

Chapter 2

Modernization, Democratization, and the Development of Welfare States in Western Europe

Peter Flora and Jens Alber

Introduction

The evolution of the welfare state is obviously related to a great variety of social developments and changes. One of our main tasks thus consists in attempting to construct a theoretical framework that systematizes and relates these processes. In Part I of this chapter the concept of modernization is examined since it emphasizes the multidimensionality and interrelatedness of developmental processes. From this analysis of modernization, a sectoral model is developed that poses some relationships among socioeconomic and political developments and the evolution of welfare state policies and institutions. More specific hypotheses are then elaborated on the basis of Stein Rokkan's theory of European political development.

The modern European welfare states really began in the last two decades of the nineteenth century. Part II of this chapter describes these beginnings through examining the introduction of social insurance systems throughout Europe and the growth and structural change of public social expenditures in three countries. The later growth of the European welfare states is compared mainly through the evolution of the social insurance systems that are of central fiscal and institutional importance.

Finally, Part III here attempts to explain the emergence of these systems through the socioeconomic processes of industrialization and urbanization as well as through the political developments of suffrage extension and parliamentarism. In addition, the possibility of diffusion processes, an idea studied in more detail in Chapter 4, is analyzed.

I. Theoretical Considerations in the Development of the Welfare State

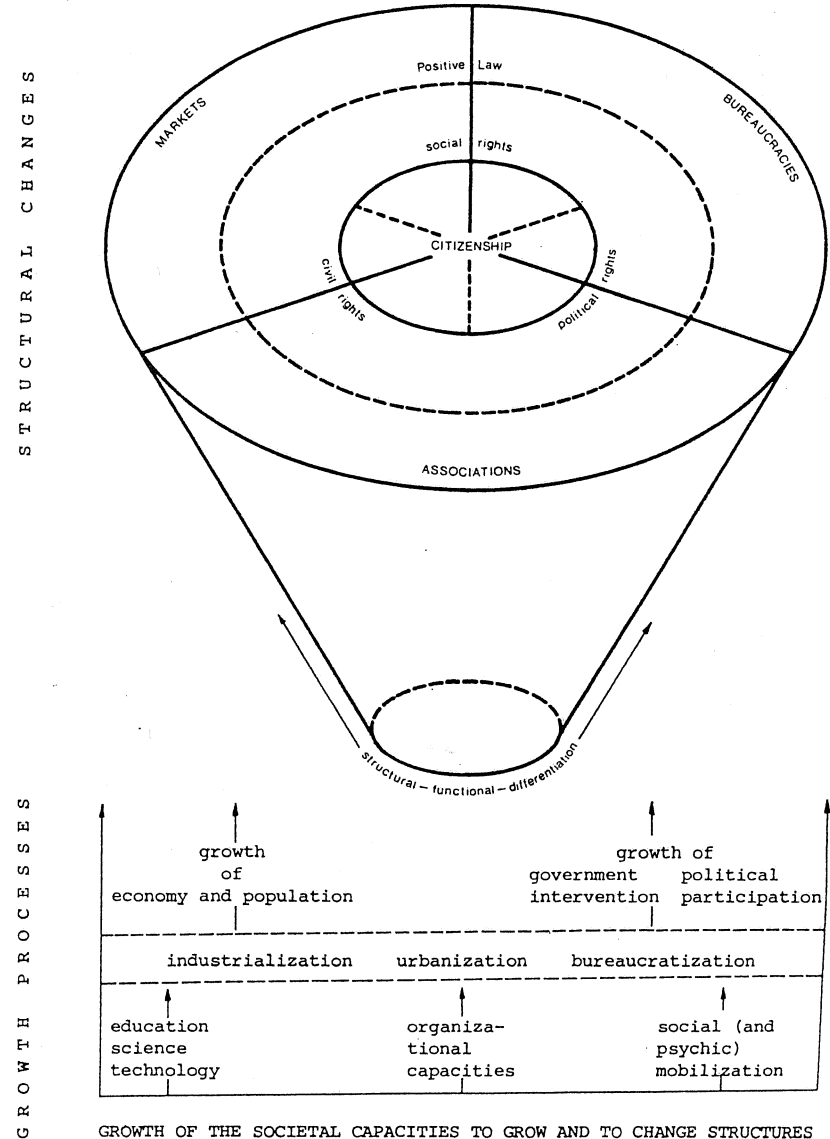
A. Classical Concepts and an Analytical Framework of Modernization

The concept of modernization has largely replaced the traditional concept of development as well as superseded more specific concepts such as industrialization and democratization.¹ Despite its vague and ambiguous meaning, modernization has one salient characteristic that makes it interesting for our analysis: an emphasis on the multidimensionality of societal development, or the assumption of causal interrelationships among economic and population growth, social and psychic mobilization, political development, cultural change, and the transformation of the international economic and political order. Figure 2.1 illustrates the relationships among some of the basic concepts of modernization. The main distinction is between general growth processes and structural changes, which are institutional as well as organizational. Growth processes are related to two different capacities: the capacity to grow, the core of which is the economy, and the capacity to change structures, the core of which is the polity. This may be understood as a generalization of Marx's distinction between the growing and relatively flexible forces of production and the relatively inflexible relations of production. The rigidity of social organization may either encourage or impede the growth of the productive forces, thus producing strains and conflicts.

In the tradition of Durkheim, structural-functional differentiation is the fundamental process characterizing modernization. This increasing specialization and fragmentation is intimately related to the processes of growth and affects all social structures, activities, and individual lives. Fundamentally, differentiation involves a loosening of ascriptive bonds and a growing mobility of men, goods, and ideas. It leads to the development of extensive networks of exchange and greater disposable resources.² As differentiation advances and breaks down traditional forms of social organization, it changes and exacerbates the problem of integration, which was Durkheim's main interest. He suggested two types of solutions to this problem: integration through mechanical solidarity based on affinity of values, beliefs, and sentiments and through organic solidarity that simultaneously weakens the impact of social segmentation and strengthens the impersonal interdependence of individuals. We follow here Parsons' cri-

Figure 2.1
An Analytical Framework of Modernization

TRANSFORMATION OF THE INSTITUTIONAL AND ORGANIZATIONAL STRUCTURES



tique of Durkheim³ that these two solutions to the problem of integration do not represent two distinct stages of development, but coexist in modern societies.

In modern, highly differentiated societies the mechanical element of integration lies in the core institution of citizenship. This has been formulated most clearly by T. H. Marshall: "Citizenship is a status bestowed on those who are full members of a community. All who possess the status are equal with respect to the rights and duties with which the status is endowed."⁴ Marshall distinguishes between three elements of citizenship: a civil element, providing the rights to ensure individual freedom; a political element, centered in the right to participate in the exercise of power; and a social element, primarily constituted by the right to share a minimum level of economic welfare, social security, and cultural heritage. The process of differentiating the basic rights and the institutions giving access to them has been accompanied by geographical integration, or a "nationalization" of the specialized institutions. "Citizenship is by definition national."⁵ Of course, the sequence, form, and degree of institutionalization of citizenship rights have varied widely from country to country and still do.

Besides the core integrative institution of citizenship, modern Western European societies have developed three regulating organizational structures: markets, which organize the exchange of economic resources and commodities; associations, which organize the articulation, aggregation, and representation of interests; and state bureaucracies, which organize the fulfillment of collective tasks. There are specific relationships between these three organizational sectors of modern societies and the basic rights of citizenship (see Figure 2.1). Civil rights are related to markets (the right to own property and to enter valid contracts, free choice of work and residence) as well as to associations (freedom of speech, thought and faith, right to assemble, and freedom of association). They guarantee a sphere of public opinion, that together with political rights forms the legal basis for the development of interest groups and political parties and for the evolution of parliaments symbolizing the associative character of society itself. But political rights are also related to state bureaucracies, since the right to participate in the exercise of political power only has meaning when the governing power of parliament is established. Finally, social rights are also related to state bureaucracies and to markets. Originally, they were provided through membership in local communities or functional associations. On the national level, the right to a minimum level of economic welfare and social security developed successively through the regulation (labor legislation), supplementation (social security systems), and replacement (social services) of markets by state bureaucracies. With respect to the social right to share in the cultural heritage market elements usually were

replaced much earlier through the establishment of public schools and the institutionalization of compulsory education.

Within this framework then, the development of the welfare state may be analyzed according to at least the following three aspects:

1. the processes of differentiation (the differentiation of individual and household income, of working and living place) creating specific labor market problems that must be solved by the state;
2. the evolution of social rights as a consequence of (or compensation for) the institutionalization of political rights;
3. the increasing control, substitution and supplementing of markets (and to some degree of associations) by state bureaucracies.

B. Modernization and the Welfare State: A Sectoral Model

1. Problem Pressure: Changing Socioeconomic Conditions and Political Mobilization

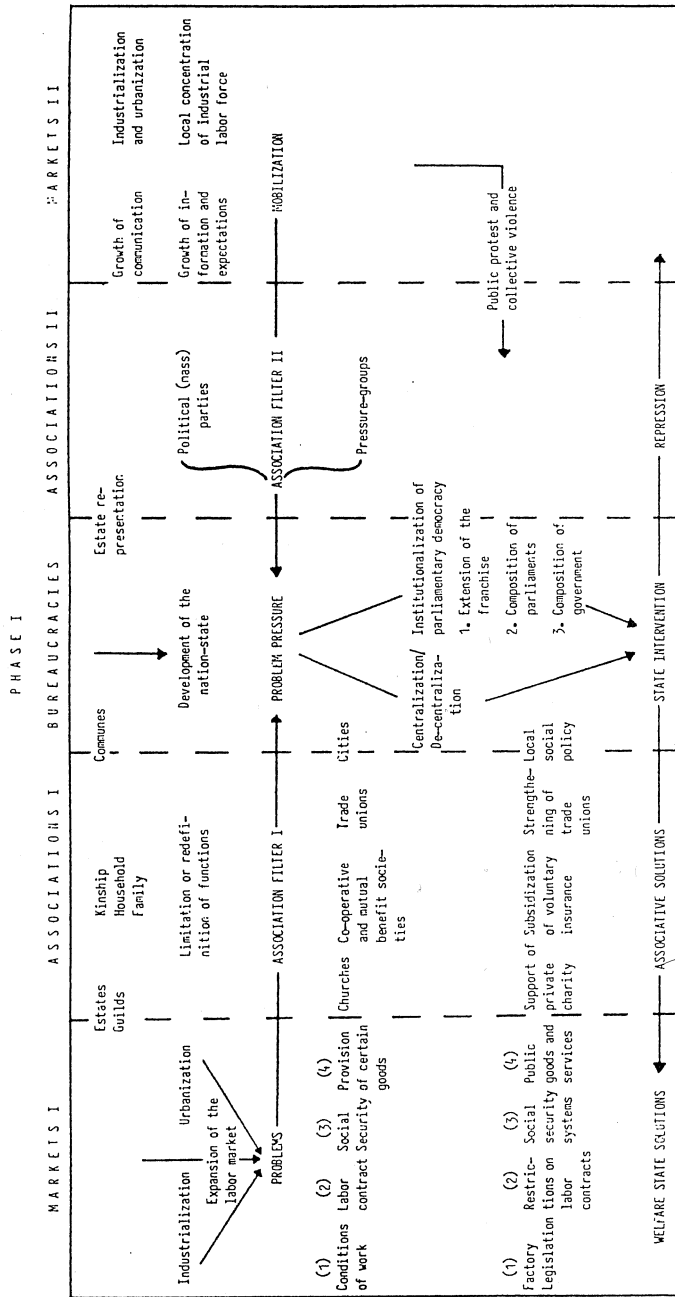
The distinction between markets, associations, and state bureaucracies as the three main organizational sectors of society is used now to draft a sectoral model of the development of welfare states (see Figure 2.2). In the model, markets and associations are further divided into two subsectors. In the first subsector of markets (I) those developmental aspects creating specific welfare and security problems are summarized. The second subsector of markets (II) includes the developmental aspects assumed to lead to social mobilization processes. In the first associative subsector (I), associations in the widest sense are included that are concerned with welfare and security problems independently of the state. The second subsector (II) embraces those associations that mobilize political support and articulate demands for welfare assurances from the state.

Under Markets I four main problems generated by industrialization and urbanization and affecting the immediate associations of family and household are specified:

1. changing working conditions (for example, industrial accidents);
2. the development of a free or unrestrained labor contract (for example, child labor, working hours);
3. income security for disabled persons without property (sickness, invalidity), for those not or no longer engaged in the productive process (children, housewives, old persons) or for the unemployed;
4. the provision of certain (public) goods by controlling, supplementing or substituting for private markets (housing, health, to some degree education).

These problems are in turn assumed to create an objective problem pressure. To assess the intensity of the pressure directly exerted on the government, however, the activities of those associations that respond to

Figure 2.2
A Sectoral Mode of the Development of Welfare States



these problems, such as churches and private charity organizations (poor relief), mutual benefit and cooperative societies (insurance, housing) and trade unions (unemployment assistance) must be considered. This association filter will often greatly modify and typically diminish the objective problem pressure. For example, the countries with strong Protestant state churches developed early a notion of state responsibility for public welfare, whereas in the religiously mixed and Catholic countries the tradition of private charity and the principle of subsidiarity, giving priority to the responsibility of smaller collectivities, remained strong. Thus, differences in the existing associative structures and their historical development may explain some of the differences in the development of the welfare state.

Under Markets II, at least two developments may have been responsible for mobilizing major parts of the population: (1) the concentration of the labor force in cities, industries, and enterprises as a consequence of industrialization and urbanization and (2) the growth of information and expectations as a consequence of expanding communication. This social mobilization may find its political expression in various unstructured forms such as public protest and collective violence or in institutionalized forms like voting, unionization, and the creation of political parties and interest groups.

Since the origins of the modern welfare states are closely related to the "social question" and the labor movement, differences in the strength and coherence of working class parties and trade unions are most important for explaining variations in welfare state developments. To some extent, differences in the strength of labor movements are a function of religious, linguistic and/or ethnic cleavages that might have deflected attention and support from class issues and retarded the development of welfare states. Alternatively, strong working class internationalism may have also impeded welfare state developments by factionalizing the working class movement, above all by dividing socialists and communists and thus decreasing opportunities to gain executive power.

The problem pressure thus consists of two elements: the objective problem pressure and the pressure generated by social and political mobilization. The distinction between these two aspects is not merely analytical, since the effects of both can vary widely as discussed in Part III. Nor does this suggest that governments simply act in response to pressures; they may not act at all or they may anticipate some of the problems and act to prevent their full realization.

2. The Shaping of State Intervention: Bureaucracy and Democracy

The intervention of governments in response to or in anticipation of the problem pressure historically involved several alternatives. One concerned the relationship between welfare state policies directed toward solving

social problems and police state policies designed to repress political mobilization processes. In practice, of course, these alternatives were often combined. Their clear differentiation is possible only with the establishment of modern welfare and police institutions compared to the earlier institutions of a poor police and a health police. A second major alternative lies in the way governments tried to solve social problems. They could choose between direct intervention through labor legislation, factory inspection, the establishment of compulsory insurance systems, and the provision of public goods (housing, health, education) on the one hand and associative solutions through subsidizing private charity and voluntary insurance and strengthening trade unions on the other. The result was probably greatly influenced by the political strength of existing associations and the efficiency of their programs.

At a more general level, government intervention has probably been shaped predominantly by two basic developmental processes: first, the creation of state bureaucracies and thus administrative capacity. An early and strong bureaucratization and centralization may have promoted welfare state development because of greater government resources and strong paternalist traditions. It may also have thwarted efforts to institutionalize democracy and thus impeded welfare state development. Second, the creation of mass democracies reflected by constitutional developments (the introduction and extension of suffrage and the legal or de facto enactment of parliamentary responsibility) and power shifts (composition of parliaments and governments) are of major importance in the development of government intervention. Of course, additional factors to explain differences in the development of welfare states could be cited, particularly cultural values underlying the definition of welfare responsibilities and standards and the long-term growth and cyclical fluctuations of economic resources and public revenues.

In following sections, we are primarily concerned with the relationship between the growth of mass democracies and welfare state policies, since sufficient information on the growth of state bureaucracies is still largely missing for most European countries. Furthermore, it is important to note that while this model points to possible relationships between factors influencing the development of the welfare state, it does not sufficiently specify their extent and character. This is especially true for the relationships between the objective problem pressure and the associative structures, and their combined impact on government responses. There is hardly any theory from which to formulate a systematic set of hypotheses about the relationships between socioeconomic development and the evolution of welfare states. With respect to the processes of political mobilization, organization and institutionalization (see columns 3 and 4 in Figure 2.2),

however, we can utilize Stein Rokkan's theory of European political development to formulate more specific hypotheses.

C. Rokkan's Stage Model and the Evolution of the European Welfare States

Stein Rokkan's theory⁶ attempts to integrate various approaches to the study of political development to explain the growth of the European national states, their external consolidation, and their internal restructuring (or consolidation). It essentially consists of two parts: first, a theoretical conception of stages of political development; second, empirical typologies which try to explain variations in these respective stages (for example, in territorial consolidation, the introduction and extension of suffrage, cleavages, and party systems).

1. Stages of Political Development

Rokkan distinguishes four stages or problems of political development that may form relatively distinct phases or may coincide and even cumulate to cause developmental crises. The first two phases are primarily thrusts from the center toward the periphery, attempting to subject it to military-economic (state formation) and cultural (nation building) control and to create subjects (of the king and later the state). The last two stages originate predominantly from the periphery toward the center and are aimed at an internal restructuring through the extension and redefinition of citizenship (participation and redistribution):

1. *State Formation* or the development of fiscal and military states. This phase involves political, economic and cultural unification at the elite level, the creation of organizations for the mobilization of resources (tax bureaucracies), the consolidation of the territory (armies) and the maintenance of internal order (police and army).
2. *Nation Building* or the building or growth of national states. This phase refers to the establishment of direct contacts between the elite and larger sectors of the peripheral population through conscript armies, schools, mass media, religious and linguistic standardization.
3. *Participation* or the development of mass democracies and the establishment of citizenship through the equalization of political rights. This phase includes growing participation of the peripheral population, the institutionalization of civil and political rights (franchise, parliaments), and the creation of political parties.
4. *Redistribution* or the development of welfare states and the establishment of social citizenship through the redistribution of resources, goods and benefits. This phase involves the creation of public welfare systems (social security, health, education, housing) and public policies for the equalization of economic conditions through progressive taxation and transfer payments.