# 3

# Post-Industrial Pressures on the Mature Welfare States

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SIGNS of strain are everywhere. The struggle to balance budgets is unending, even as many governments cope with levels of debt unprecedented in peace-time. Taxes have reached stress-inducing levels, and, especially in Europe, generate growing apprehension about the consequences for economic growth and employment. Critics on all sides argue that 'old' welfare states seem unresponsive to new social demands. The capacities of nation-states to address domestic problems seem to have declined (Cable 1995). Despite their striking resilience over a quarter-century of 'crisis', welfare states are widely held to be under siege.

The oft-employed metaphor of the siege is revealing, for it evokes an image of national fortresses of social protection, struggling to resist assault from external enemies. For many observers, especially in the popular press, the principal source of the welfare state's troubles is the rapidly changing world economy. The basic outlines of this new conventional wisdom are well known. 'Globalization' undermines the capacity of nation-states to control their own affairs and generates acute pressures on the welfare states of advanced industrial societies. Integration of financial markets has greatly curtailed national autonomy in macroeconomic policy, leading to a policy convergence towards low deficits and monetarism. Footloose capital undermines state revenues as corporate taxation declines. It also weakens the bargaining power of the state and organized labour, allowing employers to demand curtailment of public social provision. Perhaps most fundamental in the eyes of many is the rise of competition from newly industrialized countries (NICs). NICs compete in markets which traditionally generated manufacturing employment in advanced industrial societies, but the workers in these new competitors earn much lower wages. Thus to many, pressures associated with global economic

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change create a new context where the generous social provision characteristic of advanced industrial societies represents an unaffordable luxury. There is a widespread sentiment that this new global environment threatens a 'race to the bottom', or at least convergence on the much more modest level of social provision characteristic of 'liberal' welfare states like the United States or United Kingdom.

This essay offers a sceptical evaluation of this globalization scenario. Such scepticism is indeed becoming more common, as many of the core claims are subjected to more intensive scrutiny (cf. Krugman 1996; A. Martin 1996; Garrett 1998*b*; Swank 1998*a*; Swank, in this volume; Iversen, in this volume). In particular, the suggestion that increased trade and the rise of new economic competitors is the principal source of greater wage dispersion, slow income growth, and higher unemployment in the affluent democracies is now seen as more suspect.

Why has the globalization thesis been widely accepted in popular discussion if the direct evidence supporting it is at best weak? The answer is straightforward. What makes the globalization thesis so convincing to many is the undeniable difficulty that governments now face in funding their social policy commitments. Austerity has been on the agenda everywhere, and the intensity of fiscal pressures is clearly growing. Governments appear increasingly unable to respond to new demands. The correlation in timing between globalization, on the one hand, and both mounting demands for austerity and strong indications of lost policy making capacity, on the other, has lent credence to claims of a causal relationship between globalization and a weakening nation-state.

Rather than directly examining the causal arguments associated with the globalization thesis, however, this essay takes an alternative tack. It focuses on trends within the affluent democracies which constitute potential sources of the strains generally attributed to globalization. The motivation for this alternative approach has been well summarized by Neil Fligstein:

> it is a strong claim to assert that any one structural shift is causing everything we observe. Given what we know about how most social processes work, they usually reflect complex causes working together in different ways across time and space. It should take a lot of evidence to convince us that the globalization story is true. (Fligstein 1998: 9–10)

I heartily concur. Very broad claims have been made about the connection between international economic change and the development of national polities. A great many things are indeed changing in the world, and this sense of transformation has fuelled such speculation. But many of the important shifts occurring are related only loosely, or not at all, to the changing international political economy.

In evaluating causal claims, such as the argument that 'increased international economic integration produces intense demands for austerity and severely weakens the capacities of nation-states to respond to domestic problems', social scientists have recently become more conscious of the need to make counterfactuals explicit. Arguing that 'A caused B' implies that 'if A had not occurred, B would not have occurred' (Fearon 1991). It is the counterfactual of the globalization thesis which I wish to assess. Developing counterfactuals is difficult. Where we cannot run a controlled experiment, it is hard to prove what would have happened if A had not occurred. Nonetheless, the available evidence casts doubt on the claim that in the absence of growing economic integration welfare states would be under dramatically less pressure, and national policy makers markedly more capable of addressing new public demands.

My central argument is that while welfare states indeed face unprecedented budgetary stress, it seems likely that this stress is primarily related to a series of 'post-industrial' changes occurring within advanced industrial democracies themselves, as the employment profiles of affluent societies have become increasingly service-based, as their welfare states have matured, as populations have aged, and as radical changes in household structures have taken place.[1] To focus on globalization is to mistake the essential nature of the problem.

Perhaps, one might say, it does not matter. Regardless of the sources of pressure, the strains are very real. Yet it is important to get the causal story right. In the final section of this essay I argue that a recognition of the diverse post-industrial transformations carries important implications for our understandings of the pressure points on contemporary welfare states, the possible policy alternatives that are likely to dominate political agendas, and potential cleavage patterns related to proposed reforms. Without claiming that policy programmes and cleavages can be directly 'read off' an accurate account of social strains, such an account is surely relevant to developing plausible political scenarios. More generally, since these diverse trends often take quite distinct shapes in different welfare regimes, a focus on domestic transformations provides a much-needed corrective to simplistic arguments about the likelihood of convergence towards some single model of social provision in the contemporary period.

## 1. INVESTIGATING THE COUNTERFACTUAL: THE MULTIPLE TRANSITIONS OF POST-INDUSTRIALISM

In addition to growing global linkages, four profound transitions have been taking place in the advanced industrial economies: the slowdown in

[1] To link these transitions together as 'post-industrial' is slightly awkward, but just as the term 'globalization' effectively highlights a range of quite distinct international processes, post-industrialism focuses attention on important domestic socio-economic transformations.

the growth of productivity (and consequently economic growth) associated with a massive shift from manufacturing to service employment; the gradual expansion, maturation, and 'growth to limits' of governmental commitments; the demographic shift to an older population; and the restructuring of households and their relationship to the world of paid employment. Each of these transitions constitutes a powerful and continuing source of pressure on the welfare states of affluent democracies. Globalization is essentially unrelated to the last three of these transitions; its links to the first transformation are at best quite modest.

In short, my counterfactual runs as follows: the slower economic growth and related problems associated with rising service sector employment, the tremendous expansion of governmental commitments, the fiscal demands stemming from population ageing in countries with mature social programmes, and the restructuring of households would, by themselves, have generated much of the current turmoil around the welfare state. Had economic openness remained constant over the past quarter-century, governments would nonetheless face increasing inflexibility and intense fiscal pressure, including tendencies towards deficit spending and demands for programme cutbacks and policy reform. Globalization accompanied these transitions; it has undoubtedly accentuated and modified the pressures on welfare states in important respects. Yet it is these multiple transitions to post-industrialism that have made the real difference.

### *Slower Productivity Growth, the Rise of the Service Sector, and Welfare State Strain*[2]

The first transition, to slower growth of productivity, is now so taken for granted that we forget what a profound impact it has had on the workings of advanced economies. Over time, productivity improvements are the key to sustaining economic growth. It is this slowdown in growth that lies behind much of the current concern about OECD economies. If 3 to 4 per cent economic growth had continued over the past quarter-century, many of our current problems would never have materialized.

It is hard to see how slower productivity growth can plausibly be attributed to increasing international exchange. There is, in fact, a broad consensus among economists that such exchange should be efficiency-enhancing —that it facilitates the allocation of resources to their most productive use and therefore should increase productivity growth rather than retard it. Thus, the sources of slower productivity growth appear to be largely endogenous rather than exogenous to national economies.

[2] This section owes a considerable debt to the work of my colleagues Torben Iversen and Anne Wren.

TABLE 3.1. *Industrial countries: growth of output and employment*

| | 1960–70 | 1971–94 | 1960–94 |
|---|---|---|---|
| Output | | | |
| Manufacturing | 6.3 | 2.5 | 3.6 |
| Services | 5.3 | 3.3 | 3.8 |
| Output per person employed | | | |
| Manufacturing | 4.6 | 3.1 | 3.6 |
| Services | 3.0 | 1.1 | 1.6 |
| Employment | | | |
| Manufacturing | 1.7 | −0.6 | 0.0 |
| Services | 2.4 | 2.2 | 2.2 |

*Source*: Rowthorn and Ramaswamy 1997.

While there remains uncertainty concerning the full explanation for declining productivity growth, a central culprit almost certainly has been the massive shift in employment from relatively dynamic manufacturing activities to generally less dynamic service provision. William Baumol long ago pointed out that service industries were generally unable to match the productivity increases typical of manufacturing, and that this would be especially true when services were particularly labour-intensive (e.g. in education, child care, and many aspects of health care) (Baumol 1967). In many services, it is essentially the labour effort itself that we wish to consume. Such activities are resistant to the processes of standardization and replication that are central to efficiency gains in manufacturing. It is extremely difficult in most services to generate the large, continuous increases in productivity typical of manufacturing (Rowthorn and Ramaswamy 1997). Table 3.1 reveals a large and consistent gap in productivity increases between services and manufacturing from 1960 to 1994 in the OECD.[3]

The limited capacity for productivity improvements in services has a number of implications. Relative prices of manufacturing goods are likely to fall. In the United States, for instance, prices of services relative to the price of manufactured goods increased by 22.9 per cent between 1970 and 1990 (Krugman and Lawrence 1994). If, however, demand for services is price-inelastic—remaining high despite rising relative prices—then the relative weight of services in employment will increase.[4] Given stable relative demand for

[3] Schwarz (in this volume) rightly notes that there often may be possibilities for productivity improvement or substitution. What is less likely is that such possibilities will allow services to match the productivity growth typical of manufacturing. It is this imbalance, not absolute stagnation, which generates 'Baumol's disease', and it is this persistent imbalance which is clearly signalled by the data in Table 3.1.

[4] In fact the real output share of manufacturing has been relatively constant, probably because the relatively low income elasticity of demand for manufactures has offset the falling relative prices resulting from manufacturing's higher productivity (Rowthorn and Ramaswamy 1997).

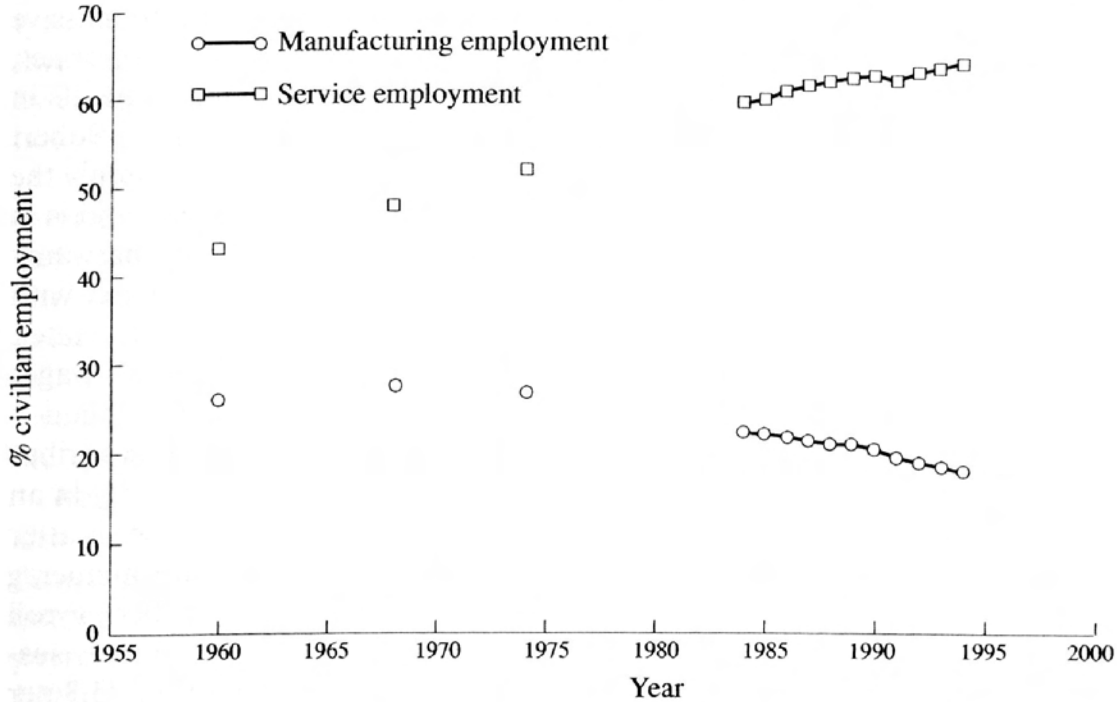


FIG. 3.1. Manufacturing and service employment 1960–94
(% civilian employment, OECD average)

*Source*: OECD, *Historical Statistics, 1960–94* (Paris: OECD).

services and manufactures, large gaps in productivity will mean fewer and fewer workers in manufacturing, and more and more in services. Indeed, as Iversen emphasizes (in this volume), there has been a massive, steady shift in the employment structures of all advanced industrial economies, away from increasingly efficient manufacturing and towards relatively stagnant service provision (see Figure 3.1).

Paul Krugman has stressed that we must recognize a

> seemingly paradoxical principle: the kinds of jobs that grow over time are not the things we do well but the things we do badly. The American economy has become supremely efficient at growing food; as a result, we are able to feed ourselves and a good part of the rest of the world while employing only two percent of the work force on the farm. On the other hand, it takes as many people to serve a meal or man a cash register as it always did; that's why so many of the jobs our economy creates are in food service and retail trade. Industries that achieve rapid productivity growth tend to lose jobs, not gain them. (Krugman 1996: 212–13)

Over time, more and more workers are engaged in service provision, where possibilities for productivity improvements are more limited. Inevitably, the consequence will be a slowdown in overall productivity growth, and, all other things being equal, slower economic growth (Appelbaum and Schettkat 1994; Rowthorn and Ramaswamy 1997; see also Iversen and Wren 1998).

It is important to stress that this first 'post-industrial' transition to massive service employment is fundamentally endogenous to domestic economies, based on crucial differences in the possibilities for efficiency improvements in different economic activities (Baumol, Blackman, and Wolff 1989). As Robert Rowthorn and Ramana Ramaswamy put it, 'deindustrialization is simply the natural outcome of the process of successful economic development, and is in general, associated with rising living standards' (Rowthorn and Ramaswamy 1997: 14). That being said, the lower productivity growth associated with expanded activity in services generates acute problems for welfare states. Most directly, slower overall economic growth impedes the growth of wages and salaries, on which the revenues of the welfare state heavily depend—especially but not only in systems heavily dependent on payroll contributions (see Myles and Pierson, in this volume). One can see this clearly in an examination of pension costs. With benefits indexed to prices (at least after retirement), high real wage growth provides an expanding base for financing pension payments. As the growth of real wages slows, however, higher payroll taxes are required to finance higher benefits. In Sweden, for instance, sustained 2 per cent real growth would necessitate payroll tax rates of 23.3 per cent in the year 2025 to meet existing pension commitments. If instead the growth rate were to be 1 per cent, the payroll tax rate would have to rise to 33.1 per cent (Anderson 1998: 13). Thus, low growth has a direct impact on the welfare state's fiscal health. In addition, if slower growth contributes to higher unemployment (e.g. because of labour market rigidities), it further retards revenues while forcing up expenditures.

Nor are the implications of this post-industrial transition limited to simply slower economic growth. Esping-Andersen (1996*c*), Scharpf (1997*b*), and Iversen and Wren (1998) have highlighted the contribution of the shift towards service employment to many of the central challenges facing post-industrial political economies in general and welfare states in particular. In Iversen and Wren's elegant formulation, this post-industrial transition confronts governments with a 'trilemma of the service economy', in which the goals of employment growth, wage equality, and budgetary constraint come into increasing conflict. Service sector employment, prone to productivity stagnation and often low-wage, can be generated in only two ways: through the private sector, at the price of increased wage inequality, or through the public sector, where wages may be kept artificially high but at the cost of increased budgetary pressure. Alternatively, countries that manage to hold the line on wage equality and budgetary restraint are likely to see little service sector employment growth and hence rising unemployment.

Strikingly, the three typical responses to this trilemma largely mirror the three regimes (Christian democratic, social democratic, and liberal) identified in Esping-Andersen's *Three Worlds of Welfare Capitalism* (Esping-Andersen 1990). Welfare states in each regime face problems associated with the rise of the service economy, but the nature of the problem depends upon regime type (Esping-Andersen 1996*b*; Iversen and Wren 1998). Social democratic welfare states have increased employment without worsening wage inequality by expanding the public service sector. The budgetary costs of this strategy, however, are increasingly stiff. Public sector social service employment is acutely prone to 'Baumol's disease'. Significant areas of the welfare state involve service provision in 'non-dynamic' sectors. Child care, elder care, education, and other social services are clear examples; health care is a more ambiguous one. Over the long run, such sectors invariably face a secular deterioration in relative prices. Governments have to run faster and faster in order to stand still. If reduction in wages for public employees is not an option, such sectors face the unenviable and continuous prospect of increases in outlays, declining quality of services, or both.[5]

Welfare states in the other regimes face distinct problems, but these are also linked to the changing role of the service sector. For the Christian democratic societies of Continental Europe, public service employment is limited and labour market regulations and high fixed costs (including payroll taxes) impede private service sector employment growth (Scharpf 1997*b*). The dominant problem is lagging employment, with increasingly disturbing implications—not the least of which is the 'death-spiral' scenario of low employment requiring higher payroll contributions, which further lower employment (Esping-Andersen 1996*c*).

In the liberal welfare states, the problems of lost budgetary restraint and unemployment have been largely avoided through policies which encourage the expansion of low-wage private sector service employment. In these countries, the costs include mounting poverty and inequality, large gaps in the support for human capital development, and a host of associated social problems. Again, this scenario places pressures on welfare states—although many of these pressures may simply go unmet.

Here we have a slow-moving but inexorable social process with major ramifications. Less dramatic and exotic than globalization, the shift to services nonetheless represents a profound social transformation. By themselves, the stagnation of service sector productivity and the related decline in overall economic growth after 1973 probably go a long way towards explaining the current predicaments of mature welfare states. Equally important, as the work of Esping-Andersen and Iversen and Wren demonstrates, a focus on this post-industrial transition allows us to zero in on the distinctive predicaments facing different welfare state regimes. I return to this issue in the conclusion.

[5] This is of course a problem facing such activities in all countries. It affects public services in all welfare states, but these sectors are not as extensive elsewhere as they are in social democratic countries. Nor is the problem eliminated by transferring such activities to the private sector, as has occurred in liberal welfare states. However, we can expect both the political and economic dynamics to be quite different when Baumol-style cost diseases operate in the private sector. More on this below.

### *The Expansion of Governmental Commitments and Welfare State Maturation*

A second source of pressure is simply the transition to mature welfare states and an expanded set of governmental commitments which has occurred throughout the industrialized world in the post-war period (Flora 1986; Klein and O'Higgins 1988). Welfare states grew at a remarkable pace from 1945 to 1973, far faster than the (very rapid) growth of real GDP. Countries adopted new programmes, 'filling in' their coverage of social risks associated with industrialization. In addition, they expanded eligibility and increased the benefits of existing pensions, disability, and unemployment insurance programmes. Although the pace of expansion slowed down considerably after 1973, most welfare states continued to grow. The wide scope of established governmental commitments is a defining feature of affluent, post-industrial democracies. By themselves, these expanded governmental commitments generate persistent budgetary pressure and a pronounced loss of policy flexibility in the contemporary period.

By far the most important components of this expanding array of governmental commitments are health care provision and pensions. In the EU, these two policy areas accounted for just under two-thirds of total social protection outlays in 1991. Pensions alone accounted for roughly 40 per cent of expenditures on social protection. As will be discussed below, this is partly related to population ageing, but it also fundamentally reflects the expansion and maturation of public pension programmes. Increasingly generous pension systems developed over the past four decades have greatly magnified the fiscal implications of demographic change.

Throughout the OECD, pension benefits are considerably higher than they were forty years ago, not just in real terms but as a percentage of average wages. Almost everywhere, rising outlays in the post-1973 period stem in significant part from more generous benefit provisions, expanded programme coverage, and the gradual maturation of systems in which benefits depend on contributions over a full working life. In the United States, for example, median social security benefits increased from 33 per cent of average male wages in 1950 to 55 per cent by 1980 (Smolensky, Danziger, and Gottschalk 1988: 44). Over the same period, the percentage of elderly Americans receiving social security increased from 16 to 90 per cent (Ball 1988: 28). Substantial benefit increases were enacted in most countries in the 1960s and 1970s. In part at least, governments used promises of pension improvements to purchase labour peace while deferring the costs (Myles 1988). In combination, these trends in benefit levels, programme maturation, and pensioner populations have led to major increases in pensions spending in most OECD countries. Between 1960 and 1990, public expenditures on pensions in the OECD increased from 4.6 to 8.5 per cent of GDP (see

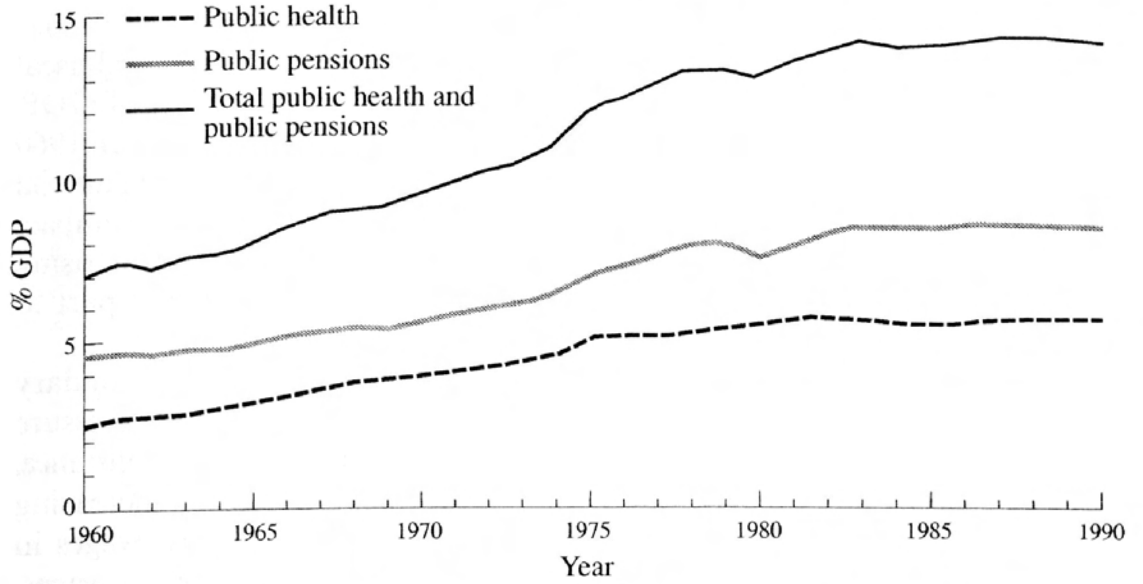


FIG. 3.2 Public spending on pensions and health 1960–90 (% GDP, average for 20 OECD countries)

Countries: Australia, Austria, Belgium (pensions: 1971– ), Canada, Denmark, Finland, France, Germany, Greece (pensions: 1962–89), Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal (pensions: 1962– ; public health: 1970– ), Spain (pensions: 1967– ), Sweden, UK, US. Pensions data contains 1980 break in series.

*Sources*: OECD, *New Orientations for Social Policy* (1994); OECD, *Reforming Public Pensions* (1988).

Figure 3.2). As will be discussed further below, these commitments contribute to both the sense of fiscal strain and the declining freedom of movement which governments confront today.

Health care represents the other massive social commitment of OECD governments. Again, both the coverage and scope of health care systems expanded dramatically in the post-war period, as governments extended their promises in this critical area of social provision. In the fifteen countries of the European Union, coverage rates of public health care systems increased from an average of 72.2 per cent in 1960 to 97.4 per cent by 1995 (OECD 1998*d*).[6] In addition, the costs of health care have risen inexorably (in part because of the relative price effect in service provision discussed above). As with pensions, this consolidating governmental commitment to health care provision has led to dramatically higher spending. Between 1960 and 1991, average public spending in the OECD on health care increased from 2.5 per cent of GDP to 6.0 per cent of GDP.

[6] With the exception of Germany and the Netherlands, all of these countries now have coverage rates of 99 or 100%.

Between them, health care and pensions—neither linked in any fundamental way to globalization—account for a large share of the increased fiscal demands on the welfare state over the past few decades. As a share of GDP, combined public spending on health care and pensions doubled between 1960 and 1990, rising from 7.1 to 14.3 per cent (see Figure 3.2). The expansion and maturation of these commitments has a far greater direct budgetary impact than either the fiscal costs associated with higher unemployment or rising inequality in earnings (which might more plausibly be attributed in part to globalization).

These governmental commitments also have an important secondary effect, contributing to higher unemployment through the intense pressure they place on the taxation of labour (Scharpf 1997*b*). In Germany, for instance, there is widespread concern about the employment effects of increasing social insurance charges, which rose from 24.4 per cent of gross wages in 1965 to 41 per cent in 1996. Of this increase of 17.6 per cent of gross wages, only 4.5 per cent is for unemployment insurance. The remaining 13.1 per cent is accounted for by rising contribution rates for pensions, health insurance, and the new long-term care insurance programme (Manow 1997*a*: table 3).

Welfare states matured between 1960 and 1990. For three reasons—none of which has anything to do with globalization—this maturation process was bound to lead eventually to a slowdown in programme growth, increased budgetary stress, and a loss of policy flexibility. First, as social provision accounted for a growing share of the economy, the opportunity cost associated with further expansions has risen (Klein and O'Higgins 1988). If social expenditure grows at twice the rate of national income, the cost in foregone resources is much greater when social spending is 30 per cent of GDP than it was when that share was 15 per cent of GDP. Second, the pain of taxation has grown over time as rising social expenditures required government officials to reach further and further down the income distribution in search of revenues. Mature welfare states require a heavy tax burden on average and even below-average income households, which necessarily produces growing political tension over expenditure levels. Finally, as maturing welfare states gradually expanded, the costs of increased generosity (e.g. the impact on work incentives) were likely to grow, leading to greater controversy. Many welfare states have failed to adequately address new (or newly recognized) social risks associated with changing family structure, gender relations, and the spread of atypical work (see below). In traditional domains such as health care, pensions, disability, and unemployment, however, welfare states are often working at the margin—that is, they have grown to limits. As replacement rates for unemployment insurance or early retirement approached 100 per cent of wages, the case for stopping expansion, or for rolling back some instances of overreach, was bound to become stronger.

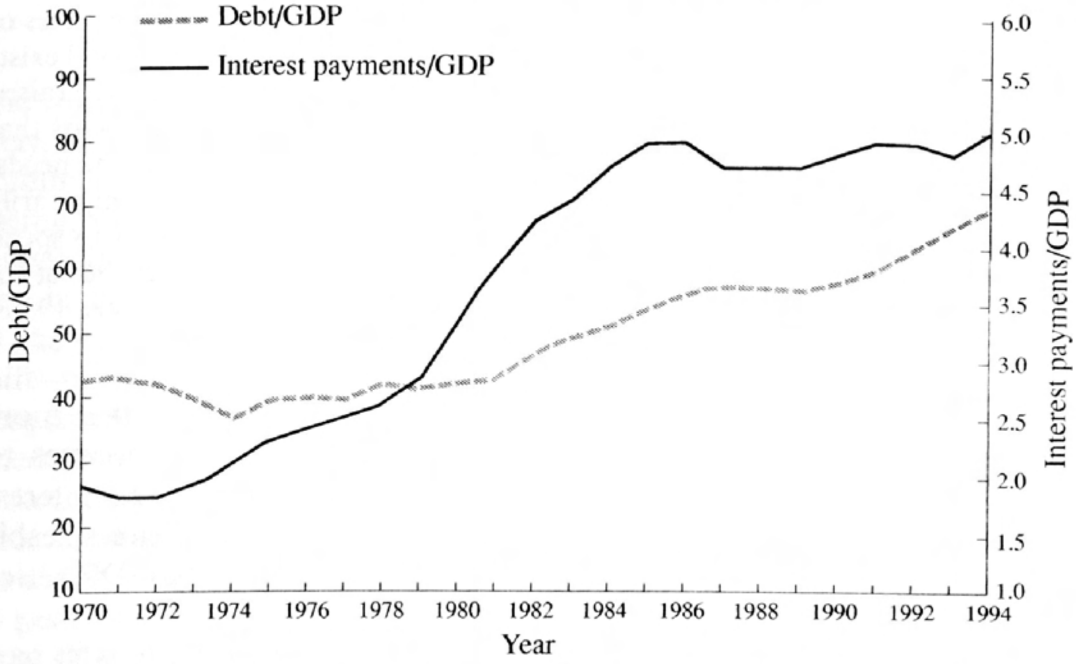


FIG. 3.3. Debt/GDP and interest payments/GDP: G7 countries 1970–94
*Source*: Tanzi and Fanizza 1996.

All of these correlates of maturing welfare states help to account for a heightened sensitivity to the costs of social provision. There is nothing surprising about any of these tendencies—and certainly no need to invoke globalization to account for them. Rather, they are simple consequences of a core transition of modern affluent societies: the more complete institutionalization of governmental commitments.

A closely related phenomenon is perhaps less 'natural' but nonetheless highly significant: the decline of fiscal slack associated with years of extensive government borrowing. As Figure 3.3 indicates, government debt and associated interest payments have risen considerably over the past two decades (Tanzi and Fanizza 1996). For the industrial countries as a group, spending on interest payments rose from roughly 2 per cent of GDP in 1970 to over 5 per cent of GDP in 1994. This is roughly equal to the increase in spending directly associated with higher unemployment in Europe.[7] Part of this historically unprecedented rise in peacetime debt resulted from miscalculations about the possibilities for reflation in the late 1970s, but it also reflects the mounting fiscal demands outlined above, the willingness of elected officials to defer painful choices, and the relentless logic of compound interest. As Joseph Cordes puts it,

[7] A recent OECD study compared public expenditures on active and passive labour market measures in seven European countries between 1980 and 1993, a period when unemployment in Europe increased from about 6% to around 11%. The average increase in expenditures was around 3% of GDP (OECD 1996*g*: 24).

Borrowing does not eliminate trade-offs that must be made between raising taxes or reducing spending on some programs in order to add new programs or expand existing ones; it merely shifts these trade-offs into the future. Taxes that are not raised or spending that is not cut in the present show up as future interest payments that exert prior claims on tax revenues, making it harder to fund future spending needs. Thus, increased reliance on deficit finance in the late 1970s and 1980s temporarily allowed lawmakers to simultaneously honor growing prior commitments to spend on entitlement programs, maintain existing programs, and add new ones, but at the price of having to confront these trade-offs in starker form in the late 1980s, 1990s, and into the next century. (Cordes 1996: 107)

Large budget deficits incurred in the 1970s and 1980s mean that more fiscal resources are pre-committed. Governments have fewer revenues to use for current activities because more must be allocated to cover interest payments. In extreme cases, governments such as Italy must run sizeable surpluses in their primary budgets just in order to keep debt/GDP ratios from worsening.

It is worth emphasizing these implications of high debt burdens in part because in Europe the pressures for constraint which they generate will often be attributed to the Maastricht criteria associated with monetary union. EMU is likely to have considerable consequences, exacerbating and channelling pressures for fiscal retrenchment (Pitruzzello 1997). Yet it is essential to realize that the broad constraint on government debt/GDP ratios, and the implications of rising interest payments, would exist in a world without EMU. Nor are the constraints generated by these commitments a product of globalization. Indeed, while the opening of financial markets is often depicted as a crucial curb on the autonomy of national policy makers, financial deregulation has driven down interest rates for many treasuries, arguably facilitating the capacity to borrow.

The vast array of governmental commitments which has accumulated over time is a fundamental feature of post-industrial societies. There is tremendous cross-national variation in the scope and character of these commitments, but they have expanded everywhere. Pensions and health care, perhaps the sectors of the welfare state least connected to processes of globalization, have been at the core of this transformation. This second post-industrial shift and its ripple effects (such as the possible impact on unemployment and the implications of efforts to defer the bill for meeting these commitments) are central to the growing sense of budgetary stress and loss of policy control which characterizes the affluent democracies. As C. Eugene Steuerle and Masahiro Kawai argue, 'most industrial countries are finding that their spending obligations arise more and more from the past . . . If the governments of the industrial world seem to be at bay, these common fiscal problems, more than almost any other factors, have put them there' (Steuerle and Kawai 1996: 1).

### *Population Ageing*

The third critical post-industrial transition is demographic, or more accurately, the evolving interaction between demography and mature social programmes. The populations of the advanced industrial democracies have been ageing, both because birth rates have fallen and because people are living longer. In the OECD, the share of the population over 65 rose from 9.4 per cent in 1960 to 13 per cent in 1990 and is projected to reach 13.9 per cent by the year 2000 (OECD 1988: 12, 22). This represents a very considerable shift—a 50 per cent increase in the elderly's share of the population—with clear implications for public expenditures, since all welfare states are heavily tilted towards the elderly.

And yet this demographic transition is still in an early phase. The increase since 1960 accounts for roughly one-third of the projected total growth in the elderly's share of the population, which is anticipated to eventually reach 23 per cent of the population. The bulk of this demographic transition in most OECD countries will occur between 2010 and 2035 (OECD 1995*a*). In a more fundamental sense, even a greater proportion of the demographic transition lies ahead. Over the past few decades, the fiscal impact of population ageing has been muted by the very large 'baby boom' cohorts following the current elderly through the life course. Because these large cohorts are in their peak earning years, they provide a solid foundation for financing social benefits for the elderly. The situation will be quite different when the huge baby boom generation moves into retirement and must be supported by a workforce made up of the considerably smaller cohorts which follow. In the OECD, the ratio of the working-aged (15–64) to those over 65 fell by a third between 1960 and 1990 (from 7.5 to 5.0), but it is expected to fall by half between 1990 and 2040 (5.0 to 2.5) (Scherer 1996).

Associated fiscal pressures are beginning to mount. Under policies in effect in 1996, population ageing was projected to produce an additional increase in pensions spending of 3.9 per cent of GDP across the OECD between 2000 and 2030. Particular countries such as Japan (6.3%), Italy (7.7%), and the Netherlands (6.9%) face much larger increases (OECD 1996*a*: table 12, p. 25). Given the high levels of taxes in many of these countries, and the other sources of fiscal pressure already discussed, these looming increases in pension outlays are attracting considerable attention. Unfunded pension liabilities should be seen as an additional set of commitments, similar to public debt but less visible, which place limits on the flexibility and responsiveness of public officials.

Population ageing is an important factor at work in another area where the welfare state faces strains: the provision of health care. Because the elderly are the biggest consumers of health care, population ageing leads directly to higher health costs. Between 2000 and 2030, population ageing alone is expected to add 1.7 per cent of GDP to health care expenditure in the OECD

(OECD 1996*a*: 25). In combination with pensions, this suggests an average increase in outlays of 5.6 per cent of GDP in the OECD attributable to population ageing alone.

The demographic shift underway is profound, and its effects are felt precisely in the most expensive areas of the welfare state. This is thus a central source of fiscal pressure on national systems of social provision. Like the other two transitions of slower economic growth and the maturation of governmental commitments, the phenomenon of population ageing is slow-moving and undramatic, but it has fundamental consequences over time.

### *The Transformation of Household Structures*

A final transition, equally slow-moving but equally revolutionary, has been the reconfiguration of both household structures and the relationship between households and the world of work. In this case, I group together a number of distinct but interconnected changes: a massive increase in women's labour force participation rates, falling fertility rates, and the fragmentation of households resulting from a sharp rise in single-parent households (due to the increasing prevalence of both divorce and of out-of-wedlock births) and the increasing tendency of single adults and the aged to live on their own. These transformations have led to strains on welfare states designed for a traditional 'male-breadwinner' household structure of intact (or even extended) families, with men acting as wage earners and women providing a variety of non-market services, including child care and elder care within the household.

Social welfare has never been based on a state/market division of labour, but rather on a tripartite division among the state, the market, and private households (Orloff 1993; Sainsbury 1994; O'Connor 1996). Thus, dramatic changes in household structures, and in relationships between the market and the household, have had considerable consequences for welfare states. And because systems of public policy have provided quite varied systems of incentives and supports for particular mixes of state, market, and household activity these changing circumstances have had quite distinctive consequences for different welfare states (Esping-Andersen 1999).

Here I can only briefly highlight four of the most important transformations that are taking place. First, and most critical, the increase in women's labour force participation has been among the most dramatic social shifts of the past generation. In the eleven countries for which the International Labour Office has data for the full time period, labour market activity rates for women aged 15–64 increased from an average of 33.3 per cent in 1960 to an average of 61.9 per cent in 1996 (ILO 1990, 1993, 1997).[8] The degree of

[8] The countries are Canada, Denmark, Finland, France, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, and the United States.

change and current levels of participation vary markedly across countries, but the basic trend has been universal.

This remarkable shift has had multiple, often conflicting implications for mature welfare states. Expanding women's labour force participation is central to what Esping Andersen (1999) terms 'defamilialization' and Orloff (1993) would term the heightened capacity of women to form autonomous households. Prospects for increased economic autonomy sometimes reduce the need of women to rely on the state for financial support. At the same time, the movement of women into the paid labour market provides new sources of badly needed tax revenue. Indeed as Huber and Stephens argue in this volume, and as Esping-Andersen has also stressed, reinforcing this trend is probably critical for sustaining the welfare state's long-term fiscal equilibrium. The welfare state's fiscal base looks especially precarious in those countries, typically 'conservative' or 'Continental' welfare states, where women's labour force participation remains relatively low.

At the same time, however, the new possibilities associated with expanded women's labour force participation may also fuel processes of household fragmentation which place new burdens on public social provision. I discuss this issue below. Furthermore, as Orloff has noted, with the movement of women into the labour force 'there are new risks to be insured against —risks, particularly facing women workers, of income interruption due to maternity and participation in caregiving activities' (Orloff 1999: 8). Thus, maternity and parental leave expenses, and the provision of (tax-financed) social security 'credits' for child or elder care, may be added to the pressures on the public purse.

Probably of greater consequence for systems of social provision is the fact that women working outside the home need increased help with social tasks previously carried out within the household, including care for children, the elderly, and the disabled. Strikingly, this is in many cases not an instance of maturing commitments but one of new or expanded initiatives. As Mary Daly puts it, support for caring constitutes 'one of the few growth areas in contemporary welfare states' (Daly 1998: 14; Daly 1997). Whether these previously non-marketized services are provided through public means or through private but marketized means, associated pressures on the welfare state have been increasing. And since the caring services are classic representatives of Baumol's 'non-progressive' sector, the costs of caring provision can be expected to grow over time, even in the absence of demographic shifts.

If such caring services are provided publicly, there will be direct and substantial budgetary consequences. In effect, the state is now paying for many services which used to be provided 'for free' within the context of 'male breadwinner' households or broader kinship networks. The expansion of public sector caring services has been quite uneven across countries

(Gornick, Meyers, and Ross 1998). This is true in part because such a trend is strongly self-reinforcing: the creation of public social services creates both a supply of jobs for women and facilitates the movement of more women into paid employment, which in turn fuels political demand for more public social services (Huber and Stephens 1999). As is well known, the expansion of these programmes has been especially prominent in the countries of Scandinavia (and also in France), which offer comparatively generous supports for child and elder care. In Denmark, for example, households have something close to guaranteed access to public child care and elder care (Ungerson 1997).

Such programmes can be very expensive. By 1995, Denmark, Norway, and Sweden were all spending over 3 per cent of GDP on public and mandatory private expenditures related to services for the elderly and disabled, although the rest of the OECD nations still spent far less (Daly 1998: table A.2). In most countries, however, public funding of caregiving has expanded significantly. Among nineteen OECD countries reviewed by Daly, the United States was the only one in which less than one-quarter of children aged 3–6 were in publicly funded childcare; in 13 of the 19, public coverage exceeded 50 per cent (Daly 1998: table A.1).

In most OECD countries, however, direct public provision of caring services remains limited. Nonetheless, the welfare state feels the indirect effects of the shift towards private, marketized care arrangements (a process which, in line with women's labour force participation rates, has proceeded further in the 'liberal' welfare states than the 'conservative' or 'Christian democratic' ones). If services are provided privately, both the need for care and problems of affordability will become increasingly prominent over time. These pressures will lead to growing demand for subsidies (e.g. in the form of tax expenditures), increased transfer payments (often means-tested) for households with children, or expanded public provision. Thus, even the harsh welfare 'reform' enacted in the United States to move poor mothers into the paid labour market has been accompanied in many states by substantial increases in publicly subsidized child care. In the conservative welfare states, governments seeking to preserve traditional household structures face growing pressures to 'pay' at least something for the household's (i.e. women's) provision of caring services, whether through family allowances, pension credits, or direct payments to those caring at home for the elderly or disabled.

A second major change has been a sharp fall in fertility rates. Cultural change, the availability of birth control, and the expansion of opportunities for women have all led fertility rates to fall sharply across the OECD. Increasing women's labour force participation clearly has played a role here, although it is critical to note that fertility rates are generally now lowest in those countries where women's labour force participation rates are lowest, and where the availability of jobs for women and policies which support the ability of households to combine work and child-rearing are most limited (Esping-Andersen 1999).

As Huber and Stephens stress in their contribution to this volume, the consequences of low fertility for the welfare state are profound (cf. Esping-Andersen 1999). Welfare states that make generous provision for those at the end of the life course are vulnerable to sharp declines in the size of younger populations. Indeed, it is not declining mortality rates that largely explain the trend of population ageing discussed in detail above, since mortality rates have fallen for all ages. Rather, the shift towards an older population structure largely stems from declining fertility.

The third major change in household structure in most of the affluent democracies has been a dramatic increase in the share of single-parent households. Divorce rates have generally risen sharply over the past three decades. In nine OECD countries for which data is available, the divorce rate (per 1,000 married women) rose from an average of 4.1 in 1960 to 10.8 in 1986 (Sorrentino 1990: 44).[9] In the same countries, the prevalence of out of wedlock births increased from 5.4 per cent of all births to 21.4 per cent (Sorrentino 1990: 45). Although the comparative data does not go back so far, the result of these trends has been a sizeable increase in the share of single-parent households among all families with children. In the United States, this share rose from 9.1 per cent in 1960 to 22.9 per cent in 1988. More typical were the German figures, where the share of single-parent households rose from 8 per cent in 1972 to 13.5 per cent in 1988.

The increasing share of single-parent households puts considerable strain on welfare states. Single-parent households, mostly female-headed, are significantly more likely than other families to have low incomes and experience poverty unless the state steps in to fill the gap. Such families often cannot draw on the father's economic resources and must contend with both the limited earning capacities of many women in the labour market and the extraordinary difficulties a single parent faces in combining work and family responsibilities.

A final shift, related to but distinct from the first three, has been the decline in average household size. Households are fracturing. Both young people and the elderly are increasingly prone to be living on their own, and adults are more likely to separate or never form joint households to begin with.[10] While population growth aside from immigration has stopped in many OECD

[9] The countries covered were the United States, Canada, Japan, Denmark, France, Germany, the Netherlands, Sweden, and the United Kingdom. Unless otherwise indicated, all figures in this section refer to that set of countries.

[10] In Japan, fully one-quarter of households in 1960 were made up of married couples living with both their parents and their children; such households constituted 12% of the total by 1985. In Germany, 'stem' families comprising more than two generations made up 11% of the population in 1961, but less than 4% in 1981 (Sorrentino 1990: 45).

countries, the number of households continues to increase significantly. Average household size fell from 3.3 in 1960 to 2.6 by the late 1980s—a drop not fully accounted for by declining fertility rates. Almost everywhere, the fastest growing household type consists of individuals living alone.

The trend towards smaller households has multiple effects, but most important for the welfare state is the difficulty which small households are likely to have in internalizing many aspects of social provision. Large households, including extended families, can share resources and care responsibilities for children, the disabled, and the elderly. Those living in more fragmented family units, and especially those living alone, are more likely to need to turn outside the home for help, often to the state.

It is much more difficult to quantify the consequences of these shifts for the welfare state than the three transitions previously discussed. In pure budgetary terms, the impact is probably more modest because of the significant positive as well as negative fiscal effects of the overall trends. The changes in the role and structure of households has an additional impact, however, which is to generate an understandable and often intense perception of mismatch between the needs of 'new' households and the capabilities of 'old' welfare state structures (Esping-Andersen 1999). Even though this has been the greatest area of new or expanded state initiatives of social protection, such efforts have generally lagged behind the pace of social change.[11] Thus, this post-industrial transition contributes to perceptions of both heightened fiscal strain and diminished public capacity to respond to emergent social needs.

As with the three other transitions discussed, the transformation of the household draws our attention back to domestic processes. In contrast to common variants of the globalization thesis, the current analysis suggests that the affluent, post-industrial democracies have been changing not in one big way, but in many ways. To complete my original counterfactual: the fundamental symptoms of declining governmental capacity and mounting budgetary stress would clearly be with us even in the absence of trends associated with globalization. This is not to suggest that increasing economic integration is unimportant, or to dismiss the linkages between international and domestic developments. Such links, however, are likely to be more modest, complex, and bi-directional than is commonly suggested. At the same time, we need to pay more attention than has recently been the case to profound social transformations that are essentially domestic in character. Societies are becoming more service-based, with a consequential decline in

[11] Just as Myles and Pierson (in this volume) argue that the timing of pension system consolidation has a crucial effect on the dynamics of policy reform, so timing matters for efforts to transform gendered aspects of social policy regimes. Current mobilization efforts are likely to be profoundly effected by the fact that such initiatives are occurring against a general backdrop of austerity rather than the expansionary context of the 1950s and 1960s.

productivity growth. Social programmes have grown to maturity. Populations are getting older. Household structures are changing dramatically. These trends, loosely lumped under the label of post-industrialism, explain most of the strain facing the welfare states of affluent societies.

## 2. IMPLICATIONS FOR THE NEW POLITICS OF THE WELFARE STATE

One could reasonably ask how much any of this matters. To say that the role of globalization in the transformation of welfare states has been overstated is not to deny that fiscal strains on welfare states are real. Quite the contrary. Welfare states are under intense budgetary pressure, and that pressure is likely to remain and indeed intensify. In this crucial respect the current analysis echoes a central implication of the globalization story. For practical purposes, we have reached a situation of permanent austerity.

Clarifying causality is important, however, for thinking about likely reform agendas and for indicating potential political cleavages. If one's goal is to understand the actions of policy makers, it is important to have a clear sense of the problems they actually confront (though here it is crucial to acknowledge that their perceptions of those problems are critical). Here I wish to briefly sketch out several implications of my argument for an investigation of contemporary welfare state politics.

### *Distinct Countries, Distinct Problems*

Simple versions of the globalization story flatten national differences. If globalization creates a set of overriding imperatives, national characteristics decline in significance. At most, perhaps, these characteristics determine the distance that countries need to travel, and the particular route (more painful or more contentious, say) that they will take.

By contrast, this investigation of trends strongly implies that the growing turbulence around the welfare state retains a distinctly national character. This is clearest with respect to population ageing, where the current and projected pressure on social provision varies quite dramatically across countries (OECD 1995*a*). This variation depends, critically, on the generosity of pension benefits, fertility rates, and labour force participation rates, especially among women (Esping-Andersen 1996*c*). Countries vary considerably in the extent to which they have approached a full menu of comprehensive social provision at benefit levels which generate high replacement rates. The Christian democratic welfare state regimes, along with Japan, combine a number of features which will make the pressures associated with population ageing particularly intense. Other countries, such as Ireland and Great Britain, face almost no fiscal strains associated with population ageing. In the United States, pressures on pensions are likely to be modest, but miserable performance in health care cost containment means that fiscal strain in public health care budgets will be acute (Steuerle 1996). Under policies in effect in 1995, pension outlays were projected to peak at over 15 per cent of GDP in Japan, Germany, and Italy (and nearly 15 per cent in France), but to remain well under 10 per cent of GDP in Canada, the United Kingdom, and the United States (OECD 1995*a*: fig. 13).

The same point applies to the shift to services which typifies post-industrial economies. As Esping-Andersen and Iversen and Wren have explored, while this transition is common to all advanced economies, it places fundamentally different stress points on distinct national models. Social democratic welfare states wrestle with fiscal overload, Christian democratic regimes with mounting unemployment, and liberal ones with worsening wage inequality and high poverty rates. Post-industrial politics, as Iversen and Wren put it, remains 'materialist' politics.

And of course the same can be said for issues related to changing household structures. Although the social trends discussed above are essentially universal in the OECD countries, they have proceeded at different paces and from different starting points. These trends interact with widely divergent systems of public policy. The result is that there remains enormous variation in outcomes across countries (Daly 1998). The character of pressures, political demands, and processes of mobilization are likely to look very different in these distinct contexts.[12]

Thus, this analysis not only points to multiple sources of pressure rather than one overarching process; it also underscores both the extent to which each of these pressures varies cross-nationally and how the specific form in which such pressures appear is shaped by particular patterns of public policy. These variations alone limit the prospects for cross-national convergence, even before one begins to consider how demands for reform are filtered through widely divergent political processes.

## *The Content of National Reform Agendas*

Understanding the sources of strain on national welfare states also allows one to highlight probable programmatic agendas. One's search for solutions is likely to be shaped by understandings of where pressures come from. For instance, both restrictions in trade policy and efforts to increase worker 'flexibility' in export industries look like better candidates for reform if

[12] As O'Connor, Orloff, and Shaver (1999) demonstrate in their comparison of liberal cases, there is in fact quite considerable variation within even a single 'family' of gender regimes.

newly industrializing competitors in manufacturing are retarding economic growth than either does if the source is, for instance, slower productivity improvements in services.

The current analysis suggests some of the crucial policy levers for social reformers. In coping with the Iversen/Wren trilemma, instruments to generate service sector employment and improvements in service sector productivity are essential. The appropriate instruments and opportunities may vary considerably depending on the particular 'variety of capitalism' and welfare state regime in place in a particular country (Hall 1998). For instance, Fritz Scharpf (Sharpf 1997*b*) has argued vigorously that some variant of a negative income tax (perhaps engineered through a reform of payroll taxes) could have a big impact on the expansion of service sector employment in the conservative welfare states.

A second major item on most reform agendas will be instruments to manage the budgetary pressures associated with population ageing. Pension systems have become major targets of welfare state reform—understandably, given the budgetary implications of current trends in most countries. Myles and Pierson's chapter considers these responses in detail.

A focus on post-industrial pressures also highlights a critical aspect of agenda formation which alternative perspectives obscure: the tremendous importance of the timing of welfare state reform and the extent to which it is oriented towards long-term issues. The significance of pre-existing commitments in mature welfare states means that contemporary political choices will have long-lasting consequences. Given the difficulty of rolling back social provisions once made, and the powerful impact of compounding on benefit systems which are indexed, a central aspect of reform involves the implementation of policy changes with long lead times.

An illustration from pension systems may clarify this point. The IMF has recently calculated 'contribution gaps' in national pension systems, meaning the rise in average contributions (or cut in benefits) needed over the 1995–2050 period to equalize the government's net asset position in 2050 with its net asset position in 1995. Among the major industrial countries, the average contribution gap is 1.8 per cent of GDP.[13] The IMF spells out the implications of delaying reform:

> For the average industrial country, a delay of ten years in addressing pension plan imbalances will permanently increase the contribution rate that will eventually be needed by 0.7 percent of GDP; a 30-year delay would increase the gap to almost 5 percent of GDP. The earlier an adjustment is made, the smaller the adjustment needed. (IMF 1996: 55)

[13] Note that this implies increases in contribution rates of substantially more than 1.8%, since payroll taxes are imposed only on wages, and generally on something considerably less than a country's total wage bill.

The costs of delay are thus very large. In short, both the time-horizons of policy reformers, and their capacity to execute reform in a timely manner become crucial. It is not just a question of how countries implement reform, but when they do so. In this context, the political capacity of systems not only to mobilize support for long-term adjustments but to do so in a relatively speedy fashion should be viewed as a variable of central importance for political scientists.

### *The Structure of Political Cleavages*

Perhaps most important, identifying the major pressures on the welfare state and central programmatic agendas has implications for the analysis of potential cleavages. Once one has a sense of the policy instruments which are likely to be targets for reform, one can seek to identify potential winners and losers from such reforms. As a number of contributors to this volume point out, there is nothing automatic about the process through which such potential cleavages become activated in politics. Nonetheless, they offer helpful clues.

If the welfare state indeed faces permanent austerity, this alone is likely to transform political conflicts over the restructuring of policy. The pressures associated with post-industrialism, intensified in some respects by globalization, also indicate that sustaining existing policy arrangements without adjustment is an increasingly unrealistic option. Continuing low growth coupled with the challenges of creating service sector employment, population ageing, the shifting structure of households, and the overcommitments of existing policies are already generating intense pressures. Tax levels strain public tolerance. Payroll tax burdens and their possible adverse impact on employment and wages create increasingly severe tensions within the traditional support coalitions of the welfare state, particularly in the ranks of private sector unions (Visser and Hemerijck 1997). Barring an extremely unlikely return to an era of high economic growth, fiscal pressures on welfare states are certain to intensify. While tax increases may contribute to closing the gap between commitments and resources, it is difficult to imagine that in many European countries changes in revenues alone could be sufficient to maintain fiscal equilibrium. Thus, even strong supporters of the welfare state increasingly acknowledge that sustaining basic arrangements will require significant reforms.

Welfare state conflict is often portrayed as a clash between those wedded to the status quo and those eager to dismantle basic social protections. In countries where aggressive advocates of neoliberalism have been in power, such as New Zealand and until recently the United Kingdom, this has not been too inaccurate a portrayal. Yet in a climate where social trends make pressures on budgets intense and unrelenting, political cleavages are likely to become more complex. Those seeking restructuring will include many who wish to preserve key elements of the social contract while modernizing it in a manner which contributes to economic performance, does not create unsustainable budgetary burdens, and gives emerging social demands some chance of competing for public attention and resources with well-established ones. In a climate of permanent austerity, restructuring must be distinguished from retrenchment or dismantling, and a simple cleavage between 'pro' and 'anti' welfare state forces is unlikely to emerge. Coalitions among actors with different motivations may be common. For example, poverty advocates may join retrenchment initatives when some of the savings are allocated to expand programmes for the poor (Myles and Pierson 1997). Women's groups may support or acquiesce to austere pension reforms if some of the savings are allocated to address their concerns (Bonoli, in this volume).

The arguments developed here have additional implications for the investigation of cleavages. The dominant political divide suggested by research on globalization has been a split between the tradeable and non-tradeable sectors, often portrayed as essentially a divide between most employers and private sector workers, on the one hand, and public sector workers, on the other (Swenson 1991*b*; Frieden and Rogowski 1996). It is worth noting in passing that one possible implication of the current analysis is that the share of employment in tradeables is actually declining over time, since most services remain non-tradeable. To the extent that such economic cleavages play out in the electoral arena, the declining numbers employed in tradeable sectors may be of significance. My main point here, however, is not to contest this notion of a potential cleavage based on exposure to trade, but to suggest that given the several distinct sources of strain on national systems of social provision, processes of welfare state reform may also activate a number of competing cleavages.

Pension reform, for instance, is high on the agenda almost everywhere. Here, proposed reforms will have major implications for the distribution of benefits and burdens along the lines of income, class, gender, and age. A critical question will be the extent to which adjustments in pension systems fall on those currently in retirement as opposed to current workers. Decisions to tighten links between pension contributions and benefits are likely to disadvantage most women and many blue-collar workers. By contrast, in most cases (countries such as France, which offer especially generous arrangements for public sector workers, are exceptions), these controversial reforms of public pension systems are not likely to produce intense divisions between public and private sector workers. A critical issue, however, will be the manner in which both public and private sector unions choose to balance the conflicting interests of different generations of workers.

Similarly, in the case of health care, pressures for cost containment will generate distinctive divides. Although some countries have massive public sector employment in health care, most do not. Pressures for cost containment in most countries will not fall on public sector workers, but on health care consumers (potentially including cost-shifting to employers where they play a role in health care financing), suppliers (including those in the tradeable sector, such as pharmaceutical firms and equipment manufacturers), and providers (hospitals and medical personnel). The range of potential cleavages in health care reform is likely to be highly diverse, and coalition formation may take quite different paths in different countries.

One needs to be very careful in moving from arguments about cleavages to arguments about coalitions. There is nothing automatic about the process that transforms (theoretically derived) 'winners' and 'losers' from particular reform initiatives into competing flesh-and-blood coalitions. This becomes especially true as the potential lines of cleavages multiply, creating the 'multi-dimensional choice' environments and cycling opportunities that formal theory tells us inhibit the formation of stable, coherent political alignments. Yet who wins and loses from particular patterns of welfare state adjustment (or non-adjustment) is unlikely to be irrelevant to coalition formation. By clarifying what is at stake we can expect to make some progress in identifying the probable stakeholders and their most plausible allies. At a minimum, however, my argument implies a cautionary warning against the scenario of a looming political struggle between public and private sector workers.

Indeed, the broader point of the essay is to caution against the acceptance of a grossly-oversimplified vision of national welfare states under siege from the rising forces of footloose global capital. There is some truth to that account, but far less than is usually suggested. More accurate, if admittedly far less parsimonious, would be an attempt to recognize the implications of multiple, overlapping social transformations occurring within (and interacting with) contexts of quite different national systems of social provision. Developing and evaluating claims about reform dynamics in this more complicated world is an arduous task, but an unavoidable one.