

# Understanding the New Politics of Welfare Reform

## Preface

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For some time, a sense of crisis has surrounded welfare states. Deregulatory pressures, sluggish economic growth, deindustrialisation of labour markets, rising unemployment, demographic ageing, declining birth rates and family restructuring are commonly listed among the most pressing challenges facing mature welfare regimes. Together, such challenges contribute to an explosive mix by simultaneously exerting pressure for increases in social welfare expenditure while contracting the fiscal foundation on which states rely to deliver it. While such pressures are not new, they have been severely aggravated by the financial crash of 2008 and the global recession now under way. As governments struggle to finance their large and increasing budget deficits, they advance plans for welfare cutbacks while bracing themselves for backlash over austerity measures. Conflicts over coming changes in social policy, and especially over the new distributional inequalities they are likely to generate, look set to intensify in coming years. This dim prospect provides a timely background for this collection of articles. If there was ever a time when it was critical to dig deeper into the operating conditions, mechanisms and strategies of austerity management and welfare restructuring in this era of unwavering austerity, that time is now.

In mature welfare states the lion's share of social expenditure goes to health care and pensions. Compared with these, the more recently adopted active labour market policies (ALMP), designed to promote skill training, mobility and employment, represent a much thinner slice of the budget. Yet ALMPs are perceived as key in an environment characterised by the accelerating dualisation of the workforce. Labour market insiders, those holding standard, protected and stable jobs, face a growing number of labour market outsiders, marginally or insecurely employed, and more likely to find themselves in unemployment. Under conditions of tightening financial austerity, such conflicts in what is an already divided labour market are likely to deepen further, and welfare politics can easily turn into a tense zero-sum game, where the gains of one group are obtained at the cost of the losses of the other.

While the importance of the insider/outsider divide has been recognised, our understanding of how it gets to be represented in party and interest intermediation systems remains limited. The first article in this special section addresses this gap in our knowledge. Classical power resource theory argued that the role and the power of the left – trade unions

allied with social democratic parties – was critical in shaping welfare regimes as we came to know them. Markus Tepe and Pieter Vanhuyse compare the recent role of these two key actors in determining ALMP spending, while also examining how their social policy strategies might vary across institutional contexts. In drawing this contextualised comparison, they tackle questions at the heart of the so-called new politics of welfare, which seeks to balance the need to make savings with the need to cover new social risks. How are parties and unions responding to the dualisation of the labour market and the new social policy conflicts to which it can give rise? Do their strategies and institutional responses converge or diverge, and in what ways? To what extent do their favoured policies speak to insider–outsider interests, and how likely are they to feed back into the dualisation process, by either reinforcing or mitigating it? These are questions at the forefront of the research agenda of anyone interested in the politics of dualisation in a post-industrial age under the sombre sign of austerity.

Tepe and Vanhuyse's findings are threefold, and offer a number of important supplements and correctives to the existing literature. They start by reassessing the mixed empirical evidence for the influential 'Rueda hypothesis' (Rueda, 2006). This states that in the presence of insider–outsider conflicts, left-wing parties, whose core constituency continues to be of labour market insiders, will have strong electoral motives to pursue labour market policies that benefit insiders, not outsiders. One implication of this is that they will have little interest in upholding policies directed to increase the skills and employment opportunities of the unemployed or atypically employed. Tepe and Vanhuyse's analysis vindicates a weak version of the 'Rueda hypothesis'. They show that while governments with a strong leftist orientation have no discernible effect on activation policies, their impact on job creation programmes is negative. This conclusion allows them to question the basic assumption of the power resources literature: that the low-wage working class, being the 'natural' constituency of left-wing parties, will naturally favour policy measures boosting redistribution, social investment, employment and equality, including active labour market policies. Their findings show otherwise. Looking at the ideological badge of a party or the partisan composition of a government alone is not a good predictor of its policy choices. To understand these, we need to readjust our expectations of whom parties actually represent. In particular, we need to look into changing patterns of electoral competition and voter profiles, the shifting ideological alignment of the left, and the interest- and value-laden policy preferences of its evolving and often conflicting electoral constituencies, which have decidedly shifted from the working class to the new middle classes, demonstrating a growing emphasis on high-skilled middle-class professionals, with their more liberal outlook, and women.

If left-wing governmental power translates into relatively little support for ALMPs, are trade unions, whose constituency is dominated by labour market insiders (especially industrial workers), even less sympathetic? Here Tepe and Vanhuyse's findings are, if anything, more novel, and cast doubt on the often suggested convergence between partisan and union strategies on social policy. At first glance, unions, like left-wing parties, tend to side with the interests of labour market insiders, their typical constituency, and favour the status quo of insider protection. But Tepe and Vanhuyse offer an important insight: insiders' interests are neither univocal nor context-free, and do not single-mindedly push for higher

wages and employment protection, as is often suggested. In hard times, insecurity and uncertainty increasingly affect insiders. Concerns about re-employability in case of job loss work to align (at least partially) the interests of insiders and outsiders, providing a clear motivation for unions to push selectively for ALMP spending in those sub-dimensions that most benefit their membership, for example labour market training rather than job creation. This trend is reinforced by operational constraints. As adaptive institutions, unions must react to the legal rules establishing the environment for their activity. In particular, employment protection laws (EPLs) play a pivotal role in determining the level of convergence between insider and outsider interests and social policy preferences. Where levels of employment protection are lower, and the vulnerability of insiders to unemployment is higher, we are likely to see unions protecting labour market insiders, not as they would have wished, by directly promoting job security, but as they can, by fighting for increased investment in ALMPs, which offer some measure of security in sub-optimal conditions. A cross-class alliance between insiders and outsiders over ALMPS is then possible, but, as Tepe and Vanhuyse suggest, it comes less as a choice than as a necessity.

As trade unions and left-wing parties follow ever more distinct paths, the politics of welfare reform has gained increasing complexity, with its lines of conflict and coalitional dynamics becoming ever more intricate and cross-cutting. This complexity plays itself out also in the different rhythms, intensities and directions that welfare reform is taking. In most welfare systems, a degree of policy stability cohabits with expansion in some domains, and measures in the direction of retrenchment in others (Häusermann, 2010). Moreover, retrenchment is sometimes incremental and artfully concealed from the public, at other times radical and carried out openly (Starke, 2008). Cases of radical retrenchment remain however an empirical puzzle for mainstream accounts of welfare reform: given the public's strong attachment to the welfare state, far-reaching retrenchment should carry heavy electoral costs, and should be avoided by re-election-minded governments. It is on the little-known dynamics of radical welfare retrenchment that the second article of this section concentrates. Johan Bo Davidsson and Paul Marx focus their attention on the interplay between mass opinion and social policy making and, more specifically, on the potential for the former to alter rapidly and substantially the direction of social policy development.

Their dynamic approach provides a welcome new angle on the study of welfare policy development. The emphasis of the literature on the role of institutions, path dependencies and the endogeneity of social policy preferences (or the idea that social policy has moulded beneficiaries' preferences, creating its own constituencies) has supported the assumption that public opinion is a key source of welfare state resilience (Brooks and Manza, 2006). Davidsson and Marx maintain that such a linear story is limiting: it does little to explain instances of welfare cutbacks, especially cases of radical retrenchment, which nonetheless do occur, even in especially robust welfare states such as Germany and Sweden (their two case studies). To account for these, Davidsson and Marx deploy an analytical perspective that privileges actors' motives, aims and strategies over variables of a more structural and institutional nature. Their approach revisits two of the chief premises of the mainstream welfare literature: the stability of public opinion and of parties' ideological positioning on social policy (as rooted in purportedly stable class cleavages).

The results of their analysis support the following hypothesis: shifts in public opinion can create short-term electoral incentives for parties from both the left and the right to take the gamble and pursue credit-claiming strategies of radical retrenchment. Their sensitivity to the temporalities and dynamic relationship between politicians' strategies and public preferences points to the importance of shifting issue visibility and the need to distinguish between different policy domains with distinct salience cycles. In particular, in times of economic crisis, when unemployment rises and the issue experiences a salience peak, it is expected that preferences in the area of labour market performance come to structure the political judgements of voters, and this expectation gives politicians a real incentive to pay attention to public opinion. This is not to say that issue salience or voters' preferences are exogenous to the competition to represent them. In effect, the process whereby some issues increase in importance and others decrease is at least partly responsive to politico-ideological competition itself. The same can be said of the trade-off frames reminding the public of the costs and benefits of pursuing certain policies, which are mobilised in the political debates analysed by Davidsson and Marx to promote radical retrenchment. Once specific welfare programmes come to be perceived as producing negative rather than positive feedback, policy makers should be able to cut them back, while also gaining points over their opponents by claiming credit for the cuts.

Political fields, as Davidsson and Marx stress, are competitive strategic fields, where the moves that parties make depend on the effective, or even the anticipated, countermoves of competitors. In their view, this explains why parties might be willing to reconsider their ideological positioning with regard to social policy, when there are noticeable shifts in public opinion, namely in terms of issue salience (i.e., in the relative public importance of different policy domains, and especially of welfare goals, such as combating inequality and exclusion, versus other goals, perceived as conflictive, such as economic and labour market performance) and issue ownership (i.e., in the competence ranking of government to deal with the problem at hand). In times of austerity, expansionary job-friendly budgets are a mirage, and cannot be used to tackle rising unemployment. Under pressure from the opposition, and caught between the prospect of being punished either for poor economic performance or for unpopular cutbacks, governments might feel pressured to signal their ability to handle the problem of economic performance by openly pushing for radical retrenchment of unemployment benefits as a second-best election-winning strategy.

The final article, by Carl Dahlström, Johannes Lindvall and Bo Rothstein, turns away from the policy impact of institutions governing legislation and decision making to focus on the little-studied impact on social policy making of institutions governing policy implementation, namely state bureaucracies. When approaching the issue of prioritised welfare policies, the scholarship tends to emphasise the role of class power, the power configurations of groups within society, interest organisations and political parties, as well as of political institutions themselves (e.g., electoral system, dispersion of power, veto points, etc.). Yet in contrast, little attention has been paid to how the functioning of bureaucracies might feed back into the types of social policy they are entrusted to carry out. Dahlström and his colleagues break new ground in making use of a vast array of quantitative empirical data to test the hypothesis that bureaucracies do matter, and in particular that their capacity to implement social programmes efficiently and reliably

explains some of the variation in social policy priorities among advanced democracies. The mechanism proposed is simple: the merits of a policy may be denied by a defective implementation, and public support is mediated by perceptions of the efficiency and integrity of bureaucracies charged with delivery. An otherwise popular policy may turn into the object of people's anger and into part of a government's downfall if seen as not delivering: that is, as not offering the expected return on the applied resources because incompetently, erratically or even discriminatorily applied, prone to systemic abuse or simply serving clientelistic structures. The danger of this happening is greater where the implementation of the policy requires the exercise of bureaucratic discretion. Hence perceptions of low bureaucratic competence and reliability should act as a deterrent to public spending on programmes that require bureaucrats to make tailored case-by-case decisions, while having little to no effect on programmes whose implementation is more uniform and relatively straightforward. Two of the policies especially designed to cover new social risks, ALMPs and parental leave benefits, epitomise each of these two opposite cases. Relying on data for twenty advanced democracies, from the mid-1980s to the mid-2000s, Dahlström, Lindvall and Rothstein show that bureaucratic competence and reliability affect spending on activation policies positively, while having no such effect on spending on family policy. To understand the patterns of social policy priorities, they conclude, we need to look beyond the partisan and interest intermediation, to attend also to the quality of the bureaucracy.

The fiscal and political fallout from the 2008 financial crash has brought a renewed scrutiny of social policies across all advanced democracies. The prospect of prolonged economic stagnation carries with it the expectation of consequential transformations in welfare institutions and specific programmes, voting patterns, political sentiment and public attitudes, creating a context of generalised uncertainty. At a time of rapid change, political science models need to be more attuned to how political actors both contribute and respond to these shifts, and with what consequences for social policies, patterns of inequality, and democracy itself. In particular, a more dynamic and integrated study of constituencies, opinion, parties/unions and policy linkages, as well as of the decision and the implementation sides of social policy, is both necessary and beneficial for our understanding of changes in the direction of social policy development in years to come.

While institutions and historical trajectories have not ceased to matter, voters, political leaders and policy makers currently face unprecedented choices. If existing institutions and inherited logics inevitably condition the range and relative attractiveness of the options available, there is also a sense of growing opportunity for far-reaching restructuring and innovation, resulting from the disruptive potential of socio-economic pressures, but also from shifts in public opinion. What these three articles offer are novel and refined ways of looking into this problem. They reconsider the early institutionalist emphasis on stability and inertia by concentrating on the drivers and mechanisms of change in an evolving environment marked by wide socio-structural transformations in established and contested constituencies and their preferences. All three articles point to key ongoing changes in policy goals and representative patterns as political actors respond to constituency re-composition, changing risk profiles, new class cleavages and possibly new cross-class allegiances, bureaucratic capacity and the competition they are confronted with. Together,

they highlight ways in which the strategic use of social policy might be conditioned by the short-, medium- and long-term multidimensionality of public attitudes towards social policy (Van Oorschot and Meuleman, 2006; Van Oorschot *et al.*, 2012). Finally, all three articles show how political agents are not only responsive to such nuances as a means of gaining electoral competitive advantage, but may also proactively seek to shape them, by recruiting new constituencies, searching out new cleavages and battling over the framing of issues and of policy preferences.

Ultimately, it will be the interaction between these three broad categories of factors – institutions, publics and policy agency – that will determine how social policy systems will evolve and with what consequences for the reconfigurations of social and political citizenship, and the redrawing of the balance of inequalities in many advanced post-industrial nations. These three articles help us towards a better understanding of how those processes might pan out.

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