Why Are They Doing It? Social Democracy and Market-Oriented Welfare State Reforms

MICHAEL BAGGESEN KLITGAARD

Comparative research emphasises social democratic parties as leading political forces when universal welfare states are reformed in accordance with market-oriented principles. This is surprising considering the many portrayals of universal welfare states as an institutional feature, which favours the social democrats in political terms. Thus, this article raises a question contemporary research so far has left unanswered: why are they doing it? This question is answered through comparisons of reforms in labour market policy and primary school policy in Sweden and Denmark since the late 1980s, and the theoretical argument is as follows: social democratic governments decide upon reforms when the party elite perceive policy problems as a threat to the legitimacy of the universal welfare state. Political institutions, i.e. welfare policies, functioning as power resources, need to be legitimate otherwise they may work against basic political interests. This argument emphasises strategic and intentional actors as well as institutional politics as explanatory variables and is, with some modifications, empirically supported.

For more than two decades the power resource theory has ranged among the most prominent approaches to explaining the variety between the welfare states in advanced western democracies. Power resource theorists argue that the generosity and institutional design of welfare states is to be correlated with the strength of the social democratic labour movement. Welfare states in which the social democratic labour movement has succeeded in mobilising its power resources, first and foremost Scandinavian countries, are remarkable for their high degree of economic equality and the development of a universal welfare state (Shalev 1983; Esping-Andersen 1985, 1990; Korpi 1988).

One of the leading scholars within the power resource tradition, Esping-Andersen, however, sees universal welfare states as more than a political
goal of social democracy. Universal welfare programmes also constitute an important political instrument for social democrats which has helped them to pave their road to power (Esping-Andersen 1985). The evolution of universal welfare states in Scandinavia is held to be a result of deliberate social democratic strategy to phase out the market from the social policy arena to the advantage of an encompassing welfare state based on collective action between different societal groups. Universal welfare policies enrol many citizens as welfare state recipients, and have furnished a large proportion of the electorate with incentives to support the welfare state. Hence, universal welfare policies have established a political link between social democrats and the voters and thus form a crucial instrument in the party’s attempt to mobilise political support (Esping-Andersen 1985; Przeworski 1985; Svensson 1994).

In this perspective, conclusions from recent studies of welfare state reforms are, in fact, counter-intuitive. In Sweden for example, where the symbiosis of the universal welfare state and social democracy is considered stronger than anywhere else, social democratic governments have, since the late 1980s, introduced market-accommodating policy reforms in such central welfare programmes as primary schools, public health care, and the pension system (Blomqvist and Rothstein 2000; Anderson 2001; Svensson 2001). A similar conclusion is reached about social democratic governments in Denmark. Social policy retrenchments between 1982 and 1998 were most significant under social democratic reign between 1993 and 1998 – and not despite, but because of social democratic governments (Green-Pedersen 2001, 2002b).

Scandinavian social democrats are of course not expected to refrain altogether from welfare state reform but they could be expected to avoid reforms that allow market forces to produce greater social stratification. Market-oriented reforms, in this article defined as de-collectivisation of social risks and provision of social services, imply a risk of undermining the conditions upon which different societal groups are prepared to cooperate for social protection. Hence, market-oriented reforms in universal welfare states imply the risk of undermining the mechanism upon which Scandinavian social democrats historically have achieved their unprecedented level of democratic political control. That is why this article asks: why are they doing it?

To answer this question, I propose the following theory, which is as simple as the research question posed. Social democratic governments effectuate market-oriented reforms to protect the universal welfare state as their most valuable institutional weapon. In order to function as a power resource, the welfare state depends on popular trust and the democratic constituency to perceive welfare institutions as legitimate grounds for collective action (Levi 1998). If social democratic strategists have reason to perceive particular policy problems as a threat to welfare state legitimacy, they may be prepared to implement market-type reforms if these
are believed to prevent loss of legitimacy and declining welfare state support.

This argument is further developed, and subsequently applied in a paired and focused comparison of social democratic market reforms in the public school system and unemployment insurance in Sweden and Denmark between the late 1980s and late 1990s. Meanwhile, some of the relevant literature that hitherto has dealt with the politics of welfare state reform in general and the role of social democratic parties in particular are briefly reviewed.

A Brief Review of the Literature

Comparative welfare state research has focused much less on why decision-makers execute welfare state reforms than on the obstacles to accomplishing them. The factors which open the window for reform are often treated as a premise on which the analysis is grounded rather than empirically researched. This is not least the case in the ‘new politics’ tradition within contemporary welfare state research introduced by Pierson in the mid-1990s and further elaborated throughout the decade (Pierson 1994, 1996, 2001). In this literature, the question of what drives politicians to reform is highly under-researched, and relies to a large degree on the assumption that reforms are due to economic constraints.

That goes too for ‘new politics’ studies with a particular emphasis on the relationship between welfare state reforms and social democratic parties (Kitschelt 2001; Green-Pedersen 2002a). Here, Pierson’s influential arguments about reform as the politics of blame avoidance is developed into the assumption that social democratic governments possess extraordinary reform capacity as they are allowed to exploit a ‘Nixon-goes-to-China’ strategy to avoid the blame for retrenching the welfare state. An anti-communist republican ‘hawk’ like Nixon could reconcile with Chinese communists without raising suspicions of selling out American interests. Applying the logic to the area of social policy, social democratic governments engaging in unpopular social policy retrenchment may be more acceptable to the voters because they enjoy more credibility in protecting the system than right-wing market reformers (Kitschelt 2001: 275; and Green-Pedersen 2001, 2002a). This explains why market reforms in the welfare state may be more extensive under social democratic government. Still, it gives no consistent answer to the question of why social democratic governments engage in reforming the welfare state to conform with market-oriented principles in the first place. Most analysts would certainly agree that the welfare state was in less favourable economic waters during especially the 1980s compared with, for example, the 1960s. Yet the assumption of economic constraints as the primary factor driving reform is only suggested, not spelled out or tested against empirical data.
However, if economic constraints were the central factor driving welfare state reforms then we should observe more extensive reforms during periods of low economic conjunctures compared with periods with more favourable economic conditions. But conclusions about resilient welfare states are often drawn on data from the 1980s, when the OECD economies were slow (Pierson 1994; Hemerijck and van Kersbergen 1999; Bonoli and Palier 2001), whereas profound reform measures were implemented during the 1990s, when economic conditions were comparable to the golden days of the 1960s (Scharpf and Schmidt 2000). The lack of positive correlations between economic conditions and the extent of welfare state reforms do not allow for a complete rejection of the economy thesis. But it reveals inconsistencies in the premises upon which current welfare state research is often carried out.

Furthermore, the assumption of social democratic parties applying Nixon-goes-to-China strategies does in fact imply the recognition that welfare states are a social democratic power resource. In addition to this recognition, however, should also follow the assumption that this is likely to result in strategically well-chosen reform choices. Even, or perhaps especially, in times of a struggling economy, strategic political actors must be expected to pursue preference-shaping strategies (Dunleavy 1991), and when social democrats promote reforms as being protective of welfare state arrangements, this may very well be the real preferences of the party. Allan and Scruggs (2004) demonstrate that traditional politics also seem to matter in times of retrenchment, perhaps because social democratic governments have a preference for reforming certain programmes in certain ways in order to protect the welfare state, while conservative governments are more likely to focus on other programmes and reform measures in order to subvert the social democratic power resource. Politics is fundamentally about the exercise of public authority and the struggle to gain control over it – not least in times of institutional reform (Moe 1990: 221) – and there are no good arguments as to why this not should be an integral part of the politics of welfare state reform in the late twentieth century.

Hence, based on rational choice institutionalism, this article emphasises political institutions as crucial for political actors to realise their desire for power and political control (Moe 1989, 1990; Knight 1992). It is argued that Scandinavian social democrats even implement market-oriented welfare state reforms as a strategic move to protect and modernise a political weapon. Social democratic governments are so to speak expected to act strategically when they reshape the universal welfare state – as they did when they shaped the resource in the first place (Esping-Andersen 1985, 1990; Korpi 1988; Svensson 1994). Phrased in more general terms, political institutions are (re)shaped by those in power so they can stay in power (La Porta et al., 1999).
How to Protect a Political Weapon: Social Democratic Governments and Market Reforms in Universal Welfare States

The problem of collective action is at the core of the strategic thinking of political actors such as social democratic parties. According to Levi, citizens participate in collective action, for example within the framework of welfare state institutions, for as long as they trust the institutions and deem them legitimate (Levi 1998: 80). Governments thus depend on legitimate institutions to withhold or even increase political control, because those voters regarding institutional arrangements as legitimate are more likely to support an incumbent government (Levi and Stoker 2000: 490). Institutional trust and legitimacy are consequently vital political capital for any strategic political actor.

Scandinavian social democrats depend on the universal welfare institutions to realise their political ambitions. Agenda-setting literature states that different parties enjoy different images and ‘own’ particular policy issues (Petrocik 1996; Narud and Valen 2001). The traditional image of right-wing parties is of sound macroeconomic policy and budgetary discipline, whereas left-wing and social democratic parties enjoy an image of generous social policy, meaning that the social democrats are associated with the welfare state (Ross 2000; Green-Pedersen 2001).

Particular associations furnish the owner with extraordinary policy capacity on particular issues. But only during periods of stable and broadly accepted policy image (Baumgartner and Jones 1993). If the image of the welfare state is questioned, it is likely to be counter-productive to the political ambitions of those associated with it. As long as the universal welfare state is broadly accepted, and deemed legitimate and trustworthy by citizens, social democratic parties can be politically advantaged. However, in case of a de-legitimised universal welfare state lacking citizens’ consent, social democratic parties are politically disadvantaged. Issue ownership is in other words expected to work for good as well as for bad.

The question is, then, when do citizens in general deem the universal welfare state legitimate and when do they see the universal welfare state as illegitimate and thus refrain from collective action within its institutional framework? The answer to this question is central to the purpose of this article, as we expect social democratic governments to seek market reforms in order to re-invigorate the legitimacy of the universal welfare state. This article adopts Levi’s theoretical considerations regarding contingent consent where people’s willingness to engage in collective action is believed to depend on more than a calculation of costs and benefits. Contingent consenters have prior commitments to fair play combined with a perception of the extent to which others who presumably share that position cooperate or choose to free-ride (Levi 1997: 25). If people experience an absence of fair play, they will possibly turn to contingent refusal, which undermines the logic of collective action. And if we expect the ‘owner’ of the welfare state
issue to be the one held responsible for legitimacy problems, an illegitimate universal welfare state will cause a fundamental political problem for Scandinavian social democracy.

The Foundation of Legitimacy in Universal Welfare States

On several occasions, Rothstein has applied the theory of contingent consent to an analysis of universal welfare states and argued that universal welfare institutions urge citizens to cooperate on common solutions for social protection (Rothstein 1998, 2003). Universal welfare states are seen to have an inheritance of special legitimacy which we must expect to be of major strategic importance to social democratic parties.

The legitimacy of any welfare state arrangement depends on its ability to deliver benefits and social services in return for tax money. However, it is equally important that collective public institutions buttress individuals’ trust in others to cooperate – that citizens judge the welfare institutions to be of high substantial and procedural legitimacy (Rothstein 1998). For selective welfare states in which social benefits are targeted and the social clientele are means-tested, the main social policy concern is: how do we solve social problems for them? Phrasing the social policy question like this is likely to generate sharp political conflicts over the goals and generosity of welfare policy between we who contribute through our taxes, and those who benefit from the social policy arrangements. The social policy question in universal welfare states is in contrast phrased like this: how do we solve our problems in matters of education, health and social security? As universal welfare programmes enrol most citizens as recipients or potential recipients, they urge a search for broadly accepted solutions to social problems for a high degree of legitimacy (Rothstein 1998: 157–60).

In the matter of the welfare state’s procedural legitimacy, or procedural justice, Rothstein argues that when the welfare state institutions are organised on the principle of universal social rights, the criteria that should be met to qualify for social benefits can be formulated objectively and rather simply. For example that everybody above a certain age is eligible for a retirement pension, and that all unemployed are compensated with a certain level of economic assistance for a certain period of time. Often these procedures can be automated by coordinating the social policy legislation with information from the civil registration board. As to this arrangement, citizens are less stigmatised by the state, and also have little opportunity as well as few incentives to withhold information from authorities and exaggerate their needs. A high level of procedural legitimacy encourages the readiness to engage in collective action as citizens trust that tax money is allocated for the right reasons rather than wasted on bureaucracy and ‘illegitimate’ recipients (Rothstein 1998: 160–3).

Perhaps more importantly, a high degree of substantial and procedural legitimacy promotes a universal welfare state’s capacity to solve probably
the most fundamental problem of collective action: that of financing social policy. A high degree of legitimacy is held to encourage the acceptance of the relatively high taxes paid in universal welfare states. Individuals accept the tax bill because they trust others also to accept it, to pay a fair share and refrain from free-riding (Rothstein 1998: 157–66).

**Declining Legitimacy in Universal Welfare States: A Social Democratic Power Problem**

When Rothstein points out the institutional foundation of legitimacy in universal welfare states, he also indirectly points out the threats. First; if the welfare state fails to comply with modern citizens’ demands for individualised social services, as well as options to choose between alternative service providers (Inglehart 1990), substantial problems of legitimacy might develop. If the public health authorities or educational system, for example, produce and deliver standardised benefits while citizens’ preferences are diffuse, citizens might increasingly turn to the market and pay for individual solutions to cover their needs. And citizens who turn to the market and pay for individual benefits must in the long run be considered less willing to pay their tax bills as well (Andersen 2003a: 69).

This situation constitutes a threat to substantial legitimacy and calls for a social democratic response. A possible strategy is to offer citizens the possibility of choosing between public and private, but publicly financed benefits. Another strategy could be to decentralise welfare production and separate it from the central authorities. If the producing institutions of the welfare state are decentralised to, for instance, regional or local authorities, these will to a higher degree be able to respond to individual preferences (Sharpe 1970; Ostrom 1972). A decentralised public system bears resemblance to market settings, as the ultimately market accommodation is characterised as a decentralised system in which all participants make decisions for themselves and not society (Chubb and Moe 1990: 29).

Second, since the oil crisis during the 1970s, a high level of persistent unemployment has posed the most serious challenge to European welfare states in general, and universal welfare states in particular. Although the 1990s witnessed so-called ‘job miracles’ (Visser and Hemerijck 1997), most European countries are still far from full employment. High and persistent unemployment is a direct and serious challenge to the mechanisms of legitimacy in universal welfare states. The conditions for contingent consent are far from fulfilled when a large group of unemployed ‘free-riders’ receive tax-financed benefits without making any contributions in return. In this situation, employed citizens might develop preferences for contingent refusal and for acting individually rather than collectively, which is a fundamental threat to strategic solidarity between different societal groups (Rothstein 2003: 31).
The political response could be market-oriented reforms targeted at the free-riders. Unemployed free-riders could increasingly be held individually responsible for their loss of income and thereby be less of a burden for the collective whole. Such reform measures are rather punitive for the unemployed, but important in order to uphold the tax payers’ willingness of contingent consent. This type of reform sends the political signal that free-riding is not tolerated.

Altogether, the theoretical argument presented in this article is that social democratic governments enact market-oriented reforms in universal welfare states due to strategic considerations about the legitimacy of this type of welfare state. This argument is also proposed in certain literature to explain the social democrats’ expansion of universal welfare states. In both cases, political action is assumed to be in accordance with a strategy of establishing political institutions that stimulate collective action between different societal groups. And in both cases a particular political actor is assumed to be aware of the political strategies that can advance such actions (Hicks 1999: 239). However, the expansion of welfare state institutions, the individualisation of public values and the high level of persistent long-term unemployment have placed the social democrats in a new political context. A context requiring institutional reform if the welfare state is to be seen as a legitimate basis for collective action also in the future.

Methodology

The theory outlined above is, as mentioned, applied in a paired focused comparison of market-oriented reforms in public primary schools and unemployment insurance schemes in Sweden and Denmark between 1988 and 1998. The social democratic government in Sweden enacted comprehensive reforms in Swedish public schools in the period 1988 to 1991, while the social democratic government reformed Danish unemployment insurance extensively in the period 1993 to 1998. With regard to the parallel cases, unemployment insurance in Sweden and public schools in Denmark, these were not reformed at all or reformed to a much smaller degree. This brings us to the first of three reasons for this case selection: the possibility of comparing positive and negative cases.

Positive cases are distinguished from negative cases in the sense that the dependent variable is marked by the phenomenon of scholarly interest (social democratic market reforms). However, if a comparison of positive and negative cases is to be of any analytic relevance, the negative cases must be chosen in accordance with the ‘possibility principle’. This principle holds that only those cases in which the phenomenon of interest is possible, given the independent variable, should be included in the set of negative cases (Mahoney and Goertz 2004). The possibility principle is fulfilled here as it is reasonable to expect two universal welfare states to develop relatively similar types of policy problems in similar policy areas. It is also reasonable
to expect that social democratic governments in both countries will generate rather similar policy responses. This is clearly not the case in this situation, which means that the negative cases allow us to conduct control analysis. To support the theory, the empirical analysis is not only required to demonstrate that social democratic governments reacted on what they perceived as fundamental threats to the legitimacy of the universal welfare state in relation to the positive cases. It must also be demonstrated that they did not identify such problems in the negative cases.

Second, these cases are crucial to the theoretical argument presented (King et al. 1994). No welfare state policy has to the same degree as Ghent-organised unemployment insurance schemes contributed to mobilise the workforce in Sweden and Denmark to support the labour movement (Rothstein 1992). Ghent-organisation means that unemployment insurance schemes in principle are a private insurance but are administered by unions and financially subsidised by the state. Similarly, a publicly financed comprehensive primary school has crowded out market solutions in this policy field, bound the middle class to the public institutions and attracted their political support (Korpi 1988; Hadenius 1990; Rothstein 1996). In other words, if the theory is unable to explain reforms in these cases, we should doubt its explanatory power generally.

Third, hitherto most reform studies have concentrated on the cash dimension of the welfare state. In a Scandinavian context this is a problematic research bias, as Scandinavian welfare states are distinguished by their reliance on social services. It is in fact in the realm of social service production we find the most sweeping market-oriented reforms in, for example, Sweden (Clayton and Pontusson 1998). The cases in this article are therefore chosen in order to include both policy dimensions of universal welfare states in the analysis. Social services are represented by public schools and the cash dimension is represented by unemployment insurance. Moreover, the test of the theory may be considered relatively stringent as it is required to explain reform of policies which differ in such fundamental aspects as institutional structures, interest configurations and popular support.

Whether social democratic market reforms are carried through as strategic moves or for other reasons is difficult to determine. One way of analysing the strategies of political parties in times of reform is to analyse how the party elite have justified the reforms in, for example, party manifestos, parliamentary debates, electoral campaigns and other types of publications (Togeby 1974). The obvious disadvantage of this method is that official political expressions may not give a true picture of the real preferences. Instead, the analysis could be directed at what is just as important, namely actions and policy measures undertaken. The disadvantage of only analysing actions is, on the other hand, that we are left without a possibility of connecting the actions to presumed strategies (Nørgaard 2002).
To avoid the disadvantages and exploit the advantages of these respective methods they are combined in this article. The empirical analysis therefore contains a more detailed description of the reforms just introduced, followed by an evaluation of these reforms’ ability to prevent the loss of legitimacy of the universal welfare state. It is subsequently investigated whether the reforms undertaken actually resulted from social democratic concerns regarding the legitimacy of the universal welfare state. The hypothesis researched in this part of the analysis is that the social democrats explicitly refer to the mechanisms of legitimacy in universal welfare states when they justify and explain their policy reforms. Finally, a relatively short analysis of the negative cases is conducted. Here, the theoretical expectation is that social democratic governments do not identify problems of legitimacy and therefore do not have a strategic incentive to introduce major reforms.

Market Reforms in Swedish Public Schools, 1988–91

The study of power and democracy undertaken in Sweden in the latter half of the 1980s comprised a major survey of how the Swedish population assessed their possibilities to influence the public services they use. Above all, there was a strong feeling of lack of influence in relation to public schools. The attitudes toward schools was, for example, that it was difficult to influence the teaching offered to one’s children and to choose a school according to one’s own preferences (Peterson et al. 1989: 262). The public school system had been one of most salient issues on the public sector reform agenda since the early 1980s, and a reform process was initiated in 1988.

A first step was to delegate the political responsibility for schools to municipalities, while the role of the state was reduced to formulating general educational goals, to secure the quality through evaluation and to manage the funding of schools (Proposition 1988/89:4: 9). Further, individual schools were given opportunities to develop special academic profiles, thus allowing schools to organise education in accordance with the needs and demands of their local settings (Proposition 1988/89:4: 53–6). In autumn 1989, this major decentralisation was followed by municipalities taking over responsibility for employment of school personnel from the state (Proposition 1989/90:41: 12), and a new funding system in 1990. It was decided to allocate financial resources as an unspecified amount of money, earmarked to the schools. With this, municipalities were given more freedom to dispose the resources and organise public schooling (Proposition 1990/91:18: 25).

New possibilities for parental choice were also included in the reforms. Municipalities became obliged to meet individual preferences for schools within practically and economically feasible limits (Proposition 1988/89:4: 53–7). School choice increased rather remarkably, and private schools
were also given a larger role in the Swedish school system due to the new funding system. The social democratic government’s primary political alliance during the reform process was the Centre Party. This alliance was the reason why the social democratic government at the beginning of 1990 enacted a voucher model that allowed parents and pupils to choose between public and public-financed private schools. There were also strong advocates for such reforms within the government (Antman 1994). During the negotiations over the new funding system, the Centre Party proposed that municipalities should allocate resources in accordance with a principle of need to the individual schools, be they private or public (1990/91:UbU17:23). 2 Private schools of choice were consequently given a possibility to compete with public schools on almost equal economic terms, and the number of private schools increased dramatically throughout the 1990s: from 166 in 1993 to 488 in 2002 (Blomqvist and Rothstein 2000; Skolverket 2001; Svensson 2001; Klitgaard 2004: ch. 7).

These reforms transformed the Swedish school system from being one of the most centrally planned among OECD countries into one of the most decentralised systems allowing for wide choice of school types (Klitgaard 2005). The policy reforms undertaken agree with the argument that a social democratic government addresses the problem of a tax-financed public school unable to meet citizen preferences. There are, so to speak, clear signs of a government focusing its political attention towards institutional problems that could subvert the substantial legitimacy of the universal welfare state in the long run. Decentralisation and reforms in school choice adjust the institutions to accommodate citizen preferences more closely, while the logic of collective action is maintained due to the financial system. It is not in itself a problem for the welfare state that citizens choose privately provided services but the readiness to pay taxes is compromised if citizens are required to pay taxes and user fees (Andersen 2003a: 69).

Political conflicts over user fees in relation to school reforms demonstrate that for the social democratic party this was an initiative to reinvigorate the universal welfare state without selling out its basic principles. The right-wing government in power between 1991 and 1994 liberalised the voucher model, and decided that approximately 15 per cent of private schools’ operational costs should be covered by user fees. When the social democratic party returned to power, however, they abolished this legislation and decided that private schools should be fully state funded, and not be allowed to charge parents an additional fee. According to the social democrats, the financial situation of parents should not determine the educational opportunities of children. Private schools were in effect conquered by the welfare state and offered as a universal opportunity independent of private incomes (Klitgaard 2005).
Market Reforms and Swedish Schools: The Social Democrats and the Welfare State Reform Agenda

The problem with a general lack of congruence between welfare services and people’s preferences was, as mentioned, demonstrated in the study of power and democracy in the late 1980s. However, it became a political issue in 1982 when the social democrats returned to office after six years in opposition. They entered office with an ambitious plan to undertake public sector reforms that not least included significant changes in the organisational structure of the public school system. The loss of power in 1976 for the first time in 44 years was a shock to the party – a loss partly caused by the electorate’s more critical attitude towards the public sector. Opinion polls showed that the electorate had developed a very negative attitude towards the public sector under social democratic rule between 1973 and 1976 (Pettersson 1977: 199–205). The internal social democratic explanation for the loss of power in 1976 was that voters perceived the public sector and the welfare state as a rigid bureaucracy, and associated bureaucratic red tape with the Social Democratic party in particular (Mellbourn 1986: 12–13; Premfors 1991: 91; Antman 1994: 52; Pierre 1993). After 44 years in government it was difficult to identify the borders between the party and the state, and the gap between state activities and citizens had grown, as the activities within the public sector did not properly reflect citizen preferences (Gustafsson 1987: 179–80).

The social democratic reform programme was developed by a group consisting of central party members and headed by the deputy prime minister, Ingvar Carlsson. At the party congress in 1984, the group presented a programme that among other things proposed that welfare policies should build on citizenship and freedom of choice in the future (SAP 1984: 10–13). But the programme also made clear that universalism is the central pillar of the Swedish welfare state, meaning that large segments of the population have a substantial interest in preserving the welfare state institutions. Means-testing and targeting are explicitly warned against because broad-based political support for the welfare state is difficult obtain with the use of selective social policies (SAP 1984: 54–5).

The deputy prime minister also argued that the renewal of the public sector implied a public sector governed by the consumers (Anell and Carlsson 1985: 24). For example, citizens should be allowed to choose an alternative to the local public school, but again it was made clear that the welfare state institutions should stimulate collective behaviour among the citizens. Citizens, he argued, must be catered for by a public sector organised in such a way that collective action is rational for the individual. Honest taxpayers should trust that everybody else also participates in financing the public services from which everybody benefits (Anell and Carlsson 1985: 31).
Social democratic attention to the mechanisms of legitimacy in the universal welfare state can be connected with concerns for the welfare state as a political instrument. This was clear already in 1981 in a party programme regarding the economic crisis. This programme explicitly emphasised the public sector as a political instrument and stated that the expansion of the public sector has altered the lines of political conflict and favoured democratically controlled political institutions (SAP 1981: 29–30). The discussion about democratic decisions vis-à-vis market-based decisions is, according to the social democrats, a question about power and political control. In the view of the party, the development of the universal welfare state is strongly associated with the endeavour to preserve a democratically controlled public sector (SAP 1988: 147–52). However, the social democrats also emphasise the importance of the welfare state's institutional efficiency in order to preserve welfare state legitimacy and institutional trust. To sustain solidarity between different societal groups, welfare policies must be of a high quality. Advantaged and well-off groups may otherwise look for solutions outside the system, which is likely to result in demands for lower taxes and thus undermine the mechanisms of solidarity (SAP 1988: 111).

In other words, there is a conspicuous social democratic concern with the legitimacy foundations of the universal welfare state connected to public sector reform strategies, in which public school reforms became a central element. In the party programme ‘Framtiden i folkets händer’ (the future in the hands of the people), it is noticed that when citizens are automatically allocated to certain schools, special needs and requirements cannot be sufficiently met. Also, citizens do not have adequate possibilities for participating in the institutions they finance through their tax bill. The possibilities of choice must be extended, and schools must be allowed to develop certain profiles among which parents should be able to choose (SAP 1984: 68f.).

Additionally, however, the main purpose of reforming the public schools is to increase the general level of quality, to ensure that no one has reason to opt out from the public institutions. Further, this programme shows that the social democrats are positive towards the idea of publicly financed private schools of choice, although the planned reforms are believed to reduce the need for establishing new private schools (SAP 1988: 68). This conforms to the theory that the purpose of the reform is to maintain the legitimacy of the public sector so that no one is inclined to refrain from collective action within the institutions of the universal welfare state.

**Market Reforms in Danish Unemployment Benefits, 1993–98**

The Danish Electoral Study Programme has since the 1970s demonstrated strong support for the welfare state. This support has been especially strong in relation to health care, elderly care, child care, education and the public
pension system. As the unemployment problem that emerged in the early 1970s peaked at the beginning of the 1990s, popular support for labour market-related social security schemes such as unemployment benefits and social assistance experienced however a sharp decline (Andersen 2003b: 300). This unemployment problem was of major concern to the social democratic coalition government which came to power in 1993, and during the next five years especially unemployment benefits were subject to comprehensive reforms.

At the beginning of the 1990s, the compensation period was in effect limitless since the unemployed could re-qualify by fulfilling a demand for labour in 26 weeks through wage-subsidised work or by participating in certain labour market programmes (Rosdahl 2003). The unemployment insurance system at this time cannot be characterised as a regular citizen wage, but is probably as close to such a system as any western democracy has ever been, and was extremely generous compared with other countries (Andersen 1999: 19). However, between 1993 and 1998 the period of time for which the unemployed could receive benefits was reduced to four years, demands for participation in active labour market programmes in return for benefits were increased considerably, and the requirement to be eligible for benefits rose from 26 to 52 weeks of regular employment.

The reform process was initiated by the social democratic-led government’s comprehensive labour market reform in spring 1993. The reform limited the maximum compensation period to seven years. Furthermore, the recipients of unemployment benefits were obliged to participate in active labour market programmes for the last three years, in which they were guaranteed an income equal to unemployment benefits. However, participation in labour market programmes would no longer re-qualify the claimant for a new period of benefits. If unemployed people did not enter into an actual job, they were left to the much less generous social assistance scheme (Folketingstidende (FT), Tillæg A, 1992/93: 8884 ff.). The unemployment compensation period was further reduced to five years in 1995, as a result of a compromise over the public budget between the government and the Conservative party. Also, the possibility of participating in educational programmes while receiving unemployment benefits was disallowed, and supervision of the union-controlled insurance schemes was strengthened with a new directorate in the labour market ministry. Apparently, the social democratic government was concerned about the procedural legitimacy of this welfare programme (FT, Tillæg A, 1995/96: 140–51, 152–67). The final step in the reform process was taken in connection with the negotiations over the public budget in 1998. The period for receiving unemployment benefits was now restricted to a maximum of four years in which the unemployed were obliged to participate in labour market programmes for the last three years (FT, Tillæg A, 1998/99: 492–502). Successive reductions in the duration of unemployment benefits together with strengthened demands for job requirements and participation...
in labour market training are in other words at the centre of the social democratic reform strategies of the 1990s.

The reforms in Danish unemployment insurance can also be explained in the light of the theoretical argument presented here. Limitations on the compensation period and strengthened demands for labour market training can be seen as a rational policy strategy, if the purpose of the labour market reforms in Denmark was to eliminate free-riding in times of high unemployment. It was especially the long-term unemployed who were affected by the reforms. Further, apart from being an important message to the Danish population that free-riding was not acceptable, it was also an initiative for the Danish workforce and taxpayers to support the government’s welfare policies. In other words, if the social democrats fear an erosion of solidarity in the universal welfare state due to the institutional structure of unemployment insurance schemes, there are good reasons to focus on the endless period and ‘citizen wage’ elements of the programme. This is a serious threat to the legitimacy and logic of collective action in universal welfare states.

As in the Swedish case, it is also interesting to look at the policy options the social democratic government disregarded, as it indicates that the government was preoccupied with preserving the legitimacy of the welfare state. The replacement rate of a maximum 90 per cent of previous income was for example not reduced, as proposed by the Conservative and Liberal party (FT, Tillæg FF, 1992/93: 8774, 8786–7). This would have been the most effective strategy if the goal was to make savings in the public budget, and to increase the incentives for all unemployed persons. Instead they made a policy choice that was punitive only to the long-term unemployed, that is, those who were most likely to be seen as free-riders. They did not even consider a change in the administrative structure of unemployment benefits, as this would threaten the capability of the labour movement to organise the labour force in the social democratic-dominated trade unions.

Market Reforms in Danish Unemployment Benefits: The Social Democrats and the Welfare State Reform Agenda

The Social Democratic party initiated a discussion about welfare state modernisation in 1988, and in the party manifesto the fight against unemployment is described as the main strategy in this respect (SD 1988: 3). The chairman of the party stated further that the attempt to reinvigorate the institutions of the welfare state should be based on the recognition that the political foundation of the universal welfare state is a strong alliance including the middle-class taxpayer (Auken 1988: 27). The battle against unemployment is seen as a core element in the welfare state reform strategy, and a high level of employment was described as a precondition for maintaining political support for generous universal welfare policies (Auken 1988: 39–40).
The Social Democratic party manifesto was renewed in 1992. In the new manifesto, the party points to the division between employed labour market insiders and unemployed labour market outsiders (SD 1992: 5). The maintenance of solidarity between different societal groups is described in this programme as the primary political concern of the party (SD 1992: 6, 10). The analysis of the unemployment problem as an insider–outsider problem is a first step towards acknowledging that the unemployment problem can cause a breakdown of solidarity in the welfare state and result in a crisis of legitimacy.

The insider–outsider problem and the potential decline in solidarity were put on the political agenda with a series of reports from the so-called Social Policy Commission (Socialkommissionen 1992). The importance of this problem and its relation to the social democratic reforms of unemployment insurance appeared in a book published by the social democratic finance minister in 1994. In this book he writes that social policy institutions based on the ability to collect large proportions of citizens’ incomes, and redistribute these means to other citizens, must be maintained and successively reformed. This is in order to preserve its functions and to demonstrate that everybody contributes to society (Lykketoft 1994: 157). Apparently, the former social democratic finance minister – the main architect of the labour market reforms of the 1990s – had a full understanding of the conditions behind the substantial and procedural legitimacy of universal welfare states.

Also, the discussion about a citizen wage or basic income model at the beginning of the 1990s sharpened the social democratic consciousness regarding the institutional structures of the transfer payments in periods of high and persistent unemployment (Christensen 2000: 286). The party published a policy paper in 1995 in which it stated that the principles of ‘no social rights without social duties’ is the foundation of the party’s welfare state vision. And it was explicitly stressed that the party has never endorsed citizen wages, because social rights without duties are in sharp contrast to the foundation of the party’s basic principles (SD 1995: 8). In the conclusion to the article, the party writes that a majority of Danes wants to secure the welfare state, but it requires ‘that citizens feel they are paying only a fair part of the bill, and that the neighbour does the same. Also, it necessitates a connection between social rights and duties, and that public benefit systems are not drained by people who can take care of themselves’ (SD 1995: 30).

Reforms in the unemployment insurance schemes and problems of legitimacy in the welfare state were an integral part of the welfare state and labour market policy strategies launched by the Social Democratic party prior to the start of the reform process in 1993. In the programme of 1988, it is stated that unemployment insurance must be kept as a public policy (SD 1988: 49). However, it is also emphasised that the renewal of the welfare state makes it necessary to see unemployment benefits as more than just an economic transfer. Unemployment benefits should be connected to demands
for activity and efficiency (SD 1988: 63). The 1992 party programme argued that ‘the line of solidarity’ should be maintained in the way unemployment insurances are financed. But again, it stated that to be eligible for unemployment insurance and to receive social benefits, unemployed people should have a job offer or labour market training at an earlier stage of the unemployment period (SD 1992: 47–8). A former employee in the Social Democratic party agency said during an interview that this is the social democratic way of talking about reducing the compensation period of unemployment benefits.

**Swedish Unemployment Benefits**

No market-oriented reforms were implemented in the Swedish unemployment insurance scheme during the period 1988 to 1991. This accords with the fact that the insider–outsider problem was not recognised as a political issue and it was not an element in public and political debates as it was in Denmark. An important explanation for this difference between the two countries is that unemployment in Sweden during this period was significantly lower than in other OECD countries. In addition there is also the traditionally strong emphasis on active labour market policy in Sweden, which has at least two important effects (Rothstein 1996; Benner and Vad 2000). First, unemployed people participating in labour market programmes are not officially counted as unemployed, which is why unemployment problems seem less than they really are. Second, the collective will of the employees to, for example, pay taxes is less challenged when they can see that unemployed people are required to be active in return for unemployment benefits.

Later in the 1990s, a social democratic government introduced market reforms of the unemployment insurance scheme. In other words, if the research period covered in this article is stretched, this case becomes positive. In 1991, the conservative government reduced the compensation rate of unemployment insurance from a maximum of 90 per cent of previous income to 80 per cent, and in 1994 it was reduced further to a maximum of 75 per cent by a social democratic government. However, in 1997, the social democratic government increased the compensation rate again to 80 per cent, still 10 per cent below the rate before 1991.

The social democratic reduction of the compensation rate in 1994 is, however, difficult to explain as the result of an identification of fundamental legitimacy problems. This type of problem identification was evident in a governmental report from 1996 (Proposition 1995/96:222: 7.13), but the problem was not addressed by the political agenda until the unemployment rate decreased again. In contrast to an almost 20-year-long unemployment crisis in Denmark, Swedish unemployment problems only lasted for a few years, and were thus not recognised as an institutional problem of the welfare state. Market-oriented reforms in Swedish unemployment insurance
schemes were entirely a reaction to the financial problems caused by the increase in unemployment from 1.6 per cent in 1990 to 8.2 per cent in 1993. Public expenditure on unemployment benefits increased from 6.6 to 36.6 billion SKR, and in 1995 the labour market fund had reached a deficit of 87 billion SKR (Anderson 2001). The fact that decision-makers chose to reduce the compensation rate indicates that the reforms were implemented due to financial rather than legitimacy problems. In contrast to, for example, reductions in the compensation period, this political measure has immediate financial effects (Klitgaard 2002).

**Danish School Policy**

Reforms in the public sector, aiming at reinvigorating the legitimacy of the universal welfare state, were not a part of the new social democratic government’s agenda in 1993. The governmental programme from 1993 consists of 226 pages and only two of them are devoted to the question of a renewal of the public sector (Regeringen 1993). A new school law was passed in 1993 but it concentrated on the content of primary school education, and not governmental principles or administrative structures. The introduction of the principle of differentiated teaching in the classroom might, however, be associated with the individual principles of the market. But still, the idea behind this principle is that the teacher should make sure the teaching is accomplished in accordance with the academic level of each pupil and not the individual preferences of pupils or parents (Klitgaard 2005).

An important explanation for the differences between Denmark and Sweden in relation to school policy is that the Danish school system has traditionally been more decentralised than the Swedish, and for generations has allowed for parental choice between public schools and primarily public-funded private schools (Lindbom 1995; Klitgaard 2005). The school policy structures in Denmark have in other words been less likely to cause legitimacy problems.

**Conclusion**

When the Social Democratic party in Sweden presented its strategy for reforming the public sector, with the public school system as the most central reform object, it was recognised that to preserve public welfare state support, public institutions must deliver services of a high quality. It was moreover clearly spelled out how the means-testing of social policy subverts the logic of collective action and the legitimacy of the universal welfare state, which is why the party explicitly warns against such elements. The social democratic interpretation of labour market problems in Denmark was also connected to the foundation of public welfare state support. In times of high and persistent unemployment, when large groups of people depend on
unemployment benefits and other types of social transfers, the substantial legitimacy of the universal welfare state is challenged. The social democratic strategists feared the contingent consent of the employed would be undermined by the many free-riders. That is one of the important reasons for restricting the maximum period of compensation from unemployment insurance and introducing new demands of participation in labour market programmes in return for benefits. The analysis of the positive cases supports the theoretical argument developed in this article. The analysis of school policy in Denmark also supports the argument, as no social democratic concerns for the legitimacy of the welfare state in relation to this programme can be identified. The analysis of Swedish unemployment insurance demonstrates, however, that market-oriented reforms also can be generated by economic constraints.

Therefore, the theory should be modified in the sense that it primarily explains genuine changes in the institutional principles of the universal welfare state. The theory provides answers to questions of qualitative rather than quantitative changes. It is by these considerations that the matter of institutional design involves the more fundamental question of political control and the distribution of political power (Moe 1989; Nørgaard 1997; Christiansen and Togeby 2003). It is, furthermore, worth mentioning that these conclusions are not due to case selection, but signify a more general pattern. Other services than Swedish schools were also reformed in this period. In health care, for example, Sweden made a split between purchaser and provider and allowed for free choice between hospitals, and has also allowed for privately provided services in the area of child care and care of the elderly (Green-Pedersen 2002b). Other social security schemes such as social assistance have, on the other hand, as with unemployment benefits, only been reformed in connection with the economic crisis, and the institutional structure of these schemes are generally left intact (Svensson 2001). As demonstrated, social democratic governments did not undertake any major reforms in Danish public schools and, generally, the service dimension of the Danish welfare state was not exposed to any major initiatives during this period (Christiansen 1998; Green-Pedersen 2002b). Reform-measures were concentrated on the cash dimension of the welfare state, where social assistance and early retirement schemes were also subject to the same type of reforms as implemented in unemployment benefits (Cox 1998; Green-Pedersen 2001).

It therefore seems safe to conclude that social democratic reform strategies in universal welfare states cannot entirely be understood from a ‘new politics of the welfare state’ perspective (Pierson 1996, 2001). Apparently, the Social Democratic party is a strategic political actor irrespective of whether welfare state reforms mean expansion or retrenchment and marketisation of social policy. Different actions are rational at different times because of a fundamentally changed institutional environment. To explain modern welfare state development, we are therefore called to
direct attention to strategic actors and institutional politics, which seem to matter in good as well as in bad economic times.

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Note

1. All Propositions can be tracked and downloaded from http://www.riksdagen.se/Webbnav/index.aspx?nid=34.

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