistance for disadvantaged groups, democratic welfare states pursue, generally speaking, less ambitious goals in employment policy than economically advanced non-democratic welfare states, at least as far as the former socialist countries are concerned. 4) Furthermore, a stronger workfare component differentiates many non-democratic welfare states from democratic welfare states. East Germany's socialism, for example, is a major case of a unique combination of a workfare and welfare state. 5) Moreover, non-democratic welfare states, such as in the socialist countries in Central and Eastern Europe, also differ from democratic welfare states in a lower capacity to cure potentially self-destructive social policy decisions in the past and a lower capacity to adjust to external or internal change. 6) Last but not least, the role played by 'veto players' (i.e. actors whose consent is required for a major policy decision) in a democracy is significantly larger than in non-democratic states. For example, the checks and balances of the executive in most constitutional democracies, impose considerable restrictions on policy making. In contrast to this, the number of veto players in an authoritarian regime or in a non-democratic welfare state is small and their role hardly significant, if veto players, at least constitutionally defined veto players, exist at all. From this results a potentially unconstrained supremacy of the political. However, unconstrained supremacy of the political tends to result in overshooting, if not in self-destructive policy making. And precisely this happened in the former socialist states in Central and East European both in economic and in social policy, as well as in many other policy areas, which are, however, beyond the scope of this essay.

III

The consequences of democratic welfare states are the topic of the third section of the paper. This section explores the strengths and the weaknesses of social policy and focuses attention on the political, social and economic outcomes of mature democratic welfare states. In this section, it is argued that the welfare state is both a ‘problem creator’ and a ‘problem solver’. For example, the democratic welfare state has largely accomplished its original tasks of providing protection against impoverishment, and securing against risks of income losses due to unemployment, disability, old age, sickness, and care. Moreover, social policy has also reduced the level of social inequality to a high degree. Moreover, social policy has also realised constitutionally prescribed norms for a caring welfare state. Furthermore, the democratic welfare state protects not only individual beings from hardship – it also protects the polity and society as a whole from the destabilising effects of economic shocks and economic recessions. The protection of socially weaker groups against impoverishment and major risks due to the ups and downs of life have been conducive to the legitimisation of the political and economic order. Thus, the welfare state has made industrial societies in many aspects more fair, more just, and also more stable.

A highly developed welfare state also incorporates a significant ‘economic value’, despite the considerable costs which it places upon employers and employees. Ambitious social protection, for example, creates strong incentives for productivity increasing investment choices and thus improves the long-term viability of the economy. Secondly, the social budget strengthens the demand side of the economy mainly through stabilising the demand for consumer goods. Thirdly, an advanced welfare state is in many respects a burden on business location, but it can also be a major location advantage, for example via protecting labour, improving the legitimisation of the social and, economic order, or by providing a high level of social and political stability.

The welfare state solves problems, but it is also a ‘problem creator’. Of these problems, the following are particularly critical: 1. upper limits to the taxation load required for social policy and problems of acceptability, 2. trade-offs between social protection and other important social, economic, and political goals (such as social protection- employment trade-offs), 3. policy-induced problems and 4. displacement or blockade of other policy areas.

IV

The fourth section of the paper discusses the potential for policy change in developed welfare states. Are welfare states capable of curing major defects which they may have caused? It is argued, that the capacity of democratic welfare states to cure defects or to correct errors committed in the past does indeed exceed the manoeuvrability of non-democratic regimes. However, severe restrictions also constrain the re-

form capacity of the democratic welfare states, and powerful checks and balances work against efforts to change the political course of action. Thus, for example, the demand for social security which is attributable to ageing and unemployment will probably remain strong in most advanced welfare states over an extended period. It is also likely, that the expectations of the welfare state clientele, which commands a powerful strategic position in the political market, is hardly downward flexible. Furthermore, many powerful veto points and veto players, such as is the case in a federal country with strong traditions of self-administration in social policy and local government, inhibit the potential for policy change quite significantly, including the potential for reallocation within the welfare state and between social policy and non-social policy areas.

However, politics is not a deterministic process. Nor is policy-making. Hence there exists, in principle, considerable scope for political choices. According to studies in comparative politics, this scope is, generally speaking, significantly larger in countries in which governments are faced with few 'veto players', such as is the case in an unitary state. Conversely, the scope for changing courses is smaller, when counter-majoritarian institutions and many 'veto players' require extensive compromise seeking, such as is the case in federal countries or in oversized coalition governments.

However, even when many veto players are co-governing, policymaking is by no means doomed to immobilism. According to the latest version of the veto player theorem, for example, the potential policy immobilism, resulting from numerous veto players can be overridden. The policy change (including the potential for radical reforms of the welfare state) is largely determined by four factors. The potential for policy change varies inversely with the total number of veto players, and the ideological distance between veto players and government. Furthermore, the potential for policy change varies directly with the duration of a government and an increase in the ideological difference between current and previous government.

Of course, the capacity to change the political course of action in a democratic welfare state is also influenced by many other factors beyond the reach of the veto player theorem or any other middle range theory. Thus, for example, external pressure can contribute to the solution of a problem, and so, too, can the widely shared view that something must be foul in the state of a nation. For example, the widely shared belief that 'Holland is sick', to quote from the former Dutch Prime Minister Lubbers in the early 1980s when he pleaded for a major cutback in the Dutch welfare state, can trigger a major policy change. This change can be even more dramatic when it receives full support from concerted action between the state and the major interest organisations of capital and labour. However, these observations do nothing but underline a well-known observation of welfare state research: a wide range of variation characterises the family of democratic welfare states; and wide also is the variation of the routes which lead to successful policy change or to reform blockade.

Introduction

This paper focuses attention on a group of democratic countries in which social policy has grown to a high level. Democratic welfare states include, above all, the economically advanced countries in Western Europe, and, albeit with a lower level of social protection, in North America, and Japan, Australia and New Zealand. Democratic welfare states spent on average in 1995 roughly 25 per cent of their economic product on public social protection and private mandatory social spending, while welfare state leaders such as Sweden allocate more than 33 per cent of their gross domestic product to social policy. Moreover, in most democratic welfare states, for a sizeable proportion of the electorate – roughly speaking between 25 per cent and 40 per cent of the voters – the major source of income stems from jobs in the welfare state or from transfer payments, such as old age or invalidity pensions.

This paper discusses the democratic welfare state under three headings. Firstly, it explores the impact of democracy on the origins and the expansion of the welfare state. Secondly, the consequences of a high level of social protection that mature welfare states typically provide are examined. Finally, a discussion of the reform capacity of democratic welfare states concludes the paper.

I. The impact of Democracy on the Origins and the Expansion of the Welfare State

Is the democratic welfare state a product of democracy? The correct answer is: to some extent, but by no means exclusively. This is so for three main reasons. First, the origins of modern welfare states are mostly to be found in non-democratic or half-democratic contexts, such as the semi-authoritarian German Empire of 1871 or the Austro-Hungarian monarchy of the 1880s. Secondly, some of the modern democratic welfare states were chiefly the product of non-democratic politics, such as in the former socialist countries in Central and Eastern Europe. Thirdly, democracy does not necessarily result in a big welfare

state and in addition democracy is not a sufficient condition for an ambitious social policy. This is exemplified by economically less advanced democracies, such as India, and by newly industrialising countries, such as Singapore, Taiwan or South Korea. Thus, there is no one-to-one relationship between democracy and a developed welfare state. It is not democracy *per se* which produces mature welfare states. It is rather democracy within the context of specific circumstances which is conducive towards ambitious social policy efforts.

Democracy tends to generate a strong demand for the supply of general social policy above all in those countries in which the following conditions are fulfilled.¹

Firstly, a relatively advanced level of economic development of not less than 6,000 to 10,000 US-Dollars *per capita* in prices broadly obtaining in 1990. Secondly, a society in which smaller family units and more narrowly defined kinship relations rather than large families and clans play a major role in the organisation of social life at the micro- and meso-level. And thirdly, a strong tradition of activist state intervention on the part of the incumbent political power, regardless of whether this last is an authoritarian ruler or a democratically elected government. Fourthly, a relatively simple conflict structure of society is no less decisive. Class-based and religion-based conflict structures tend to be conducive to the formation of pro-welfare statist party systems and pro-welfare statist parties (such as Christian democratic parties on the one hand, and social democratic parties on the other). However, heterogeneous ethnic structures and intensified ethnic conflicts inhibit social policy efforts, largely due to the lack of consensus and a tension between many ethnic groups in social and economic life – a constellation of forces which reduces the acceptance of solidaristic public policy stances. Fifthly, particularly conducive to the growth of the welfare state up to a high level is a constellation of political forces in a polity in which a) at least two larger pro-welfare statist parties are competing (such as in

¹ See, among others, Flora and Heidenheimer, 1981; Hepple, 1986; Baldwin, 1990; Ritter, 1991; Esping-Andersen, 1990; van Kersbergen, 1995; and Schmidt, 1998.

Germany), and in which b) a relatively small number of veto points and veto players provide policy makers with large room to manoeuvre (such as in majoritarian democracies of the British type, in contrast to a group of countries where the government finds itself confronted with a wide variety of veto players, such as powerful state governments, second chambers, or coalition partners, who significantly inhibit the scope for action of the government).²

But why does democracy (at least in economically developed countries) push social policy forward, and why does it do so above all in representative democracies, and to a lesser extent in political systems with stronger direct democratic components? The major reasons have been identified in theories of democracy. Among these, Alexis de Tocqueville's *De la Démocratie en Amérique* is an outstanding example. Due to frequent elections and due to close linkages between political leaders and the demos, the political process in a democracy, Tocqueville argues, is driven by a strong "thirst for improvement", "feverish excitement" of the whole of society, and an effort "to improve the condition of the poor".

Moreover, the duration of a democracy increases the opportunities for building "distributive coalitions",³ or coalitions which seek to maximise distribution regardless of whether this impairs or fosters production. Furthermore, more recent research on comparative public policy has also pointed to relationships between types of democracy and levels of social policy development. Very briefly, the two major patterns are the following: older democracies have accumulated higher levels of social protection than younger democratic nations (with the exception of political systems in which direct democracy plays a major role, such as Switzerland and parts of the United States of America). Secondly, representative democracies tend to adopt a more active stance in social policy than democratic governments in which direct democracy is im-

² A veto player "is an individual or collective actor whose agreement (by majority rule for collective actors) is required for a change in policy" (Tsebelis 1995: 301).

³ Olson, 1982.

portant, such as Switzerland and in various States in the United States of America. Thirdly, “consensus democracies”⁴ tend to spend more on public social spending than majoritarian democracies, such as the United Kingdom or Australia. Finally, incumbent leftist and centrist parties tend to place major emphasis on creating, expanding, and maintaining powerful welfare states.

Thus, in general terms, democracy tends to increase the relative weight of the welfare state within a political system. But democracy also has a discernible impact on the distribution of welfare state provisions, as Hans Zacher’s brilliant interpretation of the welfare state in the Federal Republic of Germany has shown.⁵ According to Zacher, democracy and the principle of social policy are dynamic and permanent processes which reinforce each other. While one of them is driven by power struggles and a quantitative aggregation of social interests, the other is pushed by an effort to generalise the manipulation of differences between the wealthy and the non-wealthy, the better off and the worse off, to mention only a few examples. Furthermore, Zacher argues that the right to vote for the adult population and the temporal rhythm inherent in a democracy have a twofold impact on social policy. Both fuel the expansion of social policy and shape it in a way which is conducive mainly to well organised groups of voters in the middle of the distribution of income and wealth on the one hand, and to meritocratic and possessive-individualist criteria of justice (rather than vertical solidarity) on the other. The aggregation of interests in an election, for example, implicitly supports those opinions and interests in social policy which are capable of forming majorities. From this result social policy choices in favour of those who have democratic power rather than those who are in need. And from these factors also result choices which emphasise horizontal solidarity (largely between politically stronger groups) rather than vertical solidarity (for example, solidarity of the strong towards the poor).

⁴ Lijphart, 1999.

⁵ Zacher, 2000.

According to Zacher, a fundamental bias is also generated by the temporal horizon in a democracy. The selection of social policy problems and issues primarily depends not on social needs but rather on the goodness-of-the-fit between problems and issues on the one hand, and the electoral issue attention cycle of the other. The overall result is, according to Zacher, a major emphasis on interests in instant consumption and short-term solutions. In contrast to this, long-term circumstances and the interests of future generations tend to be disregarded – a pessimistic account which echoes Alexis de Tocqueville’s view that democracy externalises social and political costs to the future.⁶

II. The Consequences of Mature Welfare States

The consequences of democratic welfare states are a matter of controversial debate. This is true above all else of mature (i.e. highly developed) democratic welfare states, such as those of Northern Europe, of France and of Germany. Defenders of the welfare state emphasise its strength, while critics mainly point to its weaknesses. But none of these positions does full justice to the performance of mature democratic welfare states. In the light of the results of a huge literature on the economic, social and political consequences of social policy, it is far more appropriate to regard the mature democratic welfare state as both a “problem solver” and a “problem producer”. Table 1 provides a more detailed account. It lists those pros and cons of advanced welfare states which have received considerable attention from empirical studies. Very briefly, the overall picture that emerges from these studies is the following. There are sizeable social, political, and economic advantages in developed welfare states (section 2.1). But it is also the case that the economic, social, and political costs involved are considerable (section 2.2).

⁶ Tocqueville, 1981 (1835/40).

Table 1: The Advanced Welfare State as “Problem Solver” and “Problem Creator”

“Problem Solver”	“Problem Creator”
I. POLITICAL DIMENSION	I. POLITICAL DIMENSION
Solves innate social policy tasks rather effectively (protects against impoverishment and income losses from major risks; controls consequences of, or reduces, high levels of social inequality)	Generates second-order problems, such as social policy induced problems
Embodies a major source of legitimation of a democratic state	Results in high level of bureaucratisation and centralisation*
Inhibits the spill over of an economic crisis to a political crises	Potential blockade of all other costly public beyond the social policy area
II. SOCIAL DIMENSION	II. SOCIAL DIMENSION
Dampens and channels class conflict; reliefs private sector from struggles over highly controversial social policy issues*	Strengthens the protective umbrella around labour and trade unions and creates potential incentives for a wage policy stance of the unions which aggravates insider-outsider-divisions on the labour market**
Protects socially weak groups	Strong social policy amplifies efforts to further reduce social inequality and tends to intensify struggles over distribution of resources
Higher protection against poverty threat	Generates new social conflicts due to differences in access to public policy provisions (“transfer classes“)
Reduces gender inequality	Major unintended consequences of massive reduction of gender inequality, such as decomposition of collectivities at micro-level
Massive redistribution of income among social strata and among age cohorts	Major unintended consequences of massive redistribution, such as worsening trade-offs between social policy and other societal goals
Strengthens individualisation and facilitates pluralistic life styles	Major unintended consequences of individualisation, such as decomposition of collectivities at micro- and macro-level of society
Social policy reduces uncertainty (for example through stabilizing life course for the old aged)	Despite of uncertainty reduction: social policy tends to externalise costs upon shoulder of younger and future generations
III. ECONOMIC DIMENSION	III. ECONOMIC DIMENSION
Significant economic value of welfare state (protection, reproduction and health care of labour; conflict abatement; incentive for productivity oriented investment)	Trade-off between ambitious social protection on the one hand and economic efficiency and employment growth** on the other
The economy of today's mature welfare states has grown as rapidly or more rapidly than many other economies	Places heavy burdens on public budgets, tends to result in high levels of public debt, and inhibits major policy change in areas beyond social policy
Social policy strengthens demand for consumer goods	Generates moral hazard and creates incentives for shifting labour and capital to the shadow economy
Countries with strong welfare states handle crisis as well or better than countries with weak social policy arrangements	Tends to distort the adaptive capacity of the economy

Source: Schmidt (1998) Table 12 (abridged and revised version). Table 1 lists those propositions from the debate on the pros and cons of an advanced welfare state (such as in most continental and north European countries at the turn of the 20th to the 21st century), which have received considerable support from empirical studies on consequences of welfare state activity.

• This tendency is particularly strong in tax-based welfare states. ** This tendency is particularly strong in social insurance-based welfare states.

2.1 On the Social, Political, and Economic Advantages of Developed Welfare States

A mature democratic welfare state can pride itself on major successes. The democratic welfare state has largely accomplished its core task of protecting people against material impoverishment and securing people against the risks of income loss caused by unemployment, disability, old age, sickness, motherhood, or the provision of care. By doing this, the mature welfare state has reduced the total level of social and economic insecurity to a major extent. Moreover, social policy has also reduced the level of social inequality to a considerable degree. Thus, the welfare state has made most industrial societies in many aspects more fair, more just, more secure, and in many aspects also more stable and more predictable. In those countries in which the constitution prescribes norms for a caring welfare state, social policy has also largely fulfilled constitutional requirements.

Furthermore, mature democratic welfare states protect not only individual beings from hardship, they also protect the polity and society as a whole from the destabilising effects of economic shocks and economic recessions. Protecting socially weaker groups against material impoverishment and against major risks due to the ups and downs of life have been conducive to the legitimisation of the political and economic order as well.

Furthermore, a highly developed welfare state incorporates a significant “economic value”⁷ despite the considerable costs which it places upon employers and employees. Ambitious social protection, for example, creates strong incentives for productivity increasing investment and, thus, improves the long-term viability of the economy. Moreover, social policy institutionalises the resolution of conflict over economic goods to a fairly large extent. Part of this conflict resolution consists of transferring conflicts about social income from the firm to parliament, or to networks between the state and interest groups and political par-

⁷ Briefs, 1930.

ties. This shift contains considerable relief from conflict resolution costs for the economy as a whole, for individual firms, and – broadly speaking – for the social partners as well.

Lastly, according to most surveys the developed welfare state is – generally speaking – a highly popular institution, if not, indeed, regarded as an inalienable good. While one would exaggerate if one argued that a stable democracy requires a highly developed welfare state, it is clearly the case that the pacifying effects of social protection tend to stabilise the social and the political system of a country.

2.2 The Economic, Social, and Political Costs of a Mature Welfare State

However, the democratic welfare state is not only a problem solver, it also generates problems. Three major deficiencies deserve to be mentioned above all:

1. A mature welfare state breeds unintended political, economic, and social side effects, such as policy-induced social problems like extended search unemployment, high long-term unemployment, the relative neglect of families with children, and unforeseen incentives in favour of single households or families with no children.

2. A mature welfare state tends to intensify trade-offs between ambitious social policy goals and other important social and economic goals. There exists, for example, a tension between very ambitious welfare states on the one hand and economic growth on the other. Mature welfare states of the social insurance based type also tend to inhibit employment growth. Furthermore, and regardless of whether their financing is mainly from social security contributions or from taxation, strong welfare states tend to make investment and work in the shadow economy more attractive. Moreover, where a high level of social protection based on social security schemes coexists with ambitious employment protection (such as in Germany and Southern Europe), the ambitious social policy effort undermines the adaptive capacity of the economy and society as a whole.

3. Financing the welfare state is a costly enterprise. In most advanced welfare states social policy consumes up to 60 per cent of total public expenditure (defined in terms of total outlays of general government, and according to OECD statistics) or more. Other things being equal, the existence of a mature welfare state thus dramatically narrows the margin for manoeuvre in other costly policy areas beyond social policy, such as education, public investment, law and order, transport or defence, to mention only a few. A highly developed welfare state, and a very costly one in particular, thus tends to impair the manoeuvrability of major policy areas beyond social policy. It may, therefore, seriously hamper the adjustment and reform capacity of the polity as a whole – if, that is, there is no chance to stop or revert trends from the past.

This raises a further question: are developed welfare states at all capable of curing major defects, such as the potential financial overload of a highly developed welfare state which can occur during a period of rapid demographic change and high unemployment? Are developed welfare states, for example, capable of cutbacks in social policy in order to improve at least some of the trade-offs between social protection and other goals, and to create more room to manoeuvre for non-social policy sectors? The overall answer is that there exists a significant potential for curing deficiencies in a democracy and there is reason to believe that democracies are superior to non-democratic states in curing self-inflicted deficiencies. However, it must also be pointed out that the potential for policy learning and for curing deficiencies is limited precisely because of the nature of democratic institutions. Furthermore, a particular set-up of democratic structures, such as a wide variety of veto players and a high frequency of important national elections (such as is the case in Germany's federal structure) further reduces the scope for action for redressing imbalances created by past policy making. However, there are also windows of opportunities. Some of these are closed, and some of them are open.

III. Are Developed Welfare States Capable of Curing Major Defects?

Compared to authoritarian states, democratic welfare states can pride themselves on a greater capacity for curing defects or correcting errors committed in the past.⁸ However, severe restrictions also constrain the reform capacity of democratic welfare states. Institutionalised checks and balances and more informal restrictions inhibit swift policy changes in these countries. The reasons for these are manifold. They include a strong demand for social security on the part of the population. Due to ageing and persistent unemployment, this demand will also remain strong in the future in most advanced welfare states. This is at least partly exacerbated by the demand for political goods and services which is generated by the major institutions of the democratic process, such as frequent elections and party competition for voters and votes. Furthermore, the expectations of the welfare state clientele are hardly downwardly flexible. It is more the case that most clients of welfare states (and also most producers of welfare state provisions) prefer status quo solutions or the further expansion of social policy over welfare state retrenchment. This is particularly important because the welfare state clientele is one of the most powerful groups on the electoral market. Roughly 30 to 40 per cent of the voters earn the major part of their incomes from social policy or from jobs in the welfare state. Moreover, the welfare-state clientele is located close to the centre of gravitation in the party systems. It thus disposes of a privileged position on the political market which none of the major parties can afford to ignore. This can add further restrictions to welfare state retrenchment efforts and to institutional reforms of the welfare state.

Furthermore, a wide variety of powerful veto points and veto players, such as exists in a federal country with strong traditions of self-administration in social policy and local government, significantly inhibits the potential for policy change, including the potential for reallocation within the welfare state and between social policy and non-social policy areas.

⁸ The argument is developed in more detail in Schmidt, 1999b and 1999d.

However, politics and policy-making should not be regarded as deterministic processes. Hence, there exists, in principle, considerable scope for political change. According to comparative studies on political reforms in welfare states, the scope for policy change is, speaking generally, significantly greater in countries in which governments are faced with few veto players, such as is the case in a unitary state of the British, Dutch, French, New Zealand or Scandinavian variety.⁹ Conversely, the leeway for changing policy is smaller when countermajoritarian institutions and many veto players require extensive compromise-seeking, such as in federal countries and in oversized coalition governments. This explains at least to some extent why welfare state retrenchment policies have been more ambitious and more successful in unitary states: New Zealand in the 1980s, the Netherlands and Great Britain in the 1980s and 1990s, and Sweden in the 1990s, while the retrenchment efforts in federal countries like Germany have been more difficult to achieve and more protracted.

However, even when many veto players co-govern, policy-making is by no means doomed to immobilism. According to the latest version of the veto player theorem,¹⁰ for example, the potential policy immobilism which numerous veto players tend to create, can be overcome. According to this theory, the potential for policy change (including the potential for radical reforms of the welfare state) is largely determined by four factors. The potential for policy change varies inversely to the total number of veto players and the ideological distance between the veto players and the government. Furthermore, the potential for policy change varies directly with the duration of a government and the increase in ideological difference between the current and previous governments. Take, for example, countries A and B. Let country A be

⁹ See, for example, Castles, 1993; Visser and Hemmerijk, 1997; Siegel, 2001; Zohlnhöfer, 2001.

¹⁰ Tsebelis, 1999. In reality, the augmented veto player theorem consists of a combination of “classical” veto player theory (Tsebelis 1995) plus an important component of the parties-do-matter-view, according to which major differences in the party composition of government are causally related to major differences in policy outputs and outcomes.

characterised by many veto players, wide ideological distance, a government of short duration, and no increase in the ideological difference between the current and previous governments. According to the veto player theorem, this constellation of factors results in policy immobilism. In contrast to this, the following constellation of factors would widen the room for manoeuvre available to the government: few veto players or no veto player at all, small ideological distance, long duration of a government, and a drastic increase in the ideological difference between the current and previous governments.

What happens when a country is beleaguered by many veto players on the one hand and marked at the same time by more favourable conditions for policy change on the other? Take Germany as an example. In this country the total number of veto players is fairly large. Moreover, it includes particularly powerful players, such as coalition government, federalism, co-governance of the states in national legislation, an autonomous central bank, a powerful constitutional court, and influential traditions of self-administration in social insurance and in local government.¹¹ For cases like this classical veto player theory predicts small scope for policy change, including a minuscule capacity for reforming the welfare state. More detailed observation, however, reveals a much more subtle picture and points to countervailing forces. The relatively small ideological distance in social policy between the two largest parties, the Christian Democratic Party on the one hand, and the Social Democratic Party on the other, can be conducive to policy change, provided that both parties co-operate in a formal or informal Grand Coalition, such as was the case with most reforms of old age pension schemes up till 1994. Further factors conducive to more manoeuvrability in policy-making are the long duration of a government and an increase in ideological difference between the current and previous governments, such as occurs when there is a major change in government. The year 1982, which witnessed a change from a Social Democratic government to a Christian Democratic-Liberal coalition,

¹¹ Schmidt, 2000, pp. 352-353.

and 1998 (the year in which a red-green coalition took over from the CDU/CSU/FDP-coalition) are major examples supplied from the German case. The latter three factors (ideological distance, duration of a government and a changeover in power) can, therefore, mitigate or compensate the rigidity created by a large number of veto players.

The capacity to change policy is, of course, also dependent upon many other factors beyond the reach of the veto player theorem or the parties-do-matter hypothesis or any other middle range theory. Thus, for example, external pressure can contribute to the solution of a problem. The reform of old-age pensions in Italy in the 1990s, which received strong support from the effort to fulfil the convergence criteria of the Maastricht Treaty, is one example. Furthermore, the widely shared view that something must be rotten in the state of Denmark, or, alternatively, that “Holland is sick”, to quote the former Dutch Prime Minister Lubbers in the early 1980s when he pleaded for a major cutback of the Dutch welfare state, can trigger major policy changes. These changes can be reinforced by concerted action between the state and the major interest organisations of capital and labour, as the Dutch miracle of the 1980s and 1990s shows.¹² However, these observations underline a well-known observation of welfare state research: a wide range of variation characterises the family of democratic welfare states; and the variation in the routes which lead to successful policy change or to the blocking of reform is also very great.

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