2006

Federalism, checks and the welfare state: a cross national analysis

Amanda Louise Beal
Louisiana State University and Agricultural and Mechanical College

FEDERALISM, CHECKS AND
THE WELFARE STATE:
A CROSS NATIONAL ANALYSIS

A Thesis

Submitted to the Graduate Faculty of the
Louisiana State University and
Agricultural and Mechanical College
in partial fulfillment of the
requirements for the degree of
Master of Arts

in

The Department of Political Science

by
Amanda L. Beal
B.A., Indiana University, 2002
August 2006

ACKNOWLEDGMENTS

This thesis was completed with the diligent support of my committee members: Dr. William Clark, Dr. Leonard Ray and Dr. Cameron Thies. I would also like to acknowledge the help received from Dr. Wonik Kim and the effort put forth for inter-coder reliability by Ashley Ross.

Amanda Beal

Louisiana State University

TABLE OF CONTENTS

Acknowledgments………………………………………………………………………… ii

List of Tables……………………………………………………………………….. iv

Abstract………………………………………………………………………………… v

Introduction……………………………………………………………………….. 1
Conceptualizing the Welfare State……………………………………………….. 2

Review of Literature…………………………………………………………………… 7
Theoretical Justifications for the Welfare State……………………………….. 8
Theoretical Justifications for the Diverse Forms of the Welfare State………....... 14
Globalization and the Retrenchment of the Welfare State……………………..... 30

Variables and Methods……………………………………………………………….. 35
The Welfare State as a Dependent Variable... 36
Institutional Impediments to the Welfare State………………………………….. 43
Control Variables………………………………………………………………… 52
The United States: An Historical Example……………………………………... 56
Designing an Approach.. 64

Results and Discussion………………………………………………………………… 67
Fractionalization, Federalism and Checks..............…………………………….. 71
Discussion.. 75

Summary and Conclusion……………………………………………………………… 79
A Prescription for Future Endeavors……………………………………………. 82

References………………………………………………………………………………. 84

Appendix A: List of the 32 Countries in the Analysis.. 89

Appendix B: Lijphart’s Majoritarian and Consensus Features...................................... 90

Appendix C: Esping-Anderson’s Combined De-commodification Index…………….. 91

Appendix D: Pensions Replacement Rate Sample for 36 Countries……………………. 92

Appendix E: Alternate Regression Results.. 93

Vita…………………………………………………………………………………….. 95

LIST OF TABLES

1. Executive-Parties Dimension Results.. 68

2. Federal-Unitary Dimension Results.. 70

3. Institutional Impediments to the Size of the Welfare State.. 72

4. Institutional Impediments to the Amount of Social Expenditure.................................. 74

ABSTRACT

It is often asserted in the institutional literature that there is a trade-off between effective and efficient government. Effective government is often stipulated to be more representative, while efficient government is considered superior at passing legislation. This analysis critiques Arend Lijphart's theory that consensus democracies are more representative, and therefore, result in "kinder, gentler" democracies with more encompassing social policies. I hypothesize that more representative government – operationalized as having higher levels of fractionalization within the legislature, more federalism and more checks within the system – is actually more effective at translating the median voter's preference for occupationally dependent or targeted welfare policies into legislation. Consequently, states with more institutional autonomy will be more efficient at passing larger forms of welfare legislation. Through a cross sectional OLS multivariate regression analysis, I find that federalism is negatively correlated with the level of social expenditure across states. However, my results also suggest that "Downsian" platform convergence may actually make more representation in the legislature conducive to social policy implementation. These findings suggest that representative features within government actually have mixed effects on the emergence of social policies and that better measures for these independent variables as well as a more accurate measure for the welfare state are imperative to future welfare state studies.

INTRODUCTION

The diversity among welfare states is inextricably linked to many factors including, but perhaps not limited to, the strength of different groups within the society, the state's level of economic development and the governmental components of the state. When focusing on the political factors that have influenced the emergence of the welfare state, a focus on governmental institutions engineered by state builders may offer a comparable way of determining the likelihood of certain social policies. States with a larger degree of federalism and more legislative levels within the federal government may be more representative of the median voter’s preference for targeted or occupationally dependent social policies, and therefore, less likely to pass encompassing welfare legislation.

An institutional approach can evaluate the possibility of the median voters’ preferences – as opposed to those of the autonomy of state legislators – being translated into legislation through better representation in the decision making process. It is argued that federal states with more checks within the national government are more representative, but that these institutional features create less autonomy for representatives in the legislative process and inhibit efficient policy-making. Therefore, these states are expected to be less likely to pass encompassing welfare legislation while better reflecting the median voters’ interests. States that have the highest autonomy through the centralization of power in the legislative process, seeking to perpetuate themselves as actors, may be better able to pass universal welfare policies. This analysis offers an overview of the welfare state concepts, the theoretical justifications behind the emergence of the welfare state, the previous research that has attempted to explain the varied forms of the welfare state, a critique of this research, and finally, an approach to studying welfare states that will hopefully help to determine whether federalism and more checks within the system (or veto points) actually do inhibit the ability of representatives to pass more encompassing welfare legislation. In addition, this research will examine the impact of fractionalization within the legislature. Arend Lijphart's findings in *Patterns of Democracy* suggest that fractionalization increases representation and may result in kinder-gentler democracies with a larger welfare state. However, if fractionalization increases the representation of the median voter then it should also impede social policy implementation. To approach this analysis in a more elucidating manner, it is important to discuss the fundamental concepts within the welfare state literature. This approach will also be constructive when the study attends to how the preceding research has measured the welfare state as a dependent variable.

Conceptualizing the Welfare State

Many researchers use the terms welfare state, welfare regime, social policy, and social insurance as if they are interchangeable. However, the phrase "welfare state" is actually used to describe the policies that a government has towards taking care of the people within its society through social policies such as cash benefits, health care, education, unemployment coverage, disability, old age benefits, and food and housing assistance. The welfare state encompasses any kind of social policy implemented by the state. A welfare regime type indicates the relationship between the state, the market and society whereas the welfare state type explains the nature of the connection between the state and the market. "Welfare regime" is a phrase coined by Gøsta Esping-Anderson that represents not only the states' role in welfare but also societal influences. According to Esping-Anderson, there are interactive historical forces that have forged specific welfare regimes: "first, the pattern of working-class political formation and, second, political coalition-building in the transition from a rural economy to a middle-class society…. Third, past reforms have contributed decisively to the institutionalization of class preferences and political behavior."[1] Notably, within welfare states and welfare regimes, there are a number of mixed types of social policies.

Social policies are predominantly targeted assistance, occupational insurance or universal programs. Targeted welfare policies are directed at individuals who meet a demonstratable need requirement. These benefits are usually needs-based, meager redistribution supplements. Occupational welfare benefits are income dependent through the employee's business or industry; the benefits are directly linked to employee contributions. Occupational insurance can also be corporatist in the sense that the benefits are directed through a business sector or industry instead of through a specific employer. The predominance of occupationally dependent and targeted welfare policies are often classified together as Bismarckian welfare states because, unlike universal welfare policies, they cover different groups in society under different schemes and are usually linked to an individual's work history or employment status.[2]

Universal welfare policies prescribe equal benefits to all citizens regardless of employment history or status. Under a universal welfare state, often called the Beveridgean model, "citizens can freely, and without potential loss of job, income or general welfare, opt out of work when they themselves consider it necessary."[3] The Beveridgean and Bismarckian welfare policy distinctions classify the welfare state under these two models according to the

---

[1] Esping-Anderson, G. (1990). The Three Worlds of Welfare Capitalism. Princeton, Princeton University Press.
Pp. 32.

[2] Banoli, G. (1997). "Classifying Welfare States: A Two-Dimensional Approach." Journal of Social Policy **26**(3): 351-372.

[3] Esping-Anderson, G. (1990). The Three Worlds of Welfare Capitalism. Princeton, Princeton University Press.
Pp. 23.

objectives, benefits, eligibility, coverage and financing of the programs. For the Beveridgean model, the main objective is the prevention of poverty, the benefits are a flat rate, entitlement is based either only on residence or residence and need, coverage is offered to the entire population and the programs are funded through taxation. In the case of the Bismarckian model, the main objective is income maintenance, the benefits are earnings related, eligibility is decided by an individual's record of contribution and it is financed largely through contributions.[4]

Esping-Anderson classifies welfare states as liberal, conservative or socialist welfare regimes. These clusters allow for the placement of states on a scale from most to least encompassing policies. Socialist welfare regimes promote equality to the highest standards through universalism. Conservative welfare regimes include policies that uphold status differences such as class and status rights. These conservative regimes have a corporatist-statist legacy and are devoted to traditional family values because of, as Esping-Anderson asserts, the church's influence in the society. Liberal welfare regimes are committed to market efficiency. Liberal welfare policies are usually targeted at low-income, working class and/or state dependent people and the benefits are usually less redistributive.[5] Gregory Kasza offers an almost crippling critique of Esping-Anderson's classifications. He asserts that these welfare regimes should acknowledge policy shifts because welfare states are not static. For example, Sweden was liberal with targeted reforms until the early twentieth century when it moved toward socialist reforms

[4] Banoli, G. (1997). "Classifying Welfare States: A Two-Dimensional Approach." Journal of Social Policy **26**(3): 351-372.

[5] Esping-Anderson, G. (1990). The Three Worlds of Welfare Capitalism. Princeton, Princeton University Press.

and Japan does not fit under any of these clusters.[6] Esping-Anderson's response would be that his three clusters are regime ideal types not states because they have cultural significance within his analysis. While classifying welfare states is an imperative endeavor, it incurs considerable problems when attempting a quantitative comparative analysis of welfare states. Esping-Anderson's classifications are often used in welfare state studies, yet his measures are also problematic.

Whether a state is classified as having a universal, corporatist or targeted policy structure, as being a Bismarckian or Beveridgean model or as being a liberal, conservative or socialist welfare regime, the problem still remains that most states have mixed systems. This issue hinders classification not only because a country may have one type of health insurance program and another type of old-age pension plan, but also because some states have two types of social policies within one type of program. For example, Canada has a universal pension system and a social insurance pension system. The universal pension program covers all residents, yet the earnings-related pension covers only the employees or self-employed individuals who have paid into the pension fund. Italy's sickness program is similarly structured with a universal medical care system and a cash benefits social insurance system. Many countries have equally mixed program structures, *ipso facto*, delineating either a comparative qualitative classification or quantitative measure is difficult.

This analysis will address the issues regarding a measure for the welfare state that are embedded in social policy studies. Nevertheless, it is first essential to review the previous welfare state studies in order to correctly address the role of state-centered or institutional

---

[6] Kasza, G. (2002). "The Illusion of Welfare 'Regimes'." The Journal of Social Policy **31**(2): 271-287.

theories on the emergence of diverse forms of the welfare state. This study argues that the median voters' preferences are better represented in states with a higher degree of federalism and more checks within the system because these features decrease the state's autonomy and thereby decrease the ability of representatives to use these institutions to shape culture around more inclusive reforms. What follows is an overview of the theoretical justifications behind the welfare state, including some theoretical support for the assumption that the median voter actually prefers targeted or occupational welfare policies and conversely, if given the autonomy, the state will seek to increase its role in welfare through more encompassing social policies.

REVIEW OF LITERATURE

There is little debate over the theory that capitalism and industrialization marked a fundamental shift in the role of the state. Pre-capitalist societies had predominantly agricultural economies, but the advent of capitalism and industrialization required the eradication of the peasantry and a shift toward urban workers in a skilled labor force. However, the reason that this new labor force led to the emergence of the welfare state is heavily debated. Capitalism and industrialization changed the relationship between the state, society and the market. Before industrialization, concepts such as the market, social insurance or unemployment did not exist.

The introduction of the idea of the market turned human needs and labor power into a commodity or as Gøsta Esping-Anderson asserts, "our well-being came to depend on our relation to the cash nexus."[7] In feudal societies, individuals relied for security on the family, the church or the lord. Capitalism changed the nature of these relationships because people were entering the work force among other individuals to whom they had no previous community ties, thus the labor market incurred a competition for wages; people were competitively selling their labor and needed insurance against the market.[8] This shift from feudalism to capitalism abetted many societal changes that researchers are still deliberating over in the twenty-first century.

Perhaps as Ronald Inglehart argues:

> "From the Industrial Revolution until well into the second half of the twentieth century, industrial society underwent Modernization. This process transformed political and cultural systems from traditional regimes legitimated by religious belief systems to rational-legal states legitimated by their claim to maximize the

---

[7] Esping-Anderson, G. (1990). The Three Worlds of Welfare Capitalism. Princeton, Princeton University Press.
Pp. 35.

[8] Ibid.

> welfare of their people through scientific expertise. It was a transfer of authority from family and religious institutions to political institutions."[9]

Even if Inglehart is correct and this transformation shifted authority into the hands of the state, there is still little explanation as to why the state intervened through welfare or why welfare states emerged in such varied forms. The emergence and growth of the welfare state in its varied forms is a primary concern for economists and social scientists because the necessity of and repercussions from social policies are both diverse and ambiguous.

Theoretical Justifications for the Welfare State

Similar to Inglehart's stipulation that Modernization and the transfer of authority were a repercussion of economic growth, many social scientists point out the link between economic factors and the emergence and growth of the welfare state. Some researchers argue that the market and the state do not exist outside their roles as allocation mechanisms. The market cannot survive as a decentralized mechanism without the existence of a centralized mechanism, such as the state, to act as an allocation mechanism by legislating the boundaries of the market forces. Karl Polanyi stipulates, "the idea of a self adjusting market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society."[10] Polanyi asserts that the liberal concept of a self-regulating market was flawed because the market required positive government activity in the form of the welfare state.

---

[9] Inglehart, R. (1997). Modernization and Postmodernization: Cultural, Economic and Political Change in 43 Societies. Princeton, Princeton University Press.
Pp. 74.

[10] Polanyi, K. (1944). The Great Transformation. New York and Toronto, Farrar & Rinehart.
Pp. 3.

Similarly, it is often presumed that the failure of the market required state intervention as a centralized mechanism in the form of social policy legislation. Adam Przeworski contends the following:

> "The discovery of market failures in the early 1950s led indeed to a view of governments that could be termed 'the market-failure theory of the state.' This theory was best captured by the 1959 program of the German Social Democratic Party: 'markets whenever possible, the state whenever necessary.' The idea was that markets 'should be left to themselves' to do things they do well but governments should step in to correct their functioning when they fail. Hence, the proper role of the state was to regulate monopolies, provide public goods, and correct for externalities."[11]

Before state level intervention, it was assumed that if someone really needed welfare support they could rely on private charity. Therefore, the social policies before 1910 were largely poor-law customs addressed at the local level. In *Welfare, Democracy and the New Deal*, William Brock asserts

> "In all [subnational] states [of the United States], the basic law for the administration of relief was derived directly from the English law of 1601. Its basic principles were that no one should starve, that the responsibility for giving relief should be clear and inescapable, and that able-bodied persons who refused to work and depended on others for support should be subjected to severe penalties."[12]

Neither the depression of the 1930s nor the market failures of the 1950s mark the emergence of the welfare state. As Nicholas Barr states, "Intervention other than locally financed poor relief began in the early nineteenth century with subsidies for education and

---

[11] Przeworski, A. (2003). States and Markets: A Primer in Political Economy. Cambridge, Cambridge University Press.
Pp. 40.

[12] Brock, W. (1988). Welfare, Democracy and the New Deal. Cambridge, Cambridge University Press.
Pp. 71.

increasing public health activities."[13] Przeworski refers to the market failures of the 1950s, but this "failure" occurred well after the emergence and initial growth of most welfare states not only in the United States but also in Sweden, Venezuela and many other states. In addition, the depression may have accelerated the growth of the welfare state but social policies had already grown from local poor laws to subnational level and minimal national level legislation, *ipso facto* there is little evidence to substantiate the claim that the market ever failed or needed rescuing through state intervention prior to the emergence of the welfare state.

Similar to the market-failure theory of the state, the logic of industrialism argument holds that the emergence of the welfare state was inextricably linked to the economy. Unlike the market failure theory, the logic of industrialism hypothesis stipulates that the key element in this process was industrialization, not a market failure. Presumably, economic development in the form of industrialization caused social and demographic changes that precipitated an evolutionary process. However, the logic of industrialism thesis is an attempt at a universal theory that does not allow for variations in the welfare state. Also, as Peter Flora and Jens Alber point out, the timing and degree of industrialization do not correspond to social policy implementation in cross-national comparisons.[14] Venezuela was one of the first states to implement state-level social policies, yet not the first to go through industrialization. Additionally, as is the issue with many theories that try to offer economic justifications for the welfare state, the logic of industrialism literature makes a functionalist argument. As Daniel

---

[13] Barr, N. (1992). "Economic Theory and the Welfare State: A Survey and Interpretation." Journal of Economic Literature **XXX**(June 1992): 741-803.
Pp. 758.

[14] Flora, P. a. J. A. (1981). Modernization, Democratization, and the Development of Welfare States in Western Europe. The Development of Welfare States in Europe and America. P. F. a. A. J. Heidenheimer. New Brunswick, New Jersey, Transaction**:** 37-80.

Little explains, “This [reasoning] … raises the problem of teleology (explaining a circumstance in terms of its future effects). A cause cannot occur later in time than its effects ….”[15] Consequently, the welfare state simply cannot be explained in terms of the benefits it may offer, indeed those benefits are heavily debated.

There is a great deal of debate, as well, concerning whether social policies adversely or advantageously affect a state’s economic stability or growth. Many researchers postulate that a larger welfare state increases the health of individual workers which will, in turn, decrease worker turnover, increase employee satisfaction, increase productivity and help the overall economy. However, Milton Friedman, along with many economists, is an advocate for freer markets. He stipulates that the welfare state is inefficient and that greater individual freedom in the market will stimulate the economy. As a supporting argument, David Cameron’s analysis of 18 states suggests a tradeoff between economic equality within society and the economic growth of society:

> “Nations such as the United States, Japan, Spain, and Italy ... have, in a sense, opted for a relatively inegalitarian distribution of income and an increasing rate of private accumulation. Other nations … have attained a relatively greater degree of economic equality at the cost of lower rates of private capital accumulation.”[16]

Cameron’s analysis suggests that states with higher taxes, like those that support a larger welfare state, sacrifice economic growth in the form of private capital expansion. Yet the debate over the economic repercussions of the welfare state is far from resolved. Unlike Cameron’s analysis,

---

[15] Little, D. (1991). Varieties of Social Explanation: An Introduction to the Philosophy of Social Science. Boulder, Colorado, Westview Press, Inc.
Pp. 92.

[16] Cameron, D. (1978). "The Expansion of the Public Economy: A Comparative Analysis." The American Political Science Review **72**(4): 1243-1261.
Pp. 1259.

Bruce Moon and William Dixon find support for the human capital theory. They assert the following:

> "There is no evidence for the orthodox view that either basic needs fulfillment or improvements in basic needs provision compromise future growth…. [T]here exists a complementarity in which the achievement of welfare goals helps in the later achievement of growth goals via the mechanism of human capital investment."[17]

The welfare state is sometimes stipulated to be beneficial to the state's overall economy through an investment in human capital, but it has also been asserted that the welfare state impedes economic growth through private capital investment. An "evolutionary process" that is explained (through a functionalist argument) in terms of its benefits must first be able to prove beneficial, yet the welfare state is not necessarily accepted as a beneficial phenomenon. Some researchers argue that local community or subnational level policies are actually more conducive to the state.

Researchers are also still contemplating whether state administered social policies are beneficial or detrimental to individuals and their participation in the market. Some theories postulate that when social policies allow individuals to survive outside of participation in the market, they actually discourage participation in the market and therefore encourage class distinctions and cycles of poverty within the society. Again, given that there is little consensus over the necessity of the welfare state and its subsequent benefits, a functionalist argument concerning the emergence of the welfare state through its advantages is problematic. In addition, theories that strive to uncover economic justifications of state intervention in welfare as a singular phenomenon, such as the market-failure or logic of industrialism literature, are

---

[17] Moon, B. E. a. W. J. D. (1992). "Basic Needs and Growth-Welfare Trade-Offs." International Studies Quarterly **36**(2): 191-212.
Pp. 205.

intrinsically flawed by reason of their lack of enlightenment about why social policies emerged in such various forms. Esping-Anderson stipulated that capitalism incurred a competition for wages and Inglehart asserted that there was a transition from a reliance or belief in the role of traditional institutions (such as the church or family) to secular-rational authority in the form of the state. Perhaps the newly found strength of and individual-level belief in the state as the authority structure created an expectation that the state should protect individuals from these new market forces in the form of social policy legislation.

Respective of these assertions, it is plausible that a conviction in the precedence of local poor laws was maintained through a preference for particular types of subnational state-level and federal-level social policy legislation. In *Making Democracy Work*, Robert Putnam states the following about societal influences:

> "The conception of institutional performance in this study rests on the very simple model of governance: societal demands → political interaction → government → policy choice → implementation. Government institutions receive inputs from their social environment and produce outputs to respond to that environment."[18]

Putnam also stipulates that history shapes institutions and that institutions shape politics. Therefore, Putnam (and perhaps others) makes it plausible to argue that local poor laws created a durable cultural belief in the role of welfare that currently exists in many states today. The median voter may have held on to the belief that targeted or occupationally dependent welfare was an appropriate insurance against the market because – like those standards embedded in local poor laws – able-bodied individuals should work to take care of themselves. If this theory is upheld, the states with more representative institutions should be correlated to targeted or occupationally dependent welfare policies. Conversely, other theoretical undertakings link

---

[18] Putnam, R. (1993). Making Democracy Work: Civic Traditions in Modern Italy. Princeton, New Jersey, Princeton University Press.
Pp. 9.

individual preferences, group preferences or representative institutions to larger forms of the welfare state. In order to discuss how this state-centered explanation of the diversity in welfare states fits in with other comparative studies, an evaluation of these other theoretical explanations is essential.

Theoretical Justifications for the Diverse Forms of the Welfare State

Most of the research that attempts to explicate the causes of diversity in welfare state emergence and growth focuses on three levels of analyses: individual preferences, aggregate group preferences and state-level factors. Many previous economic approaches to welfare state research have focused on individual-level justifications for supporting social policies. This previous literature often analyzes support for the welfare state in terms of individual rationality or the utility derived from it for an individual, i.e. social solidarity (altruism) or individual risk assessment. Theoretically, individuals may support the welfare state because their utility increases when others' utilities increase or when that individual has lower and/or more insecure forms of income. If an individual's income is low or insecure, he may be more risk averse and, therefore prefer social insurance against the risk of unemployment.

According to the risk aversion literature, at the extremes, if everyone in the society faces no risk then there will be no insurance; if everyone faces high risk then everyone will want insurance and this preference may be translated into legislation.[19] However, under this theory, voluntary insurance will collapse when some face high risk and some face no risk.[20] In addition,

[19] Barr, N. (1992). "Economic Theory and the Welfare State: A Survey and Interpretation." Journal of Economic Literature **XXX**(June 1992): 741-803.

[20] Kim, W. (2005). Justifications of the Welfare State. Baton Rouge, Louisiana State University**:** Lecture for 7971: CPE of the Welfare State.

some states have a larger majority of lower income individuals, but also have little to no welfare state; thus the risk aversion literature is not empirically supported.

F. A. Hayek offers a poignant critique of individual-level approaches to studying the economy and welfare. Hayek avers the following:

> "To assume all the knowledge to be given to a single mind in the same manner in which we assume it to be given to us as the explaining economists [or social scientists] is to assume the problem away and to disregard everything that is important and significant in the real world."[21]

Risk aversion theories assume that individuals are capable of calculating their risk and, thereby, know whether or not they should support insurance policies, yet individuals have imperfect knowledge of their situations. Furthermore, even if individuals had perfect knowledge to assess their risk, risk aversion theories must eventually discuss state intervention instead of assuming the translation of individual interests into legislation. Certain institutional features such as federalism and more levels within the federal government may be more conducive for representing the interests of the median voter and decreasing the state's autonomy. Conversely, a higher degree of state autonomy may impede the translation of individual interests into legislation.

Aggregate-level analyses of the welfare state contain a parallel theoretical concern. They often assume that capital owners are pro-market and oppose the welfare state and that the working class is pro-welfare. Within most of the literature, social policies are seen as an attempt at risk management for individuals or groups against the commodification of the market, which may hinder business profits and economic growth. The varieties of capitalism literature is

---

[21] Hayek, F. A. V. (1945). "The Use of Knowledge in Society." American Economic Review **35**(4): 519-30.
Pp. 530.

usually cited as one major exception; it claims that some businesses prefer welfare policies in order to transfer some of the cost to other businesses. Isabela Mares explains:

> "Social policies can offer distinct institutional advantages to employers and [there are identifiable] … conditions under which the benefits provided by social policy outweigh the costs of social policy to firms…. [T] he incidence of risk will generate significant cleavages among employers, between firms who gain from highly redistributive social policies and firms who lose from the participation in a broad pool of risks."[22]

Mares concludes that the skill level of the employees, whether firm-specific, industry, or general labor, determines the businesses' preference for social policy. However, the implication behind the varieties of capitalism literature is that firm-specific skilled workers will demand high employment protection from employers and these employers will then request that the cost of this insurance be spread across businesses in order to transfer some of their burden to other industries. Ergo, the varieties of capitalism theory still presupposes that businesses resist the welfare state unless swayed by individual-level employee pressure and, similar to the risk aversion theory, this employee pressure is present when individuals assess their employment security.

A large amount of aggregate-level welfare state analyses focus on the power or ability of the left to influence the size of the welfare state. Power resource theorists (PRT) posit that industrialization is a necessary but not a sufficient condition for the materialization of the welfare state. Social policies require the presence of capitalism, industrialization and power in the hands

---

[22] Mares, I. (2001). Firms and the Welfare State: When, Why and How Does Social Policy Matter to Employers? Varieties of Capitalism: The Institutional Foundations of Comparative Advantage. P. H. a. D. Soskice. New York, Oxford University Press: 184-212.
Pp. 211-212.

of a mobilized working class.[23,24] A problematic aspect in the PRT literature is that the power of the working class is described as a zero-sum game instead of a nonlinear or relational measure between socialists and conservatives.[25] Most of the PRT literature assumes that capital owners are pro-market yet they do not measure working class strength in relation to the strength of business.

Accordingly, a major critique of the power resource theory is that it assumes that the power of the working class will be rendered into policy through representative government. This critique is also linked to studies that evaluate the effect of trade openness on the size of the welfare state. Most studies that focus on trade openness hypothesize that more open economies produce larger welfare states. Dani Rodrik emphasizes the effect of trade openness on the size of the government overall. Rodrik states, "There is a positive and robust partial correlation between openness, as measured by the share of trade in GDP, and the scope of government, as measured by the share of government expenditure in GDP."[26] He also asserts that this relationship exists because open economies incur more external risk and governments respond by establishing a safety net in the form of welfare expenditure: "[I]n advance countries with social welfare

---

[23] Stephens, J. D. (1979). The Transition from Capitalism to Socialism. Urbana, University of Illinois Press.

[24] Esping-Anderson, G. a. W. K. (1984). Social Policy as Class Politics in Post-War Capitalism: The Development of Scandinavian Social Policy. The Scandinavian Model: Welfare States and Welfare Research. R. Erikson. New York, M.E. Sharpe**:** 39-74.

[25] Kasza, G. (2002). "The Illusion of Welfare 'Regimes'." The Journal of Social Policy **31**(2): 271-287.

[26] Rodrik, D. (1998). "Why Do More Open Economies Have Bigger Governments?" The Journal of Political Economy **106**(5): 997-1032.
Pp. 998.

programs in place, it should be primarily spending on social security and welfare that is correlated with exposure to external risk … [and] [t]hat is indeed what we find."[27]

Nevertheless, the link between trade openness and social policy legislation must first acknowledge how trade openness effects employment and the pressure of the left for social policy legislation. Rodrik states that "external risk" is an indicator of welfare expenditure because larger governments perform an "insulation function."[28] However, he negates that the government must have substantial domestic support for higher levels of welfare expenditure. Greater trade openness may incur domestic level issues with unemployment that will increase support for a greater welfare effort through unions or the left powers. Therefore, studies on the effects of trade openness are really addressing a factor that might increase support for welfare expenditure yet – like the PRT literature – this approach negates the relative power of groups within society and the institutional inhibitors that may be present in the government.

"State-centered" approaches to the origin of the welfare state have transpired from this critique. State-centered explanations suggest that the state may not be able to translate support for social policies into actual legislation and that depending on the autonomy of the state; it may have preferences outside of that of the people. In other words, the state will seek to survive through its own independent abilities. Theda Skocpol stipulates, "States conceived as organizations claiming control over territories and people may formulate and pursue goals that

---

[27] Ibid.
Pp. 1019.

[28] Ibid.
Pp. 1011.

are not simply reflective of the demands or interests of social groups, classes or society."[29] The left cannot be assumed to have the autonomy or capacity to implement reforms without considering the structure of the state and the policy-making involvement of bureaucrats.

The state-centered or institutional approach is the basis for the theory of the variations in the welfare state for this study, yet this study is not completely irreconcilable with the logic of industrialism or power resource theories. Economic development and relational working class strength may be necessary but are not sufficient conditions for the differences that are now obvious across welfare states because the governmental institutional design of each state can still impede or facilitate the implementation of social reforms. Hicks and Swank stipulate the following concerning the impact of left parties, unions and state structures:

> "Social democratic corporatism, conceived in terms of the degree to which left parties and unions mobilize and incorporate industrial workers into national policymaking networks, appears, net of short-run partisan politics, to be a strong source of national differences in welfare effort. In addition, structurally centralized states with histories of early consolidation of major social security programs do, indeed, appear to capacitate national welfare effort …."[30]

The analysis by Hicks and Swank gives a well-formed basis for approaching institutional effects, yet their study also focuses on less structure related factors such as voter turnout and they operationalize the welfare state solely in terms of welfare expenditure. To examine the effects of institutions on welfare spending, it is imperative that constitutional engineers concentrate on

---

[29] Skocpol, T. (1985). Bringing the State Back In: Strategies of Analysis in Current Research. Bringing the State Back In. D. R. a. T. S. Peter Evans. Cambridge, Cambridge University Press**:** 3-37.
Pp. 9.

[30] Hicks, A. a. D. S. (1992). "Politics, Institutions, and Welfare Spending in Industrialized Democracies, 1960-1982." The American Political Science Review **86**(3): 658-674.
Pp. 670.

those aspects that are controlled by state builders. In addition, the welfare state should not be measured solely by the amount of money spent on it.

Many theorists postulate that societies have arisen that may largely abide by their embedded beliefs and subsequent pressures regarding what policies will be implemented within the state. However, societies are not homogeneous in their beliefs about social policies and the power to implement policy must be studied in relation to other factors within society. States are actors that may have their own goals to pursue. Therefore, individual and aggregate-level analyses often negate the impact of the relative power of groups, the groups who oppose welfare legislation and the institutions that must translate this power into legislation. Institutional approaches to the study of welfare state emergence and growth predominantly seek to elucidate the effects of state structures such as federalism, bicameralism, an independent executive, and the make up of the legislature. This method allows for a cross-national examination of industrialized as well as less developed democracies. For this investigation, 32 states have been delineated from Arend Lijphart's original dataset and unlike Lijphart, the smaller ones and the ones with less history as democracies are not completely dropped from the study.[31]

Many researchers have studied how institutional characteristics affect the efficiency and effectiveness of the state.[32] The basic design of most state-centered approaches, including this study, is to acknowledge an exogenous demand by a group, then find a way to measure the constraints of government through its institutional features and compare the number and/or type of constraint to some measure of the welfare state. Embedded in this approach is the belief that certain institutional structures are more representative of the society while others manifest more

---

[31] See Appendix A for a list of the countries in this study and their corresponding number in the data set.

[32] See Lijphart, A. (1999), Sartori, G. (1997) and Lane and Errson (1999).

state autonomy in legislative decisions. However, there is a lot of deliberation over whether good government is efficient with more state autonomy or inefficient with more representation. As Giovanni Sartori states, "inefficient government may be the best defense we have against bad government: the less its effectiveness, the less harm."[33] Perhaps inefficient government is actually more representative and, at least in that sense, it is also more effective. Arend Lijphart concedes, " concentrating political power in the hands of a narrow majority can promote unified, decisive leadership and hence coherent policies and fast decision-making . . . but fast decisions are not necessarily wise decisions."[34] Nevertheless, Lijphart equates effectiveness with, among other variables, a larger welfare state. In opposition, many other institutional approaches to the study of the welfare state have tried to decipher what institutional features are more representative and may have actually hindered the emergence of a more encompassing welfare state.

Ellen Immergut's study focused on veto points within the constitutional structure of countries. She claims that a higher number of veto points inhibits the ability to pass initial welfare policies in certain states. Immergut focuses on health policy making in Switzerland, France, and Sweden. She hypothesizes:

> "Political decisions require agreement at several points along a chain of decisions made by representatives in different political arenas. The fate of legislative

---

[33] Sartori, G. (1997). Comparative Constitutional Engineering: An Inquiry into Structures, Incentives and Outcomes. New York, New York University Press.
Pp. 112.

[34] Lijphart, A. (1999). Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries. New Haven and London, Yale University Press.
Pp. 259.

> proposals, such as those for national health insurance, depends upon the number and location of opportunities for veto along this chain."[35]

Immergut's analysis focuses on the number of potential veto points through three levels: (1) the separation of executive and legislative power, (2) electoral results of the party system and (3) the existence of national popular referendums. Immergut concludes that interests and actors are important, yet institutions play a calculated role in political strategy.[36] If a state has a smaller number of veto points, there will be more state autonomy and political actors will have a greater ability to pass national health insurance programs.

George Tsebelis built off of Immergut's theory by developing a theory of "veto players" that compensated for partisan elements within the political system that might restrain policy implementation. Tsebelis' theory proposes three important elements that may add to the number of partisan veto players, as opposed to points, by designing a strategy for specifying (1) the number of players involved in the process, (2) the distance in preferences between the players who are required to agree and (3) the discrepancy in policy preferences within members of the same party (Tsebelis deems these three factors as the number, their congruence and their cohesion).[37] Tsebelis defines a veto player as "an individual or collective actor whose agreement

---

[35] Immergut, E. (1992). The Rules of the Game: The Logic of Health Policy-Making in France, Switzerland, and Sweden. Structuring Politics: Historical Institutionalism in Comparative Analysis. e. a. Sven Steinmo. Cambridge, Cambridge University Press**:** 58-89.
Pp. 63.

[36] Ibid.

[37] Tsebelis, G. (1995). "Decision Making in Political Systems: Veto Players in Presidentialism, Parliamentarism, Multicameralism and Multipartyism." British Journal of Political Science **25**(3): 289-325.

(by majority rule for collective actors) is required for a change in policy."[38] His analysis focuses on the policy stability of a political system through institutional and partisan veto players. The institutional veto players are only counted if they have a "formal" veto power. Tsebelis points out that some bicameral legislatures only have "delaying veto power" and some presidential regimes – for example Venezuela, Haiti and Peru – do not have veto authority within the executive. In addition, Tsebelis stipulates, "one can think of powerful interest groups as veto players, at least in the policy areas of their concern."[39] However, Tsebelis is only concerned with the difficulty of passing legislation; he does not discuss specific types of legislation that might first be proposed. Primarily, Tsebelis focuses on policy stability or the amount of change possible in the structure of budgets.[40]

As is the custom for most institutional studies, Immergut assumes that all three countries in her study would seek to pass programs that increased the state's role; for her study, that program was national health insurance. Any institutional approach to studying the emergence of the welfare state should offer an in-depth theory regarding the assumed preferences of individuals and representatives. Thus, Immergut's theory should have addressed why the state would seek to pass national health insurance programs. Moreover, neither Immergut nor Tsebelis offer a comprehensive way to measure their institutional features. Immergut's institutional variables are measured on a very small scale and Tsebelis' theory does not elaborate

---

[38] Ibid.
Pp. 301.

[39] Ibid.
Pp. 306.

[40] Tsebelis, G. a. E. C. (2004). "Veto Players and the Structure of Budgets in Advanced Industrialized Countries." European Journal of Political Research **43**: 449-476.

on degrees of bicameralism or executive power. Arend Lijphart's study in *Patterns of Democracy* focused on many possible repercussions from the constitutional structure of a state and he gave more specific and in-depth measures for many of his institutional variables. As opposed to Immergut's theory, Lijphart's goal is to decipher whether or not more representation in government through institutional features actually produces better government in the form of a "kinder, gentler" democracy with a larger welfare state.

Lijphart differentiated between the electoral-parties and federal-unitary dimensions within democracies that enabled the categorization of states under either the majoritarian or the consensus model. While these features create ideal types, they are important for the purposes of constitutional engineering. Lijphart uses these institutional attributes to classify states across two dimensions and then tests to see if the consensus features are positively correlated to better results such as economic success, civil peace and a "kinder, gentler" democracy.

Each characteristic is aggregated and then plotted on a two dimensional "conceptual map" from -2 to 2 and -3 to 2 between majoritarian and consensus aspects. The consensus executive-parties dimension includes executive power-sharing in multi-party cabinets, executive-legislative balance of power, multiparty systems, and coordinated, "corporatist" interest groups. The consensus federal-unitary dimension focuses on federalism, strong bicameralism, rigid constitutions, judicial review by a constitutional court, and independent central banks.[41] Lijphart contends the following concerning the kinder-gentler qualities of consensus democracies:

> "[C]onsensus democracies demonstrate ... kinder, gentler qualities in the following ways: they are more likely to be welfare states; they have a better record with regard to the protection of the environment; they put fewer people in prison and are less likely to use the death penalty; and the consensus democracies

[41] See Appendix B for a table that lists Lijphart's majoritarian and consensus features.

in the developed world are more generous with their economic assistance to the developing nations."[42]

He uses a bivariate regression analysis to test the correlation between his executive-parties dimension score for each country and three measures of the welfare state including Esping-Anderson's de-commodification index, an adjusted de-commodification index and social expenditure as a percent of GDP.

The de-commodification index was created by Esping-Anderson in order to try to quantify the qualitative attributes of the welfare state as well as quantitative characteristics such as the population covered. As defined by Esping-Anderson, de-commodification is a measure of "the degree to which individuals, or families, can uphold a socially acceptable standard of living independently of market participation."[43] The combined de-commodification index, which comprises sickness, pensions, and unemployment programs, is measured on a scale from 13 to 39.1 with a mean of 27.2.[44]

The de-commodification index has been highly criticized for underestimating the welfare states of Australia, New Zealand and the United Kingdom.[45] By dropping these three cases, Lijphart created an adjusted index from Esping-Anderson's de-commodification rankings.

---

[42] Lijphart, A. (1999). Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries. New Haven and London, Yale University Press.
Pp. 275-276.

[43] Esping-Anderson, G. (1990). The Three Worlds of Welfare Capitalism. Princeton, Princeton University Press.
Pp. 37.

[44] Ibid.
Pp. 52.

[45] Castles, F. a. D. M. (1993). Worlds of Welfare and Families of Nations. Families of Nations: Patterns of Public Policy in Western Democracies. F. Castles. Aldershot, Dartmouth**:** 93-128.

Lijphart analyzed this adjusted index with his classification of 15 OECD states along the executive-parties dimension. He found a significant relationship between consensus democracies and all three measures of the welfare state: social expenditure, the de-commodification index and the adjusted de-commodification index. Lijphart reports that the relationship is only slightly weakened by the adjusted de-commodification index and the correlation is still statistically significant at the .05 level.[46]

From these results, Lijphart insinuates that it is more likely for a consensus democracy to have a socialist or highly de-commodified welfare state. He claims that consensus democracies are more representative and egalitarian. Yet Lijphart's study correlates representation with a larger welfare state when, in actuality, he is only focused on better representation in a vertical measure of institutions through the executive-parties dimension. Also, his argument that better representation creates a larger welfare state assumes that individuals prefer a larger welfare state. In consideration of most state-centered approaches, Lijphart's argument is counterintuitive. His assumption is actually the inverse of Immergut's postulation. If Lijphart is correct and individuals prefer a larger welfare state, then, regardless of representation, the state should implement more encompassing welfare legislation unless for some reason the state's preference is to stifle state intervention. However, as Immergut and Skocpol would contend, the state seeks to survive and perpetuate itself as an actor. As a result, the state should prefer a larger role in welfare.

If Lijphart had looked at each of the consensus characteristics in both the federal-unitary and the executive-parties dimensions, he may not have found a positive correlation between

---

[46] Lijphart, A. (1999). Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries. New Haven and London, Yale University Press.
Pp. 296.

consensus democracies and higher levels of de-commodification and social expenditure. The federal-unitary dimension may have a greater effect on the emergence and expansion of the welfare state than the executive-parties dimension features. Markus Crepaz asserts,

> "Institutional structures made up of collective veto points tend to drive up welfare expenditures in a statistically significant way. In contrast, constitutions with competitive veto points, such as symmetrical legislatures (equal power between the two houses) and federalism (strong autonomy of substate regions from the central state), display depressing effects on welfare expenditures."[47]

Similarly, Alexander Hicks and Duane Swank maintain the following about the effects of majoritarian and consensus characteristics on the emergence of the welfare state:

> "The welfare implications of the majoritarian/consensus dimension for welfare effort are indeterminate ... majoritarian extremes may notably facilitate partisan enactment of distinctive policy goals … [but] their characteristically two-party forms promote "Downsian" platform convergence. Moreover, *consensus* systems may arise in political contexts that legitimize – indeed, foster – redistributive policies."[48]

Hicks and Swank may be accurate; the distinction between majoritarian or consensus characteristics may actually have varying effects. For instance, if representation is considered to be an impediment to social policy reform, then a multi-party system should be a hindrance as are federalism and checks. However, if Downsian platform convergence is present, two-party systems may force representatives to come more towards the middle on their policy preferences. The proposal of more encompassing social policies may be more likely in a multi-party system that better represents that portion of the population who supports larger welfare state initiatives. The main question concerning the impact of the party and electoral system is whether or not a

---

[47] Markus, C. (1998). "Inclusion versus Exclusion: Political Institutions and Welfare Expenditures." Comparative Politics **31**(1): 61-80.
Pp. 74.

[48] Hicks, A. a. D. S. (1992). "Politics, Institutions, and Welfare Spending in Industrialized Democracies, 1960-1982." The American Political Science Review **86**(3): 658-674.
Pp. 661.

fractionalized legislature increases the representation of the median voter's preferences or offers an opening for less represented individuals whom might prefer more inclusive social policies. It is possible that the vertical and horizontal institutional features actually have ambiguous effects.

However, as with most institutional studies and contrary to Lijphart's analysis, this inquiry presumes that greater representation actually fosters less efficient policy implementation. Greater representation of the median voter's preferences through federalism, checks and fractionalization may result in less inclusive welfare legislation. The primary argument is that federalism and checks, while largely excluded by Lijphart, play a substantial role in social policy legislation. Hence, Lijphart's analysis fails to examine key institutional variables that may encumber the emergence of the welfare state. Also, Lijphart's analysis does not control for vital variables such as the level of economic development or the power of the left within society. Therefore, his finding that consensus executive-parties features are more conducive for a larger welfare state is equivocal. Conceivably, if Lijphart had controlled for these pertinent aspects and included the federal-unitary characteristics, his assessment may have had different results. He may have found that more representation through a larger number of parties within the legislature, bicameralism, an independent executive and federalism actually decreases the likelihood of a more encompassing welfare state. The two studies by Crepaz and Hicks and Swank support this argument. However, both analyses focus solely on 18 OECD countries and measure the welfare state through the amount of social expenditure. This study hypothesizes the following concerning the institutional effects that have allowed or impeded more encompassing welfare state emergence and growth:

> (**H1**): Predominantly, states with a higher degree of autonomy through their institutional structures are better able to increase and sustain their role in welfare by passing more encompassing legislation (perhaps) in spite of the initial level of domestic support.

> (**H2**): States with a higher degree of median voter representation were and still are hindered in their ability to pass more encompassing social policies because the median voter will prefer targeted or occupationally dependent welfare policies unless the institutions have the autonomy to shape culture around larger reforms. Greater fractionalization within the legislature, strong federalism and a higher number of checks may increase representation of the median voter's interest and impede welfare emergence and growth.

Admittedly, embedded in this argument is the supposition that the median voter will prefer occupationally dependent or targeted welfare policies and that this preference is better represented in countries with more federalism and checks. Much of the rational choice literature tries to determine individual preferences based on a person's level of risk aversion, job skills, or beliefs in social solidarity. However, historically, local poor relief was directed only at the most destitute of individuals, suggesting that the values concerning the local community's role in welfare were still the prominent belief embedded in societies until industrialization incurred a transition to the idea that the state should play a greater role in securing individual welfare. As previously mentioned, the English Poor Law of 1601, which supported targeted social policies on the local level, was used as a starting block for welfare policy preferences in many states. As supporting evidence, even Sweden, which today has a socialist welfare regime containing many universal policies, initially passed targeted welfare reforms.[49] It was not until the 1930's that the Social Democrats gained the autonomy necessary within the legislature to begin passing more encompassing reforms to Sweden's welfare state. As previously stated by Putnam, "institutions are shaped by history."[50]

---

[49] Kasza, G. (2002). "The Illusion of Welfare 'Regimes'." The Journal of Social Policy **31**(2): 271-287.

[50] Putnam, R. (1993). Making Democracy Work: Civic Traditions in Modern Italy. Princeton, New Jersey, Princeton University Press.
Pp. 7.

This historical precedence is also recognizable through the welfare state as an institution shaped by the beliefs embedded in previous local poor laws. States that have passed more universal welfare legislation may first need to acquire the autonomy to do so regardless of the wishes of the majority of society and the preference of powerful elites or business owners. From this perspective, the less representative constitutional structures in government have fostered the autonomy necessary to shape societal beliefs around the universal welfare state and, in some cases, the corporatist welfare state. This contention is associated with the concept that institutions have the power to shape culture. However, more representative structures may have created occupational or targeted welfare policies simply because the government representatives did not have the autonomy necessary to shape culture around the support for larger social policy reforms.

Most welfare state studies focus on one of three things: (1) the emergence of the welfare state in the early 1900s, (2) the expansion of the welfare state from 1945 to 1970 or (3) the retrenchment of social policies after the 1970s. The following section will briefly discuss globalization and the alleged retrenchment literature and explain why these studies do not affect an institutional approach to the emergence of the welfare state. Regardless of the ostensible retrenchment of the welfare state, the institutional effects on the emergence and growth of the welfare state should be approachable from an analysis that focuses on the present size of the welfare state.

Globalization and the Retrenchment of the Welfare State

The existence of any globalization affects on the welfare state or retrenchment of the welfare state is heavily debated. The basic idea behind the retrenchment literature is that increases in globalization – usually operationalized through trade openness and/or capital mobility – were the casual mechanisms behind the retrenchment policies of the right in the 1970s. However, Torben Iverson and Thomas Cusack find that globalization does not matter. They hypothesize that the de-industrialization of the work force created a domestic pressure for retrenchment policies. Iverson and Cusack assert the following: “there are reasons to expect that deindustrialization will be associated with increasingly distinct partisan effects.”[51] Similarly, Duane Swank asserts that the institutional design of a state may determine the level of retrenchment in social policies. According to Swank, (given globalization) states with liberal welfare policies will face a greater degree of retrenchment because the median voter does not receive or support social policies to the same extent as median voters in universal or conservative welfare regimes. However, under Swank’s theory, globalization does not matter. He is stipulating simply that liberal welfare regimes have a higher probability for retrenchment.

Geoffrey Garrett builds upon Iverson and Cusack’s work by analyzing partisan effects on retrenchment. Garrett’s study attends to the role of left wing governments and the alleged weakening of organized labor movements on retrenchment. He hypothesizes that globalization strengthens domestic government because it increases social risk. In his analysis, globalization is viewed as a modifying factor between the left, labor power and social policies. Unlike the conventional wisdom of the globalization literature, Garrett states, “Globalization increases the political payoffs for governments in these systems to compensate those whose economic insecurity increased with greater competition in international markets.”[52]

---

[51] Iversen, T. a. T. C. (2000). "The Causes of Welfare State Expansion: Deindustrialization or Globalization?" World Politics **52**(April): 313-349.
Pp. 347.

[52] Garrett, G. (1998). Partisan Politics in the Global Economy. Cambridge, Cambridge University Press.
Pp. 103.

Correspondingly, Paul Pierson states the following in regards to the globalization effects on the welfare state:

> "[W]hile welfare states indeed face unprecedented budgetary stress, it seems likely that this stress is primarily related to a series of 'post-industrial' changes occurring within advanced industrial democracies themselves, as the employment profiles of affluent societies have become increasingly service-based, as their welfare states have matured, as populations have aged, and as radical changes in household structures have taken place."[53]

Contrary to Garrett, Pierson finds that there have been some qualitative cuts in policies, yet Pierson asserts that the type and degree of social policy cuts is negligible:

> "Many programs have experienced a tightening of eligibility rules or reductions in benefits. On occasion, individual programs (such as public housing in Britain) have undergone more radical reform.... Over the span of two decades, however, *some* changes in social policy are inevitable; even in the boom years of the 1960s specific social programs sometimes fared poorly."[54]

Similarly to Garrett, Pierson finds that, quantitatively, financial welfare state support has actually increased. He contends that there is a difference between the restructuring and retrenchment of social policies.[55] Pierson's analysis addresses an important point also acknowledged in the state-centered approaches. As Theda Skocpol and Edwin Amenta assert, "social policies, once

---

[53] Pierson, P. (2001). Coping with Permanent Austerity: Welfare State Restructuring in Affluent Democracies. The New Politics of the Welfare State. P. Pierson. Oxford, Oxford University Press**:** 410-456.
Pp. 82.

[54] Pierson, P. (1996). "The New Politics of the Welfare State." World Politics **48**(2): 143-179.
Pp. 174.

[55] Pierson, P. (2001). Coping with Permanent Austerity: Welfare State Restructuring in Affluent Democracies. The New Politics of the Welfare State. P. Pierson. Oxford, Oxford University Press**:** 410-456.
Pp. 417.

enacted and implemented, themselves transform politics."[56] While the right may have pushed for and even achieved incremental levels of "retrenchment" or restructuring, if the welfare state is mature there will be broader popular support for social policies in comparison to the support present before the emergence of the welfare state. Consequently, politicians could not and can not politically afford to execute real levels of retrenchment.[57]

Additionally, Pierson points out that governments are actually getting bigger and not smaller. In order for retrenchment to be a valid concern, quantitative drawbacks should be evident, yet governments are increasing their welfare expenditure.[58] Therefore, for the purpose of this analysis, it is assumed that once welfare policies have been implemented it is difficult for any system to cut back on the program. Any institutional effects on the emergence of the welfare state should also be present in any current measure of the welfare state. In order to evaluate whether federalism, checks and (perhaps) fractionalization within the legislature may have increased representation but decreased the ability to pass more encompassing social policy legislation, current measures of these institutional features and of the welfare state will be evaluated through a cross-national analysis. This analysis will offer a varied sample of cases instead of focusing solely on the 18 OECD countries normally included in the welfare state literature. I will use a similar case selection as the one included in Lijphart's study. Lijphart's analysis included 36 countries, while this analysis contains the following 32 countries: Australia, Austria, Bahamas, Barbados, Belgium, Canada, Colombia, Costa Rica, Denmark, Finland,

---

[56] Skocpol, T. a. E. A. (1986). "States and Social Policies." Annual Reveiw of Sociology **12**: 131-157.
Pp. 131.

[57] Pierson, P. (1996). "The New Politics of the Welfare State." World Politics **48**(2): 143-179.

[58] Ibid.

France, Germany, Greece, Iceland, Ireland, Israel, Italy, Jamaica, Japan, Luxembourg, Malta, Mauritius, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Trinidad & Tobago, the United Kingdom, the United States and Venezuela.[59]

This study will evaluate the welfare states across these countries through three different measures. First, I will focus on the 1990 de-commodification index and the adjusted de-commodification index. However, these two variables only include 15 and 18 countries, respectively.[60] Therefore, the amount of welfare expenditure will be used in order to increase the sample size to the full 32 countries. Since there is little evidence that retrenchment of the welfare state has (at least quantitatively) occurred, an average of social expenditure, expressed as a percent of GDP, across the most recent 28 years available (1972-2000) in the IMF World Development Indicators Database will be used as a relevant measure of the welfare state. The following section will outline the methods and variables used in the analyses to elucidate the validity of and problems embedded in this study.

[59] Botswana, India, New Zealand and Papua New Guinea were not included due to the lack of data on these states. See Appendix A for a list of the countries in this study and their corresponding number in the data set.

[60] The de-commodification index includes 18 countries and the adjusted de-commodification index includes 15 countries.

VARIABLES AND METHODS

Arend Lijphart's study in *Patterns of Democracy* stipulated that consensus democracies increase representation and produce a larger welfare state. However, when he was evaluating the "kinder, gentler" factors such as the size of the welfare state, he dropped the federal-unitary dimension and analyzed the executive-parties dimension against three measures of the welfare state: the de-commodification index, the adjusted de-commodification index and social expenditure as a percent of GDP.

The following sections will discuss (1) the possible measures for the welfare state, (2) the relevant institutional impediments to the welfare state, (3) the important control variables left out of Lijphart's study and (4) an approach to deciphering the institutional effects on the emergence and growth of the welfare state.

First, I will reevaluate and re-run Lijphart's bivariate regression of the executive-parties dimension. His original analysis included the executive-parties dimension (EPDIM)[61] regressed with the three measures of the welfare state: the de-commodification index (DECOM), the adjusted de-commodification index (ADECOM) and social expenditure as a percent of GDP (ALEXP).[62] The original analysis will be compared to the updated executive-parties index (EXPAR), which compensates for the critique of Lijphart's effective number of parties variable, regressed with the same three indicators of the size of the welfare state (DECOM, ADECOM and ALEXP).

Second, I will evaluate the effects of the federal-unitary dimension (FEDERUN) originally dropped from Lijphart's analysis. I will discuss the results from a bivariate analysis of

---

[61] The original executive-parties dimension index (EPDIM) was created by combining the five consensus institutional features and scaling them from -2 to 2.

[62] Lijphart pulls ALEXP from Schmidt, Manfred G. (1997).

FEDERUN with the three indicators of the welfare state (DECOM, ADECOM and ALEXP). These results should be similar to what Lijphart would have found if he had reported his original results. Third, using a cross sectional multivariate analysis, the same 15 to 18 countries in Lijphart's analysis (respectively) will be used to distinguish the effects of fractionalization within the legislature (FRAC), checks within the system (BICHECK) and the level of federalism (IFEDER) on the de-commodifying capacity of the welfare state (DECOM and ADECOM) while controlling for the countries level of economic development (GDPPPP) and union coordinated bargaining strength (WCOORD).

Finally, my analysis will review all 32 countries in this study through a cross sectional multivariate regression of the effects of fractionalization (FRAC), checks (BICHECK) and federalism (IFEDER) on the amount of social expenditure (SOCSEC) while controlling for economic development (GDPPPP) and interest group corporatism (INTER2). What follows is an overview of the dependent, independent and control variables included in each of the analyses.

The Welfare State as a Dependent Variable

When welfare states are classified under Bismarckian (occupational) or Beveridgean (universal) types, researchers usually end up dividing them into more specific categories because this original bimodal classification only addresses the delivery of the provisions; it does not operationalize the welfare state in a measurable manner so that the quantity of the benefits or how well the benefits are redistributed throughout society can be compared across states. This problem is largely due to the existence of mixed systems. Many countries, including

Switzerland, Italy and Canada, have both occupational and universal social policies.[63] Classifying welfare states according to these qualitative attributes, but negating their mixed structures is problematic when trying to compile a comparative measure of the welfare state.

Like this study, many researchers use the amount of a state's social expenditure as a percentage of GDP to try to establish a quantitative value for a state's welfare system. Some studies focus solely on this measure while others, like that of Giuliano Bonoli, attempt to capture both the qualitative and quantitative attributes of the welfare state. Bonoli created a four-part model by classifying welfare states into Beveridgean high-spending, Beveridgean low-spending, Bismarckian high-spending and Bismarckian low-spending systems.[64] Bonoli states, "Ideally, a classification should be able to capture both dimensions – the quantity of welfare provision and the way in which this provision is delivered."[65] However, Bonoli's classification fails to explain the product of these redistributing policies within the society. He may include a measure for the amount of government expenditure and a classification for the type of system, but he does not include a way to measure the effect of these policies at the domestic level. In addition, all social spending should not be counted equally because some welfare states, like the Austrian one, have a large expenditure of benefits directed toward civil servants.[66] Bonoli's classification is also problematic because it is only useful in a qualitative analysis unless these distinctions are scaled.

---

[63] Banoli, G. (1997). "Classifying Welfare States: A Two-Dimensional Approach." Journal of Social Policy **26**(3): 351-372.

[64] Ibid.

[65] Ibid.
Pp. 356.

[66] Esping-Anderson, G. (1990). The Three Worlds of Welfare Capitalism. Princeton, Princeton University Press.

However, a one to four scale cannot possibly capture the varied forms of the welfare state and any scale based on social expenditure is no better than relying solely on the social expenditure itself.

Esping-Anderson's de-commodification index (DECOM) is often used as a dependent variable when studying the welfare state. The de-commodification index was created in a multi-step process that evaluated pension, sickness and unemployment programs and then combined them to create one single number for each state's welfare provisions.[67] For pensions, Esping-Anderson created the index in the following manner:

(1) The replacement rate: minimum pension benefit divided by the normal worker earnings and multiplied by two for weighting purposes
(2) The replacement rate: standard pension benefits divided by the normal worker earnings and multiplied by two for weighting purposes
(3) The contribution period: the years required for standard benefits, scored inversely
(4) The individual's share of pension financing
(5) Steps 1-4 scaled from 1-3 using one standard deviation from the mean: 1=low de-commodification, 2=medium, 3=low de-commodification
(6) Weighted by the relevant population covered
(7) Step 3 scored 0 and step 6 scored .50 for means-tested programs[68]

The pension measure created a scale from 5 to 17 for what Esping-Anderson deems the "degree of de-commodification."[69] For sickness and unemployment, Esping-Anderson created the index in the subsequent way:

(1) "The benefit replacement rate (net) for a standard worker during the first 26 weeks of sickness or unemployment" and multiplied by two for weighting purposes

---

[67] See Appendix C for a table of Esping-Anderson's combined de-commodification index.

[68] Esping-Anderson, G. (1990). The Three Worlds of Welfare Capitalism. Princeton, Princeton University Press.

[69] Ibid.
pp. 50.

(2) The employment time required to receive benefits (weeks)
(3) The number of waiting days before benefits are paid to individual
(4) The number of weeks that the benefits will be maintained
(5) Steps 1-4 scaled from 1-3 using one standard deviation from the mean
(6) Weighted by the population covered as a percent of the labor force
(7) Step 6 scored .5 for means-tested programs.[70]

The sickness index culminates in a scale from 0 to 15 and the unemployment scale is from 4 to 11.1.[71] However, Esping-Anderson's de-commodification index is greatly criticized due to its subjective nature. The combined de-commodification index does not include health insurance or education programs; he only merged scores according to pension programs, unemployment and sickness benefits. Also, while Esping-Anderson's theory behind the de-commodification index is extensively discussed as a way to figure an individual's ability to survive outside of participation in the market, he does not specify a theory behind his measurement procedures. One variable, pensions, is weighted double that of unemployment or sickness benefits but he does not discuss why he emphasized pension programs over the other two types of programs. Consequently, the de-commodification index has been highly criticized. This is especially true for the welfare states of Australia, New Zealand and the United Kingdom. It is often stipulated that the de-commodification scores for these three states underestimates the size of each country's welfare state.[72] Also, the de-commodification index is only available for 18 OECD countries, so the sample size needs to be expanded.

---

[70] Ibid.

[71] Ibid.
pp. 50.

[72] Castles, F. a. D. M. (1993). Worlds of Welfare and Families of Nations. Families of Nations: Patterns of Public Policy in Western Democracies. F. Castles. Aldershot, Dartmouth**:** 93-128.

Esping-Anderson cites the SSIB data files for his source of the de-commodification index measures, yet the SSIB files are not publicly available. As an attempt to rectify this problem, the de-commodification index should be refigured with publicly available data and it should incorporate a larger number of states. However, compiling a comparable replacement rate is problematic. The International Labor Organization (ILO) offers some useful measures to pull or create replacement rates. First, the ILO gives a replacement rate defined as the average monthly benefit as a percent of average monthly earnings. Unfortunately, it is only available for 10 relevant countries when studying the 36 countries specified by Lijphart.[73] Second, the ILO LABORSTA data files give the average hourly, weekly or monthly earnings for most countries, which might also be used to create a replacement rate. However, not all countries have data available for each sector of employment. Some of the data on wages is only given for certain sectors such as manufacturing or construction. Therefore, it is difficult to be sure that the wages are an actual average wage for all the economic activities in the country. Also, the wages are not consistently given by hour, week or month. Some countries only have hourly wages listed, which then requires that the average hours worked in a week be used to figure a monthly salary to compare to other countries.[74] Even if LABORSTA did have consistent data for all the necessary countries, the average, minimum or maximum benefits for pensions, sickness and unemployment benefits must also be acquired to construct a comparable replacement rate.

The Social Security Programs Throughout the World (SSPTTW) web site offers a qualitative description of the welfare programs in all thirty-six countries originally included in

[73] SOC/FAS. International Labour Organization. "Benefit Levels: Pensions." 2000. Online. Cornell University. Internet. 7 Feb. 2006.
Available: http://www-ilo-mirror.cornell.edu/public/english/protection/socfas/research/intros.htm

[74] International Labour Organization. "LABORSTA Internet." 2004. Online. Internet. 10 Feb. 2006. Available: http://laborsta.ilo.org/

this sample. Unfortunately, building a comparable replacement rate using this source is also difficult. Notably, the SSPTTW will articulate some measure to figure the replacement rate, but this measure is not the same across all states. For example, the minimum monthly pension for Italy is given as €412.18, but for Columbia the minimum social insurance pension is stated to be equal to the minimum wage. Likewise, beginning in 2004 the SSPTTW states, "the pension is equal to between 55% and 65% of the basic monthly wage, plus 1.5% for every 50-week period of contributions up to a maximum of 80% of the basic monthly wage."[75] From this information and the LABORSTA wages data, Italy's replacement rate can be figured as a minimum of 2%, yet Esping-Anderson classifies Italy under the conservative welfare regime so the replacement should be higher than 2%. In addition, Columbia's pension program can have a minimum replacement rate equal to the minimum wage divided by average monthly income (624,656 pesos according to LABORSTA) or the minimum replacement rate may be 55%.[76] When these statistics are compared, it becomes apparent that evaluating the replacement rate from so many different sources and with so many different descriptions is problematic.[77]

Some countries list only a minimum monthly pension while others give only a maximum monthly pension and still others actually list a replacement rate as a percentage of basic monthly earnings. Furthermore, after trying to figure the replacement rate for these thirty-six countries, one can choose certain countries to try to compare the replacement rate figured through the

[75] United States. Social Security Administration. "Social Security Programs Throughout the World." Online. Internet. 15 Feb. 2006.
Available: http://www.ssa.gov/policy/docs/progdesc/ssptw/

[76] International Labour Organization. "LABORSTA Internet." 2004. Online. Internet. 10 Feb. 2006. Available: http://laborsta.ilo.org/

[77] See Appendix D for a chart that demonstrates the problems embedded in compiling a comparable replacement rate from the ILO and Social Security Programs Throughout the World.

SSPTTW information to the replacement rate given by the ILO and the figures are not consistently equivalent. For example, when trying to compare replacement rates across multiple sources for Spain, the manually figured minimum pension replacement rate from the SSPTTW and LABORSTA is equal to 20%, yet the ILO Social Protection data states that the average for Spain's pension replacement rate in 1996 was 66.4%.[78,79] While both of these measures could be correct, there is no way to know that the manually figured 20% is estimated correctly because the average monthly wages are figured for the available economic activities in the LABORSTA data and not for all economic activities. Also, even if the data are figured correctly, it is not plausible to compare the minimum replacement rate of some countries to the average or maximum replacement rates of other countries.

In consideration of the issues embedded in constructing a replacement rate, it is not surprising that so many welfare state studies have opted to use Esping-Anderson's de-commodification index. However, there is one other measure that is also often used in the welfare state literature and this measure is available for many more countries. Social expenditure (SOSSEC), expressed as a percent of GDP, tries to capture the size of the welfare state through the amount of money spent on it. This measure is often critically assessed because the amount of money spent does not necessarily translate into an explanation of how well the money is allocated. A country could have a higher social expenditure but not do so well in redistributing the money. Also, as stated before, some countries spend more in certain areas such

---

[78] International Labour Organization. "LABORSTA Internet." 2004. Online. Internet. 10 Feb. 2006. Available: http://laborsta.ilo.org/

[79] SOC/FAS. International Labour Organization. "Benefit Levels: Pensions." 2000. Online. Cornell University. Internet. 7 Feb. 2006. Available: http://www-ilo-mirror.cornell.edu/public/english/protection/socfas/research/intros.htm

as the civil service industry. However, when Esping-Anderson's de-commodification index is compared to social expenditure, the relationship has a 70% correlation with significance at the .01 level.[80]

Consequently, this analysis will analyze fractionalization, federalism and checks with all three measures of the welfare state: the de-commodification index (DECOM), the adjusted de-commodification index (ADECOM)[81] and social expenditure as a percent of GDP (SOCSEC). To elucidate why fractionalization, checks and federalism are delineated as the pertinent institutional variables, the following section will address the precedent set by previous the institutional literature and the issues embedded in those studies. This study argues that fractionalization, federalism and checks are the pertinent variables to be evaluated when attempting to decipher the impact of institutions on social policy formation.

Institutional Impediments to the Welfare State

Arend Lijphart hypothesized that consensus democracies would be more representative and therefore would produce, among other things, a more developed welfare state. As previously stated, the consensus features were grouped under two dimensions: the executive-parties dimension and the federal-unitary dimension. Lijphart demarcated these consensual institutional features in the following way:

The Executive-Parties Dimension
(1) Executive power-sharing in broad coalition cabinets
(2) Executive-legislative balance of power
(3) Multiparty system
(4) Proportional representation

---

[80] SOCSEC is taken from the IMF Social Security and Welfare Data (82E). It is figured by averaging the social expenditure data from 1972 to 2000.

[81] ADECOM is the same as the de-commodification index except that it excludes the three most disputed cases (Australia, New Zealand and the United Kingdom).

(5) Interest group corporatism

The Federal-Unitary Dimension
(6) Federal and decentralized government
(7) Strong bicameralism
(8) Constitutional rigidity
(9) Judicial review
(10) Central bank independence[82]

However, when trying to decipher the relevant institutional features that may have hindered the ability of representatives to pass more encompassing welfare reforms, it becomes apparent that many of Lijphart's variables contrive either irrelevant, mis-measured or ad hoc explanations.

In the executive-parties dimension, the electoral system does not have a direct effect on legislative autonomy because it is actually the number of parties or, as Tsebelis points out, the ideological distance between those parties, that may hinder the autonomy of legislators. However, Lijphart measures the electoral system and the party system as two separate institutional variables when what he really needs to measure is the effect these systems have on the make-up of the legislature and the legislative-executive relationship.

Lijphart measures the party system in a two step process: (1) he uses Markku Laakso and Rein Taagepera's equation for the effective number of parties $[N= 1/\Sigma s_i^2]$[83] and then (2) he tries to compensate for closely allied parties and fractionalized parties by calculating the effective number of parties twice and then splitting the difference.[84] Yet Lijphart's effective number of parties measure is problematic. For example, the United States is coded as having 2.4 parties.

[82] Lijphart, A. (1999). Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries. New Haven and London, Yale University Press.

[83] Laakso, M. a. R. T. (1979). "Effective Number of Parties: A Measure with Application to West Europe." Comparative Political Studies **12**(1): 3-27.

[84] Lijphart, A. (1999). Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries. New Haven and London, Yale University Press.

Lijphart explains this coding as a representation of the fragmentation within the Democratic Party, yet the United States is predominantly considered to have a two-party system. Due to this critique, Lijphart's executive-parties dimension will be re-run to compensate for the effective number of parties measure he uses in the original analysis before the final two analyses are evaluated. Lijphart's executive-parties analysis will be re-evaluated and the effective number of parties variable will be adjusted to Laakso and Taagepera's equation.

To re-specify the pertinent variables for the final analyses, the rest of Lijphart's executive-parties dimension will be reevaluated. As for Lijphart's measures of the electoral system, the real issue to gauge is not the type of system, but the number of parties the structures produce within the legislature. Consequently, the Database of Political Institutions (DPI) may offer a better variable to represent the possibility of partisan conflict or cooperation within the legislature. The measure for fractionalization (FRAC) is defined as "[t]he probability that two deputies picked at random from the legislature will be of different parties."[85]

While Lijphart hypothesizes that a larger number of parties under proportional representation will be more representative and thereby more effective for passing welfare legislation, it is actually hypothesized by many institutional scholars that fractionalization will be more representative but hinder efficiency in legislation. As previously acknowledged, fractionalization could have varied effects. Contrary to Lijphart's findings, this study hypothesizes that a higher measure of fractionalization may increase the possibility of a veto and

---

[85] Thorsten Beck, G. C., Alberto Groff, Phillip Keefer, and Patrick Walsh (2001). "New Tools in Comparative Political Economy: The Database of Political Institutions." World Bank Economic Review **15**(1): 165-176.

impede more encompassing welfare legislation.[86] In regard to Lijphart's executive-parties dimension, a measure of fractionalization may actually be a better interpretation of the institutional effects of the electoral and party system and it will be used in the final two analyses. In addition, some of the other executive-party features differentiated by Lijphart are not necessarily linked as possible impediments to initial welfare state legislation.

Lijphart argued that interest group corporatism was a relevant institutional measure for the executive-parties dimension. He states that more majoritarian democracies will have a free-for-all competition between interest groups: "[p]luralism [the inverse of corporatism] ... means a multiplicity of interest groups that exert pressure on the government in an uncoordinated and competitive manner."[87] However, interest group corporatism is not an institutional variable contrived through state building. Therefore, it will be addressed in the following control variables section. Additionally, Lijphart's "executive power sharing in broad coalition cabinets" and "executive-legislative balance of power" variables also need to be examined to determine whether or not they should be included as institutional variables in the executive-parties dimension. These two variables may be better represented as a measure of the veto gates within the system.

The DPI gives an in-depth measure that is scored incrementally for impeding factors such as an independent executive, whether the executive is elected competitively, if the opposition of the executive controls the legislature, for presidential systems with separate chambers in the

[86] FRAC is figured using the Database of Political Institutions from the World Bank. It is an average of the amount of fractionalization within the legislature from the years 1975 to 2004.

[87] Lijphart, A. (1999). Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries. New Haven and London, Yale University Press.
Pp. 16.

legislature and/or for parliamentary systems with multiple competing legislative parties.[88] Thus, the DPI's measure for checks accounts for what Lijphart calls executive power-sharing and executive-legislative balance of power and it will be used as a factor for the checks within the system (BICHECK).[89]

There are also some concerns regarding the validity of the features demarcated in Lijphart's federal-unitary dimension. Because Lijphart fails to report his results on the bivariate regression of the federal-unitary dimension with the three indicators for the welfare state, this study will analyze the federal-unitary dimension index (FEDERUN) against all three measures of the welfare state originally used by Lijphart (DECOM, ADECOM and ALEXP). However, these federal-unitary variables need to be examined to delineate their relevance for the final two analyses.

The degree of central bank independence is not usually considered an institutional feature because it does not open a point of veto. Lijphart stipulates, "When central banks are strong and independent, they play a critical role in the policy process."[90] Admittedly, central bank independence can hinder policy through the regulation of inflation and interest rates. In addition, if unemployment is affected by the management of inflation through the central bank, then employment levels may play a role in domestic level pressures for increases or decreases in social policy. However, this domestic level pressure should be noticeable in a measure for union

---

[88] Thorsten Beck, G. C., Alberto Groff, Phillip Keefer, and Patrick Walsh (2001). "New Tools in Comparative Political Economy: The Database of Political Institutions." World Bank Economic Review **15**(1): 165-176.

[89] BICHECK combines Lijphart's one to four scale for bicameralism and the DPI's measure CHECKS (1975-2004) which is explained above.

[90] Lijphart, A. (1999). Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries. New Haven and London, Yale University Press.
Pp. 232.

strength if it inhibits the government's ability to pass more encompassing welfare legislation. Therefore, central bank independence will be considered a factor that might increase the power of the left. To compensate for this issue, both interest group corporatism and wage bargaining scores will be addressed in the following control variables section.

In addition, the existence of strong judicial review and/or constitutional rigidity may be in part categorized as institutional features, yet they rarely have an a priori role in legislation, *ipso facto*, any explanation based on these variables may be ad hoc. A similar issue is present when addressing popular referenda. While Lijphart dismisses public referenda, stating that it is not an institutional feature, Immergut stresses the hindrance that referenda can cause in social policy legislation. Her main example, Switzerland, demonstrates that more encompassing forms of welfare legislation can be overturned by popular referenda. She declares, "In Switzerland the constitutional right of voters to challenge legislation through referenda pulled decision-making into the electoral arena.... "[91] In addition, Immergut later emphasizes, "[I]t was in practice the referendum that constituted the critical veto point."[92] In spite of this, when studying referenda, Switzerland is an anomaly. Its unique use of referendums is easily discernable when it is compared to the use of referendums in other countries.

According to Jan-Erik Lane and Svante Ersson, Switzerland used popular referenda over two hundred times from 1970 to 1997. Consequently, Lane and Ersson stress that "only

---

[91] Immergut, E. (1992). The Rules of the Game: The Logic of Health Policy-Making in France, Switzerland, and Sweden. Structuring Politics: Historical Institutionalism in Comparative Analysis. e. a. Sven Steinmo. Cambridge, Cambridge University Press**:** 58-89.
Pp. 68.

[92] Ibid.
Pp. 74.

Switzerland is a genuine referendum democracy."[93] Similarly, David Butler and Austin Ranney postulate:

> "In most [countries], [referenda] have been ad hoc affairs designed to solve a specific problem. Half of the eight hundred or so referendums that have taken place at the national level in the history of the world have been in Switzerland, but the number of other countries in which they have played a continuous role in politics is very small. On the whole, they have been crisis instruments, invoked to solve a particular problem or to justify a particular solution."[94]

Therefore, while the institutional feature of national popular referendum may be a valid inhibitor to the emergence of the welfare state in Switzerland, it is, on the whole, an ad hoc explanation that should be viewed as an anomaly. Popular referenda and the existence of judicial review are extemporized variables; they should not be deemed as main institutional inhibitors to the emergence of the welfare state, and they will not be included in the analysis.

When evaluating the validity of other federal-unitary dimension features, federalism and bicameralism may increase representation and decrease the state's autonomy in the legislative process which may hinder the emergence of the welfare state. In Hicks and Swank's study of political institutions and welfare spending, they suggest that state centralization will increase welfare spending. They assert the following:

> "[C]entralized, unitary government reduces veto points for the obstruction of pro-welfare reforms and streamlines political instruments for the enactment of such reforms. On the assumption that national political organizations can exert more

---

[93] Lane, J. E. a. S. E. (1999). <u>The New Institutional Politics: Performance and Outcomes</u>. New York, Routledge.
Pp. 153.

[94] Butler, D. a. A. R. (1978). Practice. <u>Referendums around the World: The Growing Use of Direct Democracy</u>. D. a. A. R. Butler. Washington, D. C. , The AEI Press**:** 1-10.
Pp. 1.

> pro-welfare pressure on national policy than dispersed actors in subnational arenas, these aspects of centralization should augment welfare effort."[95]

As stated by Hicks and Swank, "quantitative studies have frequently risked unstable findings by using coarse measures and minute samples," yet they also only focus on 18 industrialized democracies.[96]

As a result, it is important to expand their sample and analyze fractionalization as well as federalism and checks to attempt a better understanding of the influences that these factors may have on social policy spending and implementation. Chiefly, measures for federalism and bicameralism need to be evaluated. Lijphart created a measure for federalism on a scale from one to five, yet the DPI has a slightly expanded measure of federalism, ranging from one to seven. The DPI index for federalism (IFEDER) evaluates five issues: (1) whether adjoining regions exist, (2) whether municipal governments are locally elected, (3) whether there are state or provincial governments that are locally elected, (4) whether the state or provincial governments have the authority to tax, spend or legislate and (5) whether the constituents of the senators are the states or provinces.[97] This measure of federalism is an often-used variable for discerning a country's level of federalism.[98] Similarly, a measure for bicameralism can be

---

[95] Hicks, A. a. D. S. (1992). "Politics, Institutions, and Welfare Spending in Industrialized Democracies, 1960-1982." The American Political Science Review **86**(3): 658-674.
Pp. 661.

[96] Ibid.
Pp. 658.

[97] Thorsten Beck, G. C., Alberto Groff, Phillip Keefer, and Patrick Walsh (2001). "New Tools in Comparative Political Economy: The Database of Political Institutions." World Bank Economic Review **15**(1): 165-176.

[98] IFEDER is an additive index from the DPI (1975-2004) which combines these five indicators on a scale from zero to seven.

figured in two apposite ways. As a separate variable, Lijphart's index for bicameralism is an indicative measure. Also, the previously described checks variable from the DPI accounts for bicameralism. Still, bicameralism is a main indicator of checks within the system and should be treated as such. In addition, as Tsebelis states, "there are countries where the upper chamber has only a delaying veto power."[99] Consequently, to avoid issues of multicollinearity and to allow for the different degrees of bicameralism within a state, Lijphart's index of bicameralism and the DPI's measure of checks can be combined into one index for the checks within the system (BICHECK).[100] Federalism (IFEDER) and checks (BICHECK) will be used in the final two analyses as possible inhibitors to welfare state emergence and growth.

It is hypothesized that higher levels of fractionalization, federalism and more checks or veto gates will increase representation yet decrease the ability of legislators to pass more encompassing forms of social policy. Be that as it may, it should be recognized that Lijphart's findings as well as Hicks and Swank's postulation suggest that fractionalization may encourage the emergence of more encompassing welfare state legislation because of the lack of "Downsian" platform convergence. It is possible that the median voters' interests are better represented in two-party systems because multi-party systems allow for representation of as many people as possible instead the majority of the people. Lijphart's assessment does not elucidate this corollary because his regression dismisses the institutional federal-unitary characteristics and he does not control for the influence of the level of economic development

---

[99] Tsebelis, G. (1995). "Decision Making in Political Systems: Veto Players in Presidentialism, Parliamentarism, Multicameralism and Multipartyism." British Journal of Political Science **25**(3): 289-325.
Pp. 305.

[100] BICHECK combines Lijphart's one to four scale for bicameralism and the DPI's measure CHECKS (1975-2004) which is explained above.

across states or the strength of the left to influence legislation. In order to better evaluate the efficaciousness of institutions on translating median voter interests into desired social policy reforms, some control variables must be defined and explained.

Control Variables

Welfare state research commonly focuses on developed nations because, as it is often asserted, states are thought to require a certain level of economic development in order to implement social policies. Adam Przeworski contends that poorer countries cannot afford a strong state because "[p]overty appears to leave no room for politics."[101] For this reason and because of problems with the availability of data, much of the welfare state literature focuses solely on OECD countries. Esping-Anderson's de-commodification index addresses 18 OECD countries and those same countries are repeatedly used in the welfare state literature. For example, Lijphart expands his analysis to 36 countries, yet he drops most of the cases in order to run his regressions. When he regresses the executive-parties dimension against the de-commodification index, his N falls to those 18 countries found in the de-commodification index. When he regresses the executive-parties dimension on the adjusted de-commodification index, his N is equal to 15 because he drops the 3 most disputed measures from the de-commodification index. He also evaluates social expenditure as a percent of GDP, but his case size is still only 18.

Focusing on OECD states offers a very small sample of countries with much too similar histories and levels of economic development. A larger sample of 32 of Lijphart's countries will be analyzed in this study in order give a more encompassing view of the comparative institutional effects on welfare state emergence. In addition, in consideration of the impact that

---

[101] Przeworski, A., et al. (2000). Democracy and Development: Political Institutions and Well-Being in the World, 1950-1990. Cambridge, Cambridge University Press.
Pp. 178.

the economic development of a country can have on the ability of the state to support social policies; the GDP will be used in the analyses as a control for each state's economic development.

The most common variable used by researchers to control for the level of economic development is the per capita gross domestic product (GDP) official exchange rate (OER) of the state. The GDP, OER is a measure of the "value of all final goods and services produced within a nation in a given year" at the official exchange rate divided by the population of that nation.[102] However, using the GDP, OER has a few problems. First, the GDP, OER exaggerates the difference between production power and consumption power because the exchange rate is not easily comparable in cross-national studies. As stated in The World Factbook:

> "Official exchange rates, however, can be artificially fixed and/or subject to manipulation - resulting in claims of the country having an under- or over-valued currency - and are not necessarily the equivalent of a market-determined exchange rate.... [Also] GDP is not well suited to comparing domestic GDP over time, since appreciation/depreciation from one year to the next will make the OER GDP value rise/fall regardless of whether home-currency-denominated GDP changed."[103]

In the 1960s, the United Nations launched an international comparison project (ICP) and constructed an artificial international dollar for comparative evaluations of states. This measure, GDP purchasing power parity (PPP), gives a better account of a state's economic development or wealth and it will be used in the following analysis as a control (GDPPPP).[104] Middle income countries show up at a similar ranking as measured by the GDP, OER measure, yet poorer

---

[102] United States. Central Intelligence Agency. "The World Factbook." 2006. Online. Internet. 25 Feb. 2006. Available: http://www.cia.gov/cia/publications/factbook/docs/notesanddefs.html

[103] Ibid.

[104] GDPPPP is figured as an average of GDP, PPP for the years 1975-1999. It is pulled from the IMF World Development Indicators.

countries usually rank higher than when the exchange rate method is used instead of the GDP, PPP.[105] Whenever states with varying levels of economic development are being compared in a cross-national analysis, the GDP, PPP should be used as a control variable.

Additionally, institutional approaches to the study of the emergence of the welfare state should also try to control for variables mentioned in the previous literature. As a relevant example, the PRT literature postulates that the power of the left in a given state has a direct correlation to the type of welfare state that emerges. The power of left is operationalized in a number of ways throughout the PRT literature. Bo Rothstein argues that the organization of the working class is extremely important therefore, he uses the degree of unionization as a proxy for working class strength. He states, "it seems reasonable to conclude that institutional power in the administration of government labor-market institutions is important in determining union density or working class strength."[106] Similarly, Walter Korpi focuses on the degree of political mobilization in the working class.[107] Most PRT studies focus on the percentage of seats held by the left or some measure of unionization to approximate a measure for the power of the left. The Comparative Welfare States Data Set pulls a measure for unionization from Lane Kenworthy

---

[105] Data on GDP, OER per capita and GDP, PPP are available through the IMF World Development Indicators from The World Bank.
Source: Easterly, W. R. (2001). Macroeconomic and Economic Growth, The World Bank.

[106] Rothstein, B. (1992). Labor-Market Institutions and Working-Class Strength. Structuring Politics: Historical Institutionalism in Comparative Analysis. e. a. Sven Steinmo. Cambridge, Cambridge University Press**:** 33-56.
Pp. 41.

[107] Korpi, W. (1983). The Democratic Class Struggle. London, Routledge & Kegan Paul.

that creates a scale from one to five according to the level of wage coordination (WCOORD).[108] A score of five demarcates a state with the following description for unionization:

> "Centralized bargaining by confederation(s) or government imposition of wage schedule/freeze – with a peace obligation, extremely high degree of union concentration and coordination of industry bargaining by confederation, extensive coordination of bargaining by employer organizations with extensive pattern-setting."[109]

However, like much of the welfare state data, this measure is only available for 18 OECD states.

As previously stated, Lijphart created a measure for interest group pluralism as one of his executive-parties institutional features that may be better suited as a way to control for the power of the left.[110] Both WCOORD and INTER2 should incorporate the amount of pressure from the left whether it is caused by the ability to manipulate employment through increases in trade openness or central bank independence. Intuitively, a state with a more pluralist arrangement may have a less coordinated level of unionization (INTER2).[111] When a correlation is established between interest group corporatism (an inverse measure of the interest group pluralism index) and Kenworthy's measure for wage coordination scores, the relationship is highly significant at the .01 level. Interest group corporatism and wage coordination scores are correlated at seventy-four percent. Therefore, when controlling for the power of the left in a regression with a larger sample size, the measure for interest group corporatism might be used as

---

108 Kenworthy, L. (2001). "Wage-Setting Measures: A Survey and Assessment." World Politics **54**(1): 57-98.

109 Huber, E., Charles Ragin, John D. Stephens, David Brady and Jason Beckfield (2004). Comparative Welfare States Data Set, Northwestern University, University of North Carolina, Duke University and Indiana University.
Pp. 7.

110 Lijphart, A. (1999). Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries. New Haven and London, Yale University Press.

111 INTER2 is the inverse of Lijphart's interest group pluralism index.

a proxy for unionization. Granted, the interest group index measures all interest groups and not just unionization. Hence, interest group corporatism may be better suited as a control variable that represents the relative strength of different groups within society (pro-welfare and pro-market interests alike). A short case study example of the U.S. may serve to elucidate the pertinent variables for the cross sectional analysis.

The United States: An Historical Example

The United States constitution was purposely engineered to contain a separation of powers throughout the system. It is a government with political authority spread out through numerous branches inside and outside the federal government. As Seymour Lipset and Gary Marks assert,

> "The Revolutionary Americans, having defeated a tyrannical king, feared the power of a unified, central state. They sought to avoid tyranny by checks and balances, dividing power among different political bodies, all subject to a Bill of Rights limiting government authority."[112]

On a five-point scale, Lijphart codes the U.S. as a five, the most federal and decentralized ranking because power is divided between the individual states, the House of Representatives, the Senate, the Judiciary and the Presidency.

The combined de-commodification score for the United States in 1990 was a 13.8 on a scale that ranges from 13 to 39.1. This de-commodification score is a measure of how well the United States welfare system has sheltered labor from the market in relation to 17 other OECD countries. A ranking of 13.8 places the U.S. in a cluster of states that Esping-Anderson calls

---

[112] Lipset, S. a. G. M. (2000). Why Socialism Failed in the United States: It Didn't Happen Here. New York and London, W. W. Norton & Company.
Pp. 22.

liberal welfare regimes because of their lack of effectively de-commodifying social policies.[113] Social expenditure from 1972 to 2000 averaged around 6.73 percent of the U.S.'s GDP. In comparison to states such as Norway and Sweden, this amount of expenditure is only half that of some of the other industrialized democracies. Even Germany, whose welfare state is normally considered to be a medium size, spends an average of 14.53 percent of the GDP on social policies.[114] The 1990 de-commodification score and the yearly average of social spending in the United States are a reflection of the institutional obstacles that have stifled the federal legislation and continue to impede the U.S. from expanding their social policies.

Lipset and Marks proclaim the following about the effects of federalism:

> "The effect of federalism for socialism is double-edged. It weakened the state as an instrument of reform and denied to socialists the possibility of organizing against national exploitation. Yet federalism also allowed socialists the possibility of electoral success and executive control in political units much smaller than the country as a whole."[115]

According to Lipset and Marks, this organizational weakness of the socialist party was not due to repression because many European socialist parties faced greater repression than that in the U.S. However, the socialist party in the U.S. was unwilling to align with the American Federation of Labor or incorporate immigrants. Consequently, they faced organizational weakness and never became a viable party. Lipset and Marks hypothesize that the lack of an electorally viable socialist party in U.S. produces an exceptional case study. This phenomenon may be due – in

---

[113] Esping-Anderson, G. (1990). The Three Worlds of Welfare Capitalism. Princeton, Princeton University Press.
Pp. 52.

[114] Data available through the IMF World Development Indicators.
Source: Easterly, W. R. (2001). Macroeconomic and Economic Growth, The World Bank.

[115] Lipset, S. a. G. M. (2000). Why Socialism Failed in the United States: It Didn't Happen Here. New York and London, W. W. Norton & Company.
Pp. 83.

part – to the degree of power separation across the U.S.'s system of government. Primarily, as Lipset and Marks concur, the greater degree of federalism may have dispersed the power of socialists thinly across a large country.[116]

Before the 1930s, social welfare in the United States was the responsibility of the local and state governments. Health insurance and unemployment insurance programs had been proposed by many states, but early on they both failed miserably. Health insurance in the United States never recovered from its first state-level crash and it is still almost non-existent on the federal level with a score of zero on Esping-Anderson's de-commodification index. In 1916, Massachusetts failed in its attempt to address unemployment compensation, but by 1920 a few exceptionally large corporations had financially limited occupational welfare workers compensation programs in forty-three states. Later, the states within the U.S. began playing an incrementally larger role in social policy reforms. In the midst of the Great Depression in 1932, the Wisconsin Industrial Commission developed a series of preventative bills at the individual business level. The businesses were required to establish an unemployment fund, but the fund only needed to be maintained at a minimal level; therefore, the benefits were stable but also low. A few months later, an Ohio commission proposed another type of unemployment compensation that included a statewide fund contributed to by employers and employees. It was not until April of 1935 that New York became the first state to pass a bill for unemployment insurance instead of limited unemployment assistance.[117]

---

[116] Ibid.

[117] Amenta, E. a. B. G. C. (1988). "The Formative Years of U.S. Social Spending Policies: Theories of the Welfare State and the American States During the Great Depression." American Sociological Review **53**(5): 661-678.

A similar uphill trend to that of unemployment insurance is found when exploring sub-national origins of old-age pensions in the United States. County-optional legislation was passed by six states in the late 1920s. However, Pennsylvania's law was found unconstitutional by judicial review and three other states failed to pay out the pensions.[118,119] It was not until 1934 that the subnational states really began implementing old-age pension policies. Twenty-three states passed compulsory laws, and five states passed county-optional laws.[120]

By the presidential election of 1932, many subnational states had passed some form of unemployment compensation or insurance and a compulsory or county-optional old-age pension program. The United States was just over three years into the Great Depression when Franklin Delano Roosevelt was elected to office. There is a lot of debate about whether FDR's New Deal plan actually helped the U. S. emerge from the depression, but it is rarely disputed that the New Deal was the beginning of national welfare programs in the U. S. The only federal program before the twentieth century initiatives was a pension system that allocated funds for war veterans.[121] Roosevelt's social policy goals were stacked against the historical precedent of sub-national social policies in the form of occupationally dependent and targeted welfare. As Finegold and Skocpol assert "[p]arties are constrained in their strategic choices by past strategies

[118] Brandeis, E. (1935). Labor Legislation. History of Labor in the United States, 1896-1932. J. Commons. New York, Macmillian. **III:** 399-700.

[119] Epstein, A. (1968). Insecurity: A Challenge to America. New York, Agathon Press.

[120] Amenta, E. a. B. G. C. (1988). "The Formative Years of U.S. Social Spending Policies: Theories of the Welfare State and the American States During the Great Depression." American Sociological Review **53**(5): 661-678.

[121] Pierson, C. (1991). Beyond the Welfare State? University Park, PA, The Pennsylvania State University Press.

and by governing responsibilities."[122] This constraint is present not just through parties but through government officials in general.

Public support for federal welfare legislation may have been linked to the presence of sub-national state-level legislation. Consequently, Roosevelt's first campaign focused more on balancing the budget than on the introduction of encompassing reforms. The first wave of the New Deal, called the "hundred days," was an attempt at producing jobs without ruining the federal budget. Two federal administrative agencies, the National Recovery Administration (NRA) and the Agricultural Adjustment Administration (AAA) were created to adjust prices, production and employment levels. Both the AAA and the NRA met with limited success and within a few years they were declared unconstitutional by judicial review.[123]

The passage of both the NRA and the AAA was partially dependent upon the party line. As is often the case in the United States two-party system, in the first hundred days, the 72nd Congress and the executive was split between parties. Roosevelt held office in the executive, but the republicans had the majority in the House of Representatives with 218 seats out of a total of 435, and the majority in the Senate with 48 seats out of a total of 96.[124,125] This lack of autonomy throughout the legislative process may have added to the difficulty of expanding

---

[122] Finegold, K. a. T. S. (1995). State and Party in America's New Deal. Madison, The University of Wisconsin Press.
Pp. 41.

[123] Ibid.

[124] United States. Office of the Clerk: U.S. House of Representatives. "Congressional History." Online. Internet. 10 Nov. 2005.
Available: http://clerk.house.gov/histHigh/Congressional_History/index.html

[125] United States. The United States Senate. "Party Division in the Senate, 1789-Present." Online. Internet. 10 Nov. 2005.
Available: http://www.senate.gov/pagelayout/history/one_item_and_teasers/partydiv.htm

social policies beyond targeted reforms. Not only was Roosevelt faced with sub-national policy precedents, but he was also faced with a minority in the Senate and in the House.

By 1935, the United States Congress had a Democratic Party majority in both houses at the same time that the executive position was controlled by a Democratic Party president. During the New Deal's "second hundred days" the Wagner Act was passed. The Wagner Act included the Social Security Act, which initiated the first federal pension plan in the United States. However, Roosevelt and the 1935 Congress were careful to build the plan in a way that was based on a payroll tax from employer and employee contributions. The 1935 Act legislated (1) a federal but state-run unemployment insurance program, (2) federal grants to states for needy dependent children, the blind and the elderly, (3) matching federal funds for state spending on vocational rehabilitation, infant and maternal health and aid to crippled children and (4) a federal old-age insurance system.[126] All of the policies were limited in scope; they were targeted to people who were in a position of need.

Unfortunately, this example offers no more of an indication as to whether Roosevelt may have been more hindered by "Downsian" platform convergence within the U.S. two-party system or if states with even more party fractionalization would face a greater issue with passing larger welfare reforms. Lipset and Marks state, "The same comparative standpoint that explains two-party duopoly in the United States also reveals that social democratic parties were able to break through into established two-party systems elsewhere."[127] Therefore, it is unclear whether

---

[126] Berkowitz, E. a. K. M. (1980). Creating the Welfare State: The Political Economy of Twentieth Century Reform. New York, Praeger.

[127] Lipset, S. a. G. M. (2000). Why Socialism Failed in the United States: It Didn't Happen Here. New York and London, W. W. Norton & Company.
Pp. 82.

greater fractionalization within the legislature would have been more or less conducive for larger welfare reforms.

The U.S. system was designed to empower the sub-national states over the federal government in certain policy areas. The separation of powers throughout the U.S. system in the form of federalism, bicameralism and an independent executive was believed to keep any one body from having too much autonomy. As Madison explained in *The Federalist Papers No. 47,* "[t]he accumulation of all powers, legislative, executive, and judiciary, in the same hands, whether of one, a few, or many, and whether hereditary, self-appointed, or elective, may justly be pronounced the very definition of tyranny."[128] This lack of autonomy may have been the main obstacle for more encompassing welfare policies in the U.S. The sub-national initiatives set a precedent for the type of federal level legislation through public support for more targeted programs. Also, the high level of federalism and larger number of checks in the U.S. has required more cooperation over types of welfare policies, which stifled more inclusive social policies because there was a higher probability that legislation would not be passed when the government was broken up through so many levels.

The repercussions of these institutional obstacles still persist in the U.S. today; consequently, the U.S. has one of the lowest de-commodification scores and one the lowest averages for social spending of the 18 OECD countries analyzed by Esping Anderson. In the U.S. system, an inverse relationship may be present between representation throughout the federal-unitary dimension features and welfare legislation. While federalism and checks and balances were created to enhance representation, they may have also resulted in less de-

[128] Madison, J. (1961). No. 47: The Particular Structure of the New Government and the Distribution of Power Among Its Different Parts. The Federalist Papers. C. Rossiter. New York, Penguin Group, In.**:** 297-304.

Pp. 298.

commodifying welfare reform emergence and growth. Federalism, bicameralism, and an independent executive may have inhibited welfare state emergence, resulting in more targeted reforms. Lipset and Marks address U.S. exceptionalism through the historical record of a socialist labor movement that failed to align with unions or the left party. They concede that federalism in the U.S. may have thinly dispersed the power of socialist across a large country and hindered the emergence of a viable socialist party.[129]

Contrary to the U.S. example, Arend Lijphart's analysis indicates that more representative democracies will produce higher de-commodifying welfare policies and therefore more egalitarian societies. However, Lijphart's analysis focused on the executive-parties dimension when the federal-unitary features may actually be more important when analyzing the institutional features that have inhibited the emergence of inclusive welfare legislation. The United States' national-level legislation may have been shaped largely by previous subnational level approaches to social policy as well as the structure of the federal government. FDR and the 71st through the 77th Congresses were forced not only to consider what precedent the sub-national states had set, but they also had to consider that the legislation would have to pass through the executive and both houses of the legislature.

Therefore, the institutional features of democracy that may have an impeding impact on the emergence of the welfare state and current state levels of de-commodification are not solely within the executive-parties dimension but may be even more present through the federal-unitary dimension of institutional features. The United States example raises important questions for cross-national studies of the welfare state. Do other democracies that share these federal-unitary

---

[129] Lipset, S. a. G. M. (2000). Why Socialism Failed in the United States: It Didn't Happen Here. New York and London, W. W. Norton & Company.

dimension characteristics also have less inclusive social policy legislation? And was the emergence and growth of the welfare state more or less hindered by the U.S.'s predominantly two-party system? The following section will outline the approach to a cross sectional analysis and attempt resolve the ambiguous findings in the previous institutional literature.

Designing an Approach

It is often asserted that effectiveness and representation are dichotomous repercussions of political institutions. Efficient institutions are not always considered to produce better legislation and effective institutions are not always thought to be the most representative. Yet Lijphart suggests that more representative institutions or consensus democracies produce more effective welfare legislation. Perhaps counterintuitively, in Lijphart's analysis, effectiveness translates into more encompassing social policies. However, as hypothesized in this analysis, more representation in the government through federalism, checks and (possibly) fractionalization may actually translate into a more targeted or occupational welfare state.

Lijphart's federal-unitary dimension needs to be addressed in order to try to determine whether more representative institutions actually hinder this type of effectiveness. Hence, using Lijphart's independent and dependent variables, I have re-run his analysis of the executive-parties dimension (EXPAR) and added an analysis of his federal-unitary dimension (FEDERUN). To counterbalance Lijphart's heavily critiqued variable for the effective number of parties, I have dismissed his attempt at compensating for closely allied parties and highly fractionalized parties. Instead, I have used the measures from Laakso and Taagepera's equation for the effective number of parties. To re-create the executive-parties dimension, it was necessary to recode the parties variable to the hypothesized direction. Therefore, unlike Lijphart's study, the new executive-parties index should be negatively correlated to the welfare state if the data support his argument. In addition, the analysis of the federal-unitary effects should be positively correlated to a larger welfare effort if Lijphart's argument is upheld statistically.

In the hopes that some understanding may be attained about representative institutions and their effect on welfare legislation, I also re-specified his variables using the new measures of fractionalization (FRAC) as an indicator of the effects of the electoral and party systems, the DPI measure for federalism (IFEDER) and a variable for checks that is operationalized as the strength of bicameralism and the presence of an independent executive (BICHECK). These variables were analyzed against Esping-Anderson de-commodification index (DECOM) and the adjusted de-commodification index (ADECOM) while controlling for the effects of wage coordinated bargaining power as a measure of working class strength through unionization (WCOORD) and GDP, PPP as an economic indicator (GDPPPP). However, these regressions only include 15 and 18 countries, respectively, because the wage coordinated bargaining scale, the de-commodification index and the adjusted de-commodification index were only available for a smaller number of OECD countries.

To increase the sample size, this regression was then re-run using the same independent variables of fractionalization (FRAC), federalism (IFEDER), and checks (BICHECK), but instead of controlling for wage coordinated bargaining, I used interest group corporatism (INTER2), and instead of using the de-commodification index, I used social expenditure as a percent of GDP (SOCSEC). While admittedly these variables have some problems, the de-commodification index is also objectionable. Therefore, each of these regressions will be discussed to try to come to a superior understanding of the possible institutional impediments to the emergence of the welfare state. It is hypothesized that federalism, checks and (perhaps) fractionalization increase representation of median voter interests which has hindered the emergence of social policies in some countries.

RESULTS AND DISCUSSION

Using Lijphart's data set, the federal-unitary dimension and the executive-parties dimension were re-created by combining his institutional variables. While Lijphart used these indices to scale his variables along two dimensions from either -2 to 2 or -3 to 2, the present analysis has combined variables for each dimension to create an index but the variables are then left at their original measures. Instead of using Lijphart's variable for the effective number of parties, Laakso and Taagepera's equation has been used because it does not try to compensate for fractionalization within parties or closely allied parties. Also, in order to combine the measures according to Lijphart's hypothesis, the inverse was taken of the effective parties measure. The relationship between my refigured dimension and Lijphart's original executive-parties dimension index scores is strong; they are over ninety percent correlated at the .01 level. While the results are still significant, they are not exactly the same as the findings recorded by Lijphart.

Lijphart finds a significant correlation between the executive-parties dimension index and all three measures of the welfare state. Lijphart's original findings are significant on at least the .05 level (see Table 1).[130] However, when the dimension is not scaled from -2 to 2 and the effective number of parties is adjusted, the findings are not completely consistent with Lijphart's reported results. My analysis indicates that the de-commodification index (DECOM) for the welfare state is highly significantly correlated to the executive-parties dimension (EXPAR), and the magnitude of this significance is -.59. Also, I find that the correlation between social expenditure (ALEXP) and the executive-parties dimension (EXPAR) is significant at the .05 level and the correlation between the adjusted de-commodification index (ADECOM) and the

---

[130] Lijphart, A. (1999). Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries. New Haven and London, Yale University Press.
Pp. 296.

executive-parties dimension (EXPAR) is slightly weakened but still statistically significant at the .10 level (Table 1).

Table 1: Executive-Parties Dimension Results
Bivariate regression analyses of the effect of 5 institutional executive-parties factors combined into one index on three indicators for the size of the welfare state.[131] Lijphart's original results are included for comparison.

	De-commodification Index DECOM		***Adjusted De-commodification Index ADECOM***		***Social Expenditure ALEXP***	
Independent Variable	**Unstand. Coef. (b)**	**Stand. Coef. (beta)**	**Unstand. Coef. (b)**	**Stand. Coef. (beta)**	**Unstand. Coef. (b)**	**Stand. Coef. (beta)**
Executive-Parties Dimension (EXPAR)	-0.13***	-0.59	-0.09*	-0.43	-0.08**	-0.43
Lijphart's Executive-Parties Dimension (EPDIM)	4.90***	0.68	4.29**	0.58	2.66**	0.44

*Statistically significant at the .10 level (one-tailed test)
**Statistically significant at the .05 level (one-tailed test)
***Statistically significant at the .01 level (one-tailed test)

These findings suggest that there is some validity to Lijphart's hypothesis that more representation in the executive-parties dimension incurs a larger welfare state. The analysis indicates that a one standard deviation unit change in the executive-parties index results in a -.59 standard deviation unit change in the de-commodification indicator or a -.43 standard deviation unit change in the social expenditure variable. However, as previously asserted, some

[131] The new analysis scaled the executive-parties dimension to suggest a negative correlation to the size of the welfare state. Lijphart's original analysis included an index that should be positively correlated to all three measures of the welfare state. In all cases, the null hypothesis has been rejected on at least the .10 level.
Sources: Esping-Anderson, G. (1990), Schmidt, M (1997) and Lijphart, A. (1999).

of Lijphart's executive-parties elements are dubious and he dismissed the federal-unitary dimension when those factors may have the opposite effect on social policy legislation. In addition, Lijphart failed to control for the level of economic development within states and the power of the left to influence legislation at the state level.

An analogous method was used to evaluate the federal-unitary dimension characteristics. Lijphart evaluates the federal-unitary dimension when he analyzes the economic performance of states even though he asserts, "[t]he conventional wisdom does not concern itself explicitly with the federal-unitary dimension."[132] Nevertheless, when he addresses the "kinder, gentler" qualities of democracy, he does not address theoretically why the federal-unitary dimension was dropped from his analysis. According to Lijphart's hypothesis, the federal-unitary dimension should be positively correlated to all three of the specified indicators of a larger welfare state. In order to test his theory with the five federal-unitary variables, I have combined all five indicators into one index (FEDERUN) and ran a bivariate regression using each of his three specified dependent variables for the welfare state (DECOM, ADECOM, ALEXP).

Contrary to Lijphart's hypothesis, the relationship between the federal-unitary dimension (FEDERUN) and social expenditure (ALEXP) is negatively statistically significant at the .05 level. The relationship between the federal-unitary dimension (FEDERUN) and the adjusted de-commodification index (ADECOM) is also negatively correlated and it is significant at the .05 level (see Table 2). According to these findings, and contrary to Lijphart's hypothesis, the presence of more federalism and a greater number of checks may have actually resulted in more occupationally dependent or targeted social policy legislation. The analysis results for the

[132] Lijphart, A. (1999). Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries. New Haven and London, Yale University Press.
Pp. 272.

federal-unitary dimension (FEDERUN) and the de-commodification index (DECOM) are not as statistically significant, but, unlike the executive-parties dimension findings, these results are concurrent with the major critique of the de-commodification index. The adjusted index compensates for three countries that researchers have repeatedly criticized due to their scores. Therefore, it is theoretically grounded that the adjusted index might have more significance while the relationship with the original de-commodification index is slightly weakened (see Table 2).

Table 2: Federal-Unitary Dimension Results
Bivariate regression analyses of the effect of 5 institutional federal-unitary factors combined into one index on three indicators for the size of the welfare state.[133]

	De-commodification Index DECOM		***Adjusted De-commodification Index ADECOM***		***Social Expenditure ALEXP***	
Independent Variable	**Unstand. Coef. (b)**	**Stand. Coef. (beta)**	**Unstand. Coef. (b)**	**Stand. Coef. (beta)**	**Unstand. Coef. (b)**	**Stand. Coef. (beta)**
Federal-Unitary Dimension (FEDERUN)	-0.62*	-0.33	-1.03**	-0.55	-0.78**	-0.46

*Statistically significant at the .10 level (one-tailed test)
**Statistically significant at the .05 level (one-tailed test)
***Statistically significant at the .01 level (one-tailed test)

The results from re-running Lijphart's analysis suggest that there may be mixed results from the vertical and horizontal institutional features. More representation through the executive-parties features may actually increase the likelihood of more encompassing social policy legislation while more representation through the federal-unitary dimension may result in less encompassing welfare legislation. These results support the findings by Hicks and Swank.

[133] This negative correlation signifies a significant relationship that is the inverse of Lijphart's hypothesis. More representation through the federal-unitary dimension may decrease the probability of a larger welfare state. *Sources:* Lijphart, A. (1999). Esping-Anderson, G. (1990).

Centralized government may augment social policy spending, but "*consensus* systems may arise in political contexts that legitimize – indeed, foster – redistributive policies."[134] Perhaps less representation in the legislative process produces platform convergence within parties that may result in less encompassing legislative proposals, yet more representation of the median voter's interest through the horizontal institutional structures may diminish the possibility for encompassing social policies.

In order to come to a clearer explanation of these institutional effects, it is important that the relevant variables be re-specified and evaluated in a more comprehensive analysis. As previously stated, many of Lijphart's variables are either irrelevant or lead to ad hoc explanations. Therefore, delineating fractionalization, federalism and checks as the pertinent factors may lend more understanding to the role of institutions in the emergence of the welfare state. Fractionalization, federalism and checks may increase representation of the median voters' interests, which could then translate into more occupationally dependent or targeted social policies.

Fractionalization, Federalism and Checks

To analyze the effects of fractionalization, federalism and checks, I have run three main regression analyses. First, while it is largely acknowledged that the de-commodification index has some theoretical as well as measurement and case size related problems, an analysis will be discussed concerning the effects of these three independent variables (FRAC, BICHECK, IFEDER) on both the de-commodification index (DECOM) and the adjusted de-commodification index (ADECOM). Second, the analysis was run again using social

[134] Hicks, A. a. D. S. (1992). "Politics, Institutions, and Welfare Spending in Industrialized Democracies, 1960-1982." The American Political Science Review **86**(3): 658-674.
Pp. 661.

expenditure as a percent of GDP (SOCSEC) in order to include all of the 32 cases with available data.

When analyzing the relationship between the three independent variables (FRAC, BICHECK, IFEDER) and the de-commodification index (DECOM), and controlling for GDP, PPP (GDPPPP) and the wage coordination score (WCOORD) for each of the 18 countries, my findings suggest that the level of fractionalization is the only statistically significant independent variable at the .05 level, yet the level of fractionalization is positively correlated instead of negatively correlated to the level of de-commodification. These results support Lijphart's findings for the executive-parties dimension index (see Table 3). Therefore, these results support the idea that higher levels of fractionalization within the legislatures may actually increase the likelihood for more encompassing welfare legislation.

Table 3: Institutional Impediments to the Size of the Welfare State
Two multivariate regression analyses of fractionalization, federalism and checks on two dependent variables: the de-commodification index and the adjusted de-commodification index.[135]

	De-commodification Index DECOM		***Adjusted De-commodification Index ADECOM***	
Independent Variables	**Unstand. Coef. (b)**	**Stand. Coef. (Beta)**	**Unstand. Coef. (b)**	**Stand. Coef. (beta)**
Fractionalization (FRAC)	37.01**	0.50	12.86	0.19
Checks (BICHECK)	-0.42	-0.08	-0.10	-0.02
Federalism (IFEDER)	-0.21	-0.04	-0.63	-0.14

Table 3 continued on the next page.

[135] *Sources:* Comparative Welfare States Data Set (2004). Database of Political Institutions (2001). Esping-Anderson, G. (1990). IMF World Development Indicators (2001). Lijphart, A. (1999).

Wage Coordinated Bargaining (WCOORD)	2.27*	0.36	2.44**	0.44
Economic Development (GDPPPP)	0.00	0.00	0.00	0.00

*Statistically significant at the .10 level (one-tailed test)
**Statistically significant at the .05 level (one-tailed test)
***Statistically significant at the .01 level (one-tailed test)

However, as previously discussed, the de-commodification index is exceptionable. When the three most disputed cases within the index are dropped from the analysis, fractionalization is no longer significantly correlated to the adjusted welfare state index. Yet dropping these cases from the de-commodfication index is equivocal as well because when these 3 cases are dismissed, the N falls to only 15 countries. So as to give a better representation of the varied states available for analysis, the social expenditure as a percent of GDP (SOCSEC) can be used as measure of the size of the welfare state and the interest group corporatism index (INTER2) can be used as a control variable in place of the wage coordinated bargaining score. If the regressions are re-run using social expenditure as a measure of the welfare state and interest group corporatism as a measure of the power of the left, the results may elucidate the institutional effects of fractionalization, federalism and checks on social policy implementation.

When fractionalization, federalism and checks are analyzed with social expenditure while controlling for GDP, PPP and interest group corporatism, the results become clearer. All three variables are statistically significant at least the .05 level (see Table 4). However, the results for fractionalization and checks support Lijphart's findings. These results suggest that fractionalization within the legislation does not impede social policy legislation; it may actually facilitate the emergence of a larger welfare state. These results also suggest that checks in the form of bicameralism and an independent executive may support the passage of welfare legislation.

Table 4: Institutional Impediments to the Amount of Social Expenditure
Multivariate regression analysis for fractionalization, federalism and checks on social expenditure as a percent of GDP controlling for interest group corporatism and GDP, PPP.[136]

	Social Expenditure SOCSEC	
Independent Variables	**Unstandardized RC (b)**	**Standardized RC (Beta)**
Fractionalization (FRAC)	23.45***	0.53
Checks (BICHECK)	1.69**	0.42
Federalism (IFEDER)	-0.96**	-0.33
Interest Group Corporatism (INTER2)	2.68*	0.23
Economic Development (GDPPPP)	0.00	0.03

*Statistically significant at the .10 level (one-tailed test)
**Statistically significant at the .05 level (one-tailed test)
***Statistically significant at the .01 level (one-tailed test)

Federalism appears to have the opposite effect. The measure for federalism is statistically significant at the .05 level and it is negatively correlated to social expenditure. This finding implies that more representation in the form of federalism hinders the emergence of the welfare state (see Table 4). However, all of these variables are similar in their magnitude so to delineate whether one has a greater impact is difficult. Fractionalization has the greatest

136 *Sources:* Database of Political Institutions (2001). IMF World Development Indicators (2001). Lijphart, A. (1999).

magnitude at 0.53, but the checks index and the federalism indicator are close behind it at 0.42 and -0.33. Therefore, one hesitates to stipulate that one variable has that much of a greater impact than the others.[137]

Discussion

These findings offer mixed results about the possible effects of more representative institutions on the emergence of the welfare state. On the one hand, representation in the form of federalism is correlated with less welfare spending. Therefore, there may be some validity to the theory that subnational policies more effectively transfer the median voters' interests by setting a precedent for types of national level welfare legislation. On the other hand, fractionalization within the legislature and checks in the form of bicameralism and an independent executive are statistically correlated with larger amounts of welfare spending. These results may be due partially to the existence of Downsian platform convergence within two-party systems.

Anthony Downs formulated a theory about the self-interested actions of politicians and citizens to try to determine whether the private motives of men are incompatible with the functions they serve in government (politics or economics). Downs stipulates that (in two-party systems) political parties may produce "brand names" to help voters make decisions about whom to vote for in the election yet their platforms will converge because they are both trying to retain the median voter's support.[138] James Snyder and Michael Ting build upon Down's work to

[137] See Appendix E for two tables of alternate results. Notably, the results are very similar when GDP per capita is substituted for GDP, PPP and when interest group corporatism is dropped from the analysis. Even though these adjustments are made, all of the independent variables remain statistically significant and the same level and in the same direction as the initial findings.

[138] Downs, A. (1957). An Economic Theory of Democracy. New York, Harper and Row.

evaluate whether the level of information available to voters through a party's label will create more or less of a convergence on platforms. Snyder and Ting state,

> "[O]ur model refines the standard Downsian logic: both convergent and divergent equilibria exist, depending on the benefit of holding office relative to the cost of party membership. In all cases, however, parties are able to convey brandname information through their platform choices."[139]

Therefore, when analyzing the effects of fractionalization on the welfare initiatives, it is important to acknowledge that multiparty systems may facilitate a party's ability to propose larger initiatives as well as increase representation for individuals who prefer larger social policy reforms. If Downsian platform convergence is present, two party-systems may better represent the median voter's preference for occupationally dependent or targeted policies. However, if Snyder and Ting are correct, two-party systems may also have platform divergence when party labels are less informative.[140]

For checks, the results insinuate that greater representation through bicameralism and an independent executive may actually facilitate social policy spending. However, the checks index was created using Lijphart's measure for bicameralism and the DPI checks variable. The checks variable included a measure for the veto gates within a system including the following features:

(1) when the executive wields the only check,
(2) when the executive is competitively elected,
(3) when the opposition controls the legislature,
(4) for each chamber in a presidential system,
(5) for each party closely allied with the executive's party more so than opposition party and

[139] Snyder, J. a. M. T. (2002). "An Informational Rationale of Political Parties." <u>American Journal of Political Science</u> **46**(1): 90-110.
Pp. 104.

[140] Ibid.

(6) in parliamentary systems, for every party in the coalition closer to the largest opposition party.[141]

Therefore, the CHECKS variable actually contains a measure for fractionalization between the executive and legislative sectors of government. If fractionalization actually augments social spending, it may be necessary to measure vertical veto gates separately from party system effects.

One main issue with these findings is that social expenditure is a used as a measure of the welfare state. It is possible that the funding of welfare policies is actually more effective or efficient with different institutions than the passing of encompassing reforms. Stated more clearly, some institutions may be more of an impediment to universal policies than they are to budgeting money for certain policy areas such as government worker or civil service benefits. It has been stipulated previously that this phenomenon is present in Austria where the civil service industry is highly funded in comparison to other programs. Therefore, social expenditure as a percent of GDP may not be a clear measure when trying to decipher which countries have a larger welfare state because it is a measure of how much a state spends on their welfare programs and not a measure of where or how the money is allocated or whether the policies are more or less de-commodifying throughout the state. In addition, measuring national levels of social expenditure might negate the taxing and spending influence that subnational regions have over welfare expenditure. Using national levels of social expenditure may systematically skew the total amount of money spent on welfare in highly federalized countries.

---

[141] Thorsten Beck, G. C., Alberto Groff, Phillip Keefer, and Patrick Walsh (2001). "New Tools in Comparative Political Economy: The Database of Political Institutions." World Bank Economic Review **15**(1): 165-176.
Pp. 4.

These results suggest that federalism may inhibit social expenditure while fractionalization and checks may augment welfare spending. Yet social expenditure is used a proxy for the size of the welfare state. Subsequently, these factors may also be linked to a qualitative description of social policies across some states. For instance, the results suggest that a higher degree of federalism impedes social spending, but that may or may not be reflected in the existence of more targeted welfare programs. Conversely, higher fractionalization and greater checks may correspond to increased levels of social spending which may indicate that they also incur more encompassing social policies. The correlation between welfare spending and the size of the welfare state will be largely contingent on the whether the state allocates social funding evenly through societal sectors or, like in Austria, the funds are more largely apportioned to a particular segment of society. Also, there are some states that may spend more on their welfare policies yet have less encompassing policies, so the relationship between social expenditure and the size of the welfare state may also be subject to how efficiently the state allocates resources.

Even in contemplation of the issues entrenched in using social expenditure as a measure of the welfare state, the correlation between the de-commodification index and social expenditure is 70%, thus there is some legitimacy in not only precedence, but also the relationship between these two measures of the welfare state. As a result, it may be presumed that fractionalization and checks could be facilitating factors in the emergence and growth of the welfare state while federalism may create an impediment.

SUMMARY AND CONCLUSION

The introduction of capitalism and industrialization changed the relationship between the state, society and the market. Workers were being pushed into a competition for wages against each other as well as against the reality of the market. Concurrently, there was a transition from the traditional authority structures of the church and community to the state, yet the beliefs of the role of welfare embedded in feudal societies may have been maintained. Welfare was targeted toward people who were in a position of need through local poor laws then subnational legislation (when present) and finally through federal level legislation in states with more representative structures. The median voters' interests were still focused on the idea that able-bodied persons should provide for themselves and the state should act as final protection against the market for people in a position of need. However, the translation of these interests was facilitated or impeded through the existence of certain governmental institutions.

It is often stipulated in the institutional literature that a fundamental trade-off exists between effective government and efficient or representative government. Most notably, institutional scholars focus on institutional impediments in the form of veto points and veto players to evaluate this possible trade-off. This study attempted to reconcile more representative institutions through their vertical and horizontal structures with less encompassing welfare legislation. The main hypothesis was that institutions that engender a greater degree of representation – like that of federalism, checks and multiple parties within the legislature – would be better at translating into legislation the median voters interests for targeted social policies. In the sense that effectiveness would reflect less government autonomy concerning social policies, these institutional features would correspond with more effective policies, yet a less efficient policy-making process.

The results for these analyses are highly ambiguous. Lijphart's variables suggest that more representation in the executive-parties features may facilitate a larger welfare state across all three measures. However, his measures also suggest that more representation through the federal-unitary institutions invite less encompassing welfare implementation. While interest group corporatism, central bank independence and constitutional rigidity may have an influence on welfare legislation, they are not usually considered institutional features that are determined by state builders. Additionally, using judicial review contains an ad hoc explanation, *ipso facto* the institutional variables of fractionalization, federalism and checks through the legislative and executive branches were operationalized as the pertinent elements for analysis.

The findings from the de-commodification index analysis do not strongly support the idea that more representative institutions result in a less de-commodifying welfare state. Fractionalization within the legislature is actually correlated to higher levels of de-commodification. However, the sample size for that analysis is too small and the measures within the de-commodification index are problematic.[142] Also, when the three most debatable cases are dropped to create the adjusted de-commodification index, the effect of fractionalization recedes and the analysis no longer suggests that these institutional features have an effect on the level of de-commodification within the state's social policy programs.

To increase the sample size and attempt to decipher the relevance of the effects of fractionalization, federalism and checks on the welfare state, social expenditure as a percent of GDP was used as a proxy for the size of the welfare state. These results suggest that Lijphart's executive-parties dimension results were accurate. Fractionalization within the legislature may augment social spending. As Hicks and Swank stipulate, this effect may be due to the Downsian

[142] Pensions are weighted twice that of unemployment and sickness benefits. In addition, researchers have not been able to replicate Esping-Anderson's data.

platform convergence found in two-party systems. Fractionalization may increase the representation of various interests, including those who support a larger welfare state. This analysis also suggests that more checks through the system in the form of an independent executive and a greater degree of bicameralism may also enhance social spending. Theoretically, these results are counterintuitive, especially when the results for the index of federalism imply that a greater degree of federalism impedes the amount of social expenditure.

The results form these analyses, then, are ambiguous. The results that keep appearing suggest that fractionalization is correlated with higher social spending and a larger welfare state. The checks within the system tend to demonstrate less stable results. The elements included in the checks variable are included in Lijphart's federal-unitary dimension and executive-parties dimension. When these dimensions are regressed on all three measures of the welfare state, the results indicate that federalism and bicameralism may hinder the emergence of encompassing welfare reforms, yet an independent executive may facilitate the emergence and growth of the welfare state. When analyzed as a separate variable, there are no findings on the effect of checks on the de-commodifying capacity of the welfare state. However, it is significantly correlated to higher levels of social spending. Federalism seems to be consistently correlated with a smaller welfare state both through Lijphart's measures of the federal-unitary features and through the regression analysis on social spending. However, there is no finding on the effect of federalism on the de-commodification level of welfare states. This finding may be due partially to the numerous issues embedded in the de-commodification index. Consequently, this analysis leaves unanswered questions about the overall influence of institutional features on the size of the welfare state as opposed to the amount of money spent on the social policies.

A Prescription for Future Endeavors

Future research must try first and foremost to construct a variable to properly measure the size of the welfare state. If comparable data can be obtained, it is possible to use Esping-Anderson's theory behind the de-commodification index and measure the replacement rate, contributory requirements and population covered by the programs across a large number of states with varied economic levels of development. The issues embedded in creating this index have already been addressed, but this study tried to build the index using Lijphart's original sample size of 36 countries. It may be beneficial to examine which countries have available data and construct the index for those countries. However, if this tactic is used, it is imperative that a varied sample of countries is used instead of focusing predominantly on OECD countries. At the same time, countries with a high degree of federalism may have systematically skewed measures for the size of the welfare state and the amount of social expenditure because the subnational regions may administer some of the welfare within their respective region. Therefore, a measure for the welfare state should also try to incorporate subnational welfare policies.

Additionally, a more in-depth measure for federalism and checks should be constructed to allow for a hypothesized degree of influence for each of the factors, including the independent executive, bicameralism and federalism. While Switzerland is the only state deemed to be a true referendum democracy, it may be advantageous to construct a measure for federalism that also compensates for the existence of subnational as well as national referenda. In addition, it is plausible that judicial review works as an a priori disincentive for welfare legislation on the federal level. Legislators may be less likely to propose larger policies if they fear that the policies will be deemed unconstitutional. Therefore, it may be beneficial to include the strength and/or historical precedence for issues of constitutionality in welfare legislation to decide whether judicial review should be included as an institutional inhibitor.

It may also be a relevant endeavor to test Downsian platform convergence through either a dummy variable that separates predominantly two-party systems and multi-party systems or through an analysis of the actual welfare policy platforms of the parties. Similarly, a cross national survey may be beneficial in determining whether the median voter actually prefers targeted or occupationally dependent welfare policies in more representative states that have not had the autonomy to shape the culture around more encompassing reforms.

If future research builds off of these findings by incorporating the specified issues, the results may indicate that the vertical composition of a country has the opposite effects on the emergence of the welfare state in comparison to that of the horizontal composition of a state. Perhaps federalism is the main institutional inhibitor to the welfare state, while more representation within the national government augments social policy and results in more encompassing welfare policies. Future research needs to clarify and explain the possibility of these mixed effects.

REFERENCES

Literary Sources

Amenta, E. a. B. G. C. (1988). "The Formative Years of U.S. Social Spending Policies: Theories of the Welfare State and the American States During the Great Depression." American Sociological Review **53**(5): 661-678.

Banoli, G. (1997). "Classifying Welfare States: A Two-Dimensional Approach." Journal of Social Policy **26**(3): 351-372.

Barr, N. (1992). "Economic Theory and the Welfare State: A Survey and Interpretation." Journal of Economic Literature **XXX**(June 1992): 741-803.

Berkowitz, E. a. K. M. (1980). Creating the Welfare State: The Political Economy of Twentieth Century Reform. New York, Praeger.

Brandeis, E. (1935). Labor Legislation. History of Labor in the United States, 1896-1932. J. Commons. New York, Macmillian. **III:** 399-700.

Brock, W. (1988). Welfare, Democracy and the New Deal. Cambridge, Cambridge University Press.

Butler, D. a. A. R. (1978). Practice. Referendums around the World: The Growing Use of Direct Democracy. D. a. A. R. Butler. Washington, D. C. , The AEI Press**:** 1-10.

Cameron, D. (1978). "The Expansion of the Public Economy: A Comparative Analysis." The American Political Science Review **72**(4): 1243-1261.

Castles, F. a. D. M. (1993). Worlds of Welfare and Families of Nations. Families of Nations: Patterns of Public Policy in Western Democracies. F. Castles. Aldershot, Dartmouth**:** 93-128.

Downs, A. (1957). An Economic Theory of Democracy. New York, Harper and Row.

Easterly, W. R. (2001). Macroeconomic and Economic Growth, The World Bank.

Epstein, A. (1968). Insecurity: A Challenge to America. New York, Agathon Press.

Esping-Anderson, G. (1990). The Three Worlds of Welfare Capitalism. Princeton, Princeton University Press.

Esping-Anderson, G. a. W. K. (1984). Social Policy as Class Politics in Post-War Capitalism: The Development of Scandinavian Social Policy. The Scandinavian Model: Welfare States and Welfare Research. R. Erikson. New York, M.E. Sharpe**:** 39-74.

Finegold, K. a. T. S. (1995). State and Party in America's New Deal. Madison, The University of Wisconsin Press.

Flora, P. a. J. A. (1981). Modernization, Democratization, and the Development of Welfare States in Western Europe. The Development of Welfare States in Europe and America. P. F. a. A. J. Heidenheimer. New Brunswick, New Jersey, Transaction**:** 37-80.

Garrett, G. (1998). Partisan Politics in the Global Economy. Cambridge, Cambridge University Press.

Hayek, F. A. V. (1945). "The Use of Knowledge in Society." American Economic Review **35**(4): 519-30.

Hicks, A. a. D. S. (1992). "Politics, Institutions, and Welfare Spending in Industrialized Democracies, 1960-1982." The American Political Science Review **86**(3): 658-674.

Huber, E., Charles Ragin, John D. Stephens, David Brady and Jason Beckfield (2004). Comparative Welfare States Data Set, Northwestern University, University of North Carolina, Duke University and Indiana University.

Immergut, E. (1992). The Rules of the Game: The Logic of Health Policy-Making in France, Switzerland, and Sweden. Structuring Politics: Historical Institutionalism in Comparative Analysis. e. a. Sven Steinmo. Cambridge, Cambridge University Press**:** 58-89.

Inglehart, R. (1997). Modernization and Postmodernization: Cultural, Economic and Political Change in 43 Societies. Princeton, Princeton University Press.

Iversen, T. a. T. C. (2000). "The Causes of Welfare State Expansion: Deindustrialization or Globalization?" World Politics **52**(April): 313-349.

Kasza, G. (2002). "The Illusion of Welfare 'Regimes'." The Journal of Social Policy **31**(2): 271-287.

Kenworthy, L. (2001). "Wage-Setting Measures: A Survey and Assessment." World Politics **54**(1): 57-98.

Kim, W. (2005). Justifications of the Welfare State. Baton Rouge, Louisiana State University**:** Lecture for 7971: CPE of the Welfare State.

Korpi, W. (1983). The Democratic Class Struggle. London, Routledge & Kegan Paul.

Laakso, M. a. R. T. (1979). "Effective Number of Parties: A Measure with Application to West Europe." Comparative Political Studies **12**(1): 3-27.

Lane, J. E. a. S. E. (1999). The New Institutional Politics: Performance and Outcomes. New York, Routledge.

Lijphart, A. (1999). Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries. New Haven and London, Yale University Press.

Lipset, S. a. G. M. (2000). Why Socialism Failed in the United States: It Didn't Happen Here. New York and London, W. W. Norton & Company.

Little, D. (1991). Varieties of Social Explanation: An Introduction to the Philosophy of Social Science. Boulder, Colorado, Westview Press, Inc.

Madison, J. (1961). No. 47: The Particular Structure of the New Government and the Distribution of Power Among Its Different Parts. The Federalist Papers. C. Rossiter. New York, Penguin Group, In.**:** 297-304.

Mares, I. (2001). Firms and the Welfare State: When, Why and How Does Social Policy Matter to Employers? Varieties of Capitalism: The Institutional Foundations of Comparative Advantage. P. H. a. D. Soskice. New York, Oxford University Press**:** 184-212.

Markus, C. (1998). "Inclusion versus Exclusion: Political Institutions and Welfare Expenditures." Comparative Politics **31**(1): 61-80.

Moon, B. E. a. W. J. D. (1992). "Basic Needs and Growth-Welfare Trade-Offs." International Studies Quarterly **36**(2): 191-212.

Pierson, C. (1991). Beyond the Welfare State? University Park, PA, The Pennsylvania State University Press.

Pierson, P. (1996). "The New Politics of the Welfare State." World Politics **48**(2): 143-179.

Pierson, P. (2001). Coping with Permanent Austerity: Welfare State Restructuring in Affluent Democracies. The New Politics of the Welfare State. P. Pierson. Oxford, Oxford University Press**:** 410-456.

Polanyi, K. (1944). The Great Transformation. New York and Toronto, Farrar & Rinehart.

Przeworski, A. (2003). States and Markets: A Primer in Political Economy. Cambridge, Cambridge University Press.

Przeworski, A., et al. (2000). Democracy and Development: Political Institutions and Well-Being in the World, 1950-1990. Cambridge, Cambridge University Press.

Putnam, R. (1993). Making Democracy Work: Civic Traditions in Modern Italy. Princeton, New Jersey, Princeton University Press.

Rodrik, D. (1998). "Why Do More Open Economies Have Bigger Governments?" The Journal of Political Economy **106**(5): 997-1032.

Rothstein, B. (1992). Labor-Market Institutions and Working-Class Strength. Structuring Politics: Historical Institutionalism in Comparative Analysis. e. a. Sven Steinmo. Cambridge, Cambridge University Press**:** 33-56.

Sartori, G. (1997). Comparative Constitutional Engineering: An Inquiry into Structures, Incentives and Outcomes. New York, New York University Press.

Schmidt, M. G. (1997). "Determinants of Social Expenditure in Liberal Democracies: The Post World War II Experience." Acta Politica **32**(3): 153-173.

Skocpol, T. (1985). Bringing the State Back In: Strategies of Analysis in Current Research. Bringing the State Back In. D. R. a. T. S. Peter Evans. Cambridge, Cambridge University Press**:** 3-37.

Skocpol, T. a. E. A. (1986). "States and Social Policies." Annual Reveiw of Sociology **12**: 131-157.

Snyder, J. a. M. T. (2002). "An Informational Rationale of Political Parties." American Journal of Political Science **46**(1): 90-110.

Stephens, J. D. (1979). The Transition from Capitalism to Socialism. Urbana, University of Illinois Press.

Thorsten Beck, G. C., Alberto Groff, Phillip Keefer, and Patrick Walsh (2001). "New Tools in Comparative Political Economy: The Database of Political Institutions." World Bank Economic Review **15**(1): 165-176.

Tsebelis, G. (1995). "Decision Making in Political Systems: Veto Players in Presidentialism, Parliamentarism, Multicameralism and Multipartyism." British Journal of Political Science **25**(3): 289-325.

Tsebelis, G. a. E. C. (2004). "Veto Players and the Structure of Budgets in Advanced Industrialized Countries." European Journal of Political Research **43**: 449-476.

Online Sources

International Labour Organization. “LABORSTA Internet.” 2004. Online. Internet. 10 Feb. 2006.
Available: http://laborsta.ilo.org/

SOC/FAS. Intenational Labour Organization. “Benefit Levels: Pensions.” 2000. Online. Cornell University. Internet. 7 Feb. 2006.
Available: http://www-ilo-mirror.cornell.edu/public/english/protection/socfas/research/intros.htm

United States. Central Intelligence Agency. “The World Factbook.” 2006. Online. Internet. 25 Feb. 2006.
Available: http://www.cia.gov/cia/publications/factbook/docs/notesanddefs.html

United States. Office of the Clerk: U.S. House of Representatives. “Congressional History.” Online. Internet. 10 Nov. 2005.
Available: http://clerk.house.gov/histHigh/Congressional_History/index.html

United States. Social Security Administration. “Social Security Programs Throughout the World.” Online. Internet. 15 Feb. 2006.
Available: http://www.ssa.gov/policy/docs/progdesc/ssptw/

United States. The United States Senate. “Party Division in the Senate, 1789-Present.” Online. Internet. 10 Nov. 2005.
Available: http://www.senate.gov/pagelayout/history/one_item_and_teasers/partydiv.htm

APPENDIX A:
LIST OF 32 COUNTRIES IN THE ANALYSIS

Country Name	Abbreviations	Data Code
Australia	AUL	1
Austria	AUT	2
Bahamas	BAH	3
Barbados	BAR	4
Belgium	BEL	5
Canada	CAN	7
Colombia	COL	8
Costa Rica	CR	9
Denmark	DEN	10
Finland	FIN	11
France	FRA	12
Germany	GER	13
Greece	GRE	14
Iceland	ICE	15
Ireland	IRE	17
Israel	ISR	18
Italy	ITA	19
Jamaica	JAM	20
Japan	JPN	21
Luxembourg	LUX	22
Malta	MAL	23
Mauritius	MAU	24
Netherlands	NET	25
Norway	NOR	27
Portugal	POR	29
Spain	SPA	30
Sweden	SWE	31
Switzerland	SWI	32
Trinidad & Tobago	TRI	33
United Kingdom	UK	34
United States	US	35
Venezuela	VEN	36

APPENDIX B:
LIJPHART'S MAJORITARIAN AND CONSENSUS FEATURES

	MAJORITARIAN FEATURES	***CONSENSUS FEATURES***
Executive-Parties Dimension	Executive power concentration in one party majority cabinets	Executive power sharing in multi-party cabinets
	Executive is dominant in executive-legislative association	Executive and Legislature(s) have balance of power between them
	Two-party system	Multi-party system
	Majoritarian electoral system	Proportional Representation electoral system
	Higher interest group pluralism	Higher interest group corporatism
Federal-Unitary Dimension	Centralized government	Federal and decentralized government
	Unicameralism in legislature	Bicameralism in legislature
	More easily amended constitution	Extraordinary support needed to amend constitution
	Legislatures decide constitutionality of legislation	Presence of Judicial Review to decide constitutionality of laws
	Central Banks are dependent on executive	Independent Central Banks

Source: Lijphart, A. (1999). Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries. New Haven and London, Yale University Press.

APPENDIX C:
ESPING-ANDERSON'S COMBINED DE-COMMODIFICATION INDEX

	Countries	***De-commodification Score***
	Sweden	39.1
	Norway	38.3
Socialist welfare regimes	Denmark	38.1
	Netherlands	32.4
	Belgium	32.4
	Austria	31.1
	Switzerland	29.8
	Finland	29.2
Conservative welfare regimes	Germany	27.7
	France	27.5
	Japan	27.1
	Italy	24.1
	United Kingdom	23.4
	Ireland	23.3
	Canada	22.0
Liberal welfare regimes	New Zealand	17.1
	United States	13.8
	Australia	13.0

Source: Esping-Anderson, G. (1990). The Three Worlds of Welfare Capitalism. Princeton, Princeton University Press.

APPENDIX D:
PENSIONS REPLACEMENT RATE SAMPLE FOR 36 COUNTRIES

	MAX. OLD-AGE PENSION BENEFIT (PER MONTH)	MIN. OLD AGE PENSION BENEFIT (PER MONTH)	AVERAGE MO. WAGES (FIGURED OR GIVEN)	MAX REPLACE-MENT RATE (%)	MIN REPLACE-MENT RATE (%)	MIN REPL RATE GIVEN (%)	MAX REPL RATE GIVEN (%)
	SSP	SSP	ILO	figured	figured	SSP	SSP
1	928.40		3129.22	0.30			
2	653.19		2059.73	0.32			
3		212.28				0.40	0.60
4		420.00				0.40	
5	3280.64	832.64	2589.00				0.60
6	166.00	166.00	1719.00	0.10	0.10		
7	461.55		2822.72	0.16			
8		min wage	624656.00			0.60	0.80
9	465207.00	36000.00	166804.00	2.79	0.22	0.60	0.60
10	4648.00	4648.00					
11	496.38	11.21	2372.00	0.21	0.00		
12	619.00	558.87	1494.00				0.50
13	1175.85		2281.91	0.52			
14	2966.00	392.16	1241.80	2.39	0.32		
15	21249.00	21249.00	197800.00	0.11	0.11		
16	75.00	75.00	1158.60	0.06	0.06		
17	669.20		2153.16	0.31			
18			6859.00			0.24	0.24
19		412.18	16714.12		0.02		
20	3600.00	3600.00	40087.35	0.09	0.09		
21	66208.33		302100.00	0.22			
22		329.75	3740.43		0.09		
23	346.12	75.60	400.40	0.86	0.19		
24	7795.00	1900.00	11103.00	0.70	0.17		
25	921.28	921.28	2792.00	0.33	0.33		
26	996.36	996.36	3711.51	0.27	0.27		
27			29819.77			1.00	1.00
28	n/a	n/a					
29	325.33	208.00	1046.50	0.31	0.20		
30		411.76	2097.92		0.20		
31		6975.75	17587.92		0.40		
32	2060.00	1030.00	6184.00	0.33	0.17		
33		620.00	7451.74		0.08		
34	309.80		1950.40	0.16			
35	1741.00		2014.64	0.86			
36		9000.00	174424.00		0.05	0.40	

Sources: Social Security Programs Throughout the World (Online). ILO, Laborsta (Online).

APPENDIX E:
ALTERNATE REGRESSION RESULTS

Multivariate regression analysis of fractionalization, federalism and decentralization on social expenditure as a percent of GDP, but controlling for interest group corporatism and RGDP per capita instead of GDPPPP and interest group corporatism.

	Social Expenditure	
Independent Variables	**Unstandardized Regression Coefficient (b)**	**Standardized Regression Coefficient (Beta)**
Fractionalization (FRAC)	22.673***	.544
Federalism (IFEDER)	-.927**	-.324
Checks (BICHECK)	1.532**	.360
Interest Group Corporatism (INTER2)	2.46	0.21
Economic Development (RGDP)	0.00	0.06

*Statistically significant at the .10 level (one-tailed test)
**Statistically significant at the .05 level (one-tailed test)
***Statistically significant at the .01 level (one-tailed test)

Sources: Database of Political Institutions (2001). IMF, World Development Indicators (2001). Lijphart, A. (1999).

Multivariate regression analysis of fractionalization, federalism and decentralization on social expenditure as a percent of GDP, but controlling only for GDP, PPP and dropping interest group corporatism as a control variable.

	Social Expenditure	
Independent Variables	**Unstandardized Regression Coefficient (b)**	**Standardized Regression Coefficient (Beta)**
Fractionalization (FRAC)	28.929***	.647
Federalism (IFEDER)	-1.011**	-.350
Checks (BICHECK)	1.579**	.394
Economic Development (GDPPPP)	0.00	0.04

*Statistically significant at the .10 level (one-tailed test)
**Statistically significant at the .05 level (one-tailed test)
***Statistically significant at the .01 level (one-tailed test)

Sources: Database of Political Institutions (2001). IMF, World Development Indicators (2001). Lijphart, A. (1999).

VITA

Amanda Beal was born at the Methodist Hospital in Indianapolis, Indiana, on July 24, 1980. The youngest daughter of Michael and Marion Beal, she has five siblings. All six of the Beal children grew up in Shelbyville, Indiana, and attended Southwestern High School. In 1998, Ms. Beal graduated from high school with a Governor's Academic Honors Diploma and started attending college at Indiana University of Bloomington. While attending Indiana University, she majored in journalism and specialized in photography. She started her own wedding and portrait photography business in 2000, *Amanda Beal Photography*, which she still continues at present. In May 2002, Ms. Beal graduated from Indiana University with a Bachelor of Arts in Journalism. Almost immediately following graduation she moved to Seattle, Washington, and began working for Key Bank. One year later, in 2003, she moved back to Indiana and spent a year doing freelance work for *The Shelbyville News*. During that year, she also expanded her photography business and applied for graduate degree programs. In August of 2003, she moved to Baton Rouge, Louisiana, to attend Louisiana State University. She currently resides in Baton Rouge and is completing a Master of Arts in political science. Ms. Beal's major field is comparative politics and her research focuses on political institutions, comparative political economy and democratization. Her minor field is international relations with an emphasis pertaining to the effects of the media on foreign policy. She is scheduled to complete the requirements and graduate with a Master of Arts degree in August of 2006.