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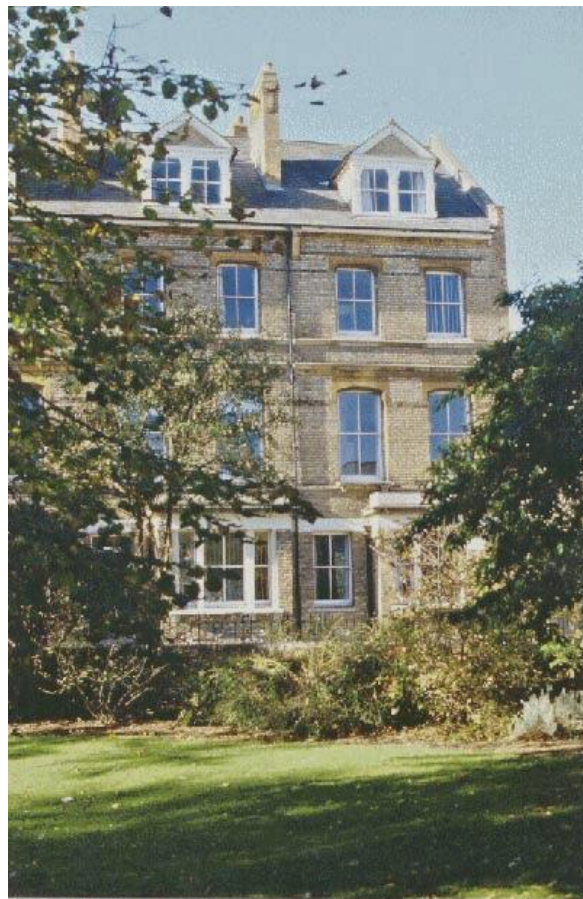
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New Perspectives on the Political Economy of
Social Policy Change: The Case of British
Earnings-Related Unemployment Insurance.

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New perspectives on the political economy of social policy change: the case of British earnings-related unemployment insurance

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Abstract:

This paper is a preliminary analysis of the political economy of social policy change. In particular it seeks to examine the role of employers in the extension and retrenchment of earnings-related unemployment insurance in Britain between the mid-1960s and the mid-1980s. In doing so, it argues that the literature has been dominated by state-centric theories which have neglected the causal importance of societal groups. As a result, this paper advocates an examination of society-centred approaches in the study of welfare state change.

Introduction

Reconciling the occurrence of institutional change within the broader context of welfare state continuity has become an increasingly prominent research agenda in the study of social policy retrenchment in advanced political economies. As part of a larger effort by comparative political economists to reconsider the processes involved in shaping institutional development over time, this new strain of inquiry has questioned the capacity of existing theoretical approaches to adequately account for important welfare state transformations. In particular, attention has focused upon whether an overemphasis in the literature on institutional resilience has belied the extent to which substantive policy shifts have been realised. However, whilst recent conceptual advances have shed considerable light on the effectiveness of progressive small-scale reforms in achieving significant retrenchment outcomes, the underlying causal factors which have influenced such changes continue to remain poorly understood. Although a significant amount of research has been undertaken to identify the role of employers in the development of welfare state institutions, relatively little consideration has been given to the involvement of this group in the process of welfare state change. Nevertheless, a greater understanding of their association is of vital importance for the construction of more comprehensive causal explanations accounting for dynamic shifts in patterns of social provision.

The case of earnings-related unemployment insurance (UI) in Britain between the mid-1960s and the mid-1980s serves as a particularly instructive point of departure for incorporating employers into the expanding body of literature on the political economy of institutional change in advanced welfare states. This period begins with the introduction of proposed legislation for a graduated UI programme as outlined in the Labour Party Manifesto of 1964, culminating with the passing of the National Insurance Act of 1966. It concludes with the dissolution of earnings-related benefits (ERBs) through the passing of the Social Security Act (No. 2) of 1980 which came into effect in 1982. The significance of this empirical case lies in the analytic puzzle which it presents, namely why expansionary legislation in earnings-related UI was introduced towards the beginning of this period of inquiry and why this same policy had been abolished by its end.

This case study therefore raises the question of exactly why such contradictory sets of measures in social policymaking were undertaken in Britain within the relatively short span of an eighteen year period. The ultimate objective of the analysis which follows is to explore the possible causal importance of employers in the UI policymaking process. More specifically, this paper examines the extent to which such transformations in UI policy were related to shifts in the relative agency of different groups of employers to shape particular outcomes of institutional change over time. Theoretically, it seeks to re-examine the literature on welfare state change which has largely been informed by state-centred theories derived from the new institutionalism school of thought. In doing so, it attempts to reconsider the utility of society-centred theories in explaining domestic social policy shifts in light of the more recent research on institutional change in advanced political economies. It is argued that the re-engagement of such interest-based approaches which examine the role of different society-centred actors in determining particular policy transformations, has the potential to provide greater insight into the numerous small-scale and incremental shifts which have cumulatively characterised the process of welfare state change over the past forty to fifty years. Consequently, this paper proposes a new conceptual template for analysing the differential influence which different sets of economic actors have been able to employ in contemporary policy debates.

State-Centric Approaches to Explaining Welfare State Change

Whilst the study of welfare state development has been informed by a variety of theoretical perspectives, the examination of institutional change in welfare states has been overwhelmingly dominated by state-centric approaches.¹ Over the course of the past half a century, a wide range of theories have been employed to account for the establishment and growth of modern welfare states. These have ranged from explanations emphasizing the importance of industrialisation, political modernisation, Neo-Marxist thought, Social Democratic governance and the power-resources of organised labour to those focusing on the role of ideas, employers as well as the state. However, such theoretical diversity has not been the hallmark of the most recent generation of analyses regarding the extent to which social provision has altered over time. For the most part, research on welfare state change has predominantly been concerned with the nexus between political agency, institutional rigidities and efforts to roll back the welfare state. Consequently, the theoretical roots of the present consensus on welfare state continuity lay firmly in state-centric conceptualisations of how institutions develop and change over time. The ascendancy of state-centred theory in explaining welfare state change has been reflective of a wider interest in the role of the state in shaping the dynamics of national political economies which gained currency in the field of comparative politics between the mid-1970s and the mid-1980s (see, e.g., Hecló 1974; Cameron 1978; Katzenstein 1978, 1986; Hall 1983; Krasner 1984). Encapsulated in the expression ‘bringing the state back in’, this approach placed a renewed focus on the causal importance of the state both as an institution and as an actor in determining policy outcomes, and as such it served as a response to growing dissatisfaction over the explanatory power of pluralist and functionalist theories (Skocpol 1985). The impact of this ‘new’ institutionalism perspective on the study of the welfare state was two-fold. In the analysis of welfare state development it triggered a surge of explanations which emphasized the role of political actors and state institutions in the creation of social policies, thereby challenging a range of established frameworks including structural-functional accounts of industrialism and modernisation as well as both state-centric and society-centric theories of Neo-Marxism (see, e.g., Skocpol 1980; Skocpol and Ikenberry 1983; Orloff and Skocpol 1984; Skocpol and Amenta 1986; Weir et al 1988; Skocpol 1992). Building upon these theoretical foundations, such logic was subsequently employed in the treatment of new empirical puzzles regarding the extent to which fiscal and programmatic reforms had been implemented in advanced welfare states over the course of the 1980s and 1990s. Like other branches of new institutionalism which questioned the efficacy of the pluralist-functionalist tradition, state-centred accounts of social policy change emerged as a reaction to the arguments of structural-functional Neo-Marxist critiques which asserted that welfare states had been in a transformative state of crisis since the early 1970s.² Although some scholars had begun to query the empirical strength of such claims and thus the degree to which social programmes were in flux (see, e.g., C. Pierson 1991, 164), the economic and political pressures being directed at advanced welfare states nevertheless seemed very real. As a consequence, it began to appear that despite enduring considerable strain during this period, welfare systems had nonetheless remained institutionally durable. The question which therefore arose was how this could possibly have been the case.

¹ An exception to this rule has been research on the role of ideas and policy learning in shaping new institutional trajectories. Most inquiries have concentrated on the relationship between economic ideas and the emergence of corresponding economic institutions, see e.g. Blyth (2001; 2002) for an in-depth analysis on such developments in Sweden and the United States, and Hall (1992; 1993) for the impact of social learning on economic policy in Britain. In addition, there is also a growing literature on ideas, policy learning and welfare state reform, see e.g. Dolowitz (2000), Dolowitz and Marsh (2000), Seeleib-Kaiser (2002), Bleses and Seeleib-Kaiser (2004) as well as Seeleib-Kaiser and Fleckenstein (forthcoming).

² Texts which are representative of this crisis literature include: O’Connor (1973, 1987); Gough (1979); Gough and Steinberg (1981); Schmidt (1983); Mishra (1984); Offe (1984); Taylor-Gooby (1985); Moran (1988).

The first analysis to comprehensively address the issue of the resilience of welfare state institutions was Paul Pierson's (1994) study of the politics of retrenchment in Britain and the United States under the Thatcher governments and Reagan administrations of the 1980s. The central argument of Pierson's thesis regarding what he would construe as 'the new politics of the welfare state' was that contrary to prevailing wisdom, established programmes of state welfare had not actually endured wholesale cutbacks between the late 1970s and the early 1990s. Pierson's initial findings of welfare state continuity in Britain and the United States were supported by subsequent comparisons of similar trends in Germany and Sweden (Pierson 1996, 173). These small-N case studies were further bolstered by a number of quantitative analyses which examined larger cross-national samples of welfare state generosity and social spending (Esping-Andersen 1996, 10 & 11; Stephens et al. 1999; Huber and Stephens 2001). The conclusion which was widely drawn from such investigations painted a picture of 'regime stability' (Esping-Andersen 1999; 2002) in which 'frozen welfare state landscapes' (Esping-Andersen 1996, 24) had become entrenched across most of the developed world. For Pierson, this tendency towards resilience could be attributed to the emergence of a new political environment which simultaneously ensured the institutional stability and electoral popularity of many social programmes whilst also limiting the policy options of would-be reformers (Pierson 1996, 147). As a result of these changed dynamics, researchers could no longer rely on traditional explanations of welfare state development to provide appropriate insight into the current workings of social politics (Pierson 1996, 155 & 156; Pierson 2001a, 2). Instead, fresh theoretical frameworks and terms of analysis would be required. The thrust of Pierson's argument centred around the idea that these new realities had irrevocably changed the nature of social policymaking to the point that a distinguishable divide between the 'old' politics of Golden Age growth and the 'new' politics of retrenchment had developed. At work, he argued, were a complex set of political mechanisms which had themselves grown out of the experience of welfare state expansion and had been crucially responsible for transforming the way in which the politics of the welfare state could now be conceptually and analytically reconciled. Consequently, whilst Pierson would himself focus on state institutions and political actors just as earlier state-centric studies of welfare state development had done, his treatment of their role in the process of welfare state change would diverge significantly.

The reason why the dynamics of welfare state change differed so greatly from those of welfare state development was, in one word, history (Pierson 2004). Perhaps one of Pierson's greatest innovations in explaining welfare state continuity was the notion that attempts at social policy reform had been fundamentally constrained by pre-existing institutional frameworks which had developed over the course of time. Whereas state-centric studies of welfare state development had demonstrated the importance of state institutions in initiating certain policy configurations, the vantage of a wider historical perspective provided greater insight into the ways in which the temporal sequencing of such past decisions had ultimately influenced the present choices which actors could make (Skocpol 1984, 2). According to Pierson, reform agendas had been considerably restricted by what he termed as 'policy feedbacks' whereby previous policy choices had significantly dictated the course and character of future policy trajectories (Pierson 1992; 1993). Examples of such institutional "stickiness" had arisen both in the form of legislative 'veto points' and from the increasing returns associated with 'path dependent' commitments which had combined to create a 'lock-in' effect that concurrently entrenched particular policy actions whilst preventing others from being undertaken (Pierson 1996, 154; Pierson 2001b, 414 – 416).³ Path dependence was therefore essentially a self-reinforcing process which, once initiated, took on a life of its own, making the outright dissolution or even the restructuring of established institutions very difficult to achieve (see,

³ For a comprehensive discussion of veto points see e.g. Immergut (1992) and Tsebelis (1995, 1999, 2002). For a series of disciplinary studies on the theory of path dependence in Economic History, Sociology and Political Science, see e.g. David (1985); North (1990); Arthur (1994); Mahoney (2000); Pierson (2000a).

e.g., Pierson 2000a, 2000b, 2003). Consequently, although state actors had been able to freely shape the development of social provision during the first decades of the twentieth century, the institutional legacies of their actions restricted the breadth and kinds of reforms which their successors could pursue in the final decades of the century. It was this remarkable reversal in the agency of state actors which not only demonstrated the power which institutional arrangements could have over the policymaking process but which also showed the significance of the passage of time itself in forging a decidedly 'new' political environment. However, whilst such institutionally-set limitations may have certainly curtailed the capacity of politicians and bureaucrats to roll back the welfare state, this did not necessarily diminish the overall importance of political actors in the process of social policy change.

On the contrary, the state-centric literature has continued to emphasize the primacy of political actors as either agents of change or as resisters to change. Informed by a similar pattern of causation, theories accounting for welfare state expansion and retrenchment alike have tended to explain major social policy shifts as responses by both policymakers and voters in particular institutional contexts to wider socio-economic transformations. Of central importance to Pierson's series of analyses, for instance, was the new climate of fiscal austerity of the 1970s and 1980s which had been brought about by slower rates of economic growth in many advanced industrialised countries. It was the impact of these increased financial pressures on the state as well as the perception of their relationship with declining national competitiveness which had prompted both Conservatives in Britain and Republicans in the United States to call for significant cuts in social spending (see, e.g., Rhodes 1996). However, according to Pierson, public interest in specific social programmes meant that most of these attempts were met with substantial resistance. Consequently, the amount and type of such support which determined exactly how social policies fared in the face of proposed welfare cutbacks was of crucial importance. It was therefore the existence of organised and politically powerful welfare state 'constituencies' which prevented both Thatcher and Reagan from achieving many of their stated retrenchment objectives (Pierson 1994, 29 & 30). Given the very real possibility of an electoral backlash at the time as well as the rigidity of numerous pre-existing policy commitments, many of the reforms which retrenchment advocates were able to implement were made possible primarily through a variety of 'blame avoidance' strategies (see, e.g., Weaver 1986). These included the obfuscation of direct political accountability, the division of different welfare constituencies into weaker subgroups and the occasional compensation of affected interests (Pierson 1994, 19 – 24).

A similar focus on the relationship between external change and the agency of political actors also underpinned research agendas concerning the effects of economic globalization on the politics of public spending. Representative of a wider literature about the impact of trade openness on the size of the state (see, e.g., Cameron 1978; Katzenstein 1985; Rodrik 1997, 1998), a number of contributions, such as those of Geoffrey Garrett (1995, 1998a, 1998b) and Alexander Hicks (1999), were distinguished by their placement of left parties and coordinating market institutions at the centre of analysis. Rather than facilitating a contraction in welfare state expenditure, Garrett argued, the economic instability generated by the internationalization of trade and capital mobility had actually prompted Social Democratic parties to strengthen redistributive policies (Garrett 1995, 682; Garrett 1998b, 788 & 789). However, although globalization exposed larger numbers of the electorate to greater market unpredictability, thereby broadening the potential electoral base of left-labour parties (Garrett 1998a, 39), the realisation of such policy outcomes were very much dependent upon specific institutional conditions. As a result, the relationship between globalization and domestic policy change in open economies was causally linked by a dynamic interaction between partisan politics and national labour market institutions (Garrett and Lange 1995). This assertion extended previous arguments which had linked the efficacy of trade union negotiations in national wage setting procedures to partisan governance (see, e.g., Garrett and Lange 1986, 1991;

Alvarez et al. 1991). One of the main conclusions of this earlier work had been that efficiency gains were either achievable in political economies in which encompassing unions were complemented by left of centre governments or in those in which weak unions were accompanied by right of centre governments. Consequently, whilst the pursuit of policies mitigating the social risks associated with exogenous market pressures was dependent upon left government coordination with comprehensive wage-bargaining organisations, the ability of right governments to squeeze existing levels of welfare state generosity necessitated market-driven wage-setting mechanisms (Garrett 1998a, 46 & 47).⁴ Reminiscent of Lars Calmfors and John Driffill's (1988) argument that more robust economic performance was possible in those national political economies possessing institutional coherence, Garrett's model suggested that greater political advantage was similarly embedded in either highly centralised or highly decentralised structures of wage bargaining. Unlike society-centric studies which had contended that the impact of global integration on domestic policy had been directed by the changing preferences of different coalitions of economic actors,⁵ Garrett's thesis argued that the fulfilment of partisan preferences had been attributable to the way in which the political objectives of state actors had been reconciled within the parameters of national institutions.

However, whilst some scholars began to probe the extent to which global forces had been involved in larger movements of public spending, political actors continued to remain of key importance to explanations of welfare state change. Challenging the notion of such a correlation between globalization and growing levels of social expenditure, Torben Iversen and Thomas Cusack (2000) questioned the empirical basis for relating trade openness to welfare state expansion. Although concurring with Garrett and Rodrik that domestic politics had indeed enlarged welfare state coffers, they contested the exogenous origins of such trends. Instead, government policies seeking to provide social compensation for increased labour market risk stemmed from domestic forces of de-industrialisation in which fundamental structural changes in technological developments and consumption patterns were of ultimate causal significance. As in Garrett's globalization thesis, both institutions and political actors were given credence in Iversen and Cusack's case for de-industrialisation (see, e.g., Iversen and Cusack 2000, 328). In particular, Iversen (2001, 52 & 53) has pointed to the fact that the economic dislocations created through processes associated with de-industrialisation had been exacerbated by the inability of most laid-off workers to transfer skills learnt in declining industries such as manufacturing and agriculture to new jobs in the rapidly expanding service sector. These new conditions meant that political parties could play a large role in cushioning the impact of such socio-economic ruptures through the extension of social benefits both to specific sets of strategic voters as well as to larger cross-sections of society. As a consequence, left parties had sought to consolidate their support amongst core constituencies by pursuing policies which favoured effected voters. Moreover, given that the reverberations of deindustrialisation were likely to have been felt throughout much of the social stratum in advanced political economies, parties across the political spectrum were also apt to have advocated expansionary measures in social spending, thereby playing to the Downsian logic of the median voter (see, e.g., Downs 1957; Iversen and Cusack 2000, 328).

Towards a Society-Centric Explanation of Welfare State Change

Although more than a decade of research into the new political economy of welfare state stability has underscored the endurance of social programmes in advanced capitalist societies, many

⁴ This is a simplified description of the different possible partisan-institutional variations outlined by Garrett. See Garrett (1998, 45 – 49) for a complete description.

⁵ For open polity analyses employing economic pluralism conceptions of the effect of globalization on domestic policymaking, see e.g. Rogowski (1987, 1989); Frieden (1988, 1991); Milner (1988, 1997); Keohane and Milner (1996).

scholars have argued that this resilience thesis has not been effective in explaining why certain retrenchment measures were nevertheless successfully enacted (see, e.g., Palier 2001; Green-Pedersen and Haverland 2002; Kersbergen 2002). As a consequence, contemporary research agendas have shifted in order to try and explain exactly why specific social policy changes have occurred despite evidence suggesting that these initiatives should have been constrained by major institutional and political impediments (Starke 2006, 106). These lines of inquiry have not only exposed significant empirical inconsistencies, but have also highlighted corresponding conceptual problems which have yet to be resolved. Whilst this newest wave of research has shown that important social policy shifts have happened in mature welfare states despite the appearance of sustained continuity (see, e.g., Gilbert 2002; Bleses and Seeleib-Kaiser 2004; Hacker 2004; Taylor-Gooby 2004; Clasen 2005), relatively little has been said which might explain why they have taken place (Pierson 2002, 1). As a result, insufficient consideration has been given to how the determinants of such transformations should be conceptualised. Perhaps the main reason for this can be attributed to the present imbalance in the literature regarding the theoretical treatment of the concept of welfare state change. Even though the literature's state-centric orientation has been important in explaining why direct and large-scale attempts to make cutbacks failed to transpire, it has been much less successful in accounting for the occurrence of other kinds of transformative outcomes. Since there is considerable evidence to suggest that both expansionary and reductive social policy shifts have been a prominent feature of most advanced political economies during the post-war period, there is a distinct need to re-examine the conceptual tools previously applied in the existing literature. It is therefore argued that greater insight into the determinants of such processes is likely to be achieved through a re-engagement of society-centric approaches to institutional change in which the causal importance of particular groups of social actors such as employers and organised labour can become better integrated into explanations of welfare state change.

The conceptual groundwork for such a re-consideration has lately been paved by discussion in the political economy literature concerning the issue of institutional change, as recently exhibited by Wolfgang Streeck and Kathleen Thelen's (2005) treatment of such developments in advanced political economies. Responding to the 'conservative bias' inherent in approaches such as the new politics of the welfare state and varieties of capitalism theses, Streeck and Thelen (2005, 1) have argued that existing conceptualisations of institutional change have suffered from a paucity of theoretical sophistication which have made them ill-suited for identifying and analysing important transformative processes. Whilst notions of critical juncture and punctuated equilibrium have attributed the occurrence of institutional shifts to large and infrequent external disruptions following lengthy periods of sustained stasis, Streeck and Thelen have stressed the significance of small-scale and gradually unfolding sequences of endogenous change. Such an emphasis on the size and pace of institutional change has the potential to profoundly reorient the study of welfare state transformations. The reason for this lies in the fact that the questions now being asked regarding welfare state change are fundamentally different from those which have traditionally preoccupied discourse on the subject. Until recently, state-centric analyses of welfare state change mainly focused on the role of large processes in shaping macro-social outcomes. The intellectual precedent for such research agendas has been drawn from wider ontological and methodological trends in comparative social science. As Peter Hall has pointed out, over the course of the past two decades the ontological assumptions underpinning comparative research in general have begun to shift. As a result, many comparativists have moved away from the idea that most social outcomes can be attributed to a few causally significant and universally applied variables and towards the importance of complicated interaction effects between a host of varied causal factors (Hall 2003, 383 & 398). This new focus on more intricate configurations of causality and their study through a small number of cases has been closely linked to the rise of comparative historical analysis (see, e.g., Mahoney and Rueschemeyer 2003) and the growing interest amongst comparativists to 'historicize the social

sciences' (Collier 1991, 8 & 15). As a consequence, a greater emphasis on the role of long-term trajectories has provided the necessary perspective from which it has been possible to uncover the dynamic conditions invariably responsible for producing large-scale social configurations over time. However, whilst historical comparativists have often argued that 'history matters' (Pierson 2000c, 808), this statement is rarely clarified or elaborated upon (Pierson 2004, 5 & 6). According to Skocpol, the reason why history matters in the study of social phenomena is because it allows scholars to ask bigger questions about large-scale social processes, which concurrently leads to the theoretical generalisation as well as the empirical contextualisation of significant social outcomes (Skocpol 1984, 8). The value of historical empiricism therefore lies in its ability to facilitate the pursuit of causally complex macro-social analysis over time and space or what Charles Tilly has referred to as 'big structures, large processes and huge comparisons' (Tilly 1984). Consequently, comparative historical analysis is particularly interested in how the examination of the way in which long-term institutional and behavioural trajectories can inform the study of large-scale social configurations.

This ontological focus is clearly evident in the state-centric study of welfare state change which has been concerned with the occurrence of major alterations in patterns of social provision. As previously discussed, such analyses have tended to emphasize the causal importance of broader socio-economic forces, whether that of fiscal austerity, globalization or de-industrialisation, in large-scale attempts to either expand or retrench established social policy frameworks. However, as seen in the survey of state-centric literature above, the realisation of such transformations has been highly dependent upon the kinds of change which have been pursued. In contrast to earlier expansionary efforts, which experienced both political support and few institutional barriers, more recent reductive measures have faced political resistance and significant institutional constraints. However, the fact that important social policy transformations have occurred despite persistent institutional resilience has meant that the examination of the involvement of large and often exogenous processes in the shaping of macro welfare state change has been far from conclusive. As a result, new inquiries have shifted their attention to the way in which both small-scale and incremental change has been achieved within existing institutional structures. This focus on endogenous change has opened up the opportunity to revisit society-centric approaches to the analysis of comparative political economy which have failed to feature prominently in the literature on welfare state change. Although Streeck and Thelen (2005, 19) have concentrated mainly on the mechanisms responsible for effecting institutional change, such as 'displacement, layering, drift, conversion and exhaustion', other contributors to this volume have looked at the causal importance of different society-based actors in such transformative processes. In particular, Colin Crouch and Maarten Keune (2005) have examined the way in which economic actors in the financial sector in Britain as well as broadly-based coalitions of economic interests in the city of Győr in Hungary were able to either revise established economic policies or to enact new innovations in economic practice. Likewise, Richard Deeg (2005) has also tracked the initiatives of German commercial banks to deviate from entrenched practices in financial and investment relations in favour of new business strategies. Despite this recent re-engagement of society-based actors in the literature, the study of welfare state change has nevertheless continued to remain dominated by state-centric perspectives. This has been perhaps most clearly demonstrated by Jacob Hacker's (2005) focus on the retrenchment activities of state actors such as conservative reformers, in his study of policy drift in health insurance and pensions programmes in the United States. Consequently, the work of Crouch and Keune as well as Deeg have helped to show that society-based actors can be reintroduced back into discussions of the political economy of institutional change. It is argued that this renewed interest in society-centred factors can also be used to inform future inquiries on welfare state change.

Contradictions and Limitations in the Existing Political Economy Literature

Although Pierson's new politics theory primarily rests upon the concept of welfare state continuity, his analysis shows that certain social policies such as unemployment insurance (UI) were more vulnerable than others. Pierson argues that, unlike other British welfare state programmes such as healthcare and pensions, UI lacked an influential and unified constituency of advocates capable of successfully defending it from proposed conservative cutbacks (Pierson 1994, 101 & 102). As he explains, the reasons for this situation were two-fold. Firstly, employed workers tended not to be active supporters of UI unless they had actually become unemployed themselves and moreover, workers who did become unemployed possessed few resources for political mobilisation. Secondly, the systematic decline of labour unions in both countries during this period drastically diminished their role in the advocacy of UI benefits. Consequently, Pierson attributes UI retrenchment to both the myopic preferences of employed workers as well as to the collective action problems faced by unemployed workers and the labour movement in general. However, Pierson's argument would appear to directly contradict with the other prevailing political economy approach to the welfare state, namely that of 'Varieties of Capitalism' (Hall and Soskice 2001a). According to Margarita Estevez-Abe, Torben Iversen and David Soskice, workers are rational individuals whose decision-making regarding firm-specific and industry-specific skills is very much informed and even determined by the existence of institutional insurance guarantees (Estevez-Abe et al. 2001). In conjunction with the promise of increased wages, earnings-related UI acts as a commitment device (see, e.g., Offer 2003, 9; 2006, 66 & 67) which serves to constrain the future employment choices of skilled workers in the labour market. It facilitates this by promoting both skill formation and skill preservation. These functions help to counteract the myopic tendencies of workers towards skill investment by committing them to following more prudent lines of behaviour despite fluctuations in the business cycle. Pierson's explanation for why UI in particular was targeted would consequently appear problematic since skilled workers and their employers would seem to have a vested interest in ERBs.

Varieties of capitalism might therefore promise to offer a more compelling explanation for the case of ERB retrenchment. The primary contention of varieties of capitalism is that the institutional structures of advanced capitalist economies diverge into two main typologies, namely that of coordinated market economies (CMEs) and that of liberal market economies (LMEs). Whereas firm activity in LMEs is predominantly shaped by corporate hierarchies and competitive markets, it is influenced to a greater degree in CMEs by non-market mechanisms of strategic coordination (Hall and Soskice 2001b, 8). According to Peter Hall and David Soskice, these respective institutional dynamics largely serve to influence corporate strategies. Consequently, whilst firms in CMEs tend to invest in assets which are associated with particular productive purposes such as industry-specific skills, firms in LMEs typically invest in assets which can be made transferable for a variety of productive purposes such as general skills (Hall and Soskice 2001b, 17). This notion is reinforced by Estevez-Abe et al. who argue that whilst there is a correlation between high unemployment protection and industry-specific skills in CMEs such as Austria, Belgium, Denmark, Germany and Sweden, there is a similar relationship between low unemployment protection and general skills in LMEs such as Australia, Canada, Ireland, the United Kingdom and the United States (Estevez-Abe et al. 2001, 173). These divergent styles of political economy are developed and strengthened through the creation of institutional complementarities whereby coordination practices originating from one economic area become complemented by the transformation of contradictory practices in another (Hall and Soskice 2001b, 17 & 18). A hypothesis based on Hall and Soskice's concept of institutional complementarities could potentially help to explain why ERB retrenchment occurred in LMEs such as Britain and the United States. Such a hypothesis would contend that ERBs underwent reform because they were incompatible with

the liberal coordination practices which predominated in other areas of those economies. The liberalisation of unemployment protection would appear to be more broadly supported in the literature by Desmond King and Stewart Wood's analysis of the decline of American and British corporatist labour market and industrial training policies. According to King and Wood, state-sponsored programmes introduced between the mid-1950s and the late 1970s which encouraged coordination in these areas were 'structurally doomed' to failure and as a consequence were overturned in favour of neo-liberal policies during the 1980s (King and Wood 1999, 377). The varieties of capitalism literature presents two possible explanations to account for why such a policy shift occurred. Hall and Soskice argue that demand for the extension of institutional complementarities can lead to a favourable governmental response through the introduction of associated legislation (Hall and Soskice 2001b, 18). In a similar vein, King and Wood contend that the success of American and British neo-liberalism can be attributed to the fact that corporate and New Right policy preferences largely intersected, culminating in a strategic relationship between business and government interests (King and Wood 1999, 378 & 379).

Although varieties of capitalism has been an extremely influential approach for explaining variations between national political economies, it has not been effective in accounting for differences within countries. Despite acknowledging some deviations in economic practices within national contexts (Hall and Soskice 2001b, 15 & 19), varieties of capitalism generally presumes overwhelming corporate support for dominant institutional practices. This logic is crystallised in Wood's assertion that 'employer preferences over public policy...differ systematically between CMEs and LMEs' (Wood 2001, 253). This implied notion of corporate unity is problematic because it discounts the possibility that employers from the same national political economy may in fact have divergent institutional preferences. Even though Isabela Mares focuses on distinctions in firm size and risk exposure to account for differences in employer attitudes towards UI adoption in France and Germany (Mares 2001, 206 – 208; 2003, 29 – 31), it would seem that no similar effort is made in the rest of the literature to disaggregate employer interests in LMEs such as Britain and the United States. Instead, according to Hall and Soskice, corporate preferences and strategies tend to converge because national institutions confer particular comparative advantages which enable firms to pursue certain kinds of production more effectively than others (Hall and Soskice 2001b, 37). However, this perspective overlooks the possibility that the converse of comparative institutional advantage might also be true for certain firms. Although some employers might benefit from dominant institutional practices, others may be comparatively disadvantaged by these very same arrangements.

It is therefore important to examine both the comparative advantages as well as the comparative disadvantages which changes in earnings-related UI, as represented by trends in UI wage replacement rates, provided different groups of employers in Britain between the mid-1960s and the mid-1980s. One possible contention to consider is that the social policy preferences of employers are largely dependent on the kind of economic production in which they are engaged. Whilst manufacturing industries disproportionately gained from the expansion of ERBs through the extension of coordinated market policies in both countries in the mid-1960s, it was the service sector which was the primary beneficiary of the ERB retrenchment connected with the spread of neo-liberalism during the 1980s. Informed by these theoretical foundations, a reinterpretation seems needed of Hall and Soskice's arguments as well as those of King and Wood regarding the extension of those dominant practices which have composed institutional complementarities. In doing so, it may be hypothesized that whilst employers in the engineering and manufacturing sectors may have benefited from the existence of ERBs, employers in the service sector may have stood very little to lose, or may be even something to gain in certain cases, from their retrenchment. Some of this divergence in the social policy preferences of employers might be attributable to more fundamental differences in employment patterns. For instance, the cyclical nature of manufacturing means that employers often wish to retain the skills of laid-off workers for future production. In contrast, many

service sector firms which employ low-wage and unskilled workers, such as retailers, often have a relatively high rate of turnover. As a consequence, there is a tendency for such firms to prefer active labour market policies which will encourage fluidity in the national labour market. However, even in those service sector firms which employ highly educated and high wage employees, such as those in the financial services industry, redundancy is typically based on cause and as a consequence is usually terminal in nature rather than temporary.

The Development of Unemployment Insurance in Britain

The historical development of unemployment insurance in Britain has been particularly illustrative of the existence of such a sectoral divide. The creation of Britain's UI programme, through the passing of the National Insurance Act of 1911, was notable for being the very first fully state-administered scheme of its kind amongst industrialised nations. However, its establishment was equally noteworthy in that it was not designed to insure workers from all areas of the economy against the risk of unemployment. Rather, the original legislation prescribed a contributory system which limited the provision of benefits to workers from only seven different industrial sectors, including the construction, engineering, public works, steel, saw-milling, shipbuilding and vehicle manufacturing industries (Cohen 1921, 203). In elaborating upon the Liberal government's logic in its selection of these particular industries during deliberations over the National Insurance Bill in the House of Commons, Winston Churchill MP, then President of the Board of Trade, asked rhetorically:

To what trades ought we as a beginning to apply our system of compulsory contributory unemployment insurance? There is a group of trades well marked out for this class of treatment. They are trades in which unemployment is not only high, but chronic ... marked by seasonal and cyclical fluctuations, and whenever and howsoever it occurs it takes the form not of short time... but of a total, absolute, periodical discharge of a certain proportion of the workers (Cohen 1921, 204).

Moreover, as Timothy Hellwig (2005, 127 & 130) has argued, the 1911 Act 'contained a decidedly pro-skilled worker bias' since many of the sectors included were representative of 'capital-intensive industries' which maintained workforces comprised of relatively significant proportions of skilled employees. Hellwig's main argument was that the provision of unemployment benefits to skilled workers was likely to have been the primary impetus for the introduction of UI in Britain. This contention was echoed in a similar observation made by Clarence Northcott in 1921. Writing shortly after the passage of the Unemployment Insurance Act of 1920, which extended UI to most sectors of the economy which had previously been excluded, Northcott (1921, 423) noted in reference to the 1911 Act that: 'The trades formerly embraced under the act were mainly skilled trades and were specially designated.'

However, whilst the 1920 Act succeeded in substantially expanding coverage, it also permitted industries the right to contract out of the state-run programme (Northcott, 425). Section 18 of the 1920 Act had allowed for the creation of what were termed as 'special schemes' in cases where it was deemed to be appropriate for an industry to maintain a UI programme suited to its own specific requirements (Cohen 1921, 337). Jointly organised and coordinated by employers and workers from the industry itself rather than by the Ministry of Labour, special schemes were eligible to receive three-tenths of the total amount allocated by the government to the national UI system

(Northcott 1921, 425). Encouraged by the initial interest of firms from newly participating industries to pursue this option, a study resulting in *The Interim Report of the Committee on National Expenditure* (1922, Cmd. 1581) recommended the creation of a new framework based on insurance provision by industrial sector. One of the main arguments for establishing such a system was that since unemployment levels often varied significantly between industries, those with lower rates of unemployment should not be compelled to share the financial obligations of those with higher rates (Gilson 1931, 352). However, although the introduction of special schemes were explored by the woollen textile, hosiery, shoe, printing and wire-making industries, they were only successfully established in the banking and insurance industries.⁶ By the early part of 1921, a significant deterioration in the postwar economic recession coupled by rising levels of unemployment had altered the financial viability of special schemes for many of the industries which had initially been inclined to adopt them, leading the Ministry of Labour to shelve the idea of a national system based on UI by industrial sector one year later.⁷ This changed economic outlook prompted the government to pass an emergency amendment to the original act in June 1921. The new legislation discontinued the ability of industries with comparatively low levels of unemployment to opt out of the state-run programme so as not to further undermine the financial solvency of the programme (Gilson 1931, 81).⁸ Yet, despite the significant strain placed on state UI funds during this period, both the banking and insurance industries were allowed to retain their right to form special schemes. The making of such an exemption was perhaps even more notable given that neither plan was actually in operation by the time the emergency amendment had passed. Whilst the insurance industry would not begin to implement its scheme until July 1921, the banking industry had only submitted its initial request to the Ministry of Labour to contract out of the national system in June of that year, eventually gaining assent three years later (Gilson 1931, 81 & 84). Even though the prerogative of the Minister of Labour to sanction new special schemes would be ultimately abrogated in section 11 of the Unemployment Insurance Act of 1927, nevertheless an exception was made which permitted the continuance of both of these pre-existing private plans (Gilson 1931, 357).

The possibility that Britain established the industrialised world's first state-run UI programme in order to protect skilled workers from cyclical unemployment in similar industrial sectors as those which have predominated in CMEs such as Germany and Sweden has the potential to substantially alter current conceptualisations of varieties of capitalism. This scenario would seem to suggest that the existence of such forms of social protection have been more dependent on the concentration of certain industrial sectors within a given national political economy rather than on particular sets of institutional complementarities. Moreover, the decision of the banking and insurance industries to actively opt out of national UI during this period was particularly instructive of the way in which firms from different sectors of the same national political economy clearly had divergent social policy preferences. Although most of the industries which had given serious consideration to the adoption of private plans were unable to pursue this strategy further, this had more to do with the fact that the postwar recession had made it a particularly inopportune time in which to do so. In addition, the government's concerns over the potential collapse of the national UI system should additional industries have chosen to contract out of the general scheme provides a good indication that insurance by industry had the potential to become very popular under better economic conditions, especially amongst industries with relatively low levels of unemployment. In fact, the government's decision to abolish the special schemes option under the 1927 Act would seem to signal just that. It should also be considered that the continued exemption of banking and

⁶ See: Ministry of Labour, 'Report on the Administration of Section 18 of the Unemployment Insurance Act, 1920 (Special Schemes of Unemployment Insurance by Industries) and on the Action Taken with a View to Investigating the Possibility of Developing Unemployment Insurance by Industries.' London: HMSO (Cmd. 1613), 1923, p. 11.

⁷ op. cit.

⁸ op. cit.

insurance from the state-run programme, despite the tightening of regulations for other industries, may have been reflective of the relative influence of employers from these sectors in the UI policymaking process.

THE CASE OF BRITISH EARNINGS-RELATED UNEMPLOYMENT INSURANCE

The preliminary historical evidence also supports the proposition that employers in cyclical industries which employed relatively large numbers of skilled workers, such as those in the engineering and manufacturing sectors, were in favour of the introduction of an earnings-related supplement (ERS) to unemployment insurance which was enacted through the passage of the National Insurance Act of 1966. Perhaps one best indicators of business support for this measure comes from the internal correspondence, memos and reports of the Confederation of British Industry (CBI). Created in 1965, the CBI was formed through the consolidation of three separate independent employer associations, including the Federation of British Industries (FBI), the British Employers' Confederation (BEC) and the National Association of British Manufacturers (NABM). The amalgamation of these organisations established a national body for business interests which incorporated employers from different sectors of the economy, including those in agriculture, banking, commerce, engineering and manufacturing. Whilst the position of the CBI regarding the introduction of ERS for unemployment benefits was decidedly favourable, the association's support of the Wilson Government's proposed national insurance legislation was nevertheless qualified by a number of policy preferences. In a confidential memo circulated to the Secretaries of member employers' organisations in August 1965, the CBI provided an overview of the association's position on the principle of earnings-related social insurance:

In recent years employers' representatives have taken the following attitude on short-term benefits. They have accepted the view of the National Economic Development Council that earnings-related unemployment benefits would ease the hardship of redundancy and make a contribution to the acceptance of change and mobility by workers. They have questioned the urgency of introducing earnings-related sickness benefits in view of the cost involved and the absence of any comparable economic advantage. They have stressed the great importance of limiting all short-term benefits to a level which does not reduce incentive to work, and of avoiding administrative complications which would add to the clerical work already required of employers in connection with taxation and national insurance.⁹

This statement is reflective of the Confederation's views on ERS, as illustrated in the wide array of policy documents on the subject contained in the CBI archives, throughout the course of the policymaking process. As indicated in the memo, the CBI's policy position on ERBs had largely been defined by the recommendations of the National Economic Development Council (NEDC). Established in 1962 through a collaborative partnership between the Macmillan Government and the main employer associations of the time, including the BEC, the FBI, the NABM as well as the

⁹ *New National Insurance Legislation*, 23 August 1965. MSS. 200/C/3/Emp/5/1: Modern Records Centre, Warwick.

Association of British Chambers of Commerce (ABCC), the NEDC's principal objective was to facilitate and improve the coordination of economic policy between industry and government. Although the NEDC's formal role in economic planning was short-lived, eighteen months in total (Wood 2000), its influence in shaping the social policy preferences of its constituent members, as demonstrated in the extract above, would have more lasting consequences. Since 1960, when the FBI initiated its inquiry into future prospects for more robust national economic growth chaired by Sir Hugh Beaver, an exercise which would ultimately lead to the founding of the NEDC itself, a consensus had been forming amongst industrialists that the establishment of a link between unemployment benefits and prior weekly earnings could be greatly beneficial. One of the major findings of the Beaver committee was that there was a chronic national deficiency in the number of skilled workers available to British industry (Wood 2000, 438). According to the logic formulated by the NEDC, earnings-related UI had the potential to serve a number of important functions. It was believed that its introduction could serve to enhance productivity and skill retention. ERBs were therefore intended to cushion wage-earner incomes from the expected effects of technological change, to encourage workers into more productive jobs as well as to preserve the scarce existing supply of skilled labour during cyclical downturns. However, the CBI could see no similar value in the adoption of earnings-related sickness benefits, thought to increase levels of absenteeism from work, which the association clearly opposed throughout the mid-1960s and 1970s.¹⁰ Moreover, one of the primary concerns of the CBI was that the administration of the government's new proposals should not exacerbate employer costs.

Although the CBI was established as a confederation of rather diverse business interests, its policy preferences regarding earnings-related UI were very much driven by the association's industrialist members during this period. On 23rd August 1965, the Confederation's Social Insurance Committee invited member employer associations to comment on the government's proposed legislation. According to the committee, a total of twenty five replies were received, covering nearly 4 million employees of which 2 million were represented alone by the Engineering Employers Federation (EEF), the largest national association for employers from the engineering and manufacturing sectors.¹¹ The response showed that:

The principle of wage-related benefits is in general accepted and in some cases welcomed. The Engineering Federation and some others consider that the unemployment benefit proposals are more important than the new Redundancy arrangements, but there is no need for both.¹²

The position of the EEF as indicated from this report is particularly useful in providing a clearer indication of sectoral social policy preferences within the larger framework of the CBI. It suggests that, in contradiction to the VoC approach, the UI policy preferences of British employers engaged in industrial production would seem to be closer to those held by their counterparts in CMEs such as Germany and Sweden than the existing political economy literature currently recognizes. Such an observation is perhaps even more notable when one considers that the CBI would also stand against the Thatcher Government's proposal to abolish ERS put forward in Clause 4 of the Social Security Act (No. 2) of 1980 some 14 to 15 years later. In a confidential memo to members of the Social Security Committee dated 2nd May 1980, the committee stated that: 'The CBI is opposed to the

¹⁰ *Absenteeism*. 1969. L.282.69, MSS.200/C/3/EMP/515: Modern Records Centre, Warwick.

¹¹ *National Insurance – Proposals for Wage-Related Unemployment and Sickness Benefits: Summary of Comments by Member Employer Organisations*. 1965. C/L.83.65, MSS.200/C/3/EMP/5/2: Modern Records Centre, Warwick.

¹² *op. cit.*

proposals of the whole Clause and would seek its deletion from the Bill...'¹³ Although the Conservative majority would eventually pass this measure into law, ending the link between previous earnings and unemployment compensation in Britain, documentary evidence from the CBI archives provides important insight into the fact that such policy changes may have comparatively disadvantaged certain sectors of the economy in relation to others.

Conclusion

The case of earnings-related unemployment insurance in Britain between the mid-1960s and mid-1980s demonstrates that there is a need to develop new explanatory frameworks which can go beyond the dominant state-centric approaches of the past decade. The recent resurgence of interest in the role of society-based actors in the wider study of institutional change is particularly instructive. This new research agenda suggests that, in addition to both state institutions and state actors, societal groups such as employers can help inform studies of welfare state change. Given the emphasis in the existing state-centric literature on institutional resilience, an examination of the agency of such groups has the potential to explain why significant small-scale changes in social policy have occurred despite the persistence of broader structural stability. This ontological shift away from the state-centric literature's focus on big questions, large processes and macro-social outcomes has yet to be theoretically addressed in a comprehensive manner. Consequently, whilst the explanatory power of society-centred theories may previously have been called into question in the treatment of large-scale welfare state change, the utility of such approaches in accounting for small-scale welfare state change deserves serious examination.

¹³ *Clause 4: Social Security (Miscellaneous Provisions) Bill: Note of CBI's View*. 2nd May 1980. MSS.200/C/3/EMP/5/7: Modern Records Centre, Warwick.

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