

# Just Deserts: The Moral Economy of Welfare in Europe and the United States

Sigrun Kahl

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*Arno Dübel, Hamburg, Germany, 2010*

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# 1 Introduction

Arno Dübel is Germany's most famous welfare recipient. The media first discovered him in 2001 when he appeared in a daytime TV show stating that welfare is great because "work is shit." In 2010, he was back, capturing the nation's attention with his view that "people who work are idiots." He had now been on welfare for 31 years, because "working sucks" and "it's tiring."<sup>1</sup> Together with his dog Snoopy and two parakeets he lived in a tiny, run-down apartment in Hamburg. He had no girlfriend because he had enough "complications" in his life. He ingested most of his calories in the form of beer and cheap wine, both from the ALDI food discounter, and despite his asthma and (latent) tuberculosis he smoked all day. Born in 1956, he completed 8<sup>th</sup> grade but dropped out of vocational training in 1975 after repeated confrontations with his boss who demanded that he cut off his ponytail. Arno still has the ponytail, now thin, greasy, and grey, but he has not worked since.

According to his caseworker, Arno was "renitent and a hopeless case." Since the early 2000s, the welfare office had suggested many suitable job openings but Arno's standard reaction was that "this job is shit." Waiting tables was "too stressful for me. I would have to run around with a tray and then there's something in my way and I stumble and fall..." Working in construction was "a cool thing! But I have no clue about construction... Nope, that's all shit." After a few years the caseworkers switched to work habituation for the long-term unemployed. Yet, Arno always had a sick note from one of the doctors he frequented, even though the public health officer had repeatedly determined that "the patient is basically able to work." Arno conceded that he was "basically able to work. But I am also too sick."

At a meeting in 2010 the caseworker asked for the sick note right away. Arno was caught by surprise and had to sign up for a nine-month work program for eight hours a day. And his caseworker took him there immediately, despite Arno's protests that "the TV is still on at home." Arno worked there for three hours, doing laundry, washing windows, and "carefully" cleaning the restrooms. But the next day he was gone. A TV crew recorded him waddling down the street, grinning: "I am unwell. I am going to the see the doctor, need a sick note." As he left the doctor's office, waving the yellow slip in the air, he clarified that he can be sick anytime because he can "vomit on command."

In 2013, *Bild* discovered Karl D. in the streets of Bremen, a 57-year-old homeless man who slept in his car. Arno is not mentioned in the coverage, but Karl is Arno's deserving counterpart: Both were 57 years old and had been on welfare for the same time – Karl since 1981, and Arno since 1979. Yet, while Arno feigned gastro-intestinal tract infections, Karl became a welfare recipient after his small intestine burst and he barely survived sepsis. Arno left his job; Karl lost his job. Arno avoided work; Karl searched for work. Karl was the "ex-engineer" whose "biggest dream is to finally have an apartment again, and to work." Arno was the "professional unemployed" who went to bed "happy every single night" precisely because "I have done nothing for my entire life."

How could Arno evade work for so long? Why was Karl stuck on welfare even though he wanted to work? Is theirs a uniquely German tale, or does it resonate with other countries' experiences? What if

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<sup>1</sup> The case has been covered by all major German newspapers. All quotes are my translations from articles published in the *Bild Zeitung*, Germany's "leading" tabloid, whose reporters have had exclusive access to Arno.

Arno had a turnaround and became fully motivated and cooperative? Who would hire a candidate without a High School diploma and any work experience? How valuable were Karl's early-1980s engineering skills by the late 1990s? And what about Karl in 2013 – could he get job-ready within the foreseeable future? In a society where one's worth is so strongly associated with being productive, what is the status of the growing group of the long-term unemployed who don't have anything to offer that the labor market demands? Are those whose skills are worthless in market also worth less as human beings? And what does this imply for social and labor market policy – should governments create socially useful work opportunities outside the market, invest in the education and training of the able-bodied poor, subsidize the wages of the least employable up to a social minimum, or rely on the market? Should they provide welfare and let some freeloaders take advantage of it, or enforce work and let those who do not succeed fall through the cracks?

“Welfare” is the absolute minimum that society provides to ensure individual survival and dignity. This last resort safety net is a small and residual part of the welfare state for those of the poor who have no alternative source of support whatsoever. It is largely ignored in the comparative welfare states literature, yet it represents the most basic condition for a welfare state: securing a minimum level of welfare for its citizens. All countries have their Arnos and Karls, individuals who game this support system, or whom this system fails. The larger the discrepancy between what they deserve and what they get, the bigger is the headline. However, Karl's story is not just about a homeless man who begs for work, and Arno's tale is not simply about a welfare scrounger who refuses to work. These are also stories about how welfare works.

Like any institution, welfare encourages and enforces some individual behaviors, and prohibits and punishes others. The very institutional features that rendered Karl's dreams of a job hopeless also account for Arno's success at avoiding work: Arno and Karl were in a maladjusted system that treated able-bodied recipients as if they could not, or should not, work. This book explores the causes of such mismatches, their effects on the relationship between society and the poor, and the ways in which governments correct course across very different welfare states: Denmark, France, Germany, Italy, Sweden, the United Kingdom, and the United States. It contributes to the comparative welfare states literature a framework that captures the substance of welfare state benefits, and applies this framework to welfare, analyzing a wide range of evidence, including caseload and unemployment statistics, public opinion surveys, legislation and policy documents, as well as interviews with policymakers and practitioners and local fieldwork in these countries.

This book proposes a moral economic theory of the welfare state as a system of reciprocity in which each benefit matches rights and responsibilities. Rights and responsibilities is highly politicized terrain that can be hard to navigate empirically. The welfare states literature rarely ventures into this area, focusing on the political economy of rights. However, the politicians who designed these benefits cared deeply about balancing rights and responsibilities in a fair manner, from public assistance to social insurance, from cradle to grave. These principles still capture the welfare state today. The mainstream welfare state benefits –social insurance against illness, unemployment, and old age– resemble savings accounts. Every claimant has already contributed. At the margins of the welfare state, where benefits for the poor are located, benefits are not financed by payroll contributions, but by general tax revenue.

Every claimant is to contribute in return for the benefit, except those who are unable. Because they resemble a debt to be repaid, these benefits are more vulnerable to (suspicions of) freeloading.

This is why it matters whether individuals like Arno and Karl are unable or unwilling. Most people would say that Arno is a “bad apple,” while Karl is a good one. Whether the cause of Arno’s need is *solely* his lack of motivation, and Karl’s situation is *entirely* caused by his temporary disability is perhaps a little less clear. What is certainly controversial is whether the tree is rotten: whether welfare recipients are more like Arno or more like Karl. This book does not ask which perspective is right. It asks whether societies *believe* that most welfare recipients are more like Arno or more like Karl – lazy freeloaders who should be punished, or victims of circumstances beyond their control who should be helped. This distinction is the key to the moral economy of welfare.

Welfare depends on how societies judge the deservingness of poor: how able and willing to work they are, and whether they should be supported. This judgment explains why welfare varies across nations, and how welfare changes over time. Societies relieve poverty with welfare when they perceive poverty as fate, and the poor as victims of societal injustice and bad luck. They correct and punish the poor with work and benefit sanctions when they view poverty as the fault of the poor themselves. These moral judgments shape welfare, from national policies to the local everyday adjudication of “just deserts.”

### **1.1 Poverty and public policy**

What should governments do to assist the poor? One argument is that poverty is no longer a real problem, so there is nothing left for governments to do. Indeed, the poor do become “wealthier” with economic development and the resulting increase in real incomes and changes in consumption patterns. If Arno Dübel travelled back in time to the 19<sup>th</sup> century, he would not wake up in a soft, warm bed in a single bedroom apartment financed by the welfare state, but on a hard, cold cot in the poorhouse.

Are today’s poor the spoiled offspring of an overly caring welfare state? Did economic development eradicate true poverty in the developed world? The answer from the Heritage Foundation and other conservative critics of the welfare state is a resounding “yes.” Poverty, they argue, is the “inability to provide a family with nutritious food, clothing, and reasonable shelter.”<sup>2</sup> Apart from the homeless and possibly a few exceptional cases of deprivation without homelessness, the poor are not truly poor. They have housing, clothing, nutrition, access to medical care, and enjoy “[c]onsumer items that were luxuries or significant purchases for the middle class a few decades ago,” including refrigerators, stoves, microwaves, air conditioning, TV’s and Play Stations.<sup>3</sup>

Indeed, an American living off his monthly disability check in a Kentucky trailer park is wealthy compared to an African surgeon.<sup>4</sup> But poverty and existential insecurity are not the same thing. A socio-economic minimum is not identical to the subsistence minimum. Societies have long made this distinction. Adam Smith defined poverty as the inability to afford “the necessaries of life,” which include “not only the commodities which are indispensably necessary for the support of life, but whatever the

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<sup>2</sup> (Rector and Sheffield 2011), 1.

<sup>3</sup> (Rector and Sheffield 2011), 2 ff. This is a longstanding argument in the US poverty debate; e.g., the Republican minority view on the 1964 Joint Economic Report points out that many poor households now had washing machines and televisions, and often even telephones and cars (e.g. U.S. Congress 1964: 46).

<sup>4</sup> (Economist 2005)

custom of the country renders it indecent for creditable people, even of the lowest order, to be without.”<sup>5</sup> Even though Romans and Greeks could live in luxury without having linen, an 18<sup>th</sup> century day laborer who could not afford a linen shirt was by definition poor, because appearing without one in public would be disgraceful and render him not creditable. The standards of what is a “necessary” also differ between societies: leather shoes are a necessary in England but not in France. In England, even “[t]he poorest credible person of either sex would be ashamed to appear in public without them,” but in France, the lowest rank appears publicly, “without any discredit,” barefoot or in wooden shoes.<sup>6</sup>

When the United States introduced an official poverty line in 1964, the Republican members of the Joint Economic Committee pointed out that “[a]s our standard of living rises, so does our idea of what is substandard. Although too many Americans remain poor, most of them are better off than the poor of earlier years and far better off than the poor in other countries.”<sup>7</sup> But they did not conclude that Johnson’s “war on poverty” was a battle against windmills. To the contrary. Poverty was “[t]he greatest domestic challenge before the Nation.”<sup>8</sup>

Yet, if poverty is by definition relative, then any war on poverty is an impossible mission. Jesus was right and Johnson was wrong when he declared “all-out war on poverty in America,” arguing that “[t]here will always be some Americans who are better off than others. But it need not follow that ‘the poor are always with us.’”<sup>9</sup> Democratic, capitalist societies can reduce poverty, but not eliminate it altogether, unless they define it away as the existential deprivation observable only in the developing world. Poverty policy is therefore not solely about eradicating poverty, but also about living with it.

Living with it requires regularly reconsidering the point at which living conditions are intolerably far below the standard, and updating the mechanisms that lift the poor above that point. Societies need to determine how and how much they give to the poor, and how and how much the poor are to give back. These decisions are not straightforward. Public policies addressing poverty pursue two desirable goals: providing welfare and promoting work.<sup>10</sup> Governments can promote the “welfare” objective by providing benefits and services, thus guaranteeing a social minimum for all. Doing so negatively affects “work” outcomes as freeloaders can take advantage of the “free lunch,” rather than “work for their own bread.” Governments can emphasize “work” instead, guaranteeing that there are no free riders, yet also accepting that those who do not earn their own bread will starve. Of course, these are ideal-typical extremes, not realistic choices. Yet, governments do navigate a trade-off between these poles: positive welfare outcomes promote negative work outcomes, and positive work outcomes promote negative

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<sup>5</sup> (Smith 2003 [1776]:1102f)

<sup>6</sup> (Smith 2003 [1776]:1103)

<sup>7</sup> (U.S. Congress 1964: 46). In the United States a family of five was considered poor when they lived on less than \$ 300 per year in the agricultural South, and \$ 460 per year in the industrial North (about 43% percent of the federal poverty line introduced in 1969). \*See Fisher, “From Hunter to Orshansky”, 1-2.

<sup>8</sup> ibd. 43

<sup>9</sup> \*(Wilson 2002:1; Galbraith 1960 (1958)). The standard measure of poverty is 50% of median income. Absolute poverty measures are also relative: how the basket of basic goods is composed depends on the consumption patterns in society at large.

<sup>10</sup> There are other objectives as well, such as regulating families, but these objectives fit under the umbrellas of welfare and work. For example, policies to encourage marriage aim to make families economically independent, relying on working parents (or one breadwinner) rather than the welfare state.

welfare outcomes. Finding the “sweet spot” that gets the best possible outcomes for both ends maximizes neither. But what is a bitter pill for government A may be a deadly poison for government B. Countries’ location on the welfare-work spectrum is a moral choice that is society-specific.

## **1.2 The variation over time: From welfare to work**

Tracing this choice from the postwar period to today’s postindustrial age reveals a universal trend from welfare to work. The system that young Arno and Karl encountered around 1980 institutionalized the provision of welfare, rather than pathways to work. Both men had a long welfare “career,” even though they could work. But when they were born in 1956, “welfare” made perfect sense. Postwar welfare policy adjusted to the changing face of poverty after the introduction of unemployment insurance lifted the able-bodied poor out of poor relief. Since the able-bodied poor were no longer on welfare, welfare did not need to promote work. Arno, Karl, and millions of other unemployed individuals rendered this approach outdated. Mass- and long-term unemployment eliminated the boundary between benefits for the unemployed and benefits for the poor, ending the “golden age” of the welfare state.

The welfare state emerged during industrialization and democratization in the 19<sup>th</sup> century, but its golden age came after the Second World War, when high growth and employment rates produced a “logic of industrialism” that allowed parties representing workers and the middle class to expand the welfare state: Social protection was generous because it was affordable.<sup>11</sup> It was affordable because working age people were working and contributing, claiming benefits only temporarily. For example, the U.S. government intended unemployment insurance to be “a method of safeguarding individuals against distress for a short period of time after they become unemployed.”<sup>12</sup> Policymakers across the Atlantic worked with the same assumption. As William Beveridge, one of the designers of the British welfare state, said in an address at Oxford in December 1942, his plan presumed that that unemployment would “involve, as a rule, only short interruptions of earning” and that “we can avoid mass-unemployment.”<sup>13</sup>

Things went according to plan for decades. But when the British Prime Minister Callaghan warned his Labour Party “comrades” in 1976 that “[t]he cozy world we were told would go on forever, where full employment would be guaranteed ... is gone,” Beveridge’s worst case scenario was unfolding. Callaghan warned that “we have not been creating wealth as fast as we have been distributing it” but was confident that “our full employment targets” were within reach.<sup>14</sup> By the early 1980s, however, OECD countries were stuck with skyrocketing unemployment and a steadily growing rate of long-term unemployment. This growing nonworking population depended on the welfare state, but the welfare state depended on the working population whose taxes financed the benefits it provided. As the contributors-to-claimants ratio dropped the welfare state was trapped in a growing cost crisis. At a 1982 OECD meeting, “[a]ll countries appeared to be well aware of the problems of balance they were facing between the fiscal side of government worries about costs and how to reduce growing spending, and social concerns about the impact of government programmes and services to people.”<sup>15</sup> Just as the logic

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<sup>11</sup> Wilensky (1975); Korpi (1983), Esping-Andersen (1985), Lindert (2004) .

<sup>12</sup> U.S. Social Security Board (1937), 5.

<sup>13</sup> Beveridge (1943), 98, 111.

<sup>14</sup> Callaghan (1976)

<sup>15</sup> OECD (1984), 4.

of industrialism had been doubly beneficial as it promoted both employment *and* social spending, the “logic of postindustrialism” was doubly destructive as it created structural unemployment *and* reduced welfare state revenue.

Governments’ initial take was that they had to choose between the rock and the hard place: cutting back taxes and the welfare state to avoid inflation and aid growth would hurt those worst affected by the unemployment crisis; keeping an expanding welfare state to support the unemployed and strengthen consumer demand would further undermine welfare state finances. Unsurprisingly, parties on the right went for the rock and parties on the left defended the hard place. The outcome was somewhere in the middle; even for governments with aggressive retrenchment agendas, such as the administrations of Reagan in the U.S., Thatcher in the UK, and Kohl in Germany. Both the radical retrenchment agendas of the right and the defensive and tax increasing reaction of the left were limited by electoral constraints, causing party political effects to become insignificant for most indicators of welfare state activity in the 1980s.<sup>16</sup> Yet, both approaches assumed that unemployment was a temporary phenomenon and a problem of low labor demand. However, long-term and structural unemployment were not problems of the quantity of labor demand, but the quality of labor supply: outdated and eroding skills and lack of work experience.

The participants at the 1982 OECD meeting understood this and surveyed the terrain for what European social democrats came to call the “Third Way:” targeting the unemployed themselves. They rejected public work creation as having a disappointing track record as a labor market policy as it would not reduce unemployment. Instead, they envisioned policies to transform the unemployed into more mobile, flexible, and skilled workers (OECD 1984, 34). However, “[m]ember countries’ experience in this area ... was found to be limited and, often, lacking in coherence” (OECD 1984, High Unemployment, 4). Experts were split on whether such policies would only increase expenditure further or integrate the unemployed into the labor market.

By the mid-1990s the “Third Way” was mapped. Governments moved “to end welfare as we know it” (Clinton), shifting emphasis from providing benefits for the unemployed to providing pathways into employment, and making sure the unemployed stay on the “right” path. They rejected “passively” supporting individuals and made benefits conditional on “actively” demonstrating willingness to work, participating in work-oriented programs, searching for work, and accepting job offers. If recipients fail to cooperate, the state can reduce or even terminate their benefit – work is an obligation, not an option.

Policymakers across the political spectrum were enthusiastic about welfare-to-work, especially once welfare caseloads declined. But it soon became clear that tight labor markets were essential and that those who got jobs were also the most employable. Thus, “as people have moved into employment and as the caseload has dramatically decreased, those remaining have become more challenging to serve” because of their “substantial barriers to employment” (House Committee on Ways and Means 2005:1).

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<sup>16</sup> See Huber/ Stephens (2001), 220, 321.

### ***Not working: Welfare-to-work and the least employable***

This population would not have been considered “challenging to serve” in the 1960s. The Taylorist mode of production, with its clearly structured hierarchies, repetitive work patterns, and lifelong job tenure provided a place even for the least resourceful. Several interviewees said that farms and factories used to require workers for very simple tasks, such as sweeping the hall. Industrial economies provided enough jobs for the least productive, as long as they were able-bodied and willing. But what they can do has little value now because it can be done automatically, or for less money abroad.

While unemployment today affects groups that never expected to become redundant, most can get jobs when unemployment is low. But to succeed, they often cannot be picky. Employers require a workforce that is educated, mobile, flexible, autonomous, creative, motivated, socially skilled and able to work in a team, and that is willing to retrain and able to quickly adapt to new skill requirements. Those who cannot check these boxes are always last in the cue for jobs. In the old days, they were employable; today their “barriers to employment” make them “challenging to serve.”

Consider another case from Germany, from the welfare office, not the newspaper – an average case that illustrates who did not make the passage to the new world of work. Jürgen was 43 years old when was laid off from the only job he had ever had, at *Chemische Kalk*, a producer of chemical substances and paint in Cologne where had had worked as a “production assistant.” After serving in the army, he spent 23 years stirring paint in big tubs and working in the depot. He had no High School diploma. He had never written an application. He had just lined up one day in 1980 at the factory gate, got hired, and had reliably done his job ever since. After the factory closed down in 2003, it was demolished and the *Köln Arcaden*, a shopping mall, was erected in its place (DE6). He wanted to work again but the new jobs at the location of his old job were unattainable for him, not because he was unable to work, but because he lacked the education, and the social and basic work skills to work in retail.

Jürgen also got drunk frequently. He and his friends often drank during lunch break, and they were not always sober when they started work in the morning. This had not been a big problem because their jobs were only physically demanding and did not require sobriety. Perhaps he was an alcoholic already when he became unemployed, but he certainly was one by the time of the interview in 2005. He oscillated between periods of high motivation and periods of disillusionment, depression, and drinking. But his overall trajectory was downhill; the longer he stayed on welfare, the less employable he became.

Low motivation, dishonesty, and noncompliance are common in this population. Arno may be exceptional and would make for good tabloid material anywhere, but his defiance is not unusual. For example, a social worker at a New York welfare-to-work provider recounted how one of his clients sabotaged her job interview at a Dunkin’ Donuts by stealing a doughnut in the middle of the interview and eating it right in front of the interviewer. Would this welfare recipient have gotten the job had she not eaten that doughnut? It is well possible, particularly in the United States with its large low wage sector. But would she have kept that job?

The hard-to-serve are not “just” unemployed. They face additional problems, such as lack of significant work history and education, lack of basic job skills, an unstable housing situation, substance abuse, and mental illness. If someone just has one of these problems, that person still has a good chance of being



employed and improving. When barriers occur in combination, they reinforce each other. The likelihood of finding (or even looking for) work is inversely related to the number of such barriers.<sup>17</sup> Even if these individuals find jobs, they are less likely to retain them than any other group.

### **1.2.1 Existing explanations: Welfare state decline and the rise of “rights and responsibilities”**

The standard explanation of welfare-to-work policies is welfare state retrenchment. The welfare state had flourished particularly well in countries with strong left governments, as reflected in high social spending and generous benefits. Because globalization, deindustrialization, and unemployment have increased the power of capital *vis a vis* labor, power resource theory implies that capital can successfully demand lower taxes and less social protection, resulting in welfare state retrenchment. Some scholars argue that retrenchment leads to a “convergence toward the liberal model of social welfare,”<sup>18</sup> while others maintain that cutbacks are much more pervasive in liberal welfare states, such as the Anglo-Saxon countries, and that left-wing governments delay welfare state retrenchment.<sup>19</sup> Regardless of whether retrenchment implies convergence, the “golden age” welfare state had taken care of the poor, but in the new “dark age” it expects the poor to take care of themselves.<sup>20</sup>

As governments expand individual responsibilities, and make individual rights conditional on the fulfillment of responsibilities, they cut back the social rights of citizenship. Requiring job search and work participation, and denying benefits to anyone who refuses to work, reflects a “by now deep-rooted conviction among most European and US policy makers that sanctions and compulsion are the most effective instruments for getting people off welfare and back into paid employment.”<sup>21</sup> Welfare-to-work significantly reduced caseloads, in particular during periods of low unemployment (see Chapter Five). Its success appears to confirm welfare state regress. However, classifying welfare-to-work as retrenchment is problematic. Whatever governments were cooking up, key ingredients for retrenchment were missing, and the outcome did not taste much like retrenchment either.

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<sup>17</sup> See for example Figure 2.2 in Office of the Deputy Prime Minister (2004), p. 71. Disadvantages considered in this study are: mental health condition, physical health condition, disability, low skill levels, substance misuse problems, lengthy spells without work, housing difficulties, family problems, cultural barriers (including intergenerational benefit receipt, and the discouragement effect in deprived areas), and criminal record. See also Danziger et. al. (2000).

<sup>18</sup> (quote: Schaffner Goldberg and Rosenthal 2002: 342; Clayton and Pontusson 1998; Taylor-Gooby 2002; Seeleib-Kaiser 2001; Gilbert 2002; Butterwegge 2001). #411; Breen, 1997 #412; Lødemel, 2001 #30: 19}.

<sup>19</sup> E.g. (Huber and Stephens 1999; Korpi 2003) (Korpi 2003; Allan and Scruggs 2004). Research on welfare-to-work that emphasizes variations includes

<sup>20</sup> As in the larger debate about welfare state/regime convergence *versus* path dependent adjustment, scholarship on welfare-to-work disagrees on this question (see for example the different views in Pascual 2004). Some scholars emphasize convergence towards a (neo)liberal model (e.g. Handler 2003, 2004; Mohr 2004; Peck 1998; Jessop 1994; King 1995; Gilbert and Parent 2004; Daguerre 2007; Lødemel and Trickey 2001) \*Peck 2001, Gray 2004\*, Peck and Theodore 2001\*. Martin 2004\*. \*Re-commodification of labor (e.g. van Berkel and Møller 2002; Pierson, 2002. Others maintain that countries’ approaches remain distinct {e.g. Bouget 2002; Barbier and Ludwig-Mayerhofer 2004; Engbersen et al. 1993; Kazepov and Sabatinelli 2001) \*Ludwig-Mayerhofer 2004\*, (Torfing 1999, 2001).

<sup>21</sup> (Daguerre 2007:151).

1. Social democrats and other parties on the left were the main force behind welfare state expansion, and they fiercely defended their accomplishments against conservative and economically liberal retrenchment attempts since the 1980s. For welfare-to-work to be retrenchment, social democrats should have opposed it, and defended the social rights they had fought for. Welfare-to-work should have been the achievements of conservative and economically liberal governments.<sup>22</sup> In fact, however, they often *initiated* such reforms. It was a Social Democratic Chancellor, Gerhard Schröder, who in 2001 declared that in Germany there was “no right to idleness.” And it was a Democratic President who set out to “end welfare as we know it” in the United States in 2003. This is not to say that there was no conflict. American Democrats and Republicans disagreed on many aspects of *how* to transform welfare into a work-oriented benefit, e.g. whether the government had to guarantee work for those who had exhausted their benefits but could not find jobs. Yet, they agreed on the basic principles, resulting in strong continuities between the Clinton, Bush, and Obama administrations. Such continuities can be observed elsewhere as well. Tony Blair’s “New Deals” expanded the approach begun by the Major government with Project Work and the Jobseeker’s Allowance system in Great Britain. The correctional and punitive elements in the British New Deals did not change much over time.<sup>23</sup> In Denmark, welfare-to-work began as a project of the Center-Right government in the early 1990s, but it was the Social Democrats who introduced the main reforms after 1993. When a Conservative-Liberal coalition came into power in 2001 advocating stronger work incentives, Danish trade unions supported these initiatives, including an emphasis on individual responsibility, and strict work tests for the recipients of unemployment insurance benefits.<sup>24</sup> French trade unions did not intervene either when the socialist Jospin government introduced welfare-to-work.<sup>25</sup> Welfare-to-work debates were often controversial. But these disagreements did not concern the work orientation itself. Rather, parties on the right tend to push for more compulsion and individual responsibility. Left wing parties are more likely to defend entitlements, to promote education and training, and to extend services. Yet, they agreed that welfare reform must emphasize work.
2. Another explanation is that social democrats lost their taste for equality and became neoliberals. Variations onset of welfare-to-work should then be attributable to external factors that are unrelated to party ideology and the power balance between parties, most importantly unemployment. Alternatively, it could also be that unemployment generates such strong fiscal pressures that politicians have no choice but to cut back. Yet, neither explanation is sufficient. For example, Huber and Stephens show that while countries with an early onset of very high

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<sup>22</sup> Welfare-to-work is not associated with social democratic weakness either. However, this is not in itself evidence against retrenchment, since starting in the 1980s electoral constraints have outweighed party political effects (Huber/Stephens\*). Nevertheless, party agendas should not have changed fundamentally. If welfare-to-work is retrenchment, social democrats should have opposed it.

<sup>23</sup> (Wright et al. 2004:522) (Daguerre 2007:22f, 58-71; King 1995; King and Wood 1999)

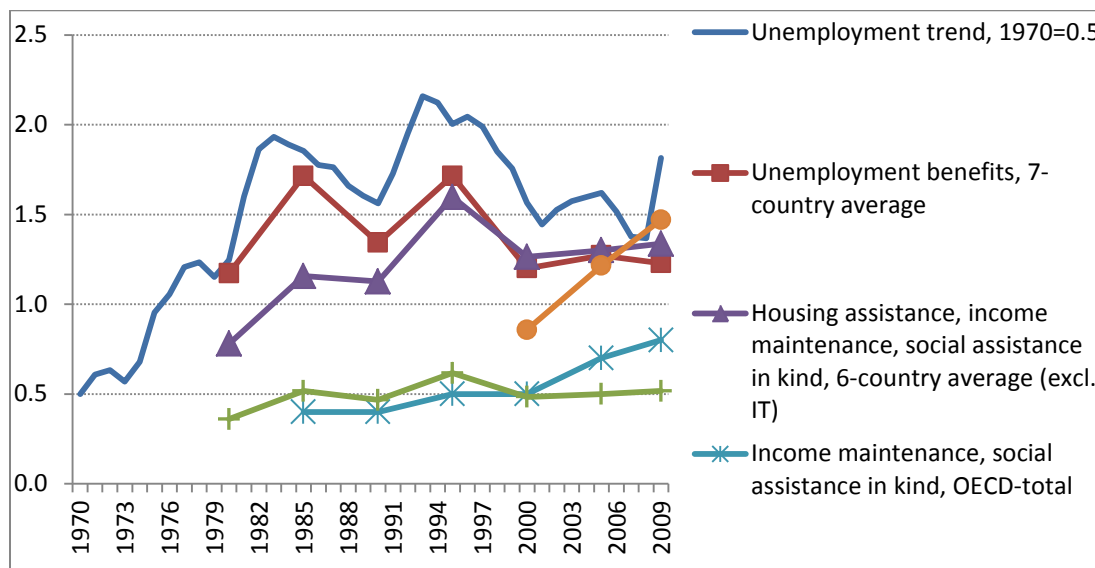
<sup>24</sup> The only suggestion the Danish unions opposed was topping up low wages with benefits, because that would have created a situation where people in activation programs competed with regular workers. Likewise, French unions also opposed cutbacks in unemployment insurance, old age insurance, and other mainstream entitlements, but they do generally not intervene in welfare reform. (Daguerre 2007:103).

<sup>25</sup> However, in France there is also general consensus on the importance of an unconditional social right to support that must not be transformed into a conditional benefit. (Daguerre 2007:106).

unemployment did indeed slow down or even reduce spending significantly. However, the United States and the United Kingdom do not fit this pattern, because these governments were motivated by ideology.<sup>26</sup> If accounting for these two important cases requires a different explanation than for continental Europe and Scandinavia, then neither neoliberalism nor unemployment convinces as an explanation. Furthermore, higher unemployment does not make countries more likely to promote welfare-to-work. Rather, as I show in Part II, countries adopted work oriented policies around the same time, and countries with higher unemployment are not more likely to adopt a stricter work orientation. France and Italy had the highest unemployment but the “softest” work objective, and the US and UK had the lowest unemployment rates but the “hardest” work approach. Yet, low unemployment does not necessarily imply such an approach: Sweden and Denmark often had lower unemployment than the US and the UK, yet a “softer” work focus (Table 1-1).

3. But the proof of the pudding is in government spending. Figure 1-1 and Figure 1-2 track public expenditure as proportion of GDP, and as per-capita spending. Not surprisingly, the cost of unemployment provision co-varies with the unemployment rate. After 1995, spending for unemployment, housing, and social assistance declined in the countries in this study. Yet, after 2000 expenditure increased across the OECD, and remained stable in the countries in this study. Furthermore, the cost of social assistance proper (income maintenance, social assistance in kind) did not change much in the countries studied, and across the OECD it increased – despite falling caseloads.<sup>27</sup> Finally, and most importantly, per capita spending increased steadily.<sup>28</sup>

**Figure 1-1: Spending as % GDP**

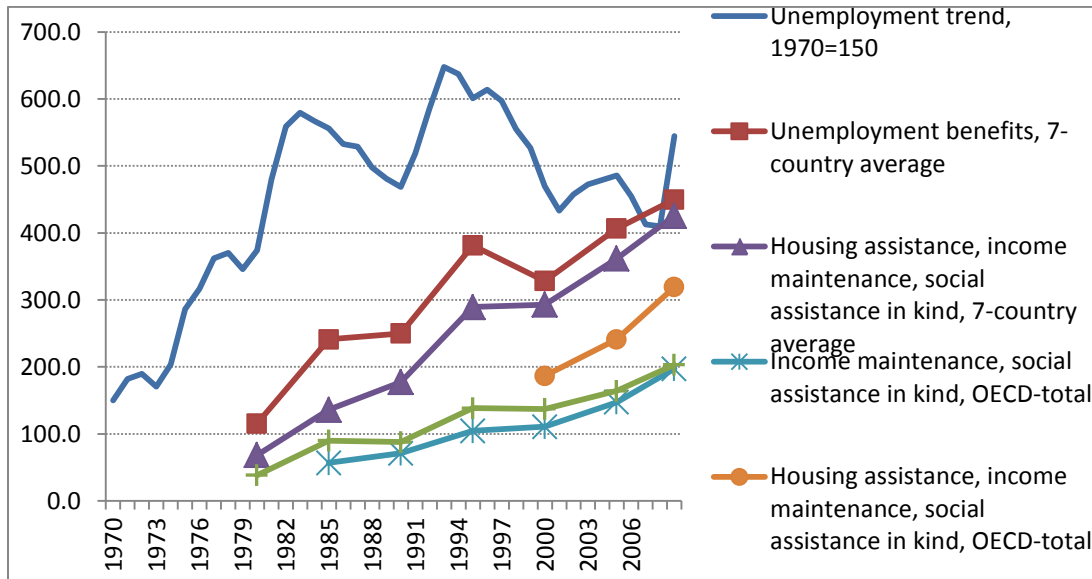


<sup>26</sup> See Huber/ Stephens (2001), 213-219.

<sup>27</sup> For caseload data, see Chapters Four and Five.

<sup>28</sup> For example, in the United States caseloads dropped massively after 1996, but federal funding did not decline. As the percentage of states’ spending for cash benefits declined, the percentage of spending for training and work-related services increased. \*Administration for Children and Families source.

**Figure 1-2: Spending per capita, current prices and PPPs, US dollars**



4. Institutional arguments propose a very different logic from the retrenchment account that implies persisting differences. Once created during a critical juncture, benefits become “immovable objects,” because they create an interest group in its own right: the current and future beneficiaries who have a vested interest in the existing system.<sup>29</sup> For example, current pensioners are a strong interest group, and future beneficiaries get invested in the existing system as soon as they start contributing. Since voters do not want to lose the insurance entitlements they have “earned,” they reproduce the existing institutional arrangement, even when partisan power balances shift.<sup>30</sup> Mass preferences thus “exert significant constraints on retrenchment pressures.”<sup>31</sup> Critics may denounce the “entitlement attitude” of welfare recipients, but there are no vested interests in welfare, as welfare is financed from general tax revenue, not payroll contributions. Because the poor have little electoral weight, welfare should be one of the few areas where retrenchment is feasible.
5. At the heart of the retrenchment argument is a particular concept of welfare state activity: passing out benefits. Retrenchment policies increase the “active/passive” ratio: they aim to reduce the number of “passive” individuals on benefits while increasing the number of “active” individuals in work. But welfare-to-work combines “active” contributing with “passive” claiming. It does so even for groups who are not expected to ever make the transition to employment. Welfare offices expanded their range of responsibilities from their traditional set-up as benefit agencies to also operate as job centers, providing job readiness programs, job search assistance, employer subsidies, mentoring programs, transportation grants, wage subsidies, transitional healthcare and childcare, work skills training, re-qualification, work habituation programs, social utility projects, literacy and numeracy classes, GED courses, as well as extensive social services, such as substance abuse

<sup>29</sup> (Pierson 1998). (Esping-Andersen 1996, 1999; Kuhnle 2000; Pierson 2001b; Castles 2004; Skocpol 1985, 1992; Orloff 1988; Pierson 1993, 2001c, 2001a; Thelen 2004; Hacker 2002).

<sup>30</sup> (Pierson 1998, 2000, 2001c).

<sup>31</sup> (Brooks and Manza 2007:99)

rehabilitation, health care, mental health services, life skills courses, and family support. By the early 2000s, welfare administrations were a whole lot more complex, ambitious, and active than in the 1980s. “Retrenchment” is not a fitting label for this transformation of the welfare state, and the new generation of “active” welfare state citizens it has produced.

6. That welfare-to-work “creamed off” the most employable and left the hardest to serve without adequate services can be viewed as retrenchment *par excellence*, because the most expensive group is least likely to get help. However, if policymakers are motivated by minimizing the cost of welfare and maximizing the number of welfare recipients who work it is implausible that they considered those left behind such a big problem and focused on this group even though the overall costs likely exceed the benefits. Welfare offices invest in the education, skills, and work experience even of clients whose employment prospects are vanishingly low. Consider the costs and benefits of the work habituation program for Arno: 500 Euros a month – much more than Arno’s cash benefit. Yet, Arno is unlikely to complete the program as an employable individual, let alone a working taxpayer.
7. Retrenchment should not be reversible. Yet, welfare-to-work became *less* work-oriented over time. Arno’s trajectory from immediate job search to long-term work habituation illustrates this development. This softening is not consistent with retrenchment.

The political origins, policy objectives and components, the administrative features, and the cost of welfare-to-work do not easily pass as retrenchment. There is more to the story than the effort “to end welfare.” Politicians seeking “to end welfare as we know it”<sup>32</sup> (Bill Clinton) were serious about the “as we know it.”

### 1.3 The cross-national variation: Between welfare and work

What then were policymakers thinking when they promised to end welfare as we know it? If they were driven by a hegemonic neoliberal ideology and inescapable fiscal pressures from unemployment and globalization, then policies should converge over time as benefits decline, services contract, eligibility rules become more restrictive, and sanctions for noncompliance with work, job search, and other requirements become more frequent and more severe. Yet, the variations within the welfare-to-work trend are significant and persistent. This is the second puzzle that motivates this book.

If Arno was to embark on a trip through the welfare administrations of the Western world, he would receive a warm welcome in some countries, but be entirely unwelcome in others. In Germany, Arno Dübel is officially classified as “hard to place in employment.”<sup>33</sup> The assignments he did not show up to were full-time programs that slowly “guide” participants “towards work.” The staff consists of social workers, social education workers, and motivational trainers who work closely with every individual to provide day structuring and teach basic work skills. If necessary, they will pick their clients up at their homes in the morning so as to help them learn to get up on time and develop a daily routine. Participants choose a work area, e.g. the wood and metal shops or household appliances repair. Arno selected home economics, which involved training in sewing, doing the laundry, and ironing.

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<sup>32</sup> \*Source (copy from ch. 4)

<sup>33</sup> <http://www.bild.de/themen/personen/arno-duebel/nachrichten-news-fotos-videos-15804516.bild.html>

In Denmark and Sweden, Arno would make the same experience as in Germany. He would get a combination of social and substance abuse services and socially useful work assignments, and he would be told that performing this work serves to socially activate him and that it was his duty to give something back to society. He would be punished for his refusal to work, but only if the caseworker is certain he is primarily unwilling to work. As a Danish interviewee explained, “it is held by most people in this country that it is an obligation for society to see that these people can make their living” being on welfare. “We don’t want to see them in the streets without having anything to live on” (DK21). However, this welfare guarantee does not mean that nothing is expected from the recipients. In the words of a policy expert at the Swedish Ministry of Social Affairs, work ensures reciprocity and is part of a process of “rehabilitation, which doesn’t get them into the ordinary labor market but that maybe gives them a better life” (SE16).

Coming to the United States would be a shock. There is no federal welfare benefit for people who are “just” poor and unemployed. If he was disabled, he could receive Supplemental Security Income. If he was a single parent, he could qualify for the main federal welfare benefit, Temporary Assistance to Needy Families. However, the benefit would have been terminated before he even reached the five-year lifetime limit because he evades work. Arno could qualify for Food Stamps, and he could have received state General Assistance at some point, but only as long as he meets the work requirements attached to benefit receipt, i.e. not very long. It would be impossible for Arno Dübel to be on welfare for 37 years. Arno would likely be homeless, and he would likely receive support from charities, and he would work at least a little to earn some money. The British system is very similar, with the exception that there is a universal welfare benefit and that Arno Dübel would initially qualify for welfare. However, his consistent noncompliance with work rules would have caused his case to be terminated.

Social workers in the United States and the United Kingdom would have no illusions about Arno’s barriers to employment, such as his alcoholism, absence of work experience, lack of a formal education or vocational skills, and his poor physical condition. However, they would say that his main problem is that he is lazy. Therefore, he would be expected to work. American and British policymakers, social workers, and administrators explained that they do not believe in just providing benefits, even if clients have significant barriers to employment. In the words of a policy expert at the American Administration for Children and Families, they refuse to “just give them money” and to “just feed them” because “you need to give them a chance” to work for their own welfare and to “be anything” they “want to” be (US14).<sup>34</sup> As an interviewee at the British Department for Work and Pensions explained, the goal is not to provide welfare but “to re-culture them in terms of the work ethos” (UK10). In both countries, the most likely integration policy would be job-focused training, such as motivation and CV prepping courses, and job placement services. Arno would be expected to pull himself together and start working. If he does not do so, i.e. “if the carrot doesn’t work, then you’ve got to use the stick. And if that doesn’t work, you shouldn’t be on welfare” (US12).

Arno would probably like it best in France. This is not because the French are gullible, as an American observer might perhaps think. The French are as realistic about individual motivation as the Americans

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<sup>34</sup> US 14 refers to interview # 14 in the United States. UK is for the United Kingdom; FR for France; IT for Italy; DE for Germany; DK for Denmark; SE for Sweden.

are about the job market prospects of people like Arno. However, the French have a fundamentally different interpretation of the problem. The French caseworker would document the same individual problems in the intake interview as the American caseworker. But while in the United States, these problems would be rooted in the individual, in France, they would be considered structural, as part of a process of social exclusion that hurts the least resourceful the most. When Arno loses motivation, it is because society has failed to insert him.

As an interviewee at the French Ministry of Social Affairs stated, the essential cause of poverty is not that the poor are not working and not trying hard enough. “The essential cause of poverty is the absence of sufficient resources” (FR4). “They are in great fragility. We must not let them down. We mustn’t break them. We have to help them in their everyday life, to keep a reasonably decent everyday life” (FR23). Policy makers and social workers believe that for people like Arno, “integration does not occur through work” (FR6). Italy is very similar to France and has copied key aspects of French welfare reform. Interviewees in both countries stressed that the “main objective” is “social integration, not occupational integration” (IT13). They provide a minimum income and social services and activities such as cooking groups, courses teaching basic life skills, and art projects.

These differences between countries’ approaches cannot be explained with differences in the characteristics of welfare recipients. Interviewees in all seven countries described a group of welfare recipients with severe and multiple, mutually reinforcing barriers to employment, including lack of basic skills, substance abuse, and mental health problems. Furthermore, interviewees from all seven countries would likely agree that Arno Dübel is not an upstanding but unlucky citizen, and they would concur that he is not disabled and entirely unable to work either. But there are strong contrasts in how societies support the least among them.

The United States and the United Kingdom truly mean employment for everyone except the disabled. *Work* is the means and ends of integration. France and Italy stress that providing a benefit of last resort should be more important than enforcing work, in particular when it comes to the most vulnerable. They pursue a *welfare* approach that emphasizes social insertion. Denmark, Sweden, and Germany believe in work for anyone who is physically capable. *Welfare-to-work* does not necessarily mean *welfare-to-employment*, though. Rather, it can be *workfare* – socially useful work in return for welfare.

Why does the paradigmatic change from welfare to work take so very different shapes? Given that the problems in countries’ welfare systems and the characteristics of the least employable are very similar across countries, why is it that certain solutions are self-evident to policy makers and practitioners in one country but not in another country? Why would French policymakers, social workers, and administrators criticize the United States’ refusal to grant a social minimum to Arno Dübel, while Americans would reply that the French are promoting dependency by not requiring work, whereas the Scandinavians would find the Americans intolerably harsh and the French intolerably permissive?

### **1.3.1 Existing explanations: Institutions and interests**

Arno’s expedition would not discover a new world of welfare. He would find that Gøsta Esping-Andersen’s map of the *Three Worlds of Welfare Capitalism* is quite reliable. With the exception of Germany, countries map onto the well established welfare regime typology, i.e. how social provision is

organized between state, market, and family.<sup>35</sup> Scandinavian welfare-to-work fits into the social democratic regime as it combines comprehensive work requirements with generous benefits. Germany groups with Sweden and Denmark. The United States and the United Kingdom's focus on "work first" is in line with the liberal regime. And France and Italy are conservative regimes that prioritize benefit and services provision. Unsurprisingly, these worlds of welfare capitalism overlap with the two *Varieties of Capitalism* identified by Peter Hall and David Soskice (1998). Liberal welfare states go together with liberal market economies, and conservative and social democratic welfare states combine with coordinated market economies. Furthermore, variations within the group of coordinated market economies map onto the conservative – social democratic divide.<sup>36</sup>

The *social democratic* regime provides maximum decommodification and promotes equality. It is universal and generous, and dominated by state provision (e.g. Scandinavia). The *liberal* regime provides minimal decommodification. It individualizes risk. Public provision is residual and means-tested, and social protection is dominated by market-driven solutions (e.g. the Anglo-Saxon countries). The *conservative* regime provides high decommodification but not equality. It is comprehensive but not universal. The welfare state has a corporatist structure, covering specific populations and aiming towards status maintenance of these populations, rather than the egalitarian approach of the social democratic regime (e.g. Continental Europe).<sup>37</sup>

Most comparative studies of welfare-to-work distinguish between an Anglo-Saxon and a Continental European/Scandinavian approach. While the former emphasizes individual motivation and punitive policy regulations to enforce work, the latter focuses on individual qualifications and providing decent work.<sup>38</sup> Thus, social democratic and conservative regimes both address poverty as a lack of skills that can be remedied with "active labor market policies." In contrast, liberal regimes approach poverty as individual choice, or a culture of poverty that respond best to carrots and sticks. France is sometimes classified as a separate approach, as it addresses poverty as multiple deprivation and thus emphasizes social integration.<sup>39</sup> This book also finds such a distinct third model in France, along with Italy.

Table 1-1 provides a more detailed picture of welfare's location within the three worlds of welfare capitalism, its institutional features, and the socio-economic context. Esping-Andersen's theory does not take social assistance into account, but its logic easily extends to "welfare" (social assistance). Because welfare is as a catch basin for those who are not "caught" by "upstream" social insurance, many of its features depend on how these upstream benefits operate. Thus, Table 1-1 shows some unsurprising institutional complementarities, but social assistance regimes and welfare (state) regimes are far from a

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<sup>35</sup> Esping-Andersen's original (1990) term was "welfare state regimes," which denotes the way in which social provision is distributed between state, market, and families. He later switched to the less statist "welfare regimes." (Esping-Andersen 1996, 1999).

<sup>36</sup> \*Include RP notes.

<sup>37</sup> (Esping-Andersen 1990) p. 30.

<sup>38</sup> \*Check, cut: Barbier: (Barbier 2001, 2000a, 2000b; Barbier and Ludwig-Mayerhofer 2004; Barbier and Théret 2001; Barbier and Fargion 2004), Gallie (\*2003), (Gallie and Paugam 2002), and Levitas (\*2005). (Morel 1998). (\*Handler 2004, \*Standing 2002).

<sup>39</sup> (see Barbier 2003, 2005 citations\*)(Morel 1998\*)



perfect match. Rows B and C that social assistance is residual in welfare states with comprehensive provision, and central in welfare states with residual provision.

Because social democratic regimes reduce inequality through universal and generous public provision, social assistance plays a residual role. Total public social expenditure is high, and only a small portion of it goes to social assistance (rows E and F). “Welfare” is more relevant in conservative welfare states, which spend almost as much as social democratic welfare states, but in a less egalitarian manner. As a result, conservative countries’ Gini coefficients and poverty rates are much higher (rows L and M). Means-tested benefits are therefore more relevant, as reflected in higher social assistance spending. Conservative regimes tend to operate multiple benefits targeting particular groups (e.g. single mothers in France, the elderly poor in Germany). The structure of the social assistance system thus reflects the occupationally fragmented structure of social insurance. France and Germany have dual safety nets that combine such targeted programs with a universal benefit of last resort. In contrast, Italy has a rudimentary system that is localized and ungenerous, and social insurance often extends a “helping hand” to groups without entitlements, e.g. the elderly and disabled. Italy’s lack of universal coverage is not in line with the conservative regime logic. The conservative world has a “Latin Rim” where welfare states are less developed.<sup>40</sup>

Liberal welfare states are residual. Relying on market-based insurance, they provide only modest flat-rate benefits to prevent poverty. Public social spending is low, and a significant percentage of it goes to provision for the poor. High inequality is to be expected in such a system. The extent of poverty depends on the generosity of public provision. Among the countries in this study, the UK spends the highest percentage of its GDP on social assistance. It also has the highest rate of welfare recipients in the population. Thus, it is a “social assistance state” *par excellence*, as “the poor rely on the state, and the remainder on the market.”<sup>41</sup> The United States is a less generous version of this model, and the only country where the key social assistance benefit is time-limited. Not surprisingly, poverty rates are highest in the two countries without universal coverage: Italy and the United States.

However, social assistance is not in fact residual in the social democratic welfare states. Sweden and Denmark’s welfare caseloads were larger than the United States’ in the years preceding the first major welfare-to-work reforms (row D). Between the 2004 Hartz-IV reforms in Germany and 2010, its caseload was just a percentage point below Britain’s.<sup>42</sup> Further comparisons confirm that there is no association between regime type and the size of the social assistance caseload.<sup>43</sup>

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<sup>40</sup> Italy spends less on means-tested benefits, and has more inequality and poverty than Germany and France. France is an “in-between” case that combines Latin Rim and Bismarckian features (Leibfried 1992). Spain, Portugal, and Greece are the strongest Latin Rim cases, as they are rudimentary welfare states without a right to social assistance (Leibfried 1992). Italy and Greece still today have no such benefit; Spain has regional provision\*; France introduced a minimum benefit in 1989, and Portugal in 1996 (Paugam 1993, 1999; Aust and Arriba 2005; Ferrera 1996, 2005; Saraceno 2002).

<sup>41</sup> (Esping-Andersen 1990:25)

<sup>42</sup> Between 2005 and 2010 Germany’s welfare caseload averaged 6.2% of the population; Britain’s 7.1%.

<sup>43</sup> In the 1970s, Sweden and the United States have the highest caseloads (5.3% and 4.9%), whereas Germany and Great Britain have small caseloads (1.5% and 1.9%). Around 1980, the reference year for Esping-Andersen’s regime typology, the variation in welfare caseloads looks like this (1979-1981): Denmark leads with 5.6%, followed by the US (4.7%), Sweden (4.2%), Great Britain (2.7%), and Germany (1.4%).

Comparing benefit generosity across countries (rows H and I) and over time (row J) raises further doubts about the explanatory value of Esping-Andersen's welfare state regimes for explaining the variation in social assistance/ "welfare" and welfare-to-work policy: The United Kingdom provides generous welfare benefits and benefits became more generous in between 2000 and 2005 (rows G-J). In contrast, benefit levels in the United States are very low and declined over the same time period. Denmark and Sweden vary considerably as well: Denmark is more generous in 2005, even though benefit levels increased twice as much in Sweden after 2000. Finally, the two conservative regimes for which data are available vary greatly: Germany's benefits are at Scandinavian levels, and increased massively after 2000. Yet, benefit levels are low in France, and declined more than in the United States.

**Table 1-1: Welfare state regimes and social assistance for the poor (“welfare”)**

	Denmark	Sweden	Germany	France	Italy	UK	USA
<b>A. Welfare-to-work approach</b>	<b>workfare</b>	<b>workfare</b>	<b>workfare</b>	<b>welfare</b>	<b>welfare</b>	<b>work</b>	<b>work</b>
<b>B. Welfare state regime<sup>1)</sup> and role of social assistance (SA)</b>	Social democratic: Universal, generous, egalitarian → low inequality → SA residual		Conservative: Universal but reflects class status → reproduces existing inequality → SA relevant for the poor and labor market outsiders			Liberal: Minimal and modest public provision → High inequality → SA central	
<b>C. Social assistance structure, coverage, and governance (Leibfried 1992, Gough 1997)<sup>2)</sup></b>	Residual, universal, national	Residual, universal, national	Dual: selective + universal, national	Dual: selective + universal, national	Rudimentary, local/ regional	Selective + universal, national	Selective national/ state, limited
<b>D. SA recipients, % of population, 1990-95<sup>12)</sup></b>	7.0	6.9	2.9	1.6	n/a	8.9	5.1
<b>E. All public social spending, % GDP</b>	27.1	29.4	26.7	29.2	25.0	21.3	15.9
<b>F. SA spending<sup>3)</sup></b>							
<i>% GDP</i>	1.0	0.6	1.5	1.9	0.7	2.7	1.2
<i>% public cash spending</i>	7.3	4.3	9.7	10.6	4.0	26.1	15.6
<b>G. SA benefit generosity<sup>4)</sup></b>	High	Moderate	Moderate	Low	Low/Varies	High	Very low
<b>H. Cash SA benefit, % median wage, 2005<sup>4)</sup> Avg.<sup>5)</sup></b>							
<i>Single person</i>	52	26	29	29	n/a <sup>9)</sup>	28	14
<i>Single parent, 2 children</i>	41	22	22	28		20	7
	49	25	33	29		34	19
<b>I. Cash SA + housing, % median wage, 2005<sup>4)</sup> Avg.<sup>5)</sup></b>							
<i>Single person</i>	61	50	50	38	n/a (Long-term unemployed: 45 / 56) <sup>6)</sup>	58	15
<i>Single parent, 2 children</i>	61	58	46	40		63	7
	59	45	53	38		58	22
<b>J. Percentage point change, cash SA benefit + housing, 2000-05, % poverty threshold<sup>13)5)</sup></b>	3.0	5.2	6.7	-1.7	n/a	10.2	-1.2
<b>K. Low-wage income, % median wage<sup>7)</sup> Avg.<sup>5)</sup></b>							
<i>Single person</i>	62	56	64	51	60	78	48
<i>Single parent, 2 children</i>	57	64	72	68	74	90	56
	60	61	62	47	55	81	48
<b>L. Gini coefficient, 2005<sup>8)</sup></b>	0.24	0.23	0.28	0.28	0.33	0.34	0.37
<b>M. Poverty rate, 1980s/'90s/2000s<sup>9)</sup></b>	6.0 / 4.7 / 5.3	3.3 / 3.7 / 5.3	6.3 / 8.5 / 11.0	7.6 / 6.9 / 6.5	10.3 / 14.2 / 11.4	6.2 / 9.8 / 8.3	17.9 / 16.7 / 17.1
<b>N. Unemployment '70-'05/ '75-'95/ '00-'05<sup>11)</sup></b>	6.2 / 7.9 / 4.8	4.4 / 3.6 / 6.0	6.0 / 5.7 / 9.1	8.2 / 8.5 / 9.0	8.7 / 9.3 / 8.9	6.7 / 8.3 / 4.9	6.2 / 6.9 / 5.2

1) Esping-Andersen 1990. “Welfare regime” and “welfare state regime” denote the same concept (see Footnote 35 above). 2) (Gough et al. 1997; Leibfried 1992; Heikkilä and Keskitalo 2001). 3) OECD 2009, Table 4.1. 4) Percentage of median wage. Benefits and Wages: OECD Indicators, my calculations. 5) Average for single person, married couple, single parent with 2 children, and married couple with 2 children. 6) Social insurance benefits cover some poor groups, e.g. the long-term unemployed (Ferrera 1996, 2005). Table provides net replacement rate for a long-term unemployed married couple. \*Calculate NRRs for some local rates: 232-269 EUR (ind.). 7) Full-time, low-wage employment income after taxes and transfers, as a percentage of median household incomes. Benefits and Wages: OECD Indicators. 8) Luxembourg Income Study. 9) Share of individuals or children living in households with income below half of household-size adjusted median income (incomes after taxes and transfers). Mid-decade values. OECD: Society at a Glance. Equality Indicators. 11) Unemployment as a percentage of the labor force, multi-year averages. OECD Labour Force Statistics. 12) Author’s caseloads database; OECD population statistics. 13) Net incomes of social assistance recipients (including housing benefit), in percent of poverty threshold (60% of median household equivalent disposable income). OECD: Benefits and Wages, 2007, Table 2.2.

At the face of it, it is not surprising that countries in the same world of welfare capitalism also have similar welfare-to-work policies, as welfare state institutions complement each other. Yet, applying Esping-Andersen's analytical criteria to social assistance reveals considerable within-regime variation, making it difficult to identify the links between welfare state regime and welfare-to-work approach. Thus, welfare-to-work cannot be explained within the logic of the larger welfare regime. It may be more useful to directly examine how the characteristics of social assistance and the labor market affect welfare-to-work policy. Table 1-1 lines up three potential explanations:

1. One of the usual suspects is benefit levels. Generous social assistance undermines work incentives, in particular in countries where high benefits combine with low net incomes in the low-wage sector – the most likely employment option for welfare recipients. To quantify benefit packages and in-work income after taxes and transfers, one needs to account for different types of households, such as single mothers, married couples, and singles, with and without children.<sup>44</sup> Table 1-1 shows that at the time of the fieldwork in 2005 Denmark had the largest “inactivity trap.” Yet, Denmark did not endorse a strict “work first” approach. Furthermore, the benefit levels in the two work-first countries differed starkly, with the United Kingdom being one of the most generous systems, and the United States the least generous case. Finally, similar benefit levels do not lead to similar concerns about enforcing work. For example, Denmark and the United Kingdom are equally generous, but not equally work-oriented. The country whose benefit levels are closest to the United States is France (though average local relief levels in Italy is probably closer to the US than France), yet France and Italy both reject the Anglo-Saxon approach.
2. Unemployment is a plausible explanation as well. Countries with low unemployment have good reasons to be more demanding towards the non-working poor, while high-unemployment countries may be unenthusiastic about moving welfare recipients into non-existent jobs. However, it is also possible that it is precisely countries facing high unemployment that invest most into active labor market policies, to improve the employability of the unemployed, incentivize employers to hire the long-term unemployed, and to create work options outside the labor market. Comparing unemployment over different time periods – between 1970 and the fieldwork in 2005, from the mid-1970s oil crises to the first major welfare-to-work reforms in the mid-1990s, and the five years preceding the fieldwork – reveals no pattern, with the exception of Italy and France's consistently high rates. This could suggest that Italy and France are the least work-oriented because they have no work. However, Britain's unemployment exceeded France's between 1975 and 1995, and after 2000 Germany's rate was the highest, without affecting their welfare-to-work approaches.<sup>45</sup> Furthermore, Sweden, Denmark, and Germany's unemployment rates differ considerably, even though their welfare-to-work policies do not.
3. Another possible cause is welfare spending. Countries where social assistance takes up a higher percentage of GDP, and/or where a significant portion of public transfers go to the poor could be more likely to endorse a “work-first” approach. This is indeed the case in the United Kingdom and the United States. However, France and Germany both spend more than the United States, and

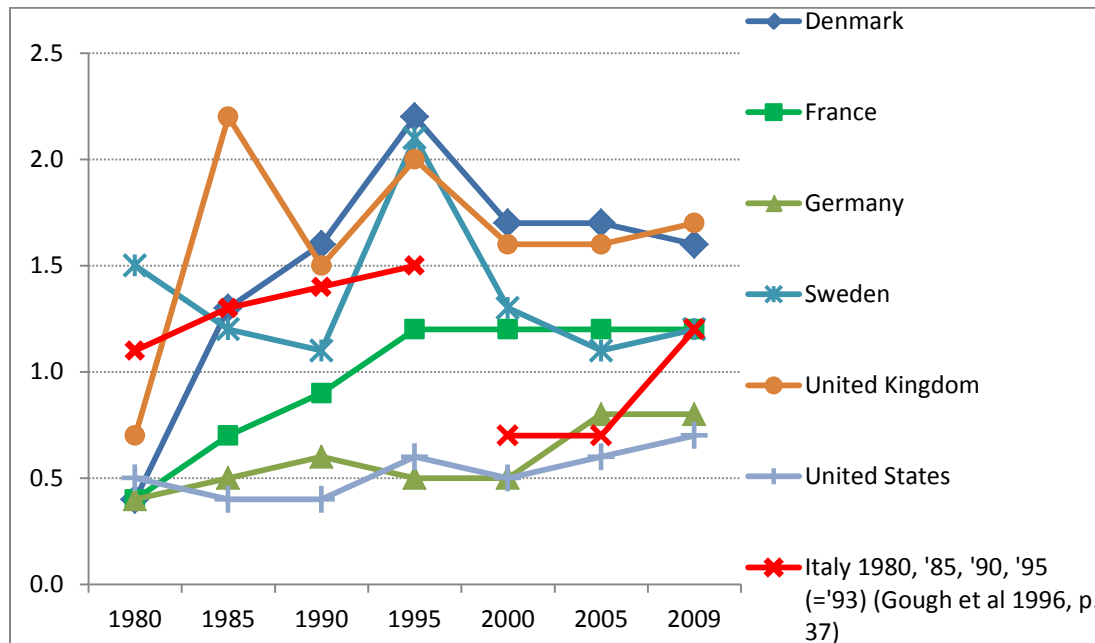
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<sup>44</sup> Many means-tested benefits are not tied to employment status; thus, both welfare recipients and low-wage workers can receive them, e.g. the American Food Stamps program, and most countries' housing benefits.

<sup>45</sup> Chapter Five provides a more detailed analysis of unemployment rates and welfare-to-work policies.

devote a high share of public spending to the poor. Yet, France and the United States are at opposite ends of the policy spectrum. Policies could also vary depending on how much spending increased. Countries facing larger expenditure increases could decide to apply more pressure the able-bodied poor to get off welfare. Figure 1-3 compares social assistance spending over time.<sup>46</sup> Neither the level nor the rate of increase in welfare spending corresponds with the welfare-to-work approach.

**Figure 1-3: Social assistance spending, % GDP**



Stepping back further, one can also examine the factors that shape the welfare state, most importantly the strength of the labor movement, left-wing parties, and the alliances they forge, political institutions and electoral rules, vested interests, trade openness, and race, ethnic heterogeneity, and immigration.<sup>47</sup> Yet, these factors do not account for how welfare states address the poor:

4. The absence of left-right conflict about welfare-to-work rules out the single most important explanation: the power resources of the left.<sup>48</sup> It also eliminates electoral rules, because similar party positions render voters' positions less relevant.<sup>49</sup> Furthermore, the non-working poor lack representation, as they are not a significant electoral group, and have no record of successful political mobilization. While non-governmental organizations and the churches are often very active welfare reform, they do not represent the poor; they advocate *for* them.
5. Retrenchment turned out to be harder than "pioneers" like Reagan, Thatcher, and Kohl expected because they were constrained by vested interests in the existing benefits. As argued above, this argument is plausible for benefits that cover large portions of the population, but not for residual benefits such as welfare. Nevertheless, this argument could potentially account for the cross-

<sup>46</sup> \* Italy note... \*Redo all with "other". Calculate % of means-tested from absolute values in OECD country files.

<sup>47</sup> See Chapter Two\*

<sup>48</sup> (Baldwin 1990; Esping-Andersen 1985, 1990; Korpi 1983, 2003, 2006; Huber et al. 1993; Huber and Stephens 2001; Wilensky 1981)

<sup>49</sup> (Iversen and Soskice 2006; Cusack et al. 2007)

national differences. Some welfare-to-work policies, such as time limits on benefits and/or services, benefit cuts, and sanctions for noncompliance, should be harder to adopt in countries with a larger share of welfare recipients in the population. Yet, this is not the case. Table 1-1 includes welfare caseloads as a percentage of the population over the five years preceding the caseload declines starting in 1996. It shows that countries with higher welfare rates are not less likely to transform their welfare systems into work oriented benefits.

6. Ethnic and racial heterogeneity is not a strong explanation of welfare-to-work either. It is an important factor, especially in the United States. Immigration had a similar effect in Europe and the United States.<sup>50</sup> However, rather than cutting back welfare benefits, countries tend to tighten immigration laws, deny immigrants benefits, and create separate, less generous public assistance for them.<sup>51</sup> Thus, rather than reducing citizens' social rights, governments did not extend them to those without citizenship. Furthermore, voters are concerned that immigrants take away their jobs and push down wages. Thus, ethnic heterogeneity is not a plausible explanation of a policy that integrates individuals into the labor market.<sup>52</sup>

We know very little about why welfare regimes approach poverty, welfare, and work so differently. This book aims to be a systematic investigation into the causes and mechanisms that account for the transformations of welfare policy over time, such as the rise of welfare-to-work, and the variations of welfare policy between countries, including the differences between welfare-to-work policies.

### 1.3.2 Explaining the cross-national variation

The vested interests mechanism implies that welfare-to-work should be most difficult to implement in countries with a universal welfare benefit that covers everyone who meets the eligibility requirements. In countries without a universal benefit welfare-to-work should be easy to introduce. Therefore, Italy, France, and the United States should have passed the most far reaching welfare-to-work policies. At the onset of welfare-to-work in the late 1980s and early 1990s, these countries had fragmented public assistance systems that catered to particular groups of the poor without covering everyone. In contrast, welfare-to-work should have encountered more resistance in the United Kingdom, Sweden, Denmark, and Germany since all of these countries had a universal benefit.

However, welfare-to-work is as strong in Scandinavia and Germany as it is in the United States. The differences lie in the *content* of the policy, and they are unrelated to the level of universalism. In Scandinavia and Germany the state invests in welfare recipients to improve their employability, coupled with strong conditionality, expecting welfare recipients to cooperate. In the United Kingdom and the United States, pressure to quickly obtain employment trumps other policy objectives. In the French and the Italian cases the argument is completely implausible. Like in the United States, there was no

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<sup>50</sup> (e.g. Gilens 1999) (Lee et al. 2006; Alesina and Glaeser 2004).

<sup>51</sup> The United States excluded immigrants from welfare and Medicaid in 1996. List examples, e.g. starthjaelp DK...\*

<sup>52</sup> In the interviews conducted for this study, immigration was not cited as a cause of welfare-to-work. Immigration came up in one interview with a local administrator in Sweden in a city with a relatively high share of African immigrants. He said that most Swedes have a strong work ethic and want to return to work, whereas once most Africans realized that they could survive without working, they chose not working. The interviewee then talked about how cultural differences between immigrants and Swedish society undermine how the welfare state operates. Overall, immigration was not a prominent topic in the interviews.

universal welfare benefit by the late 1980s, only local emergency assistance benefits. But in contrast to the United States, these countries' governments introduced national welfare initiatives at a time when the argument would predict that they could have easily cut back the system – just like the US did it.

Vested interests arguments do not capture welfare reform simply because there are no vested interests in welfare. Critics of welfare provision often denounce the “entitlement attitude” of welfare recipients, but welfare recipients are not an electorally significant group anywhere. Even if they did feel entitled and even if they did vote, this would be inconsequential. It is their lack of power and political representation that characterizes the poor. They have been at the mercy of more powerful groups since the very beginnings of social provision. Early modern poor relief and modern welfare essentially continued the benefactor-beneficiary relationship characteristic for medieval almsgiving. Beneficiaries were dependent on the benefactors, and they were to accept whatever the benefactor decided to give, rather than to demand more.

The degree of ethnic and racial homogeneity is not a strong explanation of these variations. This explanation accounts particularly well for the American case where the perception that African Americans disproportionately benefit from welfare undermines provision for the poor (e.g. Gilens 1999). A similar effect can be observed with immigration to Europe and the United States, which has caused these societies to become more diverse. Yet, rather than cutting back the welfare program, European countries have dealt with the increase in ethnic heterogeneity mostly by tightening immigration laws, denying welfare benefits to immigrants, and creating separate, less generous public assistance benefits for immigrants without citizenship status. The United States did the same thing with the 1996 welfare reform, which excluded immigrants from welfare and Medicaid.<sup>53</sup> Thus, they responded by excluding immigrants from welfare, not by cutting back welfare for everyone. Another reason why it is unlikely that the variation in welfare-to-work results from ethnic heterogeneity is that in both Europe and the United States, voters are concerned about immigrants taking jobs away from citizens, especially since they are often willing to work for far lower wages than citizens. This argument therefore cannot explain a policy that seeks to integrate individuals into the labor market.<sup>54</sup>

Trade openness does not account for welfare either, since economic volatility in small open economies primarily affects workers. But workers do not receive welfare if they are laid off as a result of an external shock. They have unemployment benefits. Nor are smaller, more open economies less likely to introduce policies that make it harder to receive benefits, such as welfare-to-work. To the contrary, the Scandinavian countries have pioneered the welfare-to-work approach in Europe. Finally, as Europe is becoming economically more integrated, European welfare benefit levels should have decreased, but

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<sup>53</sup> Check details\*

<sup>54</sup> In the interviews conducted for this study, immigration was not cited as a cause of welfare-to-work. Immigration came up in one interview with a local administrator in Sweden in a city with a relatively high share of African immigrants. He said that most Swedes have a strong work ethic and want to return to work, whereas once most Africans realized that they could survive without working, they chose not working. The interviewee then talked about how cultural differences between immigrants and Swedish society undermine how the welfare state operates. Overall, immigration was not a prominent topic in the interviews.

this is not happening. In fact, benefits have been increasing, adjusting at least for inflation and keeping net replacement rates relatively stable.<sup>55</sup>

### ***Towards a more comprehensive explanation: How countries see each other***

There is something that these explanations do not capture that also accounts for why policymakers from different countries sometimes just don't get each other. The policy experts and politicians interviewed for this study were well informed about US welfare reform. Some of them had even travelled to the United States, mostly to study *Wisconsin Works*, the American flagship welfare-to-work program. They all learned a lot, but not always what their hosts would have liked them to learn. British visitors were "good" students. They were impressed by the program's success in reducing caseloads and moving welfare recipients into employment. But visitors from Scandinavia and Germany were alienated (US26, US20, UK12). For them, the trip was a lesson in how to *not* do welfare reform.

Only British interviewees spoke of "copying the Americans" (UK1). Interviewees elsewhere concluded that "there's a big difference between European welfare systems and the American welfare system" (IT1), and that "obviously, we are more of a social state than the England and America" (DE15).

It is hardly surprising that countries are most likely to notice the negative effects of approaches that are unlike their own. Granted, a German interviewee conceded, no welfare policy is perfect and "every society (...) has to deal with the negative effects" of its approach. But "one can see" the negative effects of the work first approach "very well in America" (DE10).

Danish government experts had also travelled to the United States where they studied a profiling tool to predict the employment chances of individual welfare recipients (DK2, DK 10). They were about to integrate this tool in the Danish system, but without changing anything substantively. Their purpose was not to minimize the time it would take to move beneficiaries into employment, but to provide better, more individualized training, job matching, and services, and to remove the hardest to serve from the employment program track. At a meeting with three high ranking civil servants in the Ministry of Social Affairs, one interviewee dismissed the possibility of substantive policy transfer, arguing that "it wouldn't work here" because this is "not the way we do it in Denmark, Sweden and Norway" while his colleagues nodded in approval (DK10). A few months later, across the Nordic Sea, two experts in the British Department for Work and Pensions dismissed Scandinavian policy with the same argument the Scandinavians had used to dismiss American policy:

"I1: I don't think we've ever seen anything and said, 'That's it. That's the way we ought to do it.' If we had an entirely joined up state-driven approach, I'm sure we would be doing what the Scandinavians do, particularly the Swedes, but we just don't have that kind of...

I2: ... and we, culturally we aren't going to. (...) They just do a much more social welfare kind of model than ours, I think." (UK21)

Variations of this "cultural" explanation came up in many of the interviews – a way of doing things that was anchored in strong moral notions of what was the right response to poverty. The approach advanced in this book adds a moral economic dimension to political economic explanations of welfare

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<sup>55</sup> Cite OECD Benefits and Wages\*



state policies. This framework goes beyond studies of public opinion and welfare state policies that show a correspondence between institutions and public opinion, e.g. between the “social welfare kind of model” and Scandinavian preferences for equality.<sup>56</sup> Rather, it allows for a more specific argument that traces how perceptions of the poor shape poverty policy.

#### 1.4 Deservingness and the moral economy of welfare

The political economy of the welfare state emphasizes the “democratic class struggle”<sup>57</sup> about redistribution. The moral economy approach expands on this concept of welfare state activity: redistribution is part of a system of reciprocity. It includes not only *rights*, but also the *responsibilities* that are attached to these rights. Chapter Two and Three develop this concept, which complements the class conflict paradigm with an account of cross-class cooperation and reciprocal sharing.<sup>58</sup> Every welfare state benefit is a moral economy because it institutionalizes particular rules governing when, how, and how much individuals must contribute to provide for those affected by a specific social risk, and when, how, and how much they can claim when they are themselves affected by this social risk. There are two basic forms of this social contract: social insurance and public assistance. Both institutionalize exchanges with long time horizons, and both are administered or regulated by the state who ascertains that those who are giving now will later get what is due to them. But the timing and type of contributions and claims differ, as well as the standards of equivalency between contributions and claims.

The mainstream social protection benefits are a form of mutual help among groups who *share* the standard social risks: unemployment, illness, disability, and old age. All participating individuals hold *both* the responsibility to contribute, and the right to claim. Current contributors are past and/or potential future claimants, current claimants are past contributors, and –except in old age and disability insurance– potential future contributors.<sup>59</sup> In social insurance, individuals have to “earn” their rights. To receive benefits from unemployment, health, and old age insurance, one must first have worked and contributed for a minimum time period. The required contributions and the level of benefits are based on standardized algorithms that apply to everyone within a group.

At the margins of the welfare state are social/public assistance benefits for the poor (aka “welfare”). They connect societal groups that have little in common. Extreme poverty at the income levels that qualify for welfare is not a risk to most of the taxpayers who finance public assistance benefits, nor are they at a high risk of long-term unemployment. Because they are means-tested and financed from general tax revenue, these benefits are the most redistributive part of the welfare state. They are not conditional on advance contributions. Anyone in need can receive welfare in a universal system (anyone who is in the target group in a selective system).<sup>60</sup> Welfare state scholars have long observed the lower

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<sup>56</sup> \* Cite Svallfors, Manza, Oorschot

<sup>57</sup> (Korpi 1983)

<sup>58</sup> \*cites – bowles/gintis etc

<sup>59</sup> As Chapter Three shows, there exist many variations in how “social” these insurance systems are, but they all redistribute both between *and* within socio-economic groups.

<sup>60</sup> Like other public assistance programs, welfare is residual, i.e. it provides for those marginal and/or newly emerging risk cases that do not qualify for any of the standard social protection benefits, and only if no other sources of income are available.

status of the recipients of such benefits: because they have not “earned” their benefits, they are “pitied but not entitled.”<sup>61</sup> Yet, means-tested benefits are not unconditional. To remain eligible, recipients have to meet the expectations of the society that provides for them, in particular in welfare, the benefit for the working-age poor. Thus, the welfare claim is not founded on a contribution record but on a contribution promise. It is a debt that must be repaid.

But how much do welfare recipients owe? Rather than a universal algorithm such as a payroll tax, it is individual ability that determines whether and when beneficiaries have to contribute, and in what ways.<sup>62</sup> Those who are fully employable are expected to join the workforce and pay taxes, and thus must search for work, accept jobs, and stay employed. Less employable individuals are expected to become employable. Even the unable have to do something in return, though their responsibilities are the least demanding. Welfare administrations thus choose from a wide range of individual behavioral requirements and progress benchmarks, including for example sending out a certain number of job applications, completing a motivation or a financial and life skills course, attending a CV-prepping class, participating in a social utility work project, getting a vocational training certificate, achieving good test results in literacy and numeracy classes, complying with substance abuse programs, cooperating with family social services, going to tests and therapies, and showing up to appointments and disclosing the required personal financial, health, and family information.

The moral economy of welfare is a social contract that obliges citizens to contribute taxes to finance the claims of the poor, and that obliges the claimants to contribute in the future, while and after receiving benefits. The standards for what counts as a contribution can be very low, but only for the least able. What matters is not the economic value of a contribution but the moral value of contributing according to one’s ability.

#### **1.4.1 Two vulnerabilities: Mismatched responsibilities and misbehaving freeloaders**

Welfare has two Achilles’ heels. Its first vulnerability is institutional inflexibility and inaccuracy, which can cause an institutional failure to properly match the responsibilities to the abilities of welfare recipients. The second one is individual freeloaders who “default” on their debt. Both can make welfare appear to be a “free lunch.”

Reciprocity requires responsiveness. Welfare must adapt to changes in the profile of its caseload, dialing up the work focus when welfare recipients are more able, and toning it down when they are less able. However, institutions are better at continuity than change. In the broadest sense, institutions are practiced rules. Regardless of whether these rules are the informal rules of customs, traditions, and relationships, or the formal rules of law, organizations, and administrations, they determine how something is routinely done.<sup>63</sup> Institutions are by definition inflexible. Because it matches individual responsibilities to abilities, welfare is vulnerable to changes in the characteristics of the individuals who receive welfare, and of the institutional environment that affect who joins welfare and who can leave

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<sup>61</sup> (Gordon 1994), p.\*

<sup>62</sup> Social insurance contributions also follow the principle “from each according to his ability” – they are a percentage of one’s wages. But in contrast to public assistance, determining ability is done by the labor market, not the state (see Chapter Three).

<sup>63</sup> \*Cites

welfare for work or another source of income, e.g. marriage. When the institutional rules fail to adequately reflect the abilities and opportunities of individual recipients, recipients do not contribute according to their abilities. Welfare becomes either overly demanding, or “something for nothing” (or not enough). In the latter case, even those who want to do their share will look like freeloaders.

Matching responsibilities to abilities also requires an evaluation mechanism that accurately identifies individual levels of ability. Welfare also has to reliably reciprocate individual refusal to cooperate with institutional refusal to pay the (full) benefit, and reverse the decision when individual behavior changes for the better. Thus, it has to accurately determine whether a noncompliant individual is unable or unwilling, or which combination of the two. Since individual cases tend to be more complex than institutional rules, the classification system and the criteria for evaluating individual ability, motivation, potential, and behavior can result in inaccurate evaluations and thus contracts that are unfair either to either the individual or society. As a result, welfare may punish individuals who actually needed support, or spoil individuals who actually needed a push.

Whenever a major incompatibility between institutional rules and individual realities emerges, welfare becomes an easy target from any political position: Critics on the right can cite those whom welfare failed to punish, while critics on the left can refer to those whom welfare failed to support. While the leftist critique implies a call for more generous welfare provision, the rightist critique can justify the contraction or elimination of welfare.

Welfare’s second weak spot is the exposure of a needs- and ability-based system to freeloading. In a society where everyone carries their weight, the welfare claim depends on need, and the contribution on ability. Recipients act in good faith and intend to repay their “debt” to society. This ideal society would trust Arno to contribute as much as he could, and assume that if he did not contribute anything he was unable to do so. In the real world, freeloaders can potentially exploit this trust. Arno did so in a particularly disrespectful manner, as did several high profile tax defaulters with who shared the headlines with Arno. People do not always contribute according to their ability, and often seek to maximize the amount they get and minimize the amount they give. This can be a desirable feature in market economies but not in welfare states. It is particularly undesirable in welfare.

Arno’s story illustrates the moral damage that (perceived) freeloaders can do to welfare. *Bild* readers were outraged after Arno obtained a sick note with his self-induced vomiting: “This really *does* make me vomit, what these scroungers do with the taxpayer’s money,” one wrote. Another reader felt that “Arno Dübél disrespects all Germans.” A third one was “mad as hell” as her daughter was a single mother of three who went to work every day “never received a single cent from the state.” But they did not simply view Arno as an unethical individual; they also saw a dysfunctional institution that is unfair towards taxpayers who “had no idea that this was possible in our country.” They blamed the individual as much as the institution: “What in the world are the caseworkers doing with this Mr. Dübél? Have they been sleeping for 36 years? Is no one monitoring him?”

Rarely are individual instances of welfare freeloading a significant drain on common pools. They can nevertheless fundamentally question the institution as a whole, suggesting that it is a free lunch. When the state appears to be an incompetent pool attendant, taxpayers become unwilling to pump money into a badly guarded common pool. Consider Ronald Reagan’s 1976 campaign in which he crowned a 47-

year-old Chicago woman “welfare queen.” This woman had “80 names, 30 addresses, 12 Social Security cards and is collecting veterans’ benefits on four nonexistent deceased husbands. And she’s collecting Social Security on her cards. She’s got Medicaid, getting [sic] food stamps, and she is collecting welfare under each of her names.”<sup>64</sup> She in fact only had four aliases, but it is the existence of fraud that matters most, not its extent. Any time there is cheating that goes undiscovered and/or unpunished, the moral economy is damaged. The problem is not the cost of individual cheaters to the community. Rather, successful cheating suggests that the system is easy to game.

#### **1.4.2 The moral judgment of poverty and the mutual obligations between society and the poor**

There is no perfect shield for these vulnerabilities. All that can be done within the constraints of a public assistance system is constant monitoring, repairing, and re-calibrating. How societies do this depends on how they evaluate the deservingness of the poor. The term “deservingness” is old, but not outdated.<sup>65</sup> It has a normative connotation, but that does not make it unsuitable for empirical analysis. Deservingness mattered to 19<sup>th</sup> century poor law in very similar ways as it matters for modern welfare. Using this terminology empirically does not imply a political statement about the worthiness of the poor. Rather, it helps categorize arguments about the poor across the political spectrum.

Deservingness is the societal judgment of the causes of poverty that determines what is due to the poor. Its key components are ability and willingness to work. The less able the poor are considered to be, the more deserving they are. Conversely, if they are less willing, they are also less deserving. Those who are able yet unwilling are therefore undeserving of support, whereas the unable yet willing are most deserving. Thus, deservingness judgments are located along a spectrum between poverty as a result of individual failure (able but unwilling) and poverty as a result of causes beyond the control of the individual (willing but unable). This “trial” occurs in the “court” of public opinion, parliaments, and the media. The “sentence” determines whether the individual must work, or whether society must provide welfare, or a combination of the two.

If the poor are found “guilty” of poverty, their need is their own fault. Because they are able yet unwilling, they deserve to be punished and corrected. If society views the poor as able but not trying hard enough, it emphasizes individual responsibility, expecting the poor to declare and demonstrate their willingness to work, and sanctioning those who do not meet these requirements. Welfare is to support the undeserving only temporarily, if at all. Extenuating circumstances imply a softer punishment, and more support. For example, those who are unwilling but also have a disability do not deserve as severe a punishment as those who are just unwilling, and those who are lazy and commit welfare fraud deserve a tougher sentence still.

If the poor are found “not guilty,” they are victims who deserve compassion. A “societal injustice” judgment renders the poor the most deserving of societal support; because it is society that caused their poverty in the first place, society must compensate them for their pain and suffering. A “bad luck”

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<sup>64</sup> (New York Times 1976)

<sup>65</sup> There is a rich sociological literature on deservingness and provision for the poor in the United States (see for example Goodin 1985; Gans 1995)\*More. Public opinion: van Oorschot\*

judgment is weaker because it does not clearly assign fault. If poverty is the result of bad luck there may still be societal injustice and the poor are the unlucky who suffer from it. A “poverty is inevitable” judgment evades both assigning fault and victimhood. Its vagueness is compatible with universal acquittal, various degrees of joint guilt, and with one side being (more) at fault. At the individual level, poverty is inevitable when it is the result of innate characteristics or circumstances and processes beyond the individual’s control, but it can also be inevitable because some people will always deviate from societal norms. At the societal level, poverty can be the “inevitable” second order effect of decisions that are more important for societal reproduction, or poverty and social exclusion can persist despite societal efforts to combat it.

### ***Just deserts: Arno had it coming; Karl deserves better***

Karl and Arno illustrate the distinction and its consequences. Karl appears to be deserving. The welfare system is to blame, for causing him to fail, and then letting him fall through the cracks. He just needs help. In contrast, most people’s gut reaction to Arno is that he is an undeserving scrounger. By publicly declaring his unwillingness to do something in return for his benefits and committing fraud in front of the TV cameras, he broke the welfare contract and mocked everyone who cooperated with it, from working taxpayers to welfare recipients willing to work.

*Bild* readers responded not by demanding that welfare be abolished, but rather that Arno be punished: “I just want to hire a lawyer so that this scrounger will never again get a single cent.” Sleeping under the bridges for a few freezing nights would surely make him reconsider whether he would rather “work warm” or “sleep cold.” They called for an institutional response to an individual freeloader. Arno did indeed get his “comeuppance.” The caseworker reduced the cash portion of his monthly benefit from 359 to 251 Euros. But Arno was unimpressed, his beer consumption unaffected. Worse, he completely dropped out of the work habituation program: “No thank you. This is not good for me.” *Bild* dutifully checked in with him soon after, finding Arno in good spirits: “I am doing very well now that all this stress is over, and I also look great again. I am no longer ironing clothes for the welfare office. I have enough clothes to iron at home.” Soon after, the welfare office administered the harshest sanction possible in Germany, terminating the cash benefit. Arno still got food vouchers and healthcare, though, and the welfare office continued to pay his rent and utilities.

Now Arno had second thoughts. Once he declared that he was willing to work now, his benefit was fully reinstated. But it does not take much social work expertise to predict what happened at his next work assignment, raking leaves and weeding at the Neuengamme concentration camp memorial. Arno did show up on day one, but on day two he was not out raking leaves but lying in bed, and the entire nation took notice because his picture was on the front page of *Bild*. This time, he had a sick note.

The saga of Arno continues, but the elements are clear enough: The moral economy of welfare institutionalizes a reciprocal relationship between taxpayers and the poor. It implies a societal obligation to provide, an individual obligation to take only as much as they truly need, and to give back as much as they can. If individuals fail to do so, they are punished, but they also get another chance and have their benefits reinstated if they switch from refusal to cooperation. Sanctions are a consequence of reciprocity: Sanctions punish an infraction, just like (the reinstatement of) benefits reward cooperation.

Though the costs of identifying, sanctioning, and rehabilitating can outweigh the costs of freeloading, this institutionalized revenge is functional. Without it, welfare loses legitimacy, and taxpayers' willingness to finance welfare breaks down.<sup>66</sup> German politicians were eager to avoid the impression that the state was not a dependable administrator of taxpayer Euros. The director of the German Public Employment Service stressed that it was "unfortunate that this isolated case does so much damage, enormously hurting the reputation of welfare recipients" who "are not scroungers" and "desperately search for work." But the existing rules were more than adequate to punish those few who were indeed scroungers. He then detailed the different sanctions, from the 10 per cent reduction of the cash benefit for missing an appointment (20 percent for the second missed appointment), to sanctions of 30, 60, and 90 per cent for noncompliance, and the "total sanction" for "total refusal."<sup>67</sup> He thus communicated that welfare's moral economy was intact. Their moral outrage notwithstanding, *Bild* readers' comments indicate sufficient trust in the system. Readers elsewhere would have responded differently, of course. Some countries are much more punitive than others and give their welfare recipients fewer chances and larger sanctions. However, sanctions are a means everywhere, not an end in itself. Their goal is not cutting costs but correcting non-cooperators.

### ***Show trial or morality play?***

But why is *Bild* following Arno's case so closely? Surely there are more significant cases of fraud and waste of taxpayer Euros to which *Bild* could direct the readers' attention. Many observers claim that *Bild* pursues an anti-welfare agenda and deliberately portrays welfare recipients as "hoodlums on the dole." However, Arno stories are counterbalanced by a host of "deserving" welfare recipients such as Karl who are struggling to find work, and to make ends meet on way too ungenerous welfare benefits. *Bild* reported on Arno's case because people reacted strongly, causing yet another "big debate about fairness in the welfare system."

As Herbert Gans notes, societies have a "normative need for misbehaving people"<sup>68</sup> who assume the role of the undeserving "others" who confirm how "we" see ourselves, because we are not like them. Readers who angrily comment on Arno's vomiting trick are not necessarily more honest than Arno. They may have their money on a Swiss bank account, know every tax loophole, or lie on their tax forms. But expressing disgust at Arno is to be superior to Arno, and to belong to the hardworking taxpayers.

Arno Dübel is the theatrical version of the moral economy – a morality play. All involved actors are also actors in the literal sense of the term. They understand that the audience of Arno's "work test" is the entire nation. Arno's participation in talk shows and documentaries, and his cooperation with the *Bild* reporters put the tale of the free-rider on a national stage. *Bild* is the voice of the disgusted taxpayer: "Unbelievable (...) He hasn't worked a day in his entire life and he simply gets through with it!" Bureaucrats and politicians enter the stage, including the Minister of Economics and Technology who stresses that Arno Dübel is an exception and that "many welfare recipients try very hard to find work,

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<sup>66</sup> See Chapter Two for a discussion of these elements in the archeological, anthropological, evolutionary-biological and economic research on reciprocity.

<sup>67</sup> \* Heinrich Alt. <http://www.bild.de/geld/wirtschaft/hartz-4/hartz-iv-abzocker-was-tut-der-staat-gegen-miese-schnorrer-27547190.bild.html>

<sup>68</sup> (Gans 1995:97)

and to succeed.”<sup>69</sup> The director of the Hamburg welfare administration has a memorable scene. He hails a cab and personally takes Arno to the work habituation program (the one Arno blessed with squeaky-clean bathrooms).

The sanctioning process is the main act with the total sanction as the climax. It is a punishment in the public square that implements both the judgment passed by public opinion and the welfare administration, thus communicating that the administration protects hardworking taxpayers from lazy scroungers. When Arno weeds and rakes the trails at the Neuengamme memorial, the press officer of the Hamburg welfare administration declares that “Mr. Dübel must now demonstrate his good will and cooperativeness.” *Bild* rejoices: “Finally Arno Dübel is forced to work!” “No more drinking beer all day for Arno!”

Arno also plays the part of the repentant sinner. After he is completely cut off from any support, he humbly acknowledges that he “made mistakes” and that he will no longer mock people who work hard for their money. This admission is crucial because it communicates that Arno understands the rules of the game, that he knows he did wrong, and that he has now been reformed. The moral integrity of welfare has been restored.

### ***Comparing deservingness over time and across societies***

As with any morality play, reality is not quite as simple. First, deservingness is not self-evident. Few people are only “bad” or only “good,” and few people believe that the poor are either bad or good. Rather than a dualism, deservingness is a question of degree. The poor can be more or less deserving. Second, no society views “the” poor in just one way. Societies differentiate between groups of the poor; e.g. children are more deserving than able-bodied single men. How deserving the poor are as a whole depends on how these groups add up. Third, the judgment of deservingness changes over time, when the characteristics and behaviors of welfare recipients change, and as societal norms evolve. Finally, and most importantly, the moral codes societies rely on to judge deservingness differ. In abstract, there are no cross-national differences in deservingness. If poor people are simply lazy, they are undeserving, and if they are unable, they are deserving. Societies thus have identical deservingness *criteria*. Yet how they actually perform the *classification* into able or unable, and willing or unwilling differs greatly. Arno would be a calculating freeloader in the United States and a victim of social exclusion in France.

Deservingness is thus best understood as a universal societal “processing system” for the poor whose “parameters” for the maximum and minimum possible values are society-specific. This ranking system is stable, while the judgment is flexible. The poor can lose or gain status, depending on whether they can and should work, and whether work is available. Who is expected to work depends not only on ability, but also the gender, race, and age of the poor, as well as the size of the welfare caseload. For example, the able-bodied poor are more deserving when unemployment is high.<sup>70</sup> Public opinion perceives welfare recipients more like Karl when unemployment is high, and more like Arno when unemployment is low. Deservingness is not an artifact of other factors at work in the present, though. Those factors

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<sup>69</sup> \* citation

<sup>70</sup> Rising unemployment rates increase the percentage of the public that explains poverty as a result of factors beyond individual control, i.e. the “fate” explanation of poverty. See Part II.

affect how deserving the poor are, but not the parameters of deservingness. Those parameters are normative assumptions about how one gets ahead and why some stay behind that reflect deeply seated societal values that are inherited from the past and can be thought of, in the present, as exogenous. Countries exposed to the same external change in the characteristics of the poor will therefore move in the same direction. But they do not depart from, and arrive at, the same location.

Thus, deservingness does not anchor a society at one point of the unable/willing – able/unwilling spectrum. It is more like a channel that limits how far welfare can drift from the center line without getting into shallow water, and stranding. Variation over time occurs when the crew keeps the boat on course even though the numbers and/or characteristics of the passengers have changed and the boat should be taking them somewhere else: the institutional rules presume an outdated level of ability and willingness that no longer reflects the characteristics of the caseload. To correct institutional drift welfare reform adjusts the rules to the new reality, but within the constraints of its specific deservingness spectrum.

### 1.5 Empirical implications, study design, and methods

Table 1-2 summarizes the comparative approach that follows from this argument. The moral economy is a stable institutional framework that is similar across countries. The source of variation is the judgment of need, ability, and willingness: who can make a claim, what they have to do in return, and whether they are indeed doing their part. This judgment changes over time, reflecting changes in who the poor are, and what society considers normal. It also varies systematically between societies, causing them to define the rights and responsibilities of the poor within different parameters. Behind the differences in how societies deal with the poor are differences in how they judge the poor, and behind every change in the last resort safety net is a change in how society judges.

**Table 1-2: A comparative approach to deservingness and the moral economy**

		Comparing between societies	
		Similar	Different
Comparing over time	Stable	Moral economy Deservingness range	Deservingness range
	Flexible	Deservingness degree	Deservingness degree

This book compares judgments of deservingness and welfare policies between countries, time periods, groups of welfare recipients, and policy components. It also traces the causal mechanisms through which the normative judgment shapes policy outcomes. Welfare is a sequential institution. An individual’s trajectory begins with the intake assessment, followed by the negotiation of the integration contract that defines rights and responsibilities, the fulfillment of the requirements defined in the contract by the state (who provides cash benefits, in-kind support, services, and work-oriented programs) and the individual (who participates in these programs and fulfills other requirements defined in the contract, e.g. job search), and periodical re-evaluations of individual progress. Those who fail to comply are either sanctioned, or the requirements are adjusted, because they are deemed to be less able than initially thought, or their employability has decreased. The steps in this sequence follow from each other, but they also trace back independently to the assessment. The intake assessment



measures the individual's degree of employability, which in turn determines the level of responsibilities defined in the integration contract, and if the individual fails to comply with the contract, the extent of sanctions depends on the degree of employability.

The proposed argument has four empirically observable implications.

(1) The cross-national variation in deservingness should correspond with the variation in welfare policy. Countries that consider the poor less deserving should emphasize work more than countries that consider the poor more deserving. This association should be observable for welfare policy as a whole, as well as for its main components – employability assessment; integration objectives, programs, and requirements; and sanctioning rules and practices. For example, if the same violation results in the same penalty in most or all countries, the proposed argument would be incorrect because sanctions would not reflect deservingness but rather the severity of the infraction. If, however, the same violation carries different penalties, and these penalties reflect the judgment of deservingness, the argument would be supported.

(2) The variation in deservingness over time should be associated with policy changes into the same direction. If the poor become less deserving, welfare policy should become more work oriented. Conversely, if the poor become more deserving, welfare should become less work oriented. Thus, whenever the “deservingness profile” of the welfare caseload changes significantly, policymakers need to adjust the “responsibility profile” in the program rules. If the institutional rules get outdated, the moral economy drifts into “recession.” Once they are updated, the moral economy “recovers.”

(3) At the within-country level at any given point in time, welfare recipients who are more able should have more demanding responsibilities than those who are less able.

(4) At the policy level, deservingness should independently predict each component of welfare policy. Thus, it should be possible to characterize the outcomes of the employability assessment without knowing how employment oriented the country's policy actually is. Conversely, one should be able to know a country's integration approach without knowing how it conducts the employability assessment. Finally, how a country deals with noncompliance should directly reflect how deserving it considers the poor to be. Thus, understanding a country's assessment system and integration programs should not be necessary for predicting its sanctioning policy.

### ***Selection of countries, benefits, local cases, and target group***

The seven countries in this book represent the whole range of deservingness in public opinion surveys. The United States and the United Kingdom view the poor as undeserving, France and Italy as deserving, and Denmark, Sweden, and Germany are in between.

“Welfare” (or: “social assistance”) is the means-tested and tax financed safety net of last resort for working age, able-bodied individuals who have no other source of income, e.g. from work or benefits. In addition to welfare, there are various other means-tested benefits, such as housing, disability assistance, and healthcare for the poor. The umbrella term for means tested benefits financed from general tax revenue is “public assistance.” Table 1-3 below lists the main welfare benefits in the seven countries in this study, with the benefits covered in the fieldwork in bold font.

**Table 1-3 Public assistance benefit(s) for the working age, able-bodied poor (“welfare”)<sup>71</sup>**

Denmark	<i>Ofentlig Forsorg</i> (before 1976), <b><i>Kontanthjælp</i></b>
France	<b><i>Revenu Minimum d’Insertion</i></b> (1989-2009), <i>Allocation de Parent Isolé</i> (1976-2009), <i>Allocation Spécifique de Solidarité</i> (since 1984), <i>Revenu de Solidarité Active</i> (as of 2009, merged API + RMI)
Germany	<i>Hilfe zum Lebensunterhalt</i> (until 2005), <i>Arbeitslosenhilfe</i> (until 2005); <b><i>Arbeitslosengeld II</i></b> (since 2005, merged both benefits)
Italy	<b><i>Reddito Minimo di Inserimento</i></b> (national, 1999-2004), <b><i>Assistenza Economica</i></b> (local), <b><i>Reddito di Cittadinanza</i></b> (Campania region, since 2004), <b><i>Reddito di Ultima Istanza</i></b> (national, plans) <sup>72</sup>
Sweden	<i>Socialhjælpen</i> (before 1964), <b><i>Ekonomiskt Bistånd</i></b> (aka <i>Socialbidrag</i> )
United Kingdom	National Assistance (1948-1965); Supplementary Benefit (1966-88); Income Support (1988-2013), <b><i>Jobseeker’s Allowance</i></b> (1996-2013, merged IS for the unemployed & unemployment benefit, but separate contribution and income based JSA), Universal Credit, (as of 10/2013, merged JSA & IS for lone parents)
United States	Aid to Families with Dependent Children (federal, until 1996), <b><i>Temporary Assistance to Needy Families</i></b> (federal, since 1996), Supplemental Nutrition Assistance Program (aka Food Stamps, federal), General Assistance (states)

The United States and Italy lack a national and universal welfare benefit. Italy introduced a program on an experimental basis in the late 1990s and early 2000s, the *Reddito Minimo di Inserimento* (RMI). This study investigates the RMI pilot, the local welfare benefits for the able-bodied poor in a Northern city (Turin), the center (Rome), and a Southern city (Naples), as well as the regional benefit in Campania.

The main federal welfare program in the United States is Temporary Assistance to Needy Families (TANF), which provides benefits only for families with children (mostly single mothers).<sup>73</sup> Other federal benefits are universal, most importantly food stamps (Supplemental Nutrition Assistance Program, SNAP). SNAP comes closest to a universal safety net because anyone can qualify, but it does not provide cash benefits. The eligibility criteria for the General Assistance benefits provided by the states vary tremendously; in many states singles cannot receive this benefit.<sup>74</sup> Since the TANF legislation gives states considerable leeway in designing their own policies, state TANF plans also vary, but within the limits set by federal regulations (e.g. on time limits and work participation rates). Since it is generally considered the standard “welfare” program and because it is federally regulated, the fieldwork therefore focused on TANF. Interviewees included TANF directors and administrators from both Northern and Southern states.<sup>75</sup> The local fieldwork focused on two states with very different welfare systems: New York is the only state that has a universal General Assistance program without time limits. Wisconsin has long pioneered work-oriented policies; its welfare-to-work program inspired many components of the nationwide introduction of welfare-to-work in 1996. Thus, while New York’s welfare

<sup>71</sup> \*Benefits covered in the fieldwork in bold font. \*Additions Italy, US

<sup>72</sup> \*Check

<sup>73</sup> TANF is the successor to Aid to Families with Dependent Children, which was introduced with the 1935 Social Security Act and replaced by TANF in 1996.

<sup>74</sup> \* Include examples

<sup>75</sup> \*List states

system is similar to Europe, Wisconsin exemplifies the American “best practice” model. It could have been useful to also conduct local fieldwork in one of the Southern states, where benefit levels are lower. However, the interviews with state TANF directors did not reveal fundamental differences in their welfare-to-work programs beyond the below average benefit levels and shorter time limits.<sup>76</sup>

However, the recipients of TANF are primarily single mothers and their children, whereas the European welfare benefits are far less gendered. To verify that the observed variation was not biased by gender, I compared TANF to other American public assistance benefits, and to European welfare policies towards single mothers. First, I compared eligibility criteria and work requirements between SNAP and TANF, and between state TANF and GA plans. I also asked interviewees about General Assistance benefits for singles, and observed the participants and interviewed staff at local welfare-to-work programs that included men, as well as an exclusively male Wisconsin work integration program for ex-prisoners. Second, I compared how the European countries in this study address single mothers. At the time of the study both the United Kingdom and France had separate welfare benefits for single mothers; Denmark, Germany, and Sweden operated universal welfare benefits that included single mothers, as did Italy’s national RMI pilot and its localized assistance system (see Table 1-3).

The local cases represent the variation within a country, ensuring that the intra-national variation is smaller than the cross-national variation. For example, the Northern and Southern parts of Italy are often referred to as two separate “Italies.” The fieldwork therefore covered a Northern, a Southern, and a center city. In more homogenous countries, such as Denmark, only two local cases were covered. Since local implementation is not solely a function of the national framework but also reflects the local context and preferences, the local and regional cases also increased the number of observations.

Comparing countries’ welfare systems also requires “controlling” for the characteristics of welfare recipients, because the cross-national variation in deservingness could be due to variations in these characteristics. To avoid such selection bias, the fieldwork focused on one particular group of welfare recipients: long-term unemployed welfare recipients who are physically capable of working but face multiple and severe barriers to employment, including a low education level, insufficient skills, no significant work history, substance abuse, housing problems, domestic violence, mental health problems, illness and/or behavioral disorders in recipients’ child(ren), and no access to transportation. Because it requires interviewees to evaluate whether specific problems and characteristics indicate inability or ability, and willingness or unwillingness, focusing on the “hard to serve” captures the cross-national variation in deservingness and policy outcomes more reliably than looking at welfare recipients as a whole. Furthermore, this focused approach can better trace the steps through which a particular moral judgment leads to a particular policy feature.<sup>77</sup>

### **1.5.1 Fieldwork and primary sources**

Analyzing national policies and regulations can provide an in-depth understanding of social insurance. But in public assistance, it only scratches the surface. These benefits lack standardized rules of

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<sup>76</sup> \* references

<sup>77</sup> Asking about a concrete group rather than “the” poor or welfare recipients provides a fine grained measure of deservingness that adds to the general survey data.

equivalency between contributions and claims that characterize social insurance. Rather, public assistance is individualized, in particular welfare. Thus, the national framework is not alone sufficient to account for policy outcomes; how local actors define the rights and responsibilities of individual beneficiaries is equally important. These policies have to actually be “observed” in action.

The fieldwork was conducted between 2004 and 2005. It involved 202 semi-standardized interviews with policymakers, administrators, and social workers at the national, regional or state, and local levels, as well as local observations at welfare offices and welfare-to-work programs in two or three cities per country. The interviews were open ended and adjusted to the national context, as well as the position of the interviewee. They were transcribed and coded with NVIVO.<sup>78</sup>

In contrast to mainstream benefits whose flexibility is constrained by vested interests, welfare reform is a moving target. Where relevant, reforms introduced after the completion of the fieldwork in the mid-2000s are mentioned, but this book is not intended as a policy report. Rather, it investigates the causes and mechanisms that drive welfare reform – how these policies are made, why they differ systematically, and how they change over time.<sup>79</sup>

### ***Interviews and bias***

Using interviews as a primary source can lead to biased results, in particular when they cover both the “independent” and “dependent” variables. Interviewees look back at the developments that caused them and/or their colleagues to adopt certain policies from their viewpoint in the present. A significant time lag between an event and its description requires a careful and critical approach with any type of primary source – not only interviews, but also written documents such as policy reports and meeting memoranda. Furthermore, the individual experiences, perceptions, values, and opinions of an interviewee can produce an idiosyncratic account that is not representative of the views of the entire population of (potential) interviewees.

Retrospective bias occurs when interviewees’ accounts of a past development get polluted by individual and institutional knowledge, interests, and constraints in the present. Interviewees may have forgotten important information, simplify their accounts by dropping important details, and rely on well-rehearsed “go-to” examples. They may unconsciously interpret the past in a way that accounts for the present, add more recent information that was not known to policymakers and practitioners at the time, actively justify current policies, or respect orders “from above” and represent the official government line at the time of the interviews. Many of the career civil servants interviewed had worked under different governments, including for example a policy expert at the US Administration for Children and Families who had worked there since the Reagan administration. Administrators and social workers have to implement major course reversals over the years. They can be biased, rejecting current policy and implementing it in a subversive manner, bending the rules where the rules don’t “make sense,” and making discretionary decisions in a way that reflects their personal views.

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<sup>78</sup> The questionnaires were adjusted to the position of the interviewee; for example, a policy expert for the government was not asked about the details of assessment or to talk about individual cases. Appendix Table\*

<sup>79</sup> For updates on social assistance (welfare) reforms see for example the Reform Monitor and MISSOC.\*

One way to reduce ex post bias is to cover the historical development of welfare before addressing the recent policies. Another approach is to compare the interviews for consistency. This comparison revealed no major disagreements across the different ministries and agencies at the national level, the different levels of government, between civil servants and staff at nonprofit or for-profit providers, and between interviewees who had been involved in this area for a long time and those who just started.

To be sure, the interviews include many expressions of discontent. For example, local administrators and representatives of municipalities often expressed frustration about requirements imposed on them by the national government, insufficient funding, and frequent changes in regulations. National civil servants and political appointees sometimes (and usually off the record) revealed background information about the causes of failed or discontinued policies, and criticized the current government. Providers of work integration and social services complained about surviving from contract to contract, and the unintended side effects of their dependence on performance-based public funding, such as focusing on “easy successes” rather than really helping those who need help most. The few advocates interviewed for this study were all very critical, but they rejected particular benchmarks, policy features, and administrative practices – not the policy itself. The main difference between the government level and the local frontline was the type of evidence interviewees relied on: Policymakers referred to legislation, institutional features, and statistics, whereas caseworkers turned to their experiences with welfare recipients, and the “collective memory” and opinions of their colleagues.

A variation of retrospective bias occurs when interviewees adjust their descriptions of the characteristics of the hard to serve to the policies, e.g. arguing that “we cut them off from welfare because they are not motivated,” or that “we just provide social services because work is pointless.” In order to get as independent a description of this group as possible, the interviews covered the characteristics of long-term welfare recipients with barriers to employment before turning to welfare-to-work efforts for this group. However, interviewees often discussed both questions together, e.g. they provided additional information about the hard-to-serve when describing integration programs, or they explained how noncompliance with program rules can be a red flag for undetected barriers to employment. Nevertheless, the interviews were internally consistent. Descriptions of this group did not shift over the course of the interviews; rather, interviewees added more detail.

Furthermore, follow-up questions about specific characteristics mentioned would focus the conversation on these characteristics in a more detailed manner than most interviewees had anticipated. For example, when substance abuse came up, follow-up questions investigated whether addiction was a cause of long-term welfare receipt or an outcome, whether it was a physical problem or a problem of willpower, and whether and how it affected ability to work and to get a job. Another approach was to ask caseworkers and local administrators to describe a typical case, to inquire about a particular individual encountered during the site visit, or reviewing a case file. The questionnaire also included vignettes, such as the alcoholic without a High School diploma and no regular job in 5 years. Interviewees then evaluated how employable this person was.

Thus, most interviews proceeded from a general “listing” of the characteristics of this group (and often also some policy statements along with it) to a richer description and a deeper reflection about barriers to employment and causes of poverty, disadvantages and dependence, and willingness and ability. In

sum, the potential for bias in interview evidence can be addressed in the interview itself. Furthermore, the transcribed interviews were compared for consistency. However, these strategies cannot alone eliminate the potential for major bias, in particular when it comes to the development over time.

### ***Combining multiple types of sources***

Since the interviews cover both the causes and the outcomes, the analysis incorporates additional and separate types of sources that independently capture *either* the causes *or* the outcomes.

Deservingness can be operationalized as a combination of three factors: the empirical characteristics of the poor, the societal perception of these characteristics, and societal willingness to support the poor. This study measures these components by combining quantitative and qualitative data: (1) a new dataset of welfare caseloads and the percentage of welfare recipients in the population since the postwar period, as well as OECD unemployment and social spending data; (2) a new cross-national public opinion dataset that combines survey data that tap into perceptions of poverty and support for spend for the poor going back to the 1970s, as well as additional national-level survey results that capture reciprocity in welfare; (3) in-depth interviews with policymakers, administrators, and caseworkers conducted for this study, as well as published focus group interviews with representative samples of the population; (4) political speeches, policy analyses, parliamentary debates, and legislation.

Public opinion surveys are particularly useful, as they quantify deservingness. They also provide an aggregate and representative measure that captures change over time. Of course, it is also an outcome shaped by political discourse; however, public opinion also shapes political decisions.<sup>80</sup> Thus, historical survey data and current elite interviews are separate measures but they are not independent of each other. This is asset, though, because interviews can illuminate the thought process leading to a particular judgment of deservingness. How policymakers and practitioners explain the problem is essential for understanding the policies they create to address the problem, and for how they are implemented. They are the actors who produce and implement welfare reform, so their explanations matter most for explaining policy designs.

Thus, surveys are not alone sufficient to describe deservingness. Interviews are essential to get the full picture, and to connect perceptions to policies. A big portion of the causal process occurs in the heads of the actors: how they perceive, process, and address a problem, and how they perceive, process, and address the outcomes of their strategies to address the problem. The interviews with national policymakers, regional and local administrators, and front-line caseworkers flesh out the reasoning behind national public opinion profiles – how a society responds to poverty. They also connect the causal dots, from how a society sees the poor to how it seeks to help them. Policymakers and practitioners can establish the causal links between the unemployment crisis and the welfare crisis, between the more employable caseload and welfare-to-work reform, between the success of welfare-to-work and the problem of the hard-to-serve, and between the hard-to-serve and the second generation of more accommodating welfare-to-work.

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<sup>80</sup> Cite Shapiro, Page\*

The description of the process and outcomes combines the interviews with a wide range of evidence, most importantly field notes with the local observations; legislation and government policy documents, administrative memos and internal performance reviews; caseworkers' guidebooks; questionnaires and forms; assessment and profiling material; copies of individual integration contracts; local statistics on caseloads, participation in welfare-to-work programs, and sanctions; and information material for (prospective) welfare recipients.

Finally, the interviews themselves inform different parts of the argument. Interviewees were located at the national, local, and – if appropriate – regional or state levels. These levels are connected in a hierarchy, but they are also separate policy arenas with very different functions and areas of expertise. National policymakers and local practitioners are not usually communicating with each other directly. Interviews at the national level therefore provided information on the policy intentions, whereas the local level covered the policy implementation. The local observations and interviews revealed how welfare administrations “process” individuals – it is local actors who provide information for welfare applicants, evaluate eligibility, assess employability, organize social services, operate or oversee welfare-to-work programs, track individual progress, and they deal with non-compliance. Thus, talking to local staff and observing welfare recipients and staff at welfare offices, integration programs, and work projects captured both the institutional process and the outcomes at the “front line.”

## **1.6 Overview of the argument and chapter outline**

Conservatives have long spoken the language of rights and responsibilities. Yet, this book is not a neo-conservative analysis in the footsteps of Charles Murray and Lawrence Mead. Rather, it suggests that their arguments, and popularity, are historical evidence for a crisis of the American moral economy of welfare. Murray's *Losing Ground* (1984) illustrates a moral economic crisis, but the suggested solution – eliminating rights – did not resonate. Mead's *Beyond Entitlement: The Social Obligations of Citizenship* (1986) better reflects how public opinion and policymakers approach welfare, as it promotes moral economic “recovery” policy that redefines and rebalances rights and responsibilities. Whether conditionality is good or bad is a question that this book does not address. There are many good arguments for why the empirically observable moral economy is normatively a bad moral choice. There are also good reasons to believe that this is how the welfare state should work.<sup>81</sup> One of the political implication of this book is that welfare state advocates yield a lot of ground to welfare state opponents if they speak the language of needs and rights, rather than explicitly addressing the rights and responsibilities of different societal groups vis a vis each other.

The remainder of this book is organized into three parts: Part I defines the moral economy of the welfare state and develops the argument. Part II applies this argument to the long-term development of welfare, demonstrating that policy shifts towards work when welfare recipients become less deserving, and towards welfare when they become more deserving. Part III demonstrates the empirical payoff of the argument for the cross-national variation in the mid 2000s, and it traces the institutional process through which deservingness shapes welfare.

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<sup>81</sup> \* See Chapter Two, Three

## ***Part I: The moral economy***

Chapter Two takes an interdisciplinary approach to develop the moral economy concept. Human society has evolved according to a few consistently important “evolutionary universals” (Parsons) that are well established among evolutionary biologists, archeologists, and anthropologists – but not among historians, sociologists, and political scientists who study the welfare state. Helping the weak is one of these universals, as is punishing the strong who fail to carry their load.

Western welfare states institutionalize these principles in different reciprocity arrangements that cover widely shared social risks, such as old age, illness, and unemployment, as well as unlikely risks, such as poverty. They are economies because they organize exchanges between contributors and claimants. Any act of redistribution reflects a contribution, and requires an act of reciprocation. These economies are moral because equivalency is not determined by the market mechanism but by social norms.

This approach differs from that of the political economy literature and its concept of the welfare state as social rights. Equally important as the rights the welfare state provides to citizens are the responsibilities it places on them. Rather than analyzing benefits as state transfers, this book conceptualizes benefits as long-term contracts between citizens that are guaranteed by the state. The welfare state organizes mutual help at a large scale, between citizens who do not know it other. It performs functions that were traditionally executed by local communities: evaluating what and how much everyone can contribute, determining who needs what and for how long, and identifying and punishing freeloaders.

Chapter Three shows how differently the moral economies of the major benefits are organized. It develops a typology of reciprocity for the key welfare state benefits that is based on the timing of the contributions relative to the claims, the type of contributions and claims, and the algorithm to determine equivalency between contributions and claims. The chapter shows how welfare differs from mainstream social protection benefits, arguing that its moral economy depends on deservingness.

## ***Part II: The moral economy over time***

Part II studies the effects of deservingness over time, dividing modern welfare history into four phases. Chapter Four covers the postwar period and the welfare crisis; Chapter Five analyses welfare-to-work and its adaption to the least employable.

1. Between the postwar period and the 1970s welfare provided a socioeconomic minimum without work requirements because the poor were considered to be relatively deserving. Countries’ welfare systems had been designed for groups who were not expected to work, either because they were unable to work (e.g. the elderly poor), or work was not desirable (e.g., single mothers). Welfare reform revolved around eligibility criteria, benefit generosity, social services provision, and eliminating discrimination.
2. Beginning in the mid-1970s, mass and long-term unemployment caused an unexpected and massive inflow of able-bodied individuals into welfare, causing caseloads to increase, and to become



increasingly able.<sup>82</sup> Welfare completely changed character, from a residual benefit for populations who were not expected to work to a benefit for the unemployed. Yet, it processed its new recipients according to the old rules. This is reflected in the development of welfare caseloads relative to unemployment: caseloads expanded when unemployment increased, but did not decline when unemployment declined. In a context of high unemployment the mismatch between individual ability and institutional rules was neutralized by the mismatch between the number of job searchers and the number of jobs. But declining unemployment in the mid-1980s and again the early 1990s exposed how far welfare had drifted, as individuals did not transition into work. As a result, explanations of poverty shifted from societal to individual fault, and generosity towards the poor declined. Welfare went into a moral economic “recession” as it came to be seen as a “free lunch” that was unfair towards working taxpayers, and its recipients came to be viewed as undeserving freeloaders.<sup>83</sup>

3. Between 1996 and 2003 governments changed the rules. The new welfare-to-work approach was a moral economic “recovery” policy that adjusted the contract to a less deserving caseload.<sup>84</sup> It transformed welfare administrations into providers of not only benefits, but also employment services, work programs, training, and education along with benefits. And it increased the responsibilities of welfare recipients, who were now obliged to engage in job search, comply with work requirements, and improve their employability through participation in training, education, and various services. In a context of declining unemployment, welfare-to-work reduced both caseloads and public resentment.
4. Yet, once caseloads were down, administrations “discovered” a group that did not move. The “left behind” tended to be harder to serve within the work-oriented framework because they faced more, and more severe barriers to employment. This group is more visible when it is not “covered up” by those who are “just” unemployed. Thus, a new mismatch between individual ability and institutional rules emerged. Countries therefore softened the work orientation in the mid-2000s, allowing for more time, services, and exemptions in order to accommodate this population. They did not abandon the welfare-to-work approach, though; rather, they created a more differentiated and flexible policy that can respond to variations in ability to work. Policy also reflects variations in the availability of work. An increase in unemployment reduces the prevalence of the “laziness” explanation of poverty, rendering the poor more deserving and welfare less demanding, because employment is less realistic.

### ***Part III: The moral economy across countries***

Part III analyzes welfare-to-work from a cross-national perspective. It broadly compares the first generation of welfare-to-work, and then focuses on one subgroup—the “hard-to-serve.” Finally, it shows

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<sup>82</sup> Other developments also contributed to the transformation of welfare caseloads, most importantly the increase in female labor force participation and single motherhood, and—in the United States—the growing number of African American welfare recipients.

<sup>83</sup> However, the decline in generosity does not indicate a desire to abolish welfare. Rather, respondents wanted welfare to require work from those who can work and to punish those who refused to work.

<sup>84</sup> See Chapter Five.

how deservingness shapes welfare institutions and front-line interactions between caseworkers and clients.

Chapter Six approaches the cross-national variation with the same quantitative indicators of deservingness as Chapter Four. It also introduces a cumulative deservingness index that includes a larger set of survey questions. The cross-national variation in deservingness corresponds with the variation in first-wave welfare-to-work. To verify that these differences are not driven by variations in the actual characteristics of the poor, the chapter focuses on a clearly defined subgroup: the “hard to serve.” It establishes that the policymakers, administrators, and social workers interviewed for this study listed the same problems for this group, but their evaluations of these problems and hence this group corresponded strongly with public opinion about the poor in general.

The remaining chapters trace the institutional steps through which deservingness defines the rights and responsibilities of the poor. The judgment of the moral character of the hard-to-serve shapes how the employability assessment classifies them. This classification dictates the broad terms of the integration contract between individual and state. And it predicts whether noncompliance leads to a punishment.

Chapter Seven argues that the transmission mechanism through which the moral judgment shapes public policy is the employability assessment. The assessment is generally ignored in studies of welfare-to-work, which emphasize eligibility rules and the substance of welfare-to-work program, while they neglect how countries determine *who* participates in *what* programs. But classification is absolutely essential in social policy. Welfare states need categories to match individuals to benefits, services, and programs.

The first and usually most consequential assessment occurs during the intake process, but every individual is monitored and periodically re-evaluated. Interviewees were not aware that how the assessment is set up and what outcomes it produces reflects and reinforces their moral judgments. Rather, they described it as a tool to identify barriers to employment. Yet it is this tool that transposes moral categories into technocratic categories. How countries’ assessment systems are designed, and what social workers, medical professionals, and other diagnosticians look as they conduct their evaluations depends on the moral “lens” they wear, which focuses on either the individual, or factors beyond individual control (or, in the case of bifocals, on both).

Because the American and British view is that the hard to serve are able but lack motivation, their assessment process is brief and employment focused. It uses standardized questionnaires and tests, such as including for example a medical assessment to identify disabilities, literacy and numeracy testing, and screening for substance abuse. Clients with barriers to employment are generally classified as employable but in need of additional services. Because the French and Italian view is that this group is weak and excluded and cannot be expected to work, there is little standardized assessment. Once it is clear that the individual faces multiple problems, work is out of the question and individualized evaluations serve to determine what services the client needs. Because in Scandinavia and Germany this group is considered less able but not unable, and because it is not fully clear whether (and when) they are unwilling, the assessment is extensive. It seeks to identify all of the client’s problems, not just potential disabilities, vocational skills and motivation, but also undisclosed addictions, psychological

problems and mental illness, and social and family problems. The hard to serve are classified as unemployable but having some work capacity.

Chapter Eight shows that the assessment determines the type of reciprocity arrangement. It also shows that these arrangements reflect the larger social contract between society and the poor. All countries use integration contracts to formalize a mutual agreement between individual and state (represented by the caseworker). It details what individuals can expect from the state, and what the state expects from individuals. While all countries use such contracts, some place more responsibility on the individual whereas others place more responsibility on the state. All countries combine elements of all three types of reciprocity (during, after, none), but each group prioritizes one approach.

Because they classify the hard to serve as employable, the United Kingdom and the United States prioritize the individual's responsibilities and hence reciprocity *after* benefit receipt. They provide a minimum of services to ensure a quick transition into employment as barriers to employment can be addressed most effectively by emphasizing employment. Thus, countries have dealt with the tradeoff between welfare and work by emphasizing *work*. In contrast, Italy and France have a *welfare* approach, in which the social contract determines the obligations of society. Because they classify this group as not employable and struggling with too severe problems to be engaged in regular work activation programs, they expect *nothing* in return. In this social insertion model, benefit and services provision is the means and the ends of integration. Denmark, Sweden, and Germany have a *workfare* approach that combines work and welfare into a "work for your welfare" policy in which work programs are less demanding than regular jobs. They emphasize reciprocity *during* welfare receipt. Because they classify the hard-to-serve as not employable and in need of substantial services, these countries focus on curing the barriers first. Individuals are to participate in work programs only once they are socially and psychologically stabilized.

Chapter Nine asks what happens when individuals fail to comply with the terms of the contract. Noncompliance destabilizes the moral economy of welfare because recipients do not do their part of the deal. Punishments in the form of benefit reductions or complete cut offs from benefits are an important tool of behavior modification and thus contract enforcement. Its response to breach is also the litmus test of a country's location on the tradeoff between welfare provision and work enforcement. A strict work oriented policy refuses benefits to anyone who refuses to work. A strong welfare orientation implies that full welfare benefits be provided even to those who refuse to work.

Interviewees stressed that the least employable have more limitations than the rest of the welfare caseload, making failures more likely. Therefore, sanctioning rules are softer for the hard-to-serve than for the general caseload. Nonetheless, noncompliance had very different consequences in these countries. The cause of these differences again lies in the judgment of deservingness and its transposition into employability.

The more undeserving the hard to serve are considered to be, the more likely it is also that noncompliance is viewed as unwillingness. This is the case in the United States and the United Kingdom, where interviewees described the hard-to-serve as lacking motivation and willpower, or as deliberately gaming the system. Because they tend to view poverty as the individual's fault, and society as the victim of welfare free riders, they tend adjudicate breach as a repeat crime – as another incident of free riding. Therefore, these countries rely heavily on benefit reductions or temporary cut-offs. Sanctions are

viewed as painful but productive. Without them, welfare would reward the attitudes and behaviors that cause dependency. In case of repeated noncompliance, eligibility for welfare ends completely.

If the poor are viewed as more deserving, noncompliance looks like inability. French and Italian interviewees described the hard to serve as disadvantaged and in need of help. Because they judged poverty to be society's fault, they approached the hard to serve as victims. Noncompliance is inconsequential. Except in cases of fraud, there are no sanctions.

Scandinavia and Germany focus on the problems that prevent the individual from working. They tend to assign joint guilt to society and individual, causing them to be hesitant to judge noncompliance as solely an individual infraction. Interviewees also saw noncompliance as a failure of the caseworker who set the expectations too high, and as an opportunity because it can expose hence unknown barriers. In either case, the integration contract is to be adjusted. While Sweden, Denmark, and Germany use sanctions, they do so far less frequently than the United States and the United Kingdom, and they never cut the benefit to zero. Rent, utilities and food must always provided, even for freeloaders like Arno Dübel.

## **PART I: A MORAL ECONOMIC THEORY OF THE WELFARE STATE**

Why do we think about the welfare state as the rights of citizenship, and the politics of the welfare state in terms of interests, power, and redistribution? Why not compassion, fairness, and reciprocity? This is puzzling because for most of human history assistance to the poor and social protection for the better-off reflected the tenet of compassionate giving, the expectation that helping should not be a redistributive one-way street but a reciprocal traffic cycle, the understanding that mutual obligations did not imply equal obligations but that the weak should carry less of the burden than the strong, and the attitude that freeloaders disrespected these norms and therefore did not deserve any of the benefits.

Most welfare state scholars would readily endorse compassion, fairness, and reciprocity, but they would doubt that they have much explanatory value because they argue that the welfare state is the counterweight to the capitalist economy. As it corrects the distribution outcomes of the market, it serves the interests of the working and middle classes. How much the welfare state redistributes between the rich, the middle class, the working class and the poor depends on the strength of, and the power balances between, these groups. Big universal welfare states grant extensive social rights; small residual welfare states require extensive individual responsibilities. Thus, rights and responsibilities are a zero-sum game: More rights means less responsibilities, and vice versa.

The following chapters question the assumption that rights and responsibilities are mutually exclusive, and the social rights concept of the welfare state that follows from this assumption. The discussion of the standard explanations of welfare state variation in the Introduction concluded that these explanations do not account for the variation in welfare systems, and welfare-to-work policies. Chapter Two therefore reviews explanations from other disciplines for how societies deal with inequality, poverty, and social risks. It revisits the history of the welfare state and its scholarship, and broadens the analytical framework through an interdisciplinary approach. It argues that archeological and ethnographic studies, evolutionary biology, and economic experiments consistently identify three key principles: reciprocal sharing, cooperation, and punishment of free riders. These principles are crucial for how the welfare state works.

Chapter Three applies these principles to propose a concept of the welfare state as rights and responsibilities that captures how different benefits organize the balance between contributions and redistribution, how this balance can get disturbed, how it can be adjusted, and why it varies across societies. It argues that in the daily business of benefit administration, responsibilities do not weaken rights; they justify rights. This is especially important in the part of the welfare state that seems to be the least reciprocal: public assistance to the poor.

## 2 Great Transformation, Deep Continuity: Beyond the Political Economy of the Welfare State

### 2.1 From moral economy to market economy

The term “moral economy” is generally associated with 18<sup>th</sup> century peasants and workers, not with the modern welfare state. The concept originates in the work of Karl Polanyi and his arguments about the embedding and disembedding of economic systems into the normative and social fabric of societies.<sup>85</sup> According to Polanyi, prior to industrialization, “man’s economy, as a rule, is submerged in his social relationships.”<sup>86</sup> Economic exchange revolves around “reciprocity and redistribution.”<sup>87</sup> According to Jim Scott’s *Moral Economy of the Peasant*, moral economies are embedded into a “moral universe” and therefore governed not by economic rationality but by “conceptions of social justice, of rights and obligations, and reciprocity.”<sup>88</sup> Barrington Moore does not use the term “moral economy” in *Injustice: The Social Bases of Obedience and Revolt*, but he describes the same universal “moral code” that provides “a general ground plan of what social relationships ought to be.” This code is characterized by “the concept of reciprocity – or better, mutual obligation.” Reciprocity “does not imply equality of burdens or obligations;” rather, it denotes “mutual exchanges” that are “ideally expected to find some rough balancing out.”<sup>89</sup>

There is little to do for the invisible hand of the market. The price of resources, labor, and the products of labor is not determined by the “cash nexus” and the impersonal, individualistic laws of demand and supply: “neither labor nor the disposal of objects nor their distribution was carried on for economic motives, i.e. for the sake of gain or payment or fear of otherwise going hungry as an individual.”<sup>90</sup> Rather, economic action is governed by a “consistent traditional view of social norms and obligations, of the proper economic functions of several parties within the community” and morally grounded notions of a “fair price” as all workers are “servants of the community, working not for a profit but for a fair allowance.”<sup>91</sup> The pre-modern economic system did not exist independently of non-economic social relations that provide the normative controls on economic transactions, such as kinship relations, customary practice, rules of gift-giving, status hierarchies, and religious ceremony.<sup>92</sup>

The social relations that frame economic action can be extremely unequal and exploitative (Moore 1978:\*509 or 4-5). For example, the definition of a fair price in the early modern period is not in line with the understanding of fairness today. Modern economies have “immoral” characteristics but there are good moral arguments to be made for industrial capitalism being morally preferable to feudalism.

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<sup>85</sup> See Polanyi(1957 [1944], 1977). Polanyi did not actually use the term “moral economy;” rather, he speaks of the economy as a “moral order” (e.g. Polanyi 1977:13).

<sup>86</sup> (Polanyi 1957 [1944]:46)

<sup>87</sup> (Polanyi 1957 [1944]:46)

<sup>88</sup> \*(Scott 1976:vii). \*\*\*.

<sup>89</sup> \*(Moore 1978) – find exact pages, check 4-5, 509, 506. Check pages: (\*Polanyi 57, 77, Scott 76, Mauss 67, Thompson 71\*). *ME Artikel (Booth?)* (Scott 1976; Thompson?)

<sup>90</sup> (Polanyi 1977:51-55\*)

<sup>91</sup> (Thompson?:78, 83).

<sup>92</sup> (Polanyi 1977:51-55)

Thus, the “moral” character of these economies does not necessarily imply “moral” in the contemporary sense of “just” and “good.”

How medieval societies coped with the large mortality and labor scarcity caused by the Black Death illustrates the differences between moral and modern economies. Landlords suddenly began to compete with each other for workers by offering higher wages in order to attract laborers.<sup>93</sup> Today no one would blame those laborers for working for the employer who paid most. Those are the laws of demand and supply in a labor market. Yet, in the Middle Ages leaving one’s employer was a moral infraction that was harshly punished in the labor statutes of the 15<sup>th</sup> century.<sup>94</sup> They prohibited agricultural and urban workers from leaving employers for better paid work and labeled and regulated those that did as vagrants and criminals. This legislation with its harsh physical punishments emerged all over Europe. Its sole purpose was to keep labor socially embedded and to prevent its geographic and hence social mobility at all costs.

But laborers did not harbor social mobility aspirations anyway. They typically responded to higher wages by working *less*, not more. Since the wage was their fair allowance that enabled them to live according to their social status, a higher wage enabled them to achieve their status needs with less work hours. Higher wages enabled them to also enjoy the non-work correlates of work more, such as socializing, drinking, and gambling with the other workers – behaviors that the labor statutes condemned as laziness.<sup>95</sup> Thus, medieval agricultural laborers were not driven by a strong individual work ethic to earn more; rather, earning enough to survive was fine, and work was a collective enterprise with plenty of time for socializing, drinking, and resting.<sup>96</sup>

The labor laws of the 15<sup>th</sup> century also illustrate the importance of punishment and correction when individuals or groups violate the laws of the moral economy. If these mechanisms do not operate reliably, a moral economic “recession” ensues as those who feel taken advantage of cede to give. For example, Thompson’s and Scott’s peasants and Moore’s workers resist the imposition of economic innovations that violate the “general ground plan”<sup>97</sup> and devalue the social dimension of their contributions. Because markets required that sellers and buyers “naturally” find one another, peasants, farmers and artisans reacted to early industrialization with unrest and mobilization, defending the traditional norms of reciprocity, deference and paternalism.<sup>98</sup> Traditional societies responded in the same way when they confronted the market expansion and industrialization brought by western colonialism and economic globalization. For example, in Burma and Vietnam peasants resist the commercialization of agriculture on moral grounds, defending the subsistence economy despite the instrumental incentive to change economic behavior amid commercializing pressures.<sup>99</sup> Regardless of

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<sup>93</sup> \*Include numbers on how many people died

<sup>94</sup> \* Ref labor legislation.

<sup>95</sup> \*Include reference

<sup>96</sup> \*Cite references MA chapter Manuskript 2. \*As Max Weber shows in the *Protestant Ethic*, in some parts of Europe these norms and behaviors persisted far into the 19<sup>th</sup> century. Also include *Economy and Society*.

<sup>97</sup> (Moore 1978: 509, 4-5)

<sup>98</sup> (Thompson?). \*

<sup>99</sup> (Scott 1976)

whether these communities are located in 15<sup>th</sup> century France, 18<sup>th</sup> century England, or 20<sup>th</sup> century Vietnam, they revolt against what they view as “unfair and unjust behavior.”<sup>100</sup>

Moral economies are systems of mutual obligations: each “gift that has been received” was “to be obligatorily reciprocated.”<sup>101</sup> What individuals are expected to give, and what they can expect to receive depends on their social status. The fulfillment of these obligations is monitored by the community, and violation is punished with social sanctions and results in loss of status. In traditional societies, moral economies thusly maintain individual status, through mutual help within and between status groups. The two main forms of medieval social protection illustrate this system: the guilds and charity.

The guilds were exclusive occupational associations of craftsmen and merchants. They provided proto-social insurance, as they required their members to contribute and supported other members in need, including the widows of deceased members, guild members who were incapacitated by accidents or illness, those who had fallen on hard times because they did not have work, lost their shops in a fire, or experienced some other kind of hardship. They also provided cheap credit to indebted or bankrupt members.<sup>102</sup> The guilds reproduced social status differences because they did not provide for non-members, members had to belong to the profession that the guild represented, and admission was limited and costly. The wealthier the guild, the larger was the membership fee, and the more generous the support it could grant to members in distress.

At the bottom of this social structure were those who were too poor to invest in such mutual help. Though the beggars often had guilds as well, they were associations of the have-nots who emulated the standard model. They depended on support from above. One of the institutions that served both was the hospital, which served the elderly, ill, and poor. Similar to old age insurance today, it was a common practice for wealthy medieval citizens to purchase a place in the hospital for their old age. A considerable portion of their payments then went to providing accommodation for the (healthy and ill) poor who could live there for free, albeit under less pleasant circumstances.<sup>103</sup>

The poor did not get a free lunch, though. They could count on the wealthy to support them materially, but the wealthy also counted on the poor, to support them spiritually. Charity and almsgiving were gift exchanges: The alms helped the poor survive in this world; prayers from the poor helped their benefactors to make it into the next. Prayers from the poor were one of the few ways the wealthy could make it through the eye of the needle and go to heaven. Each prayer added to the salvation of the soul in the afterlife, providing additional insurance against being stuck in purgatory. Another form of “afterlife insurance” for the wealthy were foundations to endow hospitals, or donations for the hospitals, to support the poor and thus breeze through purgatory and make it to heaven as fast as possible with the help of the poor.

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<sup>100</sup> (Moore 1978:21).

<sup>101</sup> (Mauss, 3. Another quote on Mauss 7)

<sup>102</sup> \* e.g. the *Monti di Pieta*, guilds. See discussion of medieval charity and mutual help in the Introduction.

<sup>103</sup> \*Include reference on hospitals



## 2.2 Polanyi's "counter-movement" and the rise of the welfare state

The rise of industrial capitalism in the 19<sup>th</sup> century destroyed the moral economy, disembedding the economy from society, and embedding society into the economy. As this "Great Transformation" takes its course, markets are first "liberated" from moral constraints, only to then colonize society, "commodifying" social life and replacing the expectations of the moral economy with the "exhortation to be 'economical.'"<sup>104</sup> The modern market economy enforces a re-ordering of culture and institutions along lines more conducive to commoditization, abstract exchange equivalence and the liberation of the profit motive from traditional communal and moral regulation.<sup>105</sup> Traditional institutions – the family, the church, and the community – become embedded into the market.<sup>106</sup>

This great economic transformation has grave human consequences. The medieval artisan worried about having to endure the purifying fire of purgatory before his soul could pass on to heaven; the industrial worker is fed to the "Satanic Mill" of the factory right away. Industrial capitalism treats labor as a commodity. It causes not only "massive suffering" but also endangers the labor supply, because it does not guarantee the elementary requirements of survival. Labor is a "fictitious commodity" because quantity is not very flexible.<sup>107</sup> Absent alternative sources of income, workers cannot reduce their supply without damaging it since it cannot be stored away if wages are too low, or if there is no labor demand.

Thus, Polanyi argues that for the invisible hand of the market to not fracture, it needs the visible hand of the state. 19<sup>th</sup> century *laissez faire* made markets less competitive and free, and reduced the quality of the labor supply, not to speak of the human cost of the factory system. The *Great Transformation* is not complete until there is a minimum of harmony between the laws of the labor market and the laws of nature. For market and mankind to be in harmony, humans must be able to eat even if they have no work, or if they cannot work, or if their wages are too low.

What turns this transformation from *Grave* into *Great* is a "counter-movement" that departs from the *laissez faire* approach to economic regulation and culminates in the "de-commodification" of labor.<sup>108</sup> De-commodification means that labor not chained to the market. Individuals can survive outside the labor market by relying on the welfare state. They do not have to work for any wages and under any conditions, and do not have to live in deprivation if work is unavailable, or if they are unable to work.<sup>109</sup> Polanyi's discussion of how the labor movement and state intervention "lay down the law of society and the primacy of society"<sup>110</sup> over the economy in the inter-war years foreshadows the final stage of societal "self-protection." Had Polanyi written his book in the 1960s rather than the 1940s, he would

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<sup>104</sup> (Polanyi 1977:13).

<sup>105</sup> (Polanyi 1977:10f)

<sup>106</sup> {Booth, 1993 #538:656}.

<sup>107</sup> (Polanyi 1957 [1944]:250, 33-129);

<sup>108</sup> Because the welfare state institutionalize income options outside of, and alternative to the market, and thereby diminishes the commodity status of labor within the market, it "de-commodifies" labor power (Polanyi 1957 [1944]; Borchert 1998; Offe 1984).

<sup>109</sup> (Polanyi 1957 [1944]:251). \*Add Titmuss. (Esping-Andersen 1990). The "commodification" and "de-commodification" concepts were first introduced by Karl Polanyi in the *Great Transformation* (1957 [1944]), further developed by Claus Offe in *Contradictions of the Welfare State* (1984), and refined and empirically operationalized in Gøsta Esping-Andersen's regime typology.

<sup>110</sup> \* Ref

have concluded with the welfare state. In 1950, Thomas Humphrey Marshall termed this stage the “social rights of citizenship.”

### 2.2.1 The social rights of citizenship

The social rights of citizenship have “freed each of us from the enslavement of gift relations” as the “[t]he bureaucratized transfer of income (...) ensures that those with resources and those in need remain strangers to each other.”<sup>111</sup> In pre-modern societies, status differences within a social hierarchy assigned each group different rights and responsibilities. In modern welfare states, individuals receive benefits because they meet standardized eligibility criteria, not because they appeal to the social obligations of the wealthy whose status implies an obligation towards the poor. As it steps in as a middle man between those who are in need and those who are not, the welfare state replaces mutual help within status groups and charity with “solidarity between strangers” (Michael Ignatieff).

These strangers all hold equal rights, because they are citizens. In Marshall’s classic formulation, citizenship is “a system of equality.”<sup>112</sup> The welfare state does not compromise individual dignity by enforcing social status, as citizens’ political and civic rights are not affected if they receive support from the state. Receiving support from the community no longer implies a lesser political and civic status. Beneficiaries no longer lose the right to vote, or to conclude contracts. As a result, they are also socially less stigmatized – they are fuller members of the community because they hold full citizenship rights. Nor are the poor at the mercy of their benefactors any longer: they no longer depend on the unpredictable generosity of particular individuals to whom they then must be grateful and loyal. They can participate politically and shape the laws and institutions of society, and because they have the same economic rights as everybody else they have a chance of upward mobility. Thus, the welfare state revolutionizes how societies support the least among them.

However, as the comparative welfare states scholarship observes, this transformation goes much further in some countries than in others. If citizenship is a system of equality, then why are some societies more equal than others?

Industrial capitalism is causal for the welfare state, in two ways: it produces the ends of the welfare state, and it provides the means. – It produces inequality, poverty, and new social risks that make the welfare state necessary, and it generates the economic growth that makes the welfare state feasible. But this functionalist “logic of industrialism” is not alone sufficient.<sup>113</sup> Power resources theorists thus argue that “the growth of the welfare state is a product of the growing strength of labor.”<sup>114</sup> Variations in the extent of social rights are not simply the result of different growth rates, but also of different power balances between social democratic or other left-wing parties representing workers, and the parties on the political right representing capital. The stronger the Left, the bigger the welfare state.<sup>115</sup>

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<sup>111</sup> (Ignatieff 1984:17, 18; Mauss 1990 [1950]:\*)

<sup>112</sup> \*Cite Marhsal

<sup>113</sup> \*Wilensky, \*Peter Lindert *Growing Public*

<sup>114</sup> (Stephens 1979:89).

<sup>115</sup> (Huber and Stephens 2001; Korpi 1983; Esping-Andersen 1985; Hicks 1999). This argument emphasizes that “the structure of class coalitions is much more decisive than are the power resources of any single class” (Esping-Andersen 1990:30). For example, if capitalists were very strong and labor was weak (as in the U.S.), the welfare

There are three major patterns of “class-related distributive conflict and partisan politics.”<sup>116</sup> The social democratic regime is the result of a “red-green alliance” between a strong labor movement and farmers, which later incorporated the middle class. The liberal regime emerged where the labor movement was weak. Workers and farmers did not coalesce, and the incorporation of the middle class (and thus “universalisation” of the welfare state) failed. The conservative regime started out with a strong labor movement but farmers and workers failed to coalesce because agriculture was labor intensive and saw unions as a threat. Instead, conservatives and farmers formed “reactionary alliances.” This regime does incorporate the middle class but because of “conservative political forces, these regimes institutionalized a middle-class loyalty to the preservation of both occupationally segregated social-insurance programs and, ultimately, the political forces that brought them into being.”<sup>117</sup>

Much of the variation between welfare states can be attributed to factors that affected the strength of the Left. Factors that diminished left-wing parties’ power resources include racial and ethnic heterogeneity, majoritarian electoral rules, federalism, high social mobility or low inequality, and closed economies that were less vulnerable to external shocks. Most importantly, societal heterogeneity reduces worker cohesion. The labor movement was strongest in ethnically and racially homogenous societies. Religious cleavages, large geographic distances and urban center/rural periphery differences also weaken the ability of workers to create a strong and unified labor movement.<sup>118</sup> Today, more homogeneous societies also have higher social spending.<sup>119</sup>

The political influence of the Left also depends on the electoral system. Once lower income groups enjoyed political representation, they could tax the wealthy. Countries with proportional representation have significantly bigger welfare states than countries with majoritarian electoral systems because proportional rules generate multi-party systems in which the interests of the poor are better represented in a political party than in a two-party system.<sup>120</sup> Workers also benefit from living in small open economies. Because these economies are more vulnerable to external shocks, they build bigger welfare states as bulwarks to protect their workforces.<sup>121</sup>

### **2.3 Rights and responsibilities: Revisiting Marshall’s “social citizenship”**

These different explanations of welfare state development share a “Marshallian” concept of the welfare state as the social rights of citizenship. Marshall’s lecture on *Citizenship and Social Class* (1950) is probably the most cited classic in the comparative welfare states literature. For example, Gøsta Esping-

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state turned out to be small; if labor was strong and dominated capital (as in Sweden), the welfare state turned out to be generous and comprehensive (e.g. Korpi 1983, 2006; Esping-Andersen 1985, 1990; Baldwin 1993 [1990]; Huber and Stephens 1999, 2001).

<sup>116</sup> (Korpi 2006:168).

<sup>117</sup> (Esping-Andersen 1990:31f; see also Esping-Andersen 1996).

<sup>118</sup> \* Stein Rokkan and Manow/Kersbergen. Baldwin

<sup>119</sup> (Alesina and Glaeser 2004; Lee et al. 2006)

<sup>120</sup> (Alesina et al. 2001; Perotti 2002; Persson and Tabellini 2003; Iversen and Soskice 2006, 2009) Other political institutions also affect welfare state generosity. State structure and political institutions strongly affect how many roadblocks there are to introducing and expanding social protection measures – federalism, majoritarian electoral rules, and lacking state capacity (e.g. bureaucracy) being the main obstacles (e.g. Skocpol 1985, 1992; Weir et al. 1988; Immergut 1992; Hacker 2002).

<sup>121</sup> (Cameron 1978; Rodrik 1998)

Andersen's "modern" classic, *The Three Worlds of Welfare Capitalism* (1990) argues that the degree to which the state reduces the commodity status of labor indicates how far social citizenship has advanced:

"Few can disagree with T.H. Marshall's ... proposition that social citizenship constitutes the core idea of a welfare state. ... Above all, it must involve the granting of social rights. If social rights are given the legal and practical status of property rights, if they are inviolable, and if they are granted on the basis of citizenship rather than performance, they will entail a de-commodification of the status of individuals *vis-à-vis* the market. ... De-commodification occurs when ... a person can maintain a livelihood without reliance on the market. ... A minimal definition must entail that citizens can freely, and without potential loss of job, income, or general welfare, opt out of work when they themselves consider it necessary."<sup>122</sup>

*The Oxford Handbook on the Welfare State* provides a snapshot of how today's scholarship defines and operationalizes the welfare state, summarized by John Stephens in the following way:

"[T]he dominant conception of the welfare state has been that it represents a transfer of allocation of goods and services from market determination to political determination. T.H. Marshall's formulation ... has undoubtedly been the most influential conceptualization of the welfare state. ... Based on Marshall's conception, contemporary welfare state scholars generally view [as] the best measure of the level of welfare state development ... the degree to which welfare states substitute transfer payments and public services as 'social rights of citizenship' for income and services to be allocated by the market."<sup>123</sup>

Thus, social rights reduce individual dependence on the market through welfare state redistribution. The standard measure of the welfare state is social expenditure, i.e. the share of its GDP that a country devotes to benefits and services.<sup>124</sup> More comprehensive measures of social rights combine social spending with replacement rates, benefit duration, qualifying periods, waiting days, coverage, and take-up rates and provide a more accurate picture of welfare state generosity.<sup>125 126</sup>

Responsibilities are not part of this conceptual and empirical framework. Thus, welfare-to-work policies that make benefit receipt conditional on actively seeking work, demonstrating willingness to work, and improving one's employability are therefore a particularly dangerous form of welfare state retrenchment. Rather than just reducing social rights (e.g. by cutting benefit levels), they attack the very concept of the social rights of citizenship. Social rights cannot be made conditional, because they are tied to citizenship status. Stuart White writes:

"Marshall famously argued that the welfare state represents a further stage in the development of citizenship rights. In recent years, however, many welfare states ... have shifted towards the increased use of 'conditionality', ... making cash assistance to the unemployed conditional on

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<sup>122</sup> (Esping-Andersen 1990:21-22, 23)

<sup>123</sup> (Stephens 2012:511)

<sup>124</sup> (for some recent examples see Alesina and Glaeser 2004; Brooks and Manza 2007; Haggard and Kaufman 2008; Lindert 2004) \*Pontusson article AJPS 2011.

<sup>125</sup> Esping-Andersen\* (see also Green-Pedersen 2004; Pierson 2001c:\*; Kitschelt 2001; Clayton and Pontusson 1998) \*Check Kitschelt and Pierson. They both argue that there is a dependent variable problem.

<sup>126</sup> (e.g. Esping-Andersen 1990; Scruggs and Allan 2006b, 2006a; Kitschelt 2001; Korpi 2003; Korpi and Palme 2003). For example, Scruggs and Allan (2006a, 2006b) provide an modified version of Esping-Andersen's (1990) decommodification index that includes the replacement rate, qualifying period, waiting days, duration of benefit, coverage ratio and take-up rate.

tougher work-related requirements. Both critics and supporters of the conditionality movement have argued that this marks a break with the Marshallian philosophy of ‘social rights’.”<sup>127</sup>

Welfare-to-work policies therefore undermine the social rights of citizenship. Rather than de-commodifying labor, they promote labor market insertion into an ever more globalized labor market. In other words, the welfare state executes the reversal of the “countermovement” by “re-commodifying” labor, again exposing it to the existential threats of precarious employment, unemployment, and poverty. Whatever it is that remains after this suicidal transformation, it no longer meets Marshall’s definition of a welfare state.

Marshall’s foundational text may not be as widely read as it is cited, though. Its definition of social citizenship explicitly includes responsibilities as the necessary counterpart to rights. Marshall insists that in order to guarantee social rights, the state has to also ascertain that its citizens pay taxes, insurance contributions, and work *hard*:

“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.”<sup>128</sup> The welfare state advances citizenship by “incorporating social rights in the status of citizenship and thus creating a universal right to real income which is not proportionate to the market value of the claimant.”<sup>129</sup> It thus changes “the balance between rights and duties. Rights have been multiplied, and they are precise. Each individual knows just what he is entitled to claim. The duty whose discharge is most obviously and immediately necessary for the fulfillment of the right is the duty to pay taxes and insurance contributions. Education and military service are also compulsory. The other duties are vague, and are included in the general obligation to live the life of a good citizen. ... Of paramount importance is the duty to work.”<sup>130</sup> “[T]he essential duty is not to have a job and hold it, since that is relatively simple in conditions of full employment, but to put one’s heart into one’s job and work hard.”<sup>131</sup>

These passages do not suggest that the standard “social rights” concept of the welfare state is incorrect, but that it is incomplete. It reflects a normative bias in how welfare state scholars read Marshall and what they “count” as part of the welfare state. Marshall saw rights and duties as a union; Marshallians adopted only the rights.<sup>132</sup> Marshall would have rejected Esping-Andersen’s claim that full social rights allow individuals to “opt out of work when they themselves consider it necessary.” Indeed, he explicitly discusses this possibility as an unresolved problem.<sup>133</sup> He likely would have disagreed that welfare-to-work principles are incompatible with social citizenship, and told its critics that “[i]f citizenship is invoked in the defence of rights, the corresponding duties of citizenship cannot be ignored.”<sup>134</sup>

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<sup>127</sup> (White 2012:21)

<sup>128</sup> 92

<sup>129</sup> 106

<sup>130</sup> (Marshall 1950:129).

<sup>131</sup> 130

<sup>132</sup> The literature also builds on Marshall’s arguments about the relationship between welfare state and market, and the welfare state and societal stratification.

<sup>133</sup> \* citation

<sup>134</sup> 123

### ***Implications for conceptualizing the welfare state***

This re-reading of *Citizenship and Social Class* has three implications for a “Marshallian” approach to the welfare state: First, it needs to include the obligations of citizenship. Second, Marshall’s standards for these obligations are demanding, in particular regarding work. Third, he observes that rights and responsibilities are a work in progress. Duties can be vague or specific, and duties and rights both evolve, as does the balance between them. Because responsibilities tend to be less precisely defined than rights, they are more flexible. For example, the duty to work depends on whether work is available, and whether citizens are willing to work.<sup>135</sup> He also observes a growing population who prefers drinking and smoking over hard work, and discusses how to (re-)define, implement, and enforce the “standard” of “hard work.”<sup>136</sup>

These implications add up to a different welfare state “formula” in which rights are conditional on responsibilities. Thus, describing the welfare state requires accounting for the different ways in which social protection benefits can define rights and responsibilities, and calibrate the balance between them. For example, social insurance benefits are conditional on working, paying taxes, and payroll contributions, while public assistance benefits are conditional on behavioral requirements, yet these requirements are more vaguely defined and change over time. This contractual understanding of the welfare state suggests that welfare-to-work is an adjustment of the rights and responsibilities of citizenship.

The standard measure of social rights – social expenditure – does not provide a sufficiently detailed picture of these welfare state features. Spending data capture the size of the container, but not its content, i.e. how benefits and services are organized. Contrary to the assertions of some critics of the welfare state, nobody ever just throws money at problems. Policymakers need to decide on the program objectives and detail the rules for administrators and beneficiaries. There must be target groups and eligibility criteria. Benefit rates have to be determined and time limits for benefits and services have to be set. There needs to be a decision about what types of services to provide and administrative rules for how to allocate services. There must be behavioral requirements for what beneficiaries have to do to remain eligible. There must be regulations for how to deal with noncompliance. And policymakers constantly have to make adjustments to these program components.

#### **2.3.1 The “counter-movement” reconsidered: What did workers want?**

What Marshall “truly” meant is of course secondary. The key question is whether the social rights concept of the welfare state is historically accurate. The standard account of the origins of the welfare state is that industrial capitalism and democratization produce opposing political-economic interest groups who pursue state regulation that caters to their interests. The result is a “who gets what” mode of distributive politics. The stronger and better represented the working class is, the more redistributive will the welfare state become, i.e. the more advanced will social rights be. The most important actor to check in with is therefore the labor movement: What did workers want?

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<sup>135</sup> The last sentence in the excerpt quoted above suggests that high unemployment requires an adjustment of the obligation to work.pp.\*

<sup>136</sup> \*

According to most welfare states scholars, unions and social democratic parties were the main historical force behind welfare state growth. However, the labor movement thought in categories of contributing and fair shares, rather than taxing the better off and redistributing to the poor. It did not fight for the non-working poor, but demanded “to each according to his work.” Workers thus excluded not only the bourgeoisie who owned the means of production but also idle “paupers” who owned nothing. Unions deliberately separated the unemployed from the nonworking poor by creating exclusive unemployment benefits and thus protecting workers not only from deprivation but also from the stigma of poor relief.

From the perspective of workers, this insider-outsider divide was not a lack of solidarity with the poor. The divide was between contributors and non-contributors. Those who do not work fail to do their share – the non-working bourgeoisie and the non-working paupers alike. As a 1911 poster of the labor pyramid illustrates, workers’ view of society was that they carried the burden but received none of the benefits. It was workers who fed everyone else, and it was workers who went hungry.<sup>137</sup>

The labor movement did not consider redistribution without contributions practical. Not only would a welfare state that institutionalizes “from each according to his ability, to each according to his needs” (Marx) not be compatible with capitalism.<sup>138</sup> The industrial proletariat was itself a product of capitalism and letting people work according to their abilities and rewarding them according to their needs would only be possible in communism. The labor movement advocated for “to each according to his contribution” (Lenin),<sup>139</sup> demanding that wages reflect the quantity and value of their work.<sup>140</sup> Workers justified their claims with their contributions, not with their needs. Contrary to the conservative trope that in socialism the state takes care of everyone, the systems that came closest to the ideal of the labor movement did not tolerate idleness.<sup>141</sup> The principle enshrined in the Soviet Constitution was “From each according to his ability, to each according to his work.”<sup>142</sup>

Marx and Engels’ dictum “from each according to his ability, to each according to his needs”<sup>143</sup> did not appeal to the 19<sup>th</sup> and early 20<sup>th</sup> century labor movement. Its goal was equivalency between contributions and claims, the Leninist medium-term vision of “to each according to his contribution.”<sup>144</sup> The workers’ movement demanded wages and benefits that reflected the value of their work, so that “the distribution of life’s goods [would be] in proportion to the quantity and quality of individual

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<sup>137</sup> \*Pyramide. Include Hobsbawm and Gutman

<sup>138</sup> \*Marx, Karl (1875). "Part I". Critique of the Gotha Program. The postulate was part of Karl Marx’ *Critique of the Gotha Program* of the German social democrats. It would represent “a higher phase of communist society” in which there is no need for a welfare state.\*p.

<sup>139</sup> \*Vladimir Lenin, *The State and Revolution* Chapter 5, Section 3

<sup>140</sup> Therefore, the socialist workers’ state still relies on “the customary norms of wage payment – (...) the distribution of life’s goods in proportion to the quantity and quality of individual labor.” \* (Leon Trotsky, *The Revolution Betrayed* Chapter 3)

<sup>141</sup> Because the means of production are collectively owned and everyone must contribute through work.

<sup>142</sup> \*Stalin 1936 Soviet Constitution

<sup>143</sup> \*Marx, Karl (1875). "Part I". Critique of the Gotha Program. The postulate was part of Karl Marx’ *Critique of the Gotha Program* of the German social democrats. It would represent “a higher phase of communist society” in which there is no need for a welfare state. Page? \* See Introduction as well. Liebknecht, Bebel. Check *Kommunistisches Manifest*. And tactics of social democracy intro

<sup>144</sup> \*Lenin, *The State and Revolution* Chapter 5, Section 3, Lassalle and Duehring (?). Muennich.\*

labor.”<sup>145</sup> Workers did not demand redistribution according to need, or pursue redistribution as an end in itself. Strikes and wage negotiations would therefore be mischaracterized as a self-interested attempt by workers to get a larger share. They wanted “fair shares” of the profits they helped produce.<sup>146</sup>

This is also why the social insurance principle was appealing to workers. Indeed, it was *their* principle, and they were actively practicing it in the form of union administered benefits and workers’ friendly societies. Unions often preferred their traditional mutual help schemes over the welfare state. For example, German unions’ first choice of unemployment insurance was to supplement the existing union funds with subsidies from the state and employers.<sup>147</sup> Social insurance is large scale mutual help: Workers contribute a portion of their salary to a common pool that provides protection against a certain risk, and if they experience this risk, they receive insurance payments.

The conflicts and negotiations about the first welfare state programs revolved around contributions and claims: how much and for long one had to contribute, what conditions qualified for benefit receipt, how generous benefits would be, for how one could claim a benefit, and how to guard the system against freeloaders. Unions had extensive experience with administering social insurance, e.g. member financed unemployment compensation funds. They fought for “the social rights of citizenship,” but their argument was that workers already fulfilled “the corresponding duties of citizenship.”<sup>148</sup>

As much as they sought to crush the Social Democrats, conservative welfare state builders like Bismarck and von Taaffe pursued the same principles.<sup>149</sup> Tying benefits to contributions was at the heart of Roosevelt’s New Deal in the United States as well. As Murray Latimer, Chairman of the Railroad Retirement Board and a member of the Committee on Economic Security explained Social Security for the elderly, individuals would “through their own *contributions*, build up the *right* to annuity of their own on an inalienable contractual basis.”<sup>150</sup> Rather than inviolable rights (Esping-Andersen) these politicians spoke of inalienable contracts. Michel Rocard, who as Prime Minister introduced France’s first universal welfare benefit in 1989, explained this *Revenu Minim d’Insertion* as “a right combined with a return service by the beneficiaries:”

“Et j’affirme, moi, que ce revenue doit être un droit, mais un droit assorti d’une contrepartie pour ses bénéficiaires: qu’ils accomplissent, avec toute l’aide nécessaire, l’effort de s’engager résolument dans un processus de réinsertion.”<sup>151</sup>

### ***Soldiers, mothers, and civil servants***

These principles do not only apply to workers. Any group who made a substantive, acknowledged contribution can make claims based on their contributions. Social insurance is organized around the

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<sup>145</sup> Therefore, the socialist workers’ state still relies on “the customary norms of wage payment – (...) the distribution of life’s goods in proportion to the quantity and quality of individual labor.” \* (Leon Trotsky, *The Revolution Betrayed* Chapter 3)

<sup>146</sup> \*Cite

<sup>147</sup> \*Swenson. Muennich

<sup>148</sup> (Marshall 1950:123)

<sup>149</sup> \*Bismarck *Quellensammlung deutsche Sozialgesetzgebung*.

<sup>150</sup> (Hopkins et al. 1935:6) My italics.\*

<sup>151</sup> \*Translate “Cinq priorités.” (Rocard 1989:113)



financial contributions of wage earners, but societal contributions outside the labor market also “count,” most importantly defending one’s country as a soldier, “producing” new citizens (and replacing dead soldiers) through childbearing and rearing, and contributing as a public servant. It is by virtue of their contributions that different groups have historically been granted a larger share, often without explicitly fighting for it.

For example, 19<sup>th</sup> century arguments for increasing taxation of those who could avoid the universal draft stressed that those who did not fight for the nation “owed” those who did.<sup>152</sup> Veterans can credibly argue that because they have served the country, the country now should provide services and benefits to them. – This was the main claim of the veterans who marched to Washington in the midst of the Great Depression.<sup>153</sup>

Their role as mothers is the major way women have historically earned access to the welfare state, long before female labor force participation increased.<sup>154</sup> This provision can be post-hoc, reciprocating a contribution, e.g. survivor benefits and pension bonuses for each child. Or it can be ex ante, “paying” women for parenting; for example, the state can step in for the absent male breadwinner in welfare benefits for single mothers that increase with each additional child, or it can support stay-at-home mothers with child-rearing benefits for small children or child benefits for each child until the child reaches adulthood.<sup>155</sup> Such benefits reflect the same “to each according to his contribution” principle as benefits tied to wage-work.

## **2.4 Reciprocal sharing as an evolutionary universal**

These observations are anything but unique to the 19<sup>th</sup> and early 20<sup>th</sup> century. Evolutionary biologists, anthropologists, ethnographers, and archeologists find that sharing, cooperating, and punishing free riders have defined human society since its very beginnings. Experimental economists show that these norms are still valid today, across the world, independent of their level of development.

### **2.4.1 Evidence from ethnography, archeology, and evolutionary biology**

“Solidarity between strangers” is not unique to the welfare state. Large scale, mutually anonymous redistribution has been around for much longer. Institutions like hospitals, alms provision by churches and cloisters, poorhouses, and workhouses date back at hundreds of years before the welfare state. Solidarity within small communities goes back even further. Archeological evidence suggests widespread and diffuse sharing of resources since the beginnings of human society. Ethnographic research supports this conclusion, as all small societies known to ethnographers practice cooperative sharing.<sup>156</sup>

One possible explanation of cooperation and sharing are necessary for survival but not per se desirable. However, reviewing data from forty-eight simple societies, Boehm finds that this is not the case. Rather, “these societies may be considered to be intentional communities” because they explicitly state and

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<sup>152</sup> \*Scheve

<sup>153</sup> \*Genauer, reference

<sup>154</sup> \*Skocpol, Pedersen, Gordon, Maternalist policies: Orloff book

<sup>155</sup> \* E.g. Abramowitz, Gordon, ... Something on Germany, something on France

<sup>156</sup> Knauft, 393, 395. See Bowles and Gintis (2000:39, Footnote 9) for a listing of ethnographic studies on food sharing in foraging bands.

actively enforce these values.<sup>157</sup> Nevertheless, “the evolutionary viability of sharing institutions and of motivations that support them”<sup>158</sup> suggests that societies who endorse and enforce these principles hold an evolutionary advantage over societies who do not. As a result, these institutions reappear independently from each other over and over again across human history and across societies: mankind has evolved as a “cooperative species.”<sup>159</sup>

The transmission mechanisms are genetic and cultural. Genetic mechanisms provide natural selection advantages for individuals who cooperate, e.g. because they have higher societal status, and because societies prioritize the survival of cooperators, who are more deserving of support from others than self-interested individuals. Cooperative behavior also prioritizes basic needs over secondary needs, and reduces the costs of practices that are beneficial for societal reproduction, such as child rearing, sharing, work towards common ends, and monogamy. As a result, communities that practice cooperative sharing have higher chances of survival and tend to absorb societies that do not cooperate.<sup>160</sup>

Cultural mechanisms include family socialization, religion, the punishment of norm violators, and the higher social status of cooperators. The Golden Rule of treating others as one would like to be treated oneself is a fundamental moral rule in virtually all historical and contemporary religions. It “express[es] the essence of a universal morality.”<sup>161</sup> Maxims such as “do unto others as you would have them do unto you” in Christianity imply sharing with those who have less, reciprocating gifts, and not taking advantage of each other. They also prevent excessive revenge towards norm violators.<sup>162</sup>

Such normative rules do not, however, prescribe that the receiver must “return” something of the exact same value, nor do they mandate that the giver can expect a return gift from the receiver. Rather, reciprocity is generalized. The Lord’s Prayer shows how central these principles are to Christianity: it is about giving, receiving, owing, and forgiving. Believers ask God to give them their daily bread, and promise to forgive their debtors. The prayer includes a specific statement about what believers will give to each other, but no specific statement about what they ask, or expect of each other. God’s kingdom on earth is a community where everyone forgives those who owe them in some way, they themselves are forgiven for what they owe, and they will receive what is due to them.

At the societal level, cooperation provides an evolutionary advantage. At the individual level, however, individuals or groups who act self-interestedly while everyone else cooperates enjoy an evolutionary advantage in the short run. In the long run, however, free riding undermines the benefits of cooperation. Cooperative structures disappear, hurting cooperators and free riders alike. Enforcement mechanisms that punish and prevent freeloading are therefore essential. Without punishment people would not behave morally.<sup>163</sup> Cooperators not only help each other; they also hurt those who take

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<sup>157</sup> \*Boehm 1993: 239.\* Bowles/Gintis’ new book on reciprocity/cooperation in history –on mutual obligations as a basic part of human nature. \*Include Aché of Eastern Paraguay: popular example in the ethnographic literature to illustrate these norms ...Kaplan 1984 in Bowles\*

<sup>158</sup> \*Boehm?

<sup>159</sup> Bowles/Gintis 2012\*

<sup>160</sup> \*(Bowles and Gintis 2000:46). Add Mothers and Others\*

<sup>161</sup> Stace, 136.

<sup>162</sup> \* Golden Rule cites.

<sup>163</sup> (Boehm 2012).

advantage of them: they “are equally unselfish in seeking to punish, often at great cost to themselves, those who have done harm to them and others.”<sup>164</sup> In archaic societies, enforcement of such norms occurred at the group level between members of a band or tribe. In the modern world, most punishment happens not at the interpersonal level, but in formal institutions. The individual impulse to punish non-cooperators, however, is still powerful.

#### **2.4.2 Dictator and ultimatum games, prisoners’ dilemmas, and public goods experiments**

Economic experiments confirm how deeply embedded the principles of sharing, cooperation, and punishment are into both traditional and modern societies. This is particularly remarkable because these experiments intended to prove the opposite – the *homo economicus* model of the self-interested individual actor.<sup>165</sup> What they find instead is a universal culture of “reciprocal fairness.”<sup>166</sup> Across a wide range of societies, a majority of the participants consistently cooperates and shares, even if it does not pay off for them, but only as long as they are not taken advantage of. People are generous towards those in need, but their generosity is conditional on reciprocity.

##### ***Sharing: Fair distributions***

The dictator game is the most direct way to test whether humans share with those who have less. It includes two players who are mutually anonymous. One player (the dictator) is given a sum of money and told to distribute the amount between the two. The rational decision would be to take all and give the other player nothing, but only a small minority makes this choice. Most dictators give between 20%-60% to the other player.<sup>167</sup> This experiment thus demonstrates the existence of an independent foundation for sharing, and a baseline that marks the minimum the worst off should receive. It indicates a universal aversion against extreme inequality. This aversion does not imply an affinity to full equality, though, as dictators rarely opt for a 50-50 distribution.<sup>168</sup> These findings have been replicated in many experiments and surveys across the world.<sup>169</sup>

When the dictator game is played as an ultimatum game, the first player (the proposer) again divides the money but now the second player (the responder) can either accept or reject this distribution. If the responder rejects, no one gets anything. This modification thus makes the dictator accountable. For example, if the proposer has 10 Dollars to divide up, the economically rational choice would be to take 9.99 Dollars and give the responder 1 cent. A rational responder would accept because 1 cent is better than nothing, and the proposer would get the maximum possible amount. However, the vast majority of proposers offers between 40% and 60%, and responders reject offers below 30%. When proposers are asked afterwards why they offered so much, they explain that they fear the responders would consider too low an offer unfair and reject it. This is indeed a valid concern. Responders do not accept *any* gain.

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<sup>164</sup> (Bowles and Gintis 2000:38).

<sup>165</sup> \*Axelrod and Hamilton 1981, Axelrod 1984

<sup>166</sup> Fehr et al (2002). Check out:  
[http://scholar.google.com/scholar?q=Fehr+reciprocity+and+cooperation&hl=en&as\\_sdt=0&as\\_vis=1&oi=scholar](http://scholar.google.com/scholar?q=Fehr+reciprocity+and+cooperation&hl=en&as_sdt=0&as_vis=1&oi=scholar)

<sup>167</sup> \*Forsythe 1994

<sup>168</sup> \*CHECK

<sup>169</sup> \*Include Americans would prefers Sweden experiment etc. Also include \*Neuroscience of the Golden Rule: Pfaff, Donald W., "The Neuroscience of Fair Play: Why We (Usually) Follow the Golden Rule", Dana Press, The Dana Foundation, New York, 2007.

Rather, they compare their share to what the proposer is to gain, and reject an offer that is too low because it is unfair. Even though responders would benefit if they accepted 20%, or 10%, or even 0.01%, they would rather pay the opportunity cost of not accepting a disadvantageous offer if that means the proposer gets nothing either.<sup>170</sup>

Such willingness to share cannot be explained with altruism, because the distributions that are most popular in dictator and ultimatum games are between altruism and selfishness. An alternative explanation is a combination of altruism and selfishness. Indeed, self-interest is often a motivation for cooperating.<sup>171</sup> It is certainly consistent with the proposer's behavior in the ultimatum game. But it does not explain why responders would reject a positive offer. Punishing proposers for unfair offers is motivated by revenge; it is a reciprocal act. This can be confirmed when altering the game so that rejection does not hurt the proposer, or when the offer is computer generated. Both modifications eliminate the opportunity for revenge. In both situations, respondents are much more likely to just accept unfair offers.<sup>172</sup> In other words, people behave reciprocally only when the rules of the game are reciprocal. If they are not, other motivations will be activated, most importantly self-interest.

### ***Reciprocity: Cooperation and punishment of defectors***

A further analytical step is the prisoner's dilemma: two criminals are simultaneously interrogated by the police about a crime they have committed together. If they both hold tight, they will both walk out as free men. If one confesses, he will walk out a free man and get a monetary reward, whereas the other one will get the full sentence. If both decide to confess, both get a reduced sentence for their confessions, but no reward. In prisoner's dilemma experiments, two players simultaneously decide whether they cooperate or defect. For example, the payoff for mutual cooperation can be 10 Dollars for each; the payoff for mutual defecting is 5 Dollars each; the payoff when one cooperates and the other defects is 15 Dollars for the defector and 0 Dollars for the cooperator. The total payoffs are highest when both cooperate and lowest when both defect. Thus, the overall best choice is for both to cooperate. Yet, since individual players do not know how the other one decides, they are always better off by defecting: if the other player cooperates, the defector gets the highest possible individual payoff; if the other player also defects, both are still better off than had they cooperated.

When the same players play multiple rounds of this game, the best individual strategy is tit-for-tat, i.e. the individual player cooperates in the first round and in subsequent rounds always does whatever the other player did. This strategy rewards cooperators as it maximizes the total payout. It also punishes defectors *and* forgives them as soon as they switch to cooperation, thus "socializing" selfish players. Most participants do not need to be socialized in this way, though, as they already cooperate in round one. The subsequent rounds reveal that reciprocal punishment is necessary as an enforcement mechanism in a cooperative system.

Tit-for-tat is consistent with economic rationality because it maximizes total individual payouts, but this does not apply to all forms of reciprocal punishment. For example, the rejection of unfair distributions in

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<sup>170</sup> \* references

<sup>171</sup> (bowles ginitis 37, 38)

<sup>172</sup> \*Abbink 1996, Blunt 1995

ultimatum games is tit-for-tat, but without the possibility of future payoffs. The “tit” reaction appears to be primarily motivated by the Golden Rule; i.e., it is reciprocal.

Prisoner dilemma games can be expanded beyond two players to mutually anonymous groups. This setting comes close to mimicking the reciprocity dynamics of the welfare state. The most common version of this large-n public goods experiment is to give ten players one Dollar each in each of ten rounds. The participants can put a portion or all of their money into a common pool. After each round, the experimenter counts the amount that is in the common and then pays each player 50% of the total amount. It would thus be foolish to not cooperate: If no one cooperates in any round, each player takes home only \$10. But if all players pay into the common pool in a given round, the pool contains ten Dollars and each player gets back five Dollars. Thus, if all players cooperate in each round, they take home five times the amount they contributed. However, if just one player chooses to defect and everyone else cooperates, this player gets even more: \$4.50 plus “his” \$1 in each round, increasing this player’s total payout of \$55, and decreasing the cooperating players’ payout \$4.50 per round and \$45 total. Most players choose a strategy in between: They contribute about half of their money to the common pool.<sup>173</sup>

However, contributions decline in later rounds. Curiously, this cannot be explained by a learning effect as players realize that freeloading is more advantageous than contributing, as this pattern reoccurs when the experiment is repeated with the same players. The cause of the decline is retaliation against defectors. About a quarter of players attempt to freeload in these experiments.<sup>174</sup> Once cooperative players notice that there are freeloaders, they put less money in the common pool, sending the defectors a lower payout, along with the message that crime does not pay.<sup>175</sup>

When the rules are modified to give players the option to pay a fee to punish *only* the defectors, they consistently punish the defectors, even when this fee is higher than the payout in that round. Introducing such targeted punishment into the common pool experiment increases the total level of cooperation to nearly to the maximum possible level.<sup>176</sup> Thus, maintaining cooperation requires reliable sanctioning mechanisms, even when their cost far exceeds their benefits in the short term. Without them cooperation would not survive in the long run.

Another variation of these experiments allows punished defectors to punish the cooperators.<sup>177</sup> However, contrary to the author’s assertion, this design is not suitable to test whether punishment enforces cooperation. Punished defectors who take revenge at the cooperators who punished them are evidence that some people just do not respond to correction, just like notorious criminals who return to their bad deeds as soon as they get out of jail.<sup>178</sup> The existence of such a renitent minority can already be observed in the standard experiments discussed above. Even after repeated rounds of punishment public goods games do not achieve full cooperation.

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<sup>173</sup> 50% over all rounds?

<sup>174</sup> \* Where is this number from?

<sup>175</sup> \*Andreotti 1995

<sup>176</sup>\*Fehr and Gaechter 2000

<sup>177</sup> \*Cite

<sup>178</sup> \*include paper

### ***Discipline and punish... and forgive***

Thus, experiments show that cooperation dominates over individual cost-benefit considerations, and that there are two reasons why this is so. First, players contribute even when they can gain a higher payout from freeloading. Second, they punish freeloaders despite the opportunity cost of the foregone (lower) payoffs if they had tolerated the freeloading. Punishment cannot be explained as simply a self-interested investment in future cooperation, since players also punish defectors when they cannot expect future personal gain from paying the cost of punishment, e.g. in the ultimatum game. Thus, players act reciprocally: they cooperate with cooperators, and defect from defectors.

Players who punish “ordinary” free riders do not have eternal damnation in mind. Rather, free riders can redeem themselves and start cooperating. As soon as they do so, they are rehabilitated and the legitimacy of the system is restored as everyone resumes paying into the common pool. Punishment also has an indirect socialization effect, as it signals to all participants that free-riding will be detected and reciprocated in kind.

Dictator and ultimatum games are redistribution scenarios. Participants are either payers or receivers. These experiments thus show what people consider a fair distribution, that moral outrage about an unfair distribution and the desire to take revenge is a more powerful motivation than self-interest. In prisoners’ dilemma and public goods games, each participant is both a payer and a receiver. These experiments test cooperation and reciprocal sharing. Taken together, the different experiments demonstrate a universal foundation of fair shares that does not derive from individual merit, but only as long as individuals do their share.

These are the same principles as those identified in the ethnographic and evolutionary biological studies discussed above. They also describe central characteristics of the welfare state: Sharing with those who have less, requiring everyone to contribute, and punishing freeloaders. There is no reason to assume that societies dropped these principles on the threshold to modernity.

### **2.5 The welfare state as a system of reciprocity**

Welfare states resemble dictator and ultimatum games as the better-off are expected, and feel obliged to give to the worse-off. The minimum amount they should give in order for the distribution to be considered fair is rather high, even in the highly individualistic United States. Ultimatum games collapse if dictators are too stingy, as the receiver rejects the distribution. Likewise, not any amount will do in order for the welfare state to function. However, people have an equally strong sense that those who have more should not have to split their money 50-50 with the receivers. Players in dictator and ultimatum games do not usually walk home with the same amount of money.<sup>179</sup> Likewise, the welfare state reduces inequality, but it does not pursue an egalitarian distribution of income and wealth.

Yet, the state does not let taxpayers choose how much, and to whom, they would like to give. Rather, it steps in an intermediary between taxpayers and beneficiaries, exercising its power to tax and punish tax evaders, pooling the taxes paid, and making payments to eligible individuals. It also safeguards the common pool and keeps a record of everyone’s contributions and claims.

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<sup>179</sup> \* Reference. Even highly individualistic Americans favor more egalitarian distributions.

A welfare state that monitors only the taxpayers but not those to whom it redistributes those taxes would create a prisoners' dilemma, as taxpayers would have no guarantee that beneficiaries are not grabbing a free lunch without even doing the dishes. If contributors are convinced that they are taken advantage of, they may defect, causing the remaining contributors to carry an unfair share of the burden, and to perhaps also quit paying. Welfare states thus face the same problem as players in a common pool game: even minimal –or entirely imagined– freeloading massively undermines their legitimacy and stability.

Freeloaders are easy to spot in small communities. In large societies, however, they are anonymous. Like in common pool experiments, taxpayers can perceive freeloading without seeing the freeloaders. Welfare states are “real world” common pools where the obligation to contribute applies to every citizen – not only taxpayers but also beneficiaries. Like the players in a standard common pool experiment, the welfare state punishes those who violate this rule. What then does this rule mandate? How much do citizens have to contribute, and what happens if they fail to do so?

No welfare state combines generous benefits with a light burden for the beneficiaries. The more generous the benefits, the more important it also is that citizens contribute generously. This includes the beneficiaries, who must have already “done their share,” or are expected to do so in return for the benefit, or to contribute (or have already contributed) generously. While the welfare state enables citizens to survive outside the labor market, it also ensures that those who are of working age and able to work (re-)enter the labor market. It requires able-bodied, beneficiaries to actively seek work and accepting available work. It also incentivizes employment by keeping benefits below the minimum wage, and it operates active labor market policies that provide education, qualification, and matching services. For example, the Nordic countries have long counterbalanced generous “decommodification” with rigorous “recommodification.”<sup>180</sup> They have “always been couched in terms of productivism.”<sup>181</sup> A director at the Swedish public employment service explained this model in the following way:

“Our understanding of the situation is that we believe that work is really the foundation of the whole welfare system. If people don't work, we have no possibility to finance the welfare system, and hence the 'work line.' (...) And *Arbetslinjen* ['work line'] means that all people have to seek and want to work. And if you want to work and seek work, then you should not be punished in the sense that you should not have the means to support yourself. But, and the Swedish system is rather moralistic in that sense, if you say or show that you don't want to work, then the Swedish system is really saying: 'OK, but then you don't get any support from the government either.' I mean, in that sense we have a very clear benefit, and very clear demands, too.” (SE5)

To Swedish policymakers and practitioners it was a “no-brainer” that their generous benefits depended on Swedes working and paying taxes; it was self-evident to these interviewees that benefiting from decommodification carried with it the duty to actively pursue recommodification – to actively seek work, and/or to work on becoming employable. Interviewees often described this arrangement in moral terms, as a social contract that guaranteed generous rights in return for expansive responsibilities. If

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<sup>180</sup> This is also why it is not obvious that welfare-to-work is a retrenchment policy. No welfare state was created to support a large inactive population. Generous welfare states always included mechanisms that ensured that beneficiaries returned to work and help finance the welfare state.

<sup>181</sup> Esping-Andersen (1999:80). See also Barbier (2000a).

beneficiaries violate the terms of this contract by refusing to work, the contract is void and the government will no longer provide benefits either. Less generous welfare states are not necessarily less demanding. A combination of low benefits and high employment expectations is as possible as a combination of low benefits and low burdens. But no welfare state is “something for nothing.”

This is the point at which economic experiments become less useful as analytical guides. Dictator games and common pool experiments simulate unrealistic extremes. Societies are not neatly divided into haves and have-nots, as in a dictator game. They also differ from common pool experiments, because individuals cannot contribute equal amounts to the common pool, and do not need equal amounts from it. Participants in a common pool experiment have identical capacities to contribute, as they are each given the same amount to “play with.” Yet, if the welfare state required the same contribution from everyone, anyone who earns and owns less than the most resourceful citizens would experience it as unfair (and it would be an unfeasible project to begin with because either the contribution is too high for majority of the population, or it is so low that even the lowest earners can afford it, but then benefits would be so low that they would not even guarantee survival). The experimental equivalent is a common pool game in which some players are given larger amounts than others. If this distribution is transparent, it is hard to imagine “poorer” players contributing as much as the “wealthy” players. The absolute contribution amount would likely matter less to them than the differences between what players *can* contribute and what they *do* actually give.<sup>182</sup> In other words, poor players would probably view the wealthy players as freeloaders.

Societies therefore rely on a mechanism that adjusts the required contributions to individuals’ capacity to contribute. According to anthropologists and evolutionary biologists, they have always made these adjustments. While traditional societies do so based on interpersonal interactions between members of a community, modern societies organize these adjustments at a much larger scale, as impersonal transactions between citizens. The welfare state is a social contract that requires contributions from all, and punishes those who do not contribute, be they tax evaders or benefit freeloaders. Only those who are unable are excused from having to reciprocate – just like the hunters shared their kills with the disabled and elderly members of their bands at least since the Upper Paleolithic.

### **2.5.1 How reciprocity becomes redistributive**

Determining how much of a burden an individual is able to carry was easier during the Upper Paleolithic than it is today, though. The market mechanism cannot provide this solution. Markets simply evaluate the contribution, not the contributor. They can determine the economic value of any kind of contribution. But when there is no demand for an individual contribution, it is worthless, and that individual will not get anything in return for what they give. The market value of a contribution can be too low to survive. The value of a worker’s contribution in the labor market (his wage) depends on the quantity and quality of his output.

In contrast, the welfare state evaluates not only the contribution, but also the contributor. The welfare state combines a principle of difference with a principle of equality: because some are more productive or luckier than others, contributions differ between individuals. Benefit payments can be significantly

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<sup>182</sup> \*Find out whether anyone has done this version of the common pool experiment.



above or below the financial value of recipients' contributions. Yet, as long as everyone contributes according to their ability, everyone also makes an equal individual sacrifice. The welfare state thus applies a "moral multiplier" to the contributions of the less able. In contrast to the labor market it has a flexible approach to the "to each according to this contribution" principle because it can adjust the value of a contribution to an individuals' ability. The larger this multiplier, the larger is the "discount" on a benefit. In economic terms, this is redistribution. In moral terms, it is the reciprocity of "each according to his ability, to each according to his contribution *and* his needs."

This combination of "reciprocity and redistribution"<sup>183</sup> (Polanyi) is the defining feature of the traditional moral economy. The welfare state is a modern version of this system. It shares the key features of the traditional moral economies in Chapter Two. Its moral economy renders reciprocity compatible with redistribution because reciprocity "does not imply equality of burdens or obligations" but rather a "rough balancing out" of the two.<sup>184</sup> Voters support the welfare state because this "rough equivalency" reflects "deeply held norms of reciprocity and conditional obligations to others."<sup>185</sup>

## 2.6 Conclusion

The *Great Transformation* account of the welfare state assumes that pre-modern economies were socially embedded and did not require significant social protection. As it replaces the pre-modern "moral economy" with the market economy, industrial capitalism cleared the stage for the lead actor in the creation of the welfare state – the socially dislocated worker who has nothing to eat if he has no work, or if he cannot work.

However, to assume such a break without verifying that the stage was empty is like walking into a play after the intermission and assuming that this is the first act. At the eve of the welfare state, a significant portion of the stage was already occupied by institutions from earlier acts and an important dynamic of welfare state formation was the usurpation, nationalization, and reorganization of these institutions. One example is the common misconception that the welfare state marks a decisive break with the Poor Law. Instead, the welfare state absorbs and continues the poor law tradition as the last resort safety net. Another example is the unemployment benefits provided by unions and friendly societies in the late 19<sup>th</sup> and early 20<sup>th</sup> century.<sup>186</sup> Such insurance funds to protect members against social risks have been around for much longer than the welfare state, dating back to the medieval guilds. Likewise, many companies already provided health insurance for their employees when Bismarck introduced public health insurance in late 19<sup>th</sup> century Germany.<sup>187</sup> The welfare state transformed and massively expanded unemployment and health insurance. But the core principle of social insurance – risk sharing, common pools, and mutual help – persisted. The creators of social insurance were less creative than the Great Transformation suggests."<sup>188</sup>

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<sup>183</sup> (Polanyi 1957 [1944]:46)

<sup>184</sup> \*(Moore 1978:506)

<sup>185</sup> (Bowles and Gintis 2000:33).

<sup>186</sup> \* Münnich 2010

<sup>187</sup> \*References.

<sup>188</sup> \*Braudel?

Thus, the pre-modern principles of the moral economy do not disappear on the threshold to modernity; they come to be institutionalized in the welfare state. There are also strong continuities in the economy at large: the break between pre-modern and modern economies is anything but a clear a cut. Pre-modern economies were more autonomous and differentiated than is assumed by Polanyi and the “substantive” school of anthropology, and social expectations, mutual obligations, and trust are essential for the modern market economy.<sup>189</sup> These considerations do not diminish the *Great Transformation* and the importance of the “democratic class struggle,”<sup>190</sup> but they suggest a different balance between change and continuity. As Herbert Gintis and Samuel Bowles argue, the welfare state is “but an example of a ubiquitous social form.”<sup>191</sup> Underlying the juncture is the *longue durée* of reciprocal sharing that takes different institutional shapes but always “remains true to itself.”<sup>192</sup>

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<sup>189</sup> Moral economies are not just characteristic for traditional economies that resist autonomous markets (e.g. Granovetter 1985) {Booth, 1993 #538} (Arnold 2001)

<sup>190</sup> \*Korpi?

<sup>191</sup> (Bowles and Gintis 2000:40)

<sup>192</sup> \*Braudel?

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