16

# Welfare States and Growth Models

## *Accumulation and Legitimation*

JULIA LYNCH AND SARA WATSON

## Introduction

The standard models used in comparative political economy—be they varieties of capitalism or worlds of welfare—have their intellectual roots in the *Trente Glorieuses* of booming postwar growth. But the exhaustion of Fordist growth models (GMs), accelerating de-industrialization, the concomitant rise of service economies across the advanced industrial countries have challenged existing understandings of relatively stable capitalist relations.

The GMs approach elaborated in this volume offers a fresh perspective on the dynamics of change in the post-Fordist era. Its understanding of contemporary capitalism differs both from interpretations of post-Fordism as embodying a monolithic model of neoliberal capitalism (Fraser 2015), and also from dominant understandings of the relative stability of capitalist social relations (Hall and Soskice 2001). The GM perspective represents an important theoretical advance in that it sheds the equilibrium bias inherent in much political economy theorizing over the past 30 years. It decenters questions of coordination and path dependence, and instead returns us to an older critical tradition in political economy concerned with the demand side of political economies, and the conflicts inherent in capitalist development.

The GM perspective retains a focus on *varieties* of capitalism by identifying multiple solutions to the common problem of how countries manage the transition from wage-led growth—without, however, endorsing a strict typology of national approaches. Nevertheless, it does identify clusters of countries that roughly adhere to various strategies ("models") of post-Fordist capitalist development—for example, export-led, consumption-led, balanced, and failed GMs—each of which carries distinctive implications for patterns of inequality.

This chapter contributes to the broader intellectual GM project by asking how the welfare state (WS) shapes the politics of several of the main GMs. We take as our starting point classic arguments about the accumulation and legitimation problems that beset capitalist democracies and that WSs may—though need not—help resolve (Habermas 1973; O'Connor 1973; Offe 1984; Streeck 2014a). Growth is an imperative for elites because in democracies economic stagnation makes it difficult secure a winning political coalition. We ask how political and economic elites may use the WS in the pursuit of growth and political acquiescence; and which strategies are more or less successful.

Much of the emerging literature on how the WS supports GMs presumes a functional fit between welfare policies and the growth of specific sectors. For example, Thelen (2019) notes reforms to higher education in Scandinavia supported the shift to an export sector dominated by high-end ICT services; while Hassel and Palier (2021a) link the residualization of the US WS to the financialization of the economy. While economically functional linkages in particular areas are undoubtedly relevant, questions relating to the political and ideational uses of social policy are equally important. WSs may support GMs by being economically functional—but they can also serve to cement social groups with disparate interests into political coalitions, and even structure what citizens imagine to be a just social order. Attention to both economic and explicitly political dynamics should thus be a central part of any effort to understand whether and how WSs support emergent GMs.

In this chapter we examine what role WSs may play in supporting post-Fordist GMs, both economically and politically. The analysis proceeds in three steps. We begin with the economics of accumulation. After a brief discussion of some of the main GMs—those identified in Baccaro and Pontusson (2016)— and their dominant growth coalitions, we derive a series of baseline expectations about the economic functions of WSs in each of these types of GM. Part two explores the predictive power of this framework with respect to specific instances of welfare reform in four countries since the 1990s. We examine reform episodes in four major domains of social policy (unemployment protection, old-age pensions, disability insurance, housing, and family policy) in four countries (Sweden, Germany, the United Kingdom, and Italy). These cases mirror the four different growth models discussed in Baccaro and Pontusson (2016), and also represent the four major worlds of welfare (social democratic, Conservative-corporatist, liberal, and southern European) (Esping-Andersen 1990a; Ferrera 1996). We evaluate the degree to which reforms in the policy areas in question represented solutions to specific accumulation barriers associated with the GM that each of the countries most resembles (export-led, consumption-led, balanced, and failed). These empirical vignettes suggest that while WSs have an important function in enabling an economic consensus around distinctive GMs, reforms in particular policy areas are often concerned with strategies of political legitimation, rather than merely with questions of economic accumulation. The final section of the chapter elaborates conceptually five possible pathways through which social policy might encourage the political legitimation of GMs. We conclude with reflections on the politics of legitimation in an era of mass politics.

## The Accumulation Dimension: Linking Post-Fordist Welfare States and Accumulation

The claim that WSs can serve as instruments to regulate and maintain capitalist growth has a long history in comparative political economy. For example, O'Connor argued in *The Fiscal Crisis of the State* (1973) that capitalist states used social policy to promote two aims—capital accumulation and the legitimation of capitalist social relations—that were often contradictory. O'Connor's early insight was echoed, albeit in a less direct manner, by authors in the French regulation school, who called attention to how different regimes of capitalist accumulation were buttressed by distinct modes of social regulation and political settlements (Boyer 1990; Lipietz 1997).

But how might WSs operate to solve the particular obstacles to accumulation in the post-Fordist GMs identified in this volume? At the core of arguments about the role of the WS and capitalist accumulation is the idea that employers may support social policies that enhance investment stability, firm profitability, and/or labor productivity. In order to embed this general insight temporally and spatially, we first identify the actors and sectors that make up the dominant political coalition in the main GMs discussed in this book, and then derive a set of social policy preferences that are likely to conform to the economic interests of that GM's particular dominant coalition.

The GM approach is an effort to theorize the dynamics of capitalist development when the relationship between productivity growth and rising wage shares—characteristics of the "Golden Age" of Fordism, widespread collective bargaining and the Keynesian WS—has come uncoupled, risking insufficient aggregate demand to ensure economic growth or political stability. The GM paradigm argues that advanced capitalist political economies have not responded to the insufficiency of aggregate demand in a uniform fashion. Instead, it identifies a diversity of contemporary GMs, which are not mutually exclusive.

Consumption-led GMs are similar in some ways to Fordist wage-led GMs, but access to consumer credit replaces real wage growth as the main driver of aggregate consumption. Export-led GMs, on in contrast, are characterized by the promotion of exports and the repression of household consumption. They may also be characterized by dualization, as core workers in manufacturing see their wages rise in line with national productivity increases while low-end service-sector workers see flat to declining wages. There is also the potential for balanced GMs that mix wage growth with elements of consumer credit and export orientation, as well as for economic models that simply fail to stimulate growth by any means. Who are the key members of the political coalition that support each GM, and what are their primary goals? Who are the "losers"—that is, those groups excluded from the dominant coalition? And what would a WS that promotes the interests of the dominant social coalition for each GM look like?

The GM perspective is inspired by, but not beholden to, the Gramscian concept of hegemonic social blocs. The group of actors that pushes for a particular GM is termed the dominant growth coalition. Growth coalitions are often cross-class coalitions, but not coalitions among equals. Instead, the owners and managers of large companies in key economic sectors occupy a privileged position within the coalition. Other members of the growth coalition—for example, the types of workers whose labor generates the highest returns—may benefit from the GM in some ways but are also likely to be affected negatively by other dimensions.

In order to think about how social policy might reinforce (or not) a given GM, we need to clearly identify who is within and who is outside of a dominant coalition, and why. Here, we briefly distinguish between the "core" members of the coalition—those whose interests are directly benefited by the GM—and those who are less clearly advantaged, or even disadvantaged, by the GM. We then generate a set of propositions, summarized in Table 16.1, about how WSs may help support a given GM, based on how welfare policies affect these different groups.

The dominant partner in the credit-fueled *consumption-led GM's* growth coalition is the financial sector, which profits from the expansion of household and consumer debt. The central economic goal of actors in this sector is to maintain consumer demand for easy access to credit. It is harder to identify who is left out of the dominant growth coalition in this GM since, economically, nearly everyone benefits (at least in the short term) from rising consumption enabled by becoming financial-sector "adjacent" (van der Zwan 2014). Nevertheless, this GM generates inequality due to high incomes in the finance sector and housing-generated wealth, and lower income earners and those in areas with stagnant home prices may come to see themselves as excluded.

In a consumption-led GM, then, an economically functional WS would likely involve interventions to promote (debt-fueled) domestic consumption and investment and protect the finance sector. Low tax rates on high incomes, especially in the finance sector, militate for a residual WS—which also benefits the GM by reducing the ability of workers in other sectors to maintain consumption without recourse to credit. A return to the principle of "less eligibility" and

*Table 16.1* **Welfare Policies and Economic Accumulation in Different GMs**

| *Consumption-Led Growth* | *Export-Led GM* |
|---|---|
| **Dominant Growth Coalition:** Finance sector; middle-class homeowners<br>**Economically functional social policy:** Reduction in social protection to support credit-based consumption | **Dominant Growth Coalition:** Export Sector<br>**Economically functional social policy:** Dualization of social protection to support export competitiveness |
| *Balanced GM* | *Failed GM* |
| **Dominant Growth Coalition(s):** Export sector employers and unions; domestic service-sector unions; middle-class homeowners<br>**Economically functional social policy:** Support export-led and wage-led growth (plus debt-financed consumption) | **Dominant Growth Coalition:** None (unstable coalition)<br>**Economically functional social policy:** NA |

a shift from passive benefits to "activation" policies serve the dual function of restricting wages to promote debt-financed consumption, and of assuring profits for the employers in other sectors who are "junior partners" in the coalition.

The *export-led* GM's dominant coalition is simpler to identify. Export-oriented manufacturers are the senior partner, while employees in this sector are the junior partner. The economic goals of this coalition are to moderate growth in real wages and suppress domestic consumption, in order to ensure export competitiveness in global markets. The core groups whose interests are opposed are low-wage service-sector workers and labor market "outsiders," who are both markedly disadvantaged in this GM.

The key economic concern in the export-led GM is to suppress wages, but without demoralizing skilled workers in the export sector. A functional WS would thus be a dualized one. Favored workers in the export sector might receive various forms of deferred compensation in return for wage restraint and the smooth functioning of collective bargaining; investments in human capital such as vocational training and subsidized education would benefit employers in the export sector. Meanwhile, in order to sustain the purchasing power of export workers domestically in the face of wage moderation, social policies in this model might encourage lower wages in the domestic service sector through activation policies aimed at making work pay, and a low minimum wage. In an export-led GM, we might also expect pressure to minimize reliance on payroll taxes to finance benefits, in order to reduce the fiscal wedge on employers.

The dominant coalitions in the remaining two categories of balanced growth and failed growth are somewhat different. In the *balanced* GM, which mixes growth through exports with some degree of wage- and debt-led consumption growth, the dominant coalition is catch-all, composed of employers and unions in the export sector, sheltered-sector unions, the banking industry and middle-class homeowners.[1] Theorizing the ideal social policy cluster for the balanced GMs is somewhat complicated, as the dominant growth coalition is large and varied. On the one hand, the export sector—which in Scandinavia at least involved the shift to a knowledge-intensive service sector—might be expected to support a strategy of flexicurity, to support human capital investment, labor market flexibility, and (perhaps) financialization in order to support innovation. Nevertheless, although unions representing low-skilled service workers may be supportive of the shift toward flexicurity, they may also continue to support traditional social programs that shore up consumption.

Finally, a distinguishing characteristic of the *failed* GM is the absence of a dominant growth coalition**.** Since there is no stable coalition, there is also no obviously preferred social policy model. One outcome could be a WS that preserves growth-inhibiting rigidities that benefit labor market "insiders" but do not bolster consumption by labor market outsiders; another could be austerity policies that lower both consumption and investment in human capital. In both scenarios, social policy may in fact block growth by discouraging export competitiveness without promoting consumption.

## Welfare Reform and GMs: From Accumulation to Legitimation

Having deductively theorized a set of WS policies that are economically functional in different types of GMs, we now turn to a series of brief empirical studies of welfare reforms since the 1990s. Each case vignette asks whether the process of reform in that policy area is consistent with attempts to ensure economic accumulation and/or political legitimation in post-Fordist GMs. To preview, we find that when welfare reforms are undertaken mainly to ensure the success of a GM (which is not always the case), they are just as often informed by attempts to politically legitimate the GM as by a drive to enable accumulation beneficial to the dominant growth coalition.

We consider four countries associated with different types of GMs—export-led (Germany), debt-led (United Kingdom), balanced (Sweden), and failed (Italy)—and examine recent reforms to some of the main social insurance programs of mature WSs. In Germany we consider efforts to activate the unemployed; in the UK activation of the disabled; in Sweden, pension reform; and in Italy, family policy. Our focus on single social policy areas, rather than examining the entire panoply of policies associated with a given county's model of welfare capitalism (including labor market regulation and fiscal policy), is entirely pragmatic. Future research should examine all of these policy areas (and more) across a full range of WSs and GMs, to harness the leverage allowed by robust cross-national comparison—and some recent studies have already examined the relationship between GMs and WSs comparatively in areas such as housing and youth activation (see, e.g., Chevalier 2021; Reisenbichler and Wiedemann 2022). The present analysis has a more limited aim: to probe how episodes of WS reform may illuminate the possible tensions between accumulation, legitimation and democracy in several GMs.[2] Nevertheless, our choice of policy areas and countries is not random. The range of policy areas we selected allow us to probe a range of WS functions that affect men and women across the entire life course. And in each case, the reforms we examine were highly salient in the country in question, making them "most likely" cases in which to observe accumulation dynamics at play.

## The Activation of the Unemployed in Germany's Export-Led Model

Germany is the archetypical export-led GM, in which wage repression enables a price-sensitive export sector to thrive. Industrial relations liberalization has done much to support accumulation in this GM (Baccaro and Benassi 2017), but welfare reform aimed at activating the unemployed also played an important role in mediating the shift from the Fordist to the export-led GM. Although Germany is now viewed as an economic powerhouse, this was not the case in the early 2000s. German reunification, which involved the merging of two very different economies, was costly. Between 1991 and 2003 German GDP grew by only 18%, half the growth rate of the United Kingdom or the Netherlands during that same period. Low growth rates went hand in hand with low employment creation and rising unemployment rates: nearly 10% in the West and 18% in the East (Jacobi and Kluve 2006).

At the turn of the 21st century, unemployment benefits in Germany still reflected Bismarckian commitments, with transfers linked to previous earnings designed to maintain workers' social status and firms' investments in training during spells of unemployment. Unemployment benefit payments were unlimited in duration, and replacement rates for the long-term unemployed were higher than in any other OECD country (OECD 2004). This system, once viewed as appropriate, came under fire starting in the late 1990s for undermining work incentives. Many voters in the former West German Länder, who increasingly viewed the social insurance system as a transfer from West to East, became especially hostile to generous benefits (Rehm 2016, 148).

After a series of failed efforts by the social partners to negotiate a solution to persistently high unemployment, the government of social democratic Gerhart Schröder imposed a reform package, known as the Hartz Reforms, aimed at fostering labor demand by activating the unemployed. The duration of unemployment benefits was shortened from 32 to 12 months (up to 24 months for older workers), and work conditionality tightened. Another dimension of the Hartz reform deregulated temporary employment by raising the wage ceiling on part-time jobs eligible for tax and social security exemptions (Weinkopf 2009). After 2003, Germany saw an explosion of low-paying part-time employment (mini-jobs) made possible by Hartz II and the absence of a national minimum wage before 2015 (Jacobi and Kluve 2006).

Taken together, these activating reforms to Germany's system of unemployment protection had important consequences for its shift to, and then maintenance of, an export-led GM. The reforms worked both economically and politically. Wage moderation, driven by bargaining decentralization and concessionary bargaining, improved the competitiveness of Germany's tradables sector. But the Hartz II reforms were also essential in facilitating the political stability of the GM. Mini-jobs, in particular, provided a workaround for stagnant wages for low-income households. Carillo-Tudeolo et al. (2018), for example, show that individuals directly affected by wage moderation (both skilled tradables workers and their low-skilled wives) were more likely to take on a second mini-job. The growth of mini-jobs, then, politically stabilized the German GM by providing low-wage workers with a mechanism for complementing their otherwise stagnant-to-declining household income without threatening the competitiveness of Germany's price-sensitive export sector. This aspect of the Hartz eforms, rather than directly contributing to stable accumulation, arguably played an important legitimation role by managing the economic dysfunction emerging from Germany's emergent GM.

## Disability Activation in the UK's Debt-Led Model

If Germany is the archetype of the export-led GM, the UK exemplifies credit-fueled consumption-led growth. In this case study we analyze another effort at activation via social policy, one aimed at the disabled rather than the unemployed. An analysis of activation in disability policy is relevant to the study of accumulation dynamics in GMs because, prior to the wave of welfare reforms beginning in the 1990s, in many countries disability benefits effectively served a dual purpose, providing support not only for the disabled but also for the long-term unemployed (Burkhauser, Daly, and Ziebarth 2016).

In early postwar Britain, state support for the disabled was relatively limited and often took the form of institutional care. This began to change in the 1970s, when cash support programs were introduced. By the 1990s, the two main policies providing support to the disabled were Incapacity Benefit (IB) and the Disability Living Allowance (DLA) (Royston 2017; Spicker 2011). IB was a contributory benefit mainly for persons with occupational injuries, while DLA provided cash assistance for those requiring regular adult supervision and care with bodily function.

In 1997, Tony Blair's New Labour government initiated a broad set of "New Deal" reforms representing an important philosophical shift in policy. Rather than the prior rights-based approach to welfare policy, Blair's reforms were premised on the assumption that paid employment was the best way out of poverty, and used a series of supply-side programs to activate people outside the labor market. This work-based, conditional approach to welfare was applied broadly: to the unemployed, single mothers and the disabled (Watson 2015a).

The proximate cause for the disability reforms undertaken by the Blair government was the persistent rise in disability rolls, even as overall health levels were improving. In 1997, nearly 2.3 million working-age individuals were receiving sickness and/or disability benefits, and benefit duration on IB in particular was creeping upward (Considine et al. 2015, 72–73; McVicar 2008). Discursively, the Labour government painted IB as contributing to a "dependency culture," pushing the disabled into idleness through the very structure of the benefit (Grover and Piggott 2007). It was this alleged culture of dependency that the reform aimed to change.

In theory, reforms to disability benefits in the Blair era involved *personalized* conditionality, but overall the approach to activation was one of "labor market attachment" (with a focus on rapid re-entry into work) rather than a "human resources approach" (focusing on claimants' resources) (Dwyer, McNeill, and Scullion 2014; Nybom 2011). After a Work Capability Assessment (WCA), the disabled were divided into three groups, depending on their distance from work. Those whom caseworkers determined not to have an employment-limiting disability were placed onto unemployment benefit, which had very stringent work-search expectations. Those with a disability that limited their work activity were placed into either a "Support Group" or a "Work Related Activity Group." These latter beneficiaries were expected to attend regular meetings with a personal adviser to discuss work readiness. Benefit levels were periodically reduced if a claimant did not meet their required responsibilities without good reason.

Work-search requirements operated in conjunction with the Employment and Support Allowance (ESA), which in 2007 replaced the existing IB, and substantially reduced benefits for younger recipients and for couples (Piggott and Grover 2009).[3]

While the Blair government worked to activate the disabled through the imposition of work-related conditionality, the Tory-Liberal Democratic coalition government elected in 2010 went one step further, combining conditionality with austerity. The government continued Blair-era efforts to reduce the disability employment gap by expanding the number of people with disabilities subject to its work assessments and instituting gradual benefit cuts, equalizing the monthly benefit paid to unemployed and disabled people; and replacing the DLA (aimed at those with caring needs) with the Personal Independence Payment, in which eligibility was determined according to the impact of the condition on a claimant's ability to engage in paid work, rather than on the nature of their condition.[4]

At the same time, the government imposed cuts on local government, which were responsible for providing social care for disabled children and adults (Saffer, Nolte, and Duffy 2018); and ended supports for high-needs disabled people in England and Wales (Machin 2017). Taken together, the combination of more stringent work assessments and cuts to disability benefits, in the context of broader austerity cuts to other benefits (e.g., to housing benefits, or the creation of a benefit cap), meant that welfare reform since 2010 disproportionally affected people with disabilities (Butler 2016).

What does the experience of welfare reforms affecting people with disabilities in the United Kingdom tell us about the role of welfare politics in the consumption-led GM? To the degree that reforms to disability policy in the United Kingdom have focused on re-commodifying workers with long-term health problems, we have a story that is broadly consistent with the GMs' logic. In disability policy, just as in unemployment policy, the consequences of reforms have been to remove and demean alternatives to low-wage work, encouraging the financing of consumption via debt.

At the same time, the components of the reform imposing work requirements and austerity on the truly disabled suggest that activation was also, at least in part, a top-down ideological project aimed more at legitimation than at solving any clear obstacle to accumulation in the British economy. There is little evidence, for example, that activation of people with disabilities was a key priority of employers or of other private-sector members of the growth coalition. Indeed, Damien Green, head of Department of Works and Pension, in 2016 spoke of the importance of *changing* the mindset of businesses: "We want them to realise that there's a huge pool of talented people who are disabled and want to work and can contribute fully in the workplace" (BBC 2016). Similarly, the language of "supports" used in the British version of activation arguably served as a useful discursive strategy to justify the bitter pill of austerity, deflecting attention from the fact that any supports offered to claimants were largely secondary to organizational pressure to push recipients off benefits (Gingrich and Watson 2016).

Given that both Germany and the UK embraced major reforms organized around the concept of activation, it is worth reflecting on their experiences in tandem. At a general level, of course, activating reforms in both countries worked to recommodify labor through a combination of '*Fordern und Fördern*'—demanding and enabling elements (Eichhorst, Grienberger-Zingerle, and Konle-Seidl 2008). Nevertheless, the approaches of the two countries toward activation were rather different, with Germany investing substantially in 'enabling' elements such as work-based retraining while Britain privileged rapid job entry. This may be partially explained by the different constraints imposed by the twin demands of accumulation and legitimation in these specific political economies. In Germany's export-led growth model, both the need for labor productivity and the need to buy the consent of workers in the tradeables sector pushed in the direction of 'enabling' activation strategies; while in the UK's debt-fueled consumption model, where neither workers' productivity nor their acquiescence to sub-standard market wages were necessary to sustain the dominant growth coalition's hold on power, principles of 'less eligibility' drove activation policies.

## Pension Reform in Sweden's Balanced Model

Within the GM paradigm, Sweden is often held up as a model of balanced growth, combining domestic and export-driven components of growth and consumption. Sweden has maintained a competitive export sector in the post-Fordist era, in part by moving into high-end ICT services, but export competitiveness did not come at the expense of suppressing domestic demand. Much of the existing GM analysis of the Swedish case focuses on the preconditions for the shift to a "balanced" GM.[5] In terms of maintaining consumption, for example, Baccaro and Pontusson (2016) point to the existence of a large WS and strong service-sector unions disinclined to permit a steep drop in the wages of low-skilled workers.

Here, we explore the politics of balanced growth in the Swedish political economy through the lens of pension policy. Financialization has been linked to the rise of consumption-led growth in high-inequality Anglo-American countries, where financial markets encourage low-income citizens to take on mortgage and personal debt to maintain consumption (Ahlquist and Ansell 2017). In Sweden, financialization in the form of the rise of pre-funded defined-contribution plans managed by private financial services providers has coincided with relatively low inequality. But high levels of mortgage debt are also present, especially among higher earners (Anderson and Kurzer 2020). To what extent did Sweden's reform of its pension system support the rise of a consumption-based model?

Historically, relatively generous public pensions dominated pension provision in Sweden (Esping-Andersen 1990). Collectively bargained occupational pensions, covering approximately 90% of the workforce, topped up public provision. However, when a deep economic recession hit Sweden in the early 1990s, resulting in a massive rise in unemployment, the government began a reform effort aimed at restraining social spending, and pension reform moved high on the political agenda. Reforms aimed to improve the financial stability of the system (through the introduction of a lifetime expectancy index and other balancing mechanisms), while also reducing the redistributive nature of the system by tying benefits more tightly to contributions (Anderson 2019, 631). The old earnings-related state pension was to be slowly reduced, and in the long run replaced by new premium reserve funds—individual pension investment accounts that are part of the public system (Anderson 2004).

The relationship between pension reform and the consumption-led component of the Swedish GM is ambiguous. On the one hand, the 1998 pension reform likely propped up consumption by stabilizing pensioner incomes, and its notional defined-contribution design means Swedish workers have not faced rising pension contribution rates, as is happening in Germany. It is also true that the "financialized" component of the reform promoted the creation of individual investment accounts within the public system. On the other hand, these funds are too new to have substantially contributed directly to household incomes, nor do individuals own the capital in these individual investment accounts; they are only entitled to the income generated by the capital in that account.[6]

Some have additionally argued that there exists a link between Sweden's 1998 pension reform and the growth of household debt in Sweden (Belfrage and Kallifatides 2018), but an exploration of the timing and mechanisms suggests no strong functional relationship between the two. Instead, the rise in mortgage debt—one of the two pillars of consumption-led growth—seems largely attributable to a shift in housing policy in the early 1980s. The liberalization of mortgage credit in 1982 opened the door for more household indebtedness (Anderson and Kurzer 2020), but it is unclear that this alone would have driven mortgage debt absent "push" factors: the decline in social (public) housing investment starting in the early 1990s, as well as fiscal measures aimed at encouraging higher rates of home ownership among the middle class (Christophers 2013; Grundström and Molina 2016). These policies were initiated by a bourgeois government but subsequently embraced by the Social Democrats.

Around the margins, pension reform arguably supported consumption by assuring that workers' incomes would not be eroded by rising contributions. Similarly, some reform elements promoted by bourgeois parties—especially the creation of individualized pensions—perhaps played a constructivist role in acclimating Swedish citizens to financialized social relations in which high mortgage debt was socially acceptable (Belfrage 2008; Belfrage and Ryner 2009). However, reforms to this classic social insurance program of the WS (pensions) seem in fact to have been economically and politically orthogonal to Sweden's specific GM. If anything, Sweden's consumption-led growth seems to be one in which the strong blue-collar union LO fought to prop up wages on the low end of the income distribution, while electorally motivated governments of all political stripes pushed housing policies incentivizing middle-class homeowners to take on high levels of mortgage debt. Both unions and governments advocated policies that directly supported consumption, but the two types of consumption-enabling policies had substantially different distributional consequences. Whether this outcome reflected the interests of a stable dominant growth coalition, or the more unstable politics of a political stalemate between two sets of powerful actors with quite different preferences (Baccaro and Pontusson 2016; Erixon and Pontusson 2022), remains an open but important question.

## Family Policy in Italy's Failed GM

We turn now to Italy, an exemplar of a "failed" GM mired in economic stagnation. For more than 20 years, Italian wages have remained flat, as have GDP and productivity growth. Italian export industries have failed to follow the German trajectory of increasing their share in global markets. This section explores child allowances, a policy used in many European countries to support the incomes of families with children, and which arguably could support a broader strategy of domestic demand-led growth (Avlijaš, Hassel, and Palier 2021a).

Historically, child allowances in Italy were quite generous. Fascist governments introduced child allowances in the mid-1930s for pronatalist and anti-poverty reasons. Child allowances were also popular with early postwar governments, so that by the early 1950s their value exceeded those in the heyday of fascist pro-natalism. The 1960s marked a turning point, however. After 1964, child allowances saw a steadily decline, in large part because unions traded off increases in the value of contributory child allowances for improvements in pensions and other policy gains (Lynch 2006, 96–97). Over time, party competition between the Christian Democrats and the left promoted the extension of family allowances to new groups (such as farmers and the self-employed), without addressing the problem of the benefit's declining ability to actually counter child poverty.

By the 1990s, after decades of Christian Democratic dominance, the center-left regained power. Child poverty was high—nearly 15%, compared to a 5% average elsewhere in Europe (Van Mechelen and Bradshaw 2013)—and Italian women had one of the lowest labor force participation rates in Europe. Although the center-left moved to address these two problems by expanding child benefits and childcare, they met substantial resistance from unions. Unions opposed a wholesale expansion of child benefits because they were financed through the social insurance (contributory) portion of the WS but were granted to populations who did not contribute to the system. As a compromise, Romano Prodi's government moved child benefits off the social insurance books and into the general-revenue-financed, social assistance realm of the WS (Matsaganis et al. 2003, 2006). Due to the constraints of EMU-driven balanced budgets, however, they were unable to fully fund even this means-tested system.

Austerity, and the inability to expand the WS in much-needed areas, opened up the space for a far more pro-natalist and nativist approach under Silvio Berlusconi. Low fertility, which by the 1990s was below 1.3 per woman, became increasingly politicized. Declining fertility was framed by right-wing parties and the Lega Nord as a threat to the survival of Italian culture, especially in light of rising rates of immigration. The solution offered by the right emphasized the need to provide benefits for *non-immigrants* to have babies (Naldini and Jurado 2013). In 2007, Berlusconi's government created a Ministry for Policies on the Family to address the "crisis" of falling birthrates and increased migration. The government offered "baby bonuses" to mothers of multiple children, but restricted eligibility to EU citizens (Brostoff 2019). In the intervening decade, as birthrates continued to plummet—in 2016, Italy had lowest birthrate since the country's unification in1861—the left has increasingly come to accept the right's diagnosis of the problem. Rather than attacking the root of low fertility (a nearly nonexistent job market for young people), Renzi's center-left government in 2016 doubled the standard "baby bonus" and increased the allowance for second and third children born to long-term residents.

The links between the politics of family policy and the politics of GMs are non-obvious. At one level, the history of Italian family policy is not mainly a story about the WS supporting a particular model of capitalist accumulation. In its fascist origins, and in its evolution since 2005, it has largely been driven by nationalism and populism. But of course, there is an accumulation story in terms of constraints. Both in the late 1990s and today, Italy's adherence to European monetary rules has meant that debt-financed expansion of a consumption-oriented family policy (and of the WS more generally) has been off the table. Still, we find no evidence that family policy in Italy worked to solve either a general accumulation problem, nor a more specific one of promoting export competitiveness or consumption. Instead, family policy appears to have been largely driven by the electoral concerns of political parties, who have not been particularly attentive to growth imperatives. Indeed, the Italian case suggests that in the absence of a stable growth coalition, politicians may seek legitimation for policy goals quite apart from growth, and from sources outside of the dominant growth coalition.[7]

## The Politics of Legitimation: How Welfare States Help Create and Sustain a Dominant Coalition

The vignettes analyzed in the previous section provided some support for the idea that shifts in welfare provision over the past 30 years contributed to the economic functioning of GMs. But we saw little systematic evidence that reforms reflected consistent efforts to move or keep countries on a particular growth path. Instead, the case studies suggest that in many instances welfare reforms serve explicitly political ends, which may or may not be related to the GM at all.

One of the strengths of the GM approach is its attention to political legitimation as a central analytic task. Comparative political economists agree that growth requires some form of institutional regulation, but capitalism as a social formation relies just as much on the political management of dissent and opposition as on the maintenance and enforcement of property rights. A focus on political legitimation is useful in that it offers scholars the opportunity to incorporate ideational and discursive elements—the construction of what Nancy Fraser (2015, 173) terms "political commonsense"—into explorations of how dominant coalitions are formed and how they endure.

In this section we turn our attention to questions of legitimation, offering reflections on how welfare policies may work politically to either sustain or undermine political conditions that support a GM's dominant coalition. Drawing on the case studies discussed earlier, as well as other illustrative examples, we identify five pathways through which social policy might encourage the political legitimation of a given GM. Welfare policies, we argue, may (1) signal the managerial competence of the elites in the dominant growth coalition; (2) be exchanged for support from subordinate groups in the coalition; (3) structure the interests and identities of groups available for coalition; (4) create wedge issues, that is, divisions in society that can be mobilized to distract from problems created by the GM; and (5) maintain inequality within socially acceptable bounds. Greater attention to these mechanisms, we believe, can lead to deeper understanding of how growth coalitions may encourage the requirements of capitalist legitimation, while also leaving room for the autonomy of the political.

## Welfare Policies Signal Managerial Competence to Capital Holders

An important structural precondition for maintaining any GM is securing and/or maintaining investment from domestic or foreign sources that can be used to generate growth and productivity. While economic policies help elites in this task, so too do welfare policies. And in the latter case, the pathways through which the policies work are often overtly political and ideational, rather than acting directly to affect economic outcomes. In contemporary GMs, signaling managerial competence via welfare policies allows political elites to demonstrate to capital holders that their capital is safe from both expropriation and a collapse in demand. Promises to restrain social spending via benefits reductions, cuts to social budgets, or commitments to restrain future growth in social spending signal that a government is committed to maintaining a fiscal environment favorable to capital accumulation.

This type of signaling has been evident both in Italy and the United Kingdom since the 1990s. For example, reallocating spending within a fixed social budget, as in Italy, signaled a commitment to minimize future expenditure, as well as broadcast the government's efforts to discipline labor in ways that may facilitate downward pressure on wages, benefits, and worker control. Governments' willingness to comply with the expectations of external actors about appropriate social spending patterns and modes of welfare governance—conveyed, for example, via the open method of coordination, European semester, or communications from the Troika—sends important signals about the managerial "competence" of the government and a country's suitability for investment. Similarly, the British Labour Party's 1997 manifesto promise to keep spending within existing Conservative departmental ceilings for spending for the first two years upon assuming power was designed to convince the British press that Labour were competent to govern (Hopkin and Shaw, 2016). Nevertheless, the contrasting narratives of Italy and the United Kingdom suggest that successful signaling of managerial competence is no guarantee of growth.

## Welfare Policies Buy Support for Voters

Another way in which welfare policies work to sustain particular GMs politically is by exchanging welfare goods for the loyalty of voters. This may take the form of rewarding voters in the core of the dominant growth coalition for their support, compensating voters in the periphery of the coalition, or preventing voters excluded from the coalition from rebelling against the GM and overturning the socioeconomic order.

Voters in the core of the dominant growth coalition are those who are advantaged by the GM and would be inclined to support it even in the absence of other inducements. If we think of welfare policies as exogenous to GMs, we might consider welfare benefits as "side payments" that reward core voters for showing up at the polls. In many instances, though, welfare benefits are simultaneously rewards for electoral support and constitutive of the GM, and make it clear that welfare policies need to be endogenized in GM theory. In the United States, for example, one could view policies such as the home mortgage tax deductions as examples of government social welfare provision that target benefits at middle- and upper-middle-class voters who are, by definition, already advantaged by the GM. At the same time, government subsidies for financialization of the housing sector contribute to debt-led consumption, which is integral to the GM in the United States.

Voters who are not naturally members of the core of a GM's coalition but whose support is needed to maintain a ruling coalition can be induced to support it through welfare policies. This was clearly the dynamic at work in Italy with family policy under Berlusconi and the *Lega Nord*, and arguably describes the political role played by mini-jobs in Germany. There, side payments in the form of family allowances and/or mini-jobs helped to secure the electoral support of female voters with weak ties to the formal labor market. Female voters are not the only out-groups who may be bought off via policy, however. Weak hypothecation of social insurance funds across industries and de facto non-enforcement of social insurance payments can provide significant benefits to, for example, the self-employed in agriculture and may induce them to support GMs that are really mainly oriented around the needs of the industrial sector (Lynch 2006).

Finally, voters who are actively disadvantaged by the GM may receive welfare payments to prevent disorder. This is the critical insight of Piven and Cloward's (2012) work showing that social assistance benefits tend to expand when slack demand for labor elevates the probability of social conflict, and to contract when the need for labor increases. More recent scholarship by Soss, Fording, and Schram (2011) and Watson (2015b) shows that the way in which social benefits are provided—for example, the level of stigmatization and surveillance with which both recipients and front-line providers of benefits are confronted—can itself serve to politically demobilize those economically disenfranchised groups that might otherwise be prone to protest the GM.

## Welfare Policies Structure the Groups and Identities Available for Coalition

Welfare policies, in addition to signaling managerial competence to capital holders and providing incentives for political support to coalition members and potential disruptors, can also structure political identities in ways that render groups available for coalition formation in support of a GM. Social policies can facilitate the formation of new political groups with collective interests and identities aligned with the regime, and/or reinforce existing collective interests and identities.

The case studies highlighted a salient example of this dynamic in Sweden, where policy helped to construct a new salient political identity: homeowners. Prior to the 1990s, Swedish housing policy was tenure neutral, favoring neither renters nor homeowners. This began to change in the 1990s, when both the center-left and center-right began to actively advocate home ownership. Home ownership became a desired end of social policy, and successive governments supported generous fiscal subsidies to encourage middle-class households to enter the owner-occupied market. Eager to retain middle-class homeowners in their electoral coalition, Social Democrats showed themselves unwilling to rein in mortgage subsidies, despite their regressive character (Anderson and Kurzer 2016).

Of course, welfare policies can also reinforce already existing collective interests and identities. The paradigmatic example of this from the political economy literature is the Ghent system of unemployment benefits, in which unions administer statutory unemployment insurance schemes and are responsible for disbursing benefits. The Ghent system is associated with higher union density and greater resilience of unionization rates in the face of countervailing tendencies (see, e.g., Ebbinghaus and Visser 1999; Scruggs 2002) and case study research (e.g., Bockerman and Uusitalo 2006) finds a causal link between union management of unemployment insurance schemes and workers' propensity to join unions. Ghent systems—and other types of welfare benefits administered by economic associations, as in the Italian system of *patronati*—offer selective benefits that make membership more appealing. Ebbinghaus et al. (2011) show, however, that Ghent systems foster union membership and identification not only by offering the selective benefit of unemployment insurance. Instead, Ghent systems create a macro-level context in which "embeddedness in union-friendly social networks (family, circle of friends, neighbourhood and colleagues at workplace)" reinforce "positive beliefs about trade unions" (p. 109), leading to a greater propensity to identify as a union member. For this very reason, the Swedish bourgeois government in the early 2000s deliberately reformed the

Swedish unemployment benefit system with an eye to weakening the unions (Gordon 2019)

Discursive framings and the institutional structure of the WS, then, as much as one's structural location in the economy, are likely to shape how actors perceive their interests—and the ease with which they might be incorporated into coalition. This suggests the importance of a non-essentialist reading of economic interests.

## Welfare Policies Can Serve as Political "Wedge" Issues

Welfare policies may also affect identities and mobilization in a more exclusionary way, however. The design of social policies can give pivotal electoral actors a sense that they have a stake in society—or they can stigmatize and marginalize these actors. In this way, social policy can be used as a wedge to prevent alternative political coalitions to the dominant coalition from forming. Groups may be marked as inappropriate for inclusion in a broad political coalition through welfare policies that stigmatize recipients as undeserving.

We saw such efforts at dividing and conquering in the Italian right's emphasis on excluding non-Italians from eligibility for baby bonuses. Similar dynamics can also be a facet of activation policies, such as those utilized in the United Kingdom in disability policy. Whereas historically the disabled had been incorporated via a contributory, insurance-based program that portrayed recipients as virtuous and deserving, the New Labour and Austerity governments channeled many of the disabled to a means-tested, highly conditional regime that implied a lack of deservingness. It is likely no coincidence that public support for policies aimed at the disabled unable to work—by far the most popular group of welfare recipients in the public imagination–fell by one-third between 1999 and 2013 (Harding 2017, 25).

Beyond these particular cases, other research suggests that racialized imagery, stringent means-testing, requirements for frequent or excessive documentation of eligibility, or demeaning interpersonal interactions with welfare bureaucracies all mark social welfare beneficiaries as inherently undeserving until proven otherwise. Some of these policy features serve the function of reinforcing the idea of "less eligibility"—a principle dating to 19th-century British Poor Law that induces labor market participation by making receipt of relief less appealing than even the worst paying job. However, they also make it difficult for those who may be disadvantaged by the GM to mount a unified resistance. A contemporary example is the 2010 US Affordable Care Act, in which means-testing of access to subsidized health insurance triggered resentment toward recipients among people just above the income cutoffs, who could ill-afford health insurance on their own (Chattopadhyay 2018). In sum, welfare policies can be used to divide and distract in order to prop up the politics of a precarious GM's dominant coalition. The mirror image may also be the case, however. When welfare regimes work successfully to contain inequality within socially acceptable bounds, they can be powerful tools for maintaining the legitimacy of a GM.

Esping-Andersen's *The Three Worlds of Welfare Capitalism* (1990) is best known among political economy scholars for its grouping of countries according to the level of decommodification provided by social policies. However, Esping-Andersen is equally explicit that postwar welfare regimes were designed to produce and reproduce social *stratification*; and that their political fates depend on their doing so in ways and to degrees that were acceptable to the various groups that make up a welfare regime's cross-class support coalition. The level of inequality that is acceptable to society varies across welfare regimes, which in turn maintain inequality at societally permissible levels through different combinations of taxation and redistribution; public spending; and regulation of markets for labor, goods, services, and finance. All of these policy strategies have come under pressure in an era dominated by a neoliberal policy paradigm, but politicians are nevertheless still held to account for delivering not just economic growth but also some level of equality (Lynch 2020).

Welfare regimes thus both reflect and generate certain expectations on the part of societal actors for what level of inequality is permissible. When a dominant growth coalition responds to societal demand for equality, the GM is also more likely to be politically acceptable. Thus, welfare policies that reproduce societally acceptable levels of inequality may be a critical mechanism through which coalition leaders can create and maintain a GM as *politically* hegemonic. It stands to reason that different GMs, like different welfare regimes, might require different combinations of redistributive taxation, spending, and market regulation to generate hegemony.

## Connecting Legitimation Pathways and Growth Models

The GM literature identifies at least four distinctive GMs. Above, we highlighted five potential pathways through which the welfare state can be used to legitimate a given GM. How are GMs and legitimation pathways connected? One possibility is that all five pathways matter more or less equally across GMs. Another is that different GMs have different accumulation needs, and hence are more likely to rely on some legitimation pathways than others. Although we cannot settle this matter empirically, here we offer some initial reflections on these questions.

Our view is that the relevance of different legitimation pathways is likely to vary across the type of GM. Some legitimation pathways are more likely in some GMs than others. Consider the *signaling of managerial competence*. While governments everywhere likely wish to signal fiscal prudence to financial markets, financialized consumption-led GMs face more pressure to use retrenchment to signal that they can pay back debt. For similar reasons, the use of *welfare as a political wedge* issue should be more often at play in consumption-led regimes, as such strategies legitimize the reduction of social protection for 'undeserving' groups.

In contrast, other legitimation mechanisms are likely to be at work across all GMs, but will push in different directions depending on the GM. For example, although *the use of welfare to structure political identities* is likely to be a popular strategy everywhere, the *types* of identities mobilized should vary across types of GM. In export-led GMs, where the underlying accumulation model does not require limiting the organizational power of labor movements, welfare policies that support the continued salience of extant producer- and/or class-based identities are more likely. In contrast, GMs that create new opportunities for consumption outside of the welfare state are more likely to facilitate citizens' identities as consumers. Margaret Thatcher's privatization of council housing in the early 1980s, for example, was part of an explicit effort to create a new Gramscian common-sense among the British working classes: investment in homeownership as an aspirational ideal. In the balanced and failed GM models, elites may well make efforts to facilitate the formation of new group identities and to reinforce existing identities at the same time. In balanced GMs, while there may be concerted efforts by elites to weaken class-based political projects through the mobilization of new identities, the relative strength of labor organizations means this transformation remains incomplete. In contrast, failed GMs likely result from a failure of incorporation, as multiple identities are mobilized but not articulated into an economically coherent model. Of course, the pathologies of failed GMs may also be driven by other political and institutional factors such as a highly fragmented political system or very low trust in government.

A similar argument could be made about other pathways. Efforts to use the WS to *maintain inequality within acceptable bounds* should happen everywhere, but the level of acceptable inequality takes on different forms in export-led versus consumption-led GMs. Likewise, political leaders in all GMs may have an interest in using welfare to buy voters and strengthen their electoral coalition, but which voters they target will depend both on the GM and on autonomous political dynamics.

## Reflections on Welfare, Legitimation and Mass Politics

The GM perspective on politics presented in the introduction to this volume argues for the centrality of both elite and mass politics in shaping GMs because stable economic governance requires coalition building among both producer groups and mass electorates. Although "quiet" producer group politics are likely important when it comes to many accumulation policies, especially in the realm of financialization or macroeconomic policy, our view is that any serious analysis of legitimation via the WS requires sustained engagement with the dynamics of party politics. Parties are crucial actors insofar as they help frame shared understandings of the legitimate use of state power in the service of private interests.

As the editors of this volume rightfully note, the politics of dominant growth coalitions and of electoral coalitions will not necessarily be congruent. In some contexts, parties may naturalize the worldview of core actors in the dominant coalition; in others, they may embrace counter-hegemonic views. It is through the push and pull of electoral politics that "political commonsense" (Fraser 2015) about the role of public versus private power, about just social orders, and about feasible alternatives are defined and redefined. The fit between the politics of growth coalitions and the politics of electoral coalitions will therefore frequently be messy and beset by tensions—a useful reminder that even stable GMs contain elements of indeterminacy.

This chapter's elaboration of the channels through which welfare policies can politically legitimate GMs offers some entry points for thinking more systematically about how parties' efforts to shift the balance between commodification and self-protection intersect with the dynamics of growth. In particular, our emphasis on the many uses to which parties may put welfare policies permits us to better integrate ideational concerns into the political economy of GMs. To the extent that welfare programs often involve embedded (if contested) messages about the deservingness of different constituencies, they play an important role in discursive battles over the definition of interests and direction of GMs, especially during "interregnums"—transitions from one era of ideological hegemony to another (Stahl 2019).

Our focus on potential mechanisms through which welfare might support the political legitimation of GMs represents only a starting point, however. Attention to variation in the nature of parties, party competition *and* to the legacies of how WSs and industrial relations were implemented in the Fordist era will also be crucial elements in any Gramscian-inflected story of how consent is mobilized. Fortunately, in contrast to other areas of political economy (VOC, Regulation School), the WS literature has a long tradition of considering how various dimensions of electoral politics—including changing electorates and cleavages, patterns of party competition, and party-society linkages and electoral institutions—create incentives for parties' design and provision of social programs (Lynch 2006, 2009; Gingrich 2011; Hausermann, Picot, and Geering 2013; Gingrich and Häusermann 2015; Watson 2015).

## Notes

1. An alternative view is that there is no "dominant" coalition, but rather a balance of power between two equally strong coalitions: export-sector employers and unions, on the one hand; and sheltered-sector unions on the other.
2. Some of the "accumulation work" done in post-Fordist GMs might be also be achieved via reforms to industrial relations institutions. For example, a combination of sectoral bargaining and firm-level decentralization seems to have been important in generating wage repression to fuel Germany's export-led growth. Similarly, in financialized consumption-based regimes, capital may be less tolerant of labor-friendly institutions.
3. IB had been a contributory benefit. With the shift to ESA, there was a one-year limit on the contributory portion of the benefit; after that, recipients were put into a lower-paying means-tested version. See https://publications.parliament.uk/pa/cm201012/cmselect/cmworpen/1015/101509.htm#a18
4. https://www.bbc.com/news/uk-politics-37810701
5. There is debate about periodization for the Swedish case—whether it was always a balanced model, or whether it shifted from a predominantly export-led model in the pre-GFC period to a more consumption-led model post-GFC. We do not weigh in on that debate here, but see the Erixon and Pontusson chapter in this volume for a compelling explication of the latter view..
6. We thank Karen Anderson for clarifying this point.
7. Of course, the nativist slant documented in Italian policy is emerging across all the different GMs (even if articulated somewhat differently across countries), and perhaps speaks to the limitations of *all* post-Fordist growth models.