

Questions on the Welfare State

1 QUESTION

—Weaker Welfare State?—

Neo-liberal policies and economic globalization have been the two major causes for the social change in the past two decades. In many industrialized countries, policies for economic growth and globalization are vigorously pursued today. One common characteristic of the argument today seems to be the larger weight given to growth than to welfare.¹ As such changes are worldwide and fast, they often appear something irresistible for the citizens in each country. In the shaking past two decades, the peoples in industrialized countries have experienced both good and bad times. No single country has enjoyed a continuous prosperity throughout this period. As globalization proceeds, some people are gaining much more wealth and safer lives, and a large number of people are suffering from fear of job opportunities and weakening state welfare. This contrast is the same even in the presently prosperous countries such

¹ Globalization has advanced in many spheres of life, as in social, political, economic, etc. In some cases it represents desirable phenomena, such as people associating with foreign people more frequently, and governments and private organisations cooperating for mutual goals than ever before. Of these I will use the word “globalization” mostly in the economic sense in the argument below. Economic globalization has desirable and undesirable effects on peoples’ lives. For example, it is desirable if larger quantity of capital moves faster to developing countries, but is undesirable if the same capital causes financial crises by a quick escape. In this book globalization is mostly addressed from its destructive effect to the balance of respective societies.

as the UK and US. Even if this new trend should turn out to be favorable for the majority workers “in the end”, it is not yet so today.

How long this turmoil era will last is not clear yet. From the past experiences, we can infer that large social changes often fail to ensure the merit of the change to everyone concerned. The inequality among the people and countries has appeared for example gradually in the labour market for the past decade in the industrialized countries. The various reforms of welfare provisions in the meantime have also affected the people unevenly. Such serious social changes might continue some more decades. But if we aim at a compassionate society where no one falls into insecure positions or misery, we must not fail to ensure security for every citizen in this difficult social condition as today.

We are at the verge of entering an age where the value of a socio-economy (a society closely related to its economic structure) is judged by firms’ point of view more than ever. Globalization based on the firms’ necessity and strategy has floated up to the top priority in many countries. This is a fundamental change in the social framework or social structure. We must not just receive a social change, which means a “new deal” of the game being played at a new rule or the merits and demerits of this change in a passive manner, but should take an initiative in this change.

The welfare society seems to be the major and most effective system that the peoples in industrialized countries have developed to meet the problems derived from an originally irresponsible market mechanism. Although the “welfare state” “acquired an international as well as a national popularity” (Titmuss 1968, Barr 1998, 6), “The concept of the welfare state... defies precise definition”. (Barr, 6) In this book it is tentatively defined as a country that has a state system to ensure a decent

living standard for its citizens. This system is understood to ensure security in major spheres of life. It also includes employment policies, for the job opportunities and equitable bargaining conditions between the employers and employees are also important devices to improve the shortcomings of market mechanism.

To countervail the heavy globalizing pressures, we will need to maintain and strengthen the welfare state. Firms and market mechanism are the tools for human lives. But when left untouched, useful tools often turn their teeth against humans. The history of market economy in the civil society has been the history of the humans to keep its power under their control by taming its cyclical business fluctuations and reducing its poor population tenaciously accompanying it. The state welfare system in the recent decades has been one of the most successful attempts for these purposes. But the new growth of market mechanism is again threatening to surpass the power of human beings today. Facing this challenge, we must now examine how this problem is being developed and how we can cope with it.

Until the 1970s, as market mechanism threatened the jobless and the weak, two policies were introduced as the components of the welfare state; employment and social welfare policies. But in the past two decades, they have been both seized by a setback movement. It has been argued that they should be curtailed by four reasons; to reduce public deficit (and its mal-effect on private investment), to reduce the mal-effect on the production system (again on private investment), to increase external competitiveness (by alleviating firms' burden), and to increase work incentives. Such was the anxiety since the late 1970s and many policies were implemented along this line. But the resulting society as we see today does not quite seem to have turned out to be securer than

before. Many opinion polls in these countries show that this new trend has not necessarily been welcomed by the general public.

The sharp decline of consumption in Japan in 1997 was a good example. A sharp decline followed when consumption tax was raised by 2% point and new medical fee was introduced to decrease the government budget deficit. It happened when its economy was trying to “adjust” to the new “globalization” movement. This sequence clearly shows how people were, and probably still are, anxious about the present and prospective effects of this new trend and easily reduce their spending with external shocks. The prolonged depression after that incident cost its economy heavily.

Japan's case is not an exception in a rapidly changing condition like today, faced with the instability in the labour market and the opacity of the newly coming society, people's insecure feelings to increase. Uncertainty could mean a chance for the few, but risk and anxiety for the many. Being anxious about their jobs, they try to cling to the present jobs or upgrade their working abilities. It is true that such instability of life was also prevalent in the past, but people could have a hope that the welfare state would answer to the problems. The welfare state was expected to meet the instability of modern life. Thus it had played the role of the safety net in the market society, which was not doubted until the 1970s. Of course what is being developed before our eyes today is not exactly the sheer regression to the older days, but it is also true that we now feel that we cannot rely on the state any more as before. Thus we have to answer the question today ; what should we do to the growing insecurity of our life and the weakening welfare state?

2 FOCUS OF THE QUESTION

—Trade-off between growth and welfare—

After the 1970s, with the industrialized nations shifting to lower economic growth, the core question about the society has been the distributive problems ; income distribution between profit and wage and resource distribution between private and public, both of which have had to do with government decisions. Even the distributive question between profit and wages for example is much affected by the government's attitude toward labour laws. What the governments have chosen to do, which of course have been the outcome of people's choices, have influenced and determined the state of society for the past two decades. The major question that runs through these questions is the weight given to growth and welfare or economic growth and social welfare provisions in the respective countries. The stronger argument there has been that too much resource was consumed for the welfare, and caused lower economic growth and lower competitiveness.

The difficulties in the 1970s, inflation, depression, government and trade deficit in the 1970s were more or less attributed to the too strong labour power and too much welfare expenditures. "Too strong a welfare state creates too much wage and welfare pressures and deteriorates the economy and export competitiveness" ; this understanding became popular in the UK and US. As the two countries took up the counter measures to push back this "big government" trend, other countries followed this path, too, for fear of being left behind in the world competitiveness.

It was so even in the countries where the welfare state had not yet grown so big, an example of which was Japan. Although she had just started to become a welfare state, the uprise of anti-welfarism and higher

competitiveness ethos made her restrain from filling up the content as a welfare state. In 1973, older people were given the right to receive free medical treatment and old age pension benefits were raised significantly, thus the year was called the First Year of Welfare. But this was also the end of its high growth economy period. Faced with the growing government deficit in the following turmoil years next three decades have been the struggling period between competitiveness and social welfare.

The argument in an academic circle in Japan in 1979 is an example to show that the central question since the 1980s in the industrialized countries has been this balance between economic growth and social welfare. The Japan Economic Policy Association in 1979 met with the main topic of “economic policies of efficiency and equity”.² In this conference it proposed the question of what should be the alternative direction of Japanese society when it became difficult to enrich social welfare by economic growth. This question was posed theoretically as how to find the balance between efficiency and equity. This proposal of the question reflected the general atmosphere of that age in many industrialized countries. Already in Europe and the US, in the stable growth until the 1960s but the accompanying persistent poverty in the society, the argument of how to re-establish such criterion as fairness or justice in socio-economy had come to be addressed. The widespread influence of John Rawls’ “A Theory of Justice” in 1971 reflected and supported the spirit of this age. Although fundamental in its character, with the uprise of anti-welfarism since the 1980s, it was inevitable for this question of social balance to become the center court for the major battle between the right and left.³

² Japan Economic Policy Association, Annual Report, 1980,

Before we enter the following arguments, the first thing we should understand about the welfare state question today is that we now face a very fundamental question of what a society is. Apart from the blessed period when both economy and social welfare provisions could grow together, we are challenged today by a conscious choice where to direct our resources more. This is often a trade-off question and demands us to precisely judge the good and bad of the choices. In answering this question, we need to understand what are economic efficiency and social welfare, and what balance would we hope between them.

Yuichi Shionoya argued that to revitalize economics it was necessary to address the question of distributive justice that had long been neglected under the name of scientific objectivity⁴. He pointed out that the paradigm of the past neo-conservative economics was an analysis based on one particular value called (economic) efficiency, but the significance of other values such as justice —or equity and welfare in the context here— should also be considered. He proceeded that it was necessary to reconsider the past premise of “economic man” of neo-classics who sought for the maximum utility for oneself, and instead pay more attention to the collective orientation of humans to form institutions, rules or restrictions. He emphasized that this orientation should be studied by analyzing the tendencies, incentives and motives of humans, who after all live on moral sentiment.

As far as we consider and study about social issues, we cannot escape

³ George and Wilding's *Ideology and Social Welfare* (1974, 1985) was another example of the interest in this question. Being one of the best forerunners about this issue, apart from Rawls, their focus not only is on the systematic structure of ideas but extends from human nature to concrete social welfare policies, thus providing an anatomy of the welfare state ideas.

⁴ JEPA, Annual Report, *op. cit.*

from some kind of social ideals. Different from studying natural sciences, we cannot escape from value judgment from the very beginning. It matters from the very start when we choose our topics. Even for the most objective social scientist, subjectivity cannot be escaped in choosing one's theme. In social sciences it matters much because, for example, if poverty problem is not chosen at all, it will be ignored for good. And from what perspective a poverty problem is studied, whether based on sympathy for the poor or indifference, will affect the result and policies deeply. Likewise is important our perspective of human nature. Whether the human is supposed to be selfish or altruistic affects the resulting social ideal. It is high time to consider, or reconsider, such fundamental questions today, as great thinkers used to do in the older days. Today we must face the choice problem of social balance, which makes us face such a fundamental question of human beings as well.

Shionoya's reference to the social institutions is closely related to this understanding. Social and human ideals in people appear in the social institutions. He referred to the propriety of institutional premises that construct the background of economic activities. Thus as Rawls, by pointing our attention to the background structure of our society, he tries to set up a broad analytical framework for our society. This emphasis is the most natural and useful when we need to deal with our social framework itself. Institutions are actually the embodiment of social ideals or social consent. From this perspective, he argued that the conception of justice should be taken into consideration as one of the basic institutions, not as a given premise as most welfare economists had done. Until the 1970s although the development of the welfare state had been partly concerned with these social ideals, they had not been fully addressed. But in the adverse conditions both of economic and ideologi-

cal, they have to be clarified; what kind of society or what balance between growth and social welfare we would wish today⁵.

This influence and significance of institutions are quite clear. Who in the society become rich or poor or happy or unhappy depends much on the social institutions. In a market economy, too, these institutions affect the social members' success mainly by distributive institutions such as labour and welfare laws. How we are dealt with by the social institutions before we enter the labour market and what kind of distributive rules we have for products affect our lives significantly. The question of institutions or rules has thus the utmost importance in human society. Being revitalized in the low growth economy in the 1970s, this argument has been given another stimulus by the ever-increasing economic pressures of globalization and its influence on the welfare state. Lower economic growth and increasing globalizing pressures are the twin major problems today.

3 VIEWPOINTS

Below are addressed what countries and with what cautions we will deal with.

Advanced capitalist countries : When we look back on human history, we learn that different types of society have existed. They include capitalist and socialist types by the criterion of type of ownership of productive means, totalitarian and democratic types by the criterion of the extent of democracy and industrialized and developing types by the extent of industrialization. In this book is supposed that human society

⁵ Tsukada (1998) examines the fundamental ideas such as equitable distribution of products and human fellowship, etc.

progresses toward both higher productivity in economy and higher democracy in politics. People are supposed to pursue both goals at the same time and do not trade them with each other. At present it is supposed that these two goals are most highly realized in advanced capitalist countries. Socialist countries of today do not seem to have high economic power equivalent to them and it is not clear either if their political democracy is more highly developed to complement this defect as a whole. In addition, most of the population in the world is living in capitalist, free market regimes, which do not seem to change into socialist ones in a near future. Based on these observations, in considering the welfare state problems, it is most appropriate to focus our attention on the possibilities and difficulties within capitalist, free market economies.

Difference among the welfare states: Advanced free market nations launched their progress toward the welfare states in the 1930s under the depressive and disturbing years. Its essential purpose has been to establish social security for the disadvantaged, or the economically weak, which consists of the unemployed and the needy. The measures for this purpose were income and social service assistance. Income security includes full employment policy, unemployment benefit, old age pension, income support, etc., and social service includes medical insurance, elderly care, etc. They differ in countries in details, but it is common that the government is responsible for the security of the people in these aspects. In this sense, every advanced free market society today has in common many of the characteristics of the welfare state although their achievements are different. Some countries prefer to think of social welfare based on citizens' right, which includes provisions for the middle and upper class beneficiaries, and some more on the principle of relief of the needy.

Two extremes among them are the US type lower welfare, lower burden state and Scandinavian type higher welfare, higher burden state. At present the US type stresses growth more, putting the first priority on raising firms' profit rate by lower wage and lower welfare (which correspond to lower firms' and people's burdens). As a result, the US is changing toward a society with a greater income difference. The Scandinavian type thinks much of firms' profit and has aimed at promoting higher mobility of labour force based upon higher stability realized by higher welfare. Thus developing higher productivity industry, together with higher welfare has made their burden comparatively heavier. Either type has not shown a decisive, significant advantage over the other for the postwar years, sometimes enjoying prosperity and sometimes downturns. For the past decade the US type has shown higher record in terms of economic growth and lower unemployment rate. In between these two types are located the continent Europe with its high rate of unemployment, and Japan with its growing unemployment.⁶

Sovereignty of the states: Meanwhile the influence of the US type society seems to be spreading over the others, and this process includes an important question of the sovereignty of a society; sovereignty in determining the course by the citizens of the country. In recent years, particularly in the 1990s, with the growth of worldwide mobility of firms under globalization, the necessity to encircle firms within the national borders by luring them with higher profit rate is being emphasized. When the firms were not capable or not eager to move around in the world, they were counted on as the responsible "citizens" of a country. But today

⁶ At present the influence of the US type welfare society seems to be gradually spreading even to Scandinavian type societies as discussed later.

they are “easy riders” and have to be lured to stay inside a country by attractive prizes. This new phenomenon proposes a fundamental question what a firm or an entrepreneur is. While this question is being addressed, the critical necessity to keep them inside has come to affect the structure of the welfare state, particularly in its revenue side. In such an age, the US type smaller welfare state, which can contribute to firms’ higher profit rate by ensuring lower tax and lower social contribution by the firms, is of course more advantageous in competition. The existence of frontrunner countries in this sense cannot but compel others toward the same direction. This means it has become more difficult for a country to choose its own social ideal based on its own social values. But whether this “pressure”, not political but economic, is something to be restricted politically or should be left alone remains a fundamental question in addressing this problem.

The future of the welfare state today seems to be being determined not by a result of calm consideration by sovereign peoples of respective countries but by the pressing economic forces from the advantageous powers of the firms strengthened by the US type society.

Competition and insecurity: As mentioned before, our fundamental question is the social balance between growth and welfare. A clue to consider this question today seems to be the serious insecurity problem prevailing over our lives under growing competitive atmosphere mostly originated from the firms’ behaviours. Competition is the nucleus and principle to carry on our lives in a market economy and has been particularly emphasized since the 1980s. It’s true that competition stimulates our productive effort. But it’s also true that too much competition ruins human life. In this originally competitive market society, the device formulated to keep the balance between the competitive urge in the

market and security in a civil society has been the welfare state. Workers' lives in a market economy used to be often compared with a rat race. This excessive competition has been ameliorated and restricted by the welfare state. We have to heed whether this old question is again coming back to the fore of our society.

Purpose and measures : In approaching this question, the balance of our society between growth and security, or between market mechanism and the welfare state, we can first divide it into two parts, question of purposes —for whom— and question of measures —how—. Measure question is reduced to finding the most rational way to a fixed purpose and is rather easy to start with. The more difficult is the purposive one. This question, for whom or what kind of life for them, will eventually be settled by the number of people with common interest, according to the fundamental utilitarian rule of “the greatest happiness of the greatest number”. But this question is often difficult to answer for we are usually not very sure of the welfare of our own. It may even be so as we become more affluent and more sensible to spiritual satisfaction.

But this utilitarian rule seems to be being realized steadily with the progress of the history. As humans recognize knowledge more useful than violence, the general rule for a social change has become “for the benefit of a greater number of people”. One significant example of this rule is observed in the progress from feudal to civil society. Political suppression and low economic progress characterized feudal age. The social change to a civil society opened the door to equality under the law and freedom to pursue one's own happiness. As the rule to arbitrate the conflicts of freedom among the citizens, the rule of the supremacy of public welfare, or for the greater number of people, was established. In this new society, as the greater majority of people come learn more

knowledge and gather stronger political power, societies that do not match this utilitarian goal tend to be discarded or improved.

Thus in considering the welfare state questions, too, we can ultimately rely on this principle, when a society changes, if it is to continue, it must realize a better condition for a greater number of people. But we face a difficult question in realizing this goal. Political happiness is easier to deal with than economic one. Political rights such as equality under the law are universal advantage given and ensured to every citizen with no exception, and thus they are easy to be tackled. But how much economic welfare is to be secured for the members is difficult to answer. Take, for example, the distribution of natural resources, the land. The abandonment of feudal right to the natural resources, especially to land, was a condition to enter a civil society, but this also meant the abandonment of a stable life for many, the farmers. The new life in the new society must assure the many a life that would not be worse than before. Although a few centuries have already passed, this principal contract between the civil society and its members still remains unfulfilled for many.

4 PAST ARGUMENTS

Paying attention to the above viewpoints, we will now review the past arguments concerned with the question of the social balance between growth and welfare and of the directions of the present welfare states. We will first briefly look at the social contract view and then see the welfare state arguments.

4-1 *Social Contract theory—Rawls*

John Rawls's social contract theory provides us a useful clue for

tackling the question of social balance in our society today. He tried to establish just distributive principles for a civil society (actually market economy society in his book). He regarded the distribution of social and economic products, including civil rights, as the basis for a society. By thus focusing on the distributive principles he succeeded to a great extent to present the basic framework of social structure. As today when we face the question of the shift of social paradigm, especially of the proper distributive balance between growth and welfare, such a bird's eye view provides us a useful tool by which to start our analysis of the social framework for the welfare state.

His idea is evaluated in two ways. Firstly his idea is above all useful because he has succeeded in providing a useful question of how to deal with fundamental social structure. He focused on the two fundamental facets of society ; productivity and distribution. This was his important contribution to the modern social analysis in the post-war years. Secondly, however, he has not succeeded in providing a sufficient answer as to how to construct the agreeable distributive rule. The fatal shortcoming in his theory is his supposition of veil of ignorance. He reached this idea trying to solve the question of unanimous consent. For him a distributive rule that is stable enough should be reached unanimously among the social members. The most basic rule must be agreed unanimously by the members and it can only be realized in this way ; this was his reasoning. The rule that is chosen apart from anyone's particular interest is fair and just, and so is kept by everyone, he concluded. But this way of reasoning was wrong because it demanded impossible thinking ; casting away each member's characteristics. No one is living in such an imaginative world. He/she has his/her own interest according to his/her particular characteristics ; where and from whom he/she is born, what endowment he/she

has, etc. Unanimous consent is an impossible condition. We should cast it away and start from the actual, concrete conditions of the human beings.

When we choose this way of concrete analysis about distributive rules, the question becomes more complicated but it becomes more realistic. We can judge if the present rule is a stable one or not by analyzing the judgment of the actual people. In thinking about this question, what is important is our group-orientation. In our actual life we need to focus on the opinions of social groups, of race, sex, income etc., instead of separated individuals as in Rawls's method. Rule making or law making is often the result of group conflicts rather than conflicts among countless number of individuals. Secondly we are living in an age when conflicts are settled by democratic discussions, not violence. Then, what kind of distributive rules would they choose to have in such a condition?

The precise answer is left to each society but a common tendency is observed; first the tendency toward collective use of natural resources and secondly the tendency toward 'distribution toward equality of certain degree'. Natural resources have come to be used more collectively because and for the purpose of the growth of productivity; for example large-scale production demands collective use of land, air and fossil fuel. We cannot escape from this collective use of them. Secondly more equal distribution than in the feudal age is more probable than 'toward larger inequality'. It can be so argued because of three reasons; self-interest, fairness and human fellowship. Self-interest; the growth of productivity is an inevitable by-product of human life and it unavoidable accompanies the growth of division of labour. This means we have to depend on the work incentive of other people in order to improve our own life. Thus self-interest necessitates our support of other people. Fairness; self-interest

in a democratic age also demands fair distribution of products and this leads to the rule of distribution according to contribution. Distribution according to the ownership of productive resources will come to play a smaller role a means of product distribution. Human fellowship; the growth of division of labour and contact among human beings nourishes the close feeling among them and this leads to their stronger support to social welfare. Social welfare is also supported by self-interest in an age of higher mobility as of jobs or residences. The global scale problems such as ecological and nuclear weapons also nourish this fellow feeling among people. The significance of the drive for income difference produced by market mechanism must be compared to these factors.

In critically developing the Rawlsian type theory, we need to address one more question in his theory. As we saw above, the purposive question is always the basis of social analysis. How we regard human nature affects the whole theoretical structure. In his analysis he tried to replace the past human model of self-interested person, which had long been supposed by traditional economic thought since Adam Smith, by a new human model with self-interest (indifference to others) and human fellowship. He tried to depict the probable social contract on this two-step assumption. He assumed the veil of ignorance and concluded the two principles of distribution (usually known as difference principle). But he did not succeed in this new experiment. His major supposition about human nature —the presumption of indifference in the original position and allowing it to be revised if it would contradict the other half of human nature, which is human fellowship— made his theory inconsistent. We make a social contract based on our nature. We follow our reasoning toward this goal based on our understanding of our own characteristics. Rawls first ignores human fellowship but there is no assurance that the

later induction of this condition can really revise the already reached agreement. If he were to value human fellowship, he has to start with the two human natures from the very beginning. To correct this inconsistency, we have to assume the co-existence of both self-interest and human fellowship from the beginning of our reasoning.

We have to start with the assumption of mixed human nature of both partly self-interested and partly sympathetic from the beginning. This way of analysis will require two-tier distributive method in a sequence; equitable distribution among the co-workers first and then distribution based on human fellowship. In Chapter 2 we will address this analytical framework.

4-2 *Welfare State theory*

Arguments concerned with the welfare state are more closely related to the question of social balance such as between investment and consumption, or growth and redistribution. It is directly related to the composition of government expenditures and to the labour's share in the national income. Combined together this choice of balance determines the content of a society or a nation, and who prospers and perishes there.

An OECD report (1981) shows how this question of social balance came to the fore and how the viewpoint toward the welfare state changed over the 1970s. It understood the difficult economic situation in the 1970s as the result of the excessive growth of the welfare state. It argued against the increased wages in the 70s and for the necessity of restraining it and securing profit for the firms. It clearly stated that the measures to achieve social objectives should not undermine the economic system that produced its means (p. 9). It pointed out the necessity of realizing proper profit by adjusting wages. It argued that if the basic productivity and

employment conditions should change drastically as in the 1970s, high and rigid wage rate would become a cause of high unemployment, and that in the times when major social condition should change, what would be necessary were to adjust real wages elastic enough so that proper profit rate should be obtained for maintaining recovery and investment for employment (OECD, 1983, p. 144). It argued that behind high unemployment rate was high standard of social security and it must be restrained. It said that unemployment benefit should be at the level that was socially agreed upon, and generous right to it often raised expectations for higher wages and would be a factor to reduce the incentives for the beneficiaries to look for jobs actively (op. cit., p. 94).

Heclo (1982) and Block (1987) pointed out the that facing the hardship of 1970s the public in general were not ready to present alternative ideas for the social balance owing to the too much dependence on the privileged post war years. Heclo tried to understand the problem by setting it in a historical perspective. He divided the development of the welfare states into four stages ; Experimentation of the 1870s to 1920s, Consolidation of the 1930s to 1940s, Expansion of the 1950s to 1960s, and Reformulation of the 1970s and after. Experimentation period is characterized as the time for dispensations for the deserving poor and social insurance invented, Consolidation for integration of social expenditures with demand policy, consensus on postwar reconstruction and risks shared by all citizens, Expansion for growthmanship as solvent of economic trade-offs, and Reformulation under recession and inflation for ad-hoc attempts to subordinate social policy to a new situation (pp. 386-7). He argued that the rapid and unexpected postwar economic growth made possible the growth of the welfare state and this fact made people think that the welfare state depended on economic growth and a luxury allowed by it (p.

403). This indication of unconscious imprinting in the growth era may explain much of the vacancy of new ideas in the past two decades. Economic growth can surely become a source for welfare spending, but it does not logically mean that the former is a pre-requisite for the latter. But in an age when abundant resources seemed to provide almost every answer to welfare demand, this misinterpretation could naturally occur to their mind. Having been used to this economy-and-welfare growth pattern, it is understandable why the people were late in coping with this new situation. Thus Fred Block argues, “In a time of affluence, they (advocates of an expanded welfare state) were willing to argue that the society could afford some reduced efficiency as a means to greater justice. As the economy became increasingly troubled, this argument was no longer viable. But no argument emerged to fill the gap” (p. 155).

Mishra (1986) presented a typological analysis the welfare state and argued that the welfare state would evolve into corporatist type. He showed two types of welfare state, pluralist and corporatist. Pluralist type is characterized by economic regulation from demand side, autonomous social welfare, and polity of interest group pluralism (p. 28). Corporatist type is characterized with regulation from demand and supply side, interrelated policy of the social and economic, and polity of centralized pluralism. He also showed the criteria for classifying the welfare states, which was for which part the government was responsible; full employment, universal service, or relief of the poor. He concluded that the corporatist model of the welfare state “possesses distinct advantages over the PWS (pluralist welfare state) and that it may well represent the next stage in the evolution of welfare capitalism” (p. 31). Such a prospect had been based upon the good economic performances of countries as Sweden in the 1980s. Although we cannot argue

for its dominance as optimistically as he did today, such classification and comparison among the welfare states have produced many useful insights.

George and Wilding's analysis of ideologies of social welfare (1974 and 85) contributed much to the understanding and sorting out of the ideas behind opinions about the welfare state (George, Peter, 1985, p. 33). What this book contributed to the welfare state arguments was its provision of a map of the battlefield where attitudes to social welfare are presented closely connected to the overall ideological views of a society. They have depicted this map so clearly to convince people of the usefulness of understanding ideologies in dealing with the welfare state problems. Ideology consists of a few basic values and subsequent ideas that flow up to the surface of a society or the actual policies.⁷ Ideologies do contain some overlapping ideas with the others'. When we locate the conflicting ideas about social welfare, except for the basic few fundamentals, these ideas can be discussed, evaluated, and settled in concrete terms. Once we come up to the overlapping concrete questions such as if larger government budget increases unemployment or not, we can argue about it in positive terms. And even when the fundamental ideas are at issue, if we succeed in showing them and their respective consequences clearly, we can settle the conflict by democracy, by the majority choice.

Apart from various differences about the basic ideas about society, the focus of the question today is being converged into the relationship and trade-off between economic growth and welfare provisions. Whatever social ideas we might have, we judge societies by their overall outcome,

⁷ The bottom layer of ideology may be described as aims of our life. Barr interprets ideology as the choice of aims. As he refers to, when we confine our argument to social matters, the most important issue about aims would be the trade-off between social justice and economic efficiency (Barr, 1998, p. 98).

overall satisfaction we get from them. Thus when we think about this trade-off question, our interest is directed toward the aggregate effects of various welfare states. When we have gone through this task, we can choose and vote for our preferred welfare state.

In discussing the usefulness of ideological analysis, we should heed the point that in recognizing and creating the social images that correspond to the various types of welfare state, we should not pay too much attention to economic figures to forget the ultimate criterion, our aggregate satisfaction. One important viewpoint to look at the welfare state issue is the balance between production and consumption, welfare provisions being part of the latter. Although it is actually a matter of shifting tangible resources between the two, we should pay due attention to the shift of overall satisfaction as its result. Increase in aggregate goods could sometimes mean reduced satisfaction as a society through a particular distribution. Especially when a large group of people are losing their say, as reflected by the labour's decreasing power caused by the anti-labour policies in reaction to the 1970s, the understanding and measurement of the society's satisfaction become difficult, because with their voices are not heard well.

We can assume firstly that different types of welfare state could meet the problems differently, secondly that we should create the total image of a society to consider social welfare and the welfare state, and thirdly that intangible factor of satisfaction should be taken into account in comparing various types of welfare states. We have to analyze the actual societies and various combinations of resources to economic growth and social welfare to choose among different types of societies⁸.

Among the relations between social welfare and economy, that between government deficit and higher interest rate was one of the widely discus-

sed issues concerning the state expenditure. Focusing on the US society, faced with neo-conservative criticism of federal budget and welfare expenditures' negative effects on economic growth, Block (1984?) also examined various cause-effect relationships. As for the relationship between government deficit and productivity, Block quoted and criticized the US 1984 report of the White House Conference on Productivity. The report said, "Further increases in government borrowing relative to the supply of funds will add to the upward pressure on already high interest rates. Higher interest rates "crowd-out" private investments that would add to the productive capacity of the economy" (White House Conference on Productivity : 1984. Report on Productivity Growth, p. 19). He disagreed with this reasoning and argued about the importance of output level. "...productivity gains are strongest when output is rising fastest". "Instead of the "realist" remedy of limiting government spending in the hope that private investment would increase, an expansion of social welfare spending would strengthen purchasing power among working people and the poor, which could contribute to faster growth and more rapid gains in measured productivity growth" (p. 127). Under certain conditions when inflation is not probable this argument can hold true, and particularly so when the economy suffers from excess capacity and short of purchasing power. And this was the case, he argues, in the 1981-82 recession. He referred to the effect of deficit spending in the 1980s US and agreed that the Reagan administration's deficits were extremely effective in pulling the economy out of the 1981-1982 recession (p. 136).

⁸ An early work of which was that of George and Wilding (1984) about the UK society. They introduced and emphasized two points in this regard, positive effect of social welfare to economic growth such as of education and training and negative effect such as of wage rise to lower profit.

Thirdly, the relationship between productivity and employee security was addressed. Even the Conference on Productivity admitted, “There is a close connection between productivity improvement and employee security” (pp. 151-2). These arguments suggest that we have to be careful in discussing the positive and negative effects of government spending depending.

He also suggested the sustainability of high tax and high growth economy. Such an economic structure will continue. “...the evidence against this proposition is overwhelming; many European nations have prospered with much higher tax rates, and even Japan had a far more progressive tax system than the United States”. However, this argument seems less convincing as a general remark in the new situation of the 1990s when these countries suffer lower growth rate. Concerning this point he referred to the strong influence of the international competitiveness and the effect of low wages. First the influence of globalization was mentioned that it has become one of the major forces against the welfare states. “...when faced with intense competition from Japan and from a wide variety of low-wage countries, the United States has little choice but to accept a reduction in living standards - in order to be able to compete effectively. Of all the arguments against the welfare state, this one is probably the most potent”. But he also argued that the effect of wage factor should not be exaggerated. In this argument he paid attention to the limited effect of wages and growing effect of service sector. “The debate about international trade is still carried on as though goods production were the entire economy and as though the major determinant of the international competitiveness of a country's goods were the direct (wages) and indirect (government social programs) costs of labor.” “The presumption is widely shared that those countries that do best in lowering

wages and public provision will do best in international trade. Neither of these assumptions has much to do with reality. First, success in international trade has very little to do with the price of labor; second, the growing centrality of services in modern economies renders much of the goods-based analysis obsolete” (p. 139). But this argument about service sector and wage and welfare burden must be considered carefully. As for wage and welfare burden on firms, although it is wrong to deal with them as though they were the only factors to affect the competitiveness of firms in a country, they are nevertheless still important factors. As for the weight of service sector it is right that its growth should be paid more attention when we deal with the competitiveness of a whole country’s economy. And it will also be true that we have to pay due attention to wage cost in this sector as its cost structure is more dependent on wages.

As for the actual effects of the anti-welfare state policies, Klein and O’Higgins (1988?) argued that the welfare state had survived through the 1980s because of the popular support from the middle class. “Despite the political rhetoric of rollback and the extent of economic disruption, the attack on social policies has, in most countries, been largely blunted.” “It is precisely because the middle classes benefit from so many of the welfare programs that... their political base (was) wider than anticipated by governments of the Right” (p. 204). “. . .the Thatcher administrations have failed in the light of their original intentions. Real public spending has grown by an average of between 1.5 percent and 1 percent annually since... 1979” (p. 215). “These failures accurately reflect the government’s inability to maintain popular support for reductions in social responsibility” (p. 216). Rather, they argue, we should pay attention to the shift of the burden among groups. The right wing government succeeded in this. “Although conservative administrations have generally

been unsuccessful in effecting major cuts in social programs, they have been. . . successful in shifting the burden. . . onto lower income-groups” (p. 207). As we observe the widening cleavage of income and stability between the rich and poor in the following years, we have now a serious problem arising from this trend ; a disintegrating society.

Esping-Andersen (1990) argued for the coexistence of different types of welfare state, focusing on the class coalitions and their influences on the development of the welfare states. He followed the Mishra type approach that considered employment, wages and overall macro-economic steering as its integral components in the welfare-state complex. “The leading theme in our account. . . is that the history of political class coalitions is the most decisive cause of welfare-state variations.” (p. 1) “. . . welfare states are not all of one type.” (p. 3) “Sweden, Germany, and the United States may very well be heading towards three diverse ‘post-industrial’ welfare-capitalist models”⁹ (p. 229). This view is useful when we observe the possible diversity among the countries. But when we consider the growing trend in the economic globalization we should also pay attention to the converging side of the problem, too.

Ginsburg (1992), through his comparative study that dealt with welfare provisions of Sweden, Germany, the US and the UK, characterized Sweden as a social democratic welfare state, Germany a welfare state in the social market economy, the US a welfare state in the corporate

⁹ Concerning the typology of welfare state, Ninomiya (1997) pointed out the significance of the number of earners in families. He argued whether a country is a one income or a two-income type affected the type of the welfare state. This factor is deeply connected with the long, traditional cultural style of a society. Former type includes Germany, the UK, and France, and the latter, Sweden or Denmark. He sums up that in the latter type, “traditional communal works as family or regional nursery to old age care become impossible” and “a systematized social service becomes necessary to secure them” (p. 77).

market economy, and the UK a liberal collectivist welfare state. He characterized the US, FRG and Sweden in line with Esping-Andersen, and the UK as a hybrid (p. 28). As for the effects of the neo-liberalist policies, he argued as Klein and O'Higgins that liberal collectivism survived through the 1980s. "...since 1979...the Thatcherites attempted with some success to move towards a more centralized version of the US welfare state with more or less publicly regulated private welfare provisions." "...despite the significant shifts in such directions under Thatcherism, it can still be argued that important elements of Liberal Collectivism have survived" (p. 190). But he also added that it was not likely for the welfare states today to go back to the post-war type strong regime. "The future of all four of the welfare states examined here, viewed from 1991, looks increasingly uncertain. There seems little likelihood of a return to the political and economic conditions which sustained the post-war expansion of the welfare state" (p. 194). As we consider in the following chapters, this posture has become the mainstream in the 1990s even among the social democrat governments. Among them the UK welfare state is even sometimes regarded as approaching the US type one.

As the two extreme types of economic performance appeared on both sides of the Atlantic, one focus of the welfare state arguments was directed to the evaluation of them. Deborah Mitchell (1992) pointed out the growing inequality in the US type welfare state. She examined the differences among the welfare states in the 1980s' difficult conditions and argued that although inequality in market incomes increased in all of the quoted countries around 1980 and 1985, Australia, Canada, Fed. Rep. of Germany, the Netherlands, Sweden, the United Kingdom and the United States, the US leads the others in the inequality, with its Gini coefficient for disposable income from 0.317 to 0.328, while the UK was rapidly

catching up with it, from 0.266 to 0.304 (p. 76). But she also argued that at this stage the UK was not actually very close to the US yet. “While there is some evidence that the United Kingdom is moving away from policy outcomes akin to the continental European countries, it is not sufficient at this stage to place it in the same group as the United States. Although income inequality clearly increased in the United Kingdom during the 1980s, the welfare state appears to have continued to act as an effective “safety net” at the lower end of the income distribution” (p. 89).

The effect of large cultural changes, including globalization, on the welfare state has come to be addressed. In an effort to understand the fundamental social changes generated by this trend, Giddens (1994), in line with Ulrich Beck, discussed on the welfare state issue from the viewpoint of “reflexive modernization” (p. 80). It is meant to be modernization in which every member of the world mutually influences each other as e. g. through “instantaneous global communication” system. It is “. . . a world of intensified social reflexivity” in which “Globalization means much more than the internationalizing of economic competition” but also “detraditionalizing in everyday social activity”, and “an acceleration of the reflexivity of lay populations”. Thus he challenged the traditional presumptions of our way of thinking, including the traditional suppositions for the welfare state. He argued “Keynesianism. . . presumes a citizenry with more stable lifestyle habits than are characteristic of a globalized universe of high reflexivity” (p. 42), and globalization was changing the conditions of the background people of the welfare states in which the concept of collective class had changed into so to say individual, isolated classes.

Class, one of the most important building blocks of the postwar welfare state is thus regarded as a changeable factor. “Class used to be connected

to communal experience and action in several ways... regional division... common occupational experience...” “Many such traditional communities, particularly working-class communities, have become broken up. New modes of regionalization, the result of globalized stratification divisions, rarely produce the same class solidarities”. “Class for the most part is no longer experienced as class... Class becomes individualized and expressed through the individual’s ‘biography’; it is experienced less and less as collective fate”¹⁰ (p. 143). And he would rather respond to the problem by proposing a new type welfare state, “social investment state” (1998, p. 117) that would invest vigorously into “positive welfare” for “wealth creation”, into which the old type “economic maintenance” welfare state would change. Classless, but positive and wealth creating new state is thus being proposed. Although whether the traditional class solidarity would again recover its power is yet to see, this “third way” idea is actively being pursued under the new Labour Party in the UK.¹¹

In line with the interest of Mitchell, Fitoussi (1996) paid attention to the difference in job and wage conditions between the US and Europe. Although the positive relationship between smaller government spending on one hand and higher growth rate and lower unemployment rate on the other had been widely discussed, she pointed out that the real question

¹⁰ Beck’s view (*The Risk Society* 1992, originally 1986), although he too argued about reflexive modernization, looked at the problem from a somewhat different perspective. He had more of an ecological point of view, focusing on the impact of technological progress which are about to bring both nationwide and worldwide disastrous risks, and thus he hoped for an emergence of new politics rather than traditional welfare states. This emphasis on parting from old politics has similar resonance with Giddens’ view.

¹¹ Whether “Trade union membership has gone up for the first time in 19 years” (TUC General Secretary John Monks, *The Guardian*, Sep. 11, 1999) means the resurgence of labour power is yet to see.

was between two types of poverty, and by this criterion the US type welfare state had not proved itself advantageous to European style ones. First she pointed out the converging trend to lower wages and working conditions. “In particular, the fiercest challenge comes from those economies characterized by low labor cost and poor social protection mechanisms. Given the fact that capital and technology can be transferred fairly easily, the only effective competition seems to take place in labor markets. Hence, Western economies need greater labor market flexibility and this in turn implies a reduction, (if not the complete removal) of the 《artificially》 imperfections that hamper its free and efficient functioning.” “The conclusion seems straight forward: society at large could keep its level of affluence (and full employment could be reached) if workers could be forced to accept lower paid and more precarious jobs” (p. 331).

Then she argued that the US type’s “success” was really not a success, compared to European type’s. “Apparently, each side of the Atlantic has chosen different ways to cope with a common problem. On the one hand, Europe... has been experiencing a positive trend of unemployment growth for the last twenty years... And this difference could be traced to Europe’s inability to abandon its highly ideologised view of the welfare state”. “However, it would be too hasty to conclude from this that the American way is painless or even necessarily successful... (In the US) during the last twenty years, the cost of unskilled workers has decreased in real terms by something like 30% relative to the cost of skilled workers while in Europe, an opposite trend has been observed.” “The real trade-off is not between unemployment and somewhat lower wages for the unskilled: instead, it is between two kinds of poverty, one arising from unemployment, the other one arising from insufficient wage” (p. 331).

Denying both types as ideal, she referred to the German and Japanese type welfare state as the models to achieve both economic success and social cohesion. “Among the most developed countries, Germany and Japan are the ones that have suffered less from unemployment or poverty. They are also economies with a highly compressed income distribution”¹² (p. 338). This last comment, however, does not hold true for Japan in the 1990s. Her economic performance has been poor for the past decade.

Rhodes (1996) also thought much of the social cohesion. He addressed the necessity of securing the adjusting time to realize it. He argued “reform and adaptation to the global economy is contingent on the ability of each to invest in new technologies ahead of their competitors” (pp. 311-2). This is true both for entrepreneurs and the employed. “. . .if social standards are driven down in western countries, and if industries are not given time to adjust, then more militant pro-protectionist movements and legitimacy problems will emerge” (p. 323). This question may overlap with the sovereignty question referred to before. Under the overwhelming economic changes the sovereignty or adjusting time seems to be being neglected. While this legitimacy question is being risen at the individual levels and people come to feel that their lives are being driven by mysterious but irresistible economic power, they might not only become protectionist but also even fall into chaotic behaviours.

The strength of the globalizing trend has been also referred to in the highly advanced welfare states as Sweden. Olsson Hort (1997) argued about the critical change of Swedish welfare policy in the early 1990s,

¹² “Growing disparities in income and consequences of the globalization of national economies are now being addressed by various scholars who point to the success of capitalism of a non-Anglo-Saxon tradition (such as Japanese and German) capitalism” (Misztal, 1996, p. 223).

which produced an unprecedented high unemployment rate. “Full employment has been the over-riding objective in Sweden and at least up to the early 1990s the government seemed to unfailingly adhere to it. However... With the deep recession of the first half of the 1990s, unemployment increased to levels hitherto unknown since the 1930s. Such a dramatic development in a few years’ time poses a challenge to the idea of the welfare state. In the early 1990s, Sweden reached a point where the welfare system —except unemployment insurance— stopped growing. It remains to be seen if this is just a temporary break or the beginning of a new retrenchment trend” (p. 334). As for EU, too, this situation seems to be similar. Kazuaki Tezuka (1996) pointed out that the growing competitiveness among the nations was working against the regional integration of the EU. He argued about the awkward attitudes of governments toward equalizing labour conditions in spite of its original intention for integration for fear of losing advantageous position as by lower wages (p. 272).

Pierson (1998) described the current arguments on the welfare state today as follows. “We are told that, in anything like its traditional form, the welfare state cannot survive. But, as yet, the workable alternatives are quite unclear” (p. 1). He sorts out some prominent arguments as: “the welfare state is incompatible with a healthy market-based economy”, post-war period was only an exception (p. 3); “the processes of globalization... have undermined the circumstances for the promotion of national welfare states... The Keynesian Welfare State is incompatible with this new international political economy”; “The post-war welfare state represented a ‘historic compromise’ between the powers/interests of capital and organized labour. That ‘compromise’ has now broken down”; “The development of welfare state has transformed the class structure of

advanced capitalism. . . to undermine the class basis for its own continuation. Most significantly, these changes undermine that alliance between middle and working classes. . . upon which the welfare state was built” (p. 4); “. . . the expansion of consumer choice/affluence within Western industrialized economies engenders increasing dissatisfaction with state-administered welfare” (pp. 4-5). These arguments could be titled as 1) ‘conflict with market’ theory, 2) ‘pressure of globalization’ theory, 3) ‘historic compromise’ theory, 4) ‘self-contradiction’ theory, and 5) ‘demand for higher quality’ theory, which have been discussed concerning the arguments above.

Pierson agrees to the serious impact from globalization as that “Facing the heightened international mobility of capital. . . competition to attract capital encourage governments to establish. . . flexible labour markets, low social costs and low taxation” (p. 64). In evaluating these arguments, he concluded that major questions about the future of the welfare state are left unanswered yet. “For many, the crisis was real enough, but is now passing. For others, the crisis looms in front of us, brought on by ‘irresistible’ changes to the global economy or the ‘unmanageable’ aging of the population. It is certainly true that many of the most difficult. . . decisions about welfare lie in the future. . . (and) have to be addressed anew” (p. 208). In foreseeing the future development, he suggests the possibilities of the EU social policies. “In the West European context, . . . whilst the pressures of globalization may be common, they call forth differing sorts of responses in the several regime types that Esping-Andersen and others have identified” (p. 181). “Despite much talk of the ‘social dimension’, evidence of an emergent ‘European welfare state’ is extremely scarce. If, however, we focus not upon positive enactment but upon the extent to which EU institutions have constrained the social

policy autonomy of constituent states or the ways in which enactment in other policy fields have had a social policy effect, the role of the European Union will look much extensive.” “European Court of Justice determinations have had a significant policy-making impact in areas such as working hours, equal pay, pension rights and parental leave” (p. 205).

In such a mixture of both pessimistic and optimistic arguments for the maintenance or growth of current welfare states, the recognition that has become more common through the arguments of the 1990s is that the globalizing trend is inevitable, has been intensifying, and its effects must be seriously taken into account in examining the future of the welfare state. One apparent influence of this trend on the welfare state is that larger burden of firms in one country compared to others's will be driven off by firms. Facing this threat to the welfare fund, George and Miller et al. (1994) posed a challenging question of the newly increasing demand for social welfare. They analyzed British welfare demand conditions today and concluded that it would continue to increase by growing aging population and single parent families. As they argue, welfare demand born from demographic and social change does seem to be inevitable in other countries, too. Although such welfare provisions as unemployment benefit could be largely cut by higher employment, their proportion is not necessarily large enough to offset the increase in such expenditures. Furthermore, if higher employment were only achieved by lower wages, the poor population would remain the same proportion and increase the welfare demand. Such a risk is looming large in the presently “high employment” US or UK in the late 1990s. As such these phenomena also make the prospect of the future welfare state still unclear. For the goal of devising the most desirable welfare state one thing is for sure that we do not have a single panacea welfare state model yet to answer the

various particular problems in by respective countries.¹³

Some concluding remarks

As seen above, major arguments about the welfare states after the 1980s have included three topics; 1) typology of different groups of welfare states, 2) the social and economic significance and impact of the welfare state against the overall society, and 3) the alternative designs of the welfare state today. With the intensifying globalizing movement swiftly eroding the traditional welfare state ideas and policies, the major task at present is to clarify the trade-off question between growth and welfare. When it is done, then respective societies (countries) can choose the best-fit answer for their own priorities. To achieve this goal we need to solve such questions as what combinations of resource distributions to economic growth (profit and production) and social welfare (wages and welfare provisions, or consumption) will generate what kind of social conditions —possibilities—, and among these alternatives which one we would give our first priority. In considering the former question we will need to deal with the political possibilities in the pressures by economic globalization. Helped by the insights and suggestions shown in the arguments heretofore, we will discuss further these questions; what

¹³ George and Miller et al perceive the possible exit in the “citizens’ welfare state” based on the increased burden by the electorate. Chatterjee (1999) also regards the critical question today as lying in the willingness of people to accept higher tax rate. “For the most part, the welfare state depends on the ability to transfer income from the middle and the working classes”. “Without expanding the tax base, the only alternative is to reduce welfare state benefits” (p. 170).

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choices we have today and what choice we should take.*

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