



universität  
wien

# MASTERARBEIT / MASTER'S THESIS

Titel der Masterarbeit / Title of the Master's Thesis

## On the Assessment of the Performance of Welfare States

verfasst von / submitted by

Cécile Buchholz, B.Sc.

angestrebter akademischer Grad / in partial fulfilment of the requirements for the degree of  
Master of Arts (MA)

Wien, 2024 / Vienna, 2024

Studienkennzahl lt. Studienblatt / degree  
programme code as it appears on  
the student record sheet:

UA 066 642

Studienrichtung lt. Studienblatt / degree  
programme as it appears on  
the student record sheet:

Masterstudium Philosophy and Economics

Betreut von / Supervisor:

ao. Univ.-Prof. i.R. Mag. Dr. Karl Milford

|                                                                           |           |
|---------------------------------------------------------------------------|-----------|
| <b>Introduction</b>                                                       | <b>1</b>  |
| <b>1. What do we call a welfare state?</b>                                | <b>4</b>  |
| 1.1. The justification of welfare state policy                            | 4         |
| 1.2. Historical evolution of the welfare state                            | 5         |
| 1.2.1. Bismarck versus Beveridge                                          | 7         |
| 1.2.2. Objectives of the welfare state: Well-being vs. emergency policy   | 9         |
| 1.2.3. Welfare state versus interventionist economic policies             | 10        |
| 1.3. Is there an alternative to the welfare state?                        | 11        |
| <b>2. A methodological analysis of comparative welfare state research</b> | <b>12</b> |
| 2.1. Esping Andersen on the Three Worlds of Welfare Capitalism            | 12        |
| 2.2. Criticism of Esping-Andersen's ideal types                           | 16        |
| 2.2.1. There are endless worlds of welfare capitalism                     | 16        |
| 2.2.2. The added value of categorizing is limited                         | 19        |
| 2.3. Theory, methodology and scientific progress                          | 20        |
| 2.3.1. A critique of the essentialist theory of welfare states            | 23        |
| 2.3.2. The evaluation of the performance of a welfare state               | 25        |
| <b>3. On the performance of welfare states</b>                            | <b>27</b> |
| 3.1. How to measure the performance of welfare states                     | 27        |
| 3.2. Indicators measuring the performance of welfare states               | 29        |
| 3.2.2. Post-tax-and-transfer Gini coefficient                             | 32        |
| 3.2.3. Volatility of real disposable income per capita                    | 34        |
| 3.2.4. People living in absolute poverty                                  | 36        |
| 3.2.5. Unemployment rate                                                  | 38        |
| 3.2.6. Monopoly Power of companies                                        | 40        |
| 3.2.7. Corruption                                                         | 42        |
| 3.2.8. Environmental quality                                              | 45        |
| 3.2.9. Means of payment                                                   | 47        |
| 3.2.10. Life expectancy                                                   | 48        |
| 3.3. Limits to this method of welfare state performance measurement       | 50        |
| <b>Conclusion</b>                                                         | <b>52</b> |

# Introduction

As a concept and system, “the welfare state” is just as abstract, dynamic and elusive as “the capitalist system”. In its pure form, neither capitalism nor the welfare state exists; rather, today's economic and social systems are a mix of both and thus correspond to welfare capitalism. The introduction of social reform movements is also closely intertwined with capitalism, as welfare policies have their beginnings in the social and political changes of the late 19th and early 20th centuries. During this period, industrialized countries began to respond to the challenges posed by rapid urbanization, industrialization, and social inequalities. Thus, the welfare state emerged as a reaction to increasingly capitalist economies. How the welfare state has developed historically, as well as the main differences between multiple welfare states and their performance, is being studied in comparative welfare state research.

Research on welfare states began with the development of theoretical approaches considering the role of the state in the provision of social services and poverty reduction. Following the expansion of social security systems in many Western countries, the welfare state was increasingly considered an instrument for promoting social well-being, equity, and economic stability. From the 1960s, researchers began to identify and analyze different models of welfare states. Among scholars, Gøsta Esping-Andersen (1990) in particular, with his *Three Worlds of Welfare Capitalism*, provided a fertile foundation for further research on classifications of welfare states. Accordingly, the focus of comparative welfare states research is on the historical development of welfare states and their classification. Only a few studies, however, focus on the evaluation of the performance of welfare states. But research on the performance of welfare states - also in context with research on the sociopolitical tendencies of welfare states (as part of the classification of welfare states) - could provide particularly high added value exceeding the limits of theoretical studies.

For this reason, the thesis aims at questioning the added value of welfare state typologies from a methodological point of view and introduces a method of welfare state performance measurement. This method of welfare state performance measurement is based on multiple indicators measuring the performance of welfare states from different perspectives. For this purpose, the justification of welfare state policies is introduced in the light of free market failures and instabilities. According to this objective of the welfare state, the performance measurement focuses on the extent to which social costs caused by market risks and the negative impact of market imperfections are reduced. Consequently, the thesis introduces

indicators which measure the extent to which social costs caused by market instabilities are minimized. The comparison of the performance of welfare states can be conducted by comparing each indicator individually or by doing a multidimensional comparison.

The performance measurement introduced will therefore not depend on common indicators measuring “the effort” such as social expenditure, which are often used to measure the spending on social welfare but on indicators like the unemployment rate, environmental quality, and the Gini coefficient.

This thesis contains three chapters with the first one focusing on the justification of the welfare state and its welfare enhancing policies. It also addresses the controversy regarding a unified definition of the welfare state. What is a welfare state and how are welfare enhancing policies justified? The main argument of the first chapter is that the instabilities of free market capitalist systems justify welfare enhancing policies and the welfare state’s objective is to reduce the social costs caused by those instabilities.

The second chapter addresses research questions and trends in the comparative study of welfare states over the past decades and reviews comparative welfare state research, which focuses too much on typologies. Thereby, the criticism of typologies of welfare states is based on the methodological approach, which does not investigate how the social costs caused by the instabilities of free market capitalist systems are reduced by welfare enhancing policies, but what constitutes the welfare state - or a certain type of welfare state. Accordingly, the first chapter also argues from a philosophical perspective, which counters the methodological positions of essentialism with methodological nominalism as a more scientific approach with greater added value for research and practice. Thereby, *The Three Worlds of Welfare Capitalism* by Esping-Andersen (1990) serve as an example of influential comparative welfare state research which is critically analyzed.

Having reviewed essentialist methodological approaches to welfare state research, the third chapter suggests how comparative welfare state analysis can be approached from a methodological nominalist perspective by implementing performance measurement of welfare states. The question "what do we call a welfare state?" needs to be the starting point of this analysis. Consequently, according to a nominalist methodological approach, welfare state research should study what problems welfare states are trying to solve; what theories or explanations of capitalist systems the proposed solutions are based on; and how these solutions

perform. For this reason, not the type or character of welfare states will be studied in the third chapter, but a performance evaluation based on the objectives of welfare states.

To evaluate the performance of a welfare state, indicators will be introduced which measure the degree to which social costs caused by instabilities and imperfections of capitalist systems are minimized. In total, ten indicators will be introduced which measure the performance of welfare states from different perspectives: For many indicators, there is an interdependence, and the co-existence can create conflicting goals. That is, policies to achieve a social cost reduction from one perspective (indicator), can harm another indicators performance. But this is no weakness of the introduced concept: Welfare states are particularly successful, if the policy measurements taken by the state can approach two potentially conflicting indicator goals simultaneously, e.g., increase income equality while keeping GDP per capita at PPP constant. Conflicting goals are therefore part of the DNA of a welfare state and must be reflected in the policies taken to maximize welfare. Based on the indicators presented, welfare states performances can be compared to one another or to their own performance over time. A multidimensional comparison can also test for possible correlation of indicator results, which helps to evaluate possible trade-offs in welfare optimization. Measuring the performance of welfare states over time from different perspectives can then support the evaluation and the selection of welfare maximizing policies.

Consequently, the focus of the thesis is on the critique of essentialist methods in comparative welfare state research and the outline of a method for measuring the performance of welfare states which has a greater added value than the classification of welfare states. In this context, the proposed indicators are not to be understood as sufficient and limited in their scope but are to be questioned and expanded.

# **1. What do we call a welfare state?**

## **1.1. The justification of welfare state policy**

The global economy is currently experiencing volatile times. Given an inflation rate of way over 2% and the general fear of a severe recession - not only producers and consumers are under pressure, but also politicians and central bankers. Similarly volatile time periods caused by oil price crises, financial crises, health crises and other factors have also been witnessed in the past. These observations of recessions, depressions, upswings, and high inflation show that capitalist economic systems are characterized by instabilities that cause enormous social costs. Consequently, economists are interested in explaining these instabilities in order to design policy measures that mitigate those instabilities and decrease the associated social costs.

The history of economic ideas provides many different explanations regarding the inherent instability of capitalist economic systems.

Traditional neoclassical theories assume that capitalist systems have a full employment automatism in the form of perfectly flexible prices, wages and interest rates. These factors automatically lead the system back to its full-employment equilibrium, once it is out of equilibrium. Within the framework of neoclassical theories, this system can only be explained as inherently instable because of disproportionalities of the different sectors of the economy. Thus, these neoclassical theories can endogenously explain crises or business cycles. Robert Hawtrey (1913), for example, combined quantity theory and the gold standard to explain business cycle fluctuations endogenously. He stated that fluctuations in the money supply were caused by changes in the trade balance. These changes in the money supply in turn were causing business cycles. “Being one of the first to propose that changes in the money supply drive cyclical fluctuations, Hawtrey laid the ground work for modern, more fully developed business cycle models in which monetary policy plays a critical role, such as the Keynesian model” (Knoop, T. A., 2009, p. 31).

In contrast, the Austrian School considers capitalist systems often as principally stable processes, which never reach an equilibrium because of false relative prices. Representatives of this tradition in the history of economic ideas are Hayek and Mises. Their monetary conjuncture theories are all based on Wicksell's model of the real capital market. Wicksell showed that “prices of goods and services are bid up by excess demand, the rise in price does not of itself eliminate the excess demand” (Ackley, G., p. 137). Like neoclassical theories,

Austrian school theories can explain cycles only endogenously by disproportionalities in the structure of the economy.

Keynesian theories and underconsumption theories, on the other hand, explain instabilities endogenously by a lack of aggregate demand. Keynes believed that instabilities are ultimately caused by changing expectations. Accordingly, the expectations of the future development of business conditions are decisive for investment decisions. A recession is therefore caused by a loss of confidence in the market. This leads to an increased savings rate, a decrease of aggregate demand and high unemployment. Keynes believed expectations are erratic because executives and speculators are guided by a short-term perspective and a herd mentality (see Knoop, T. A., 2009, p. 48).

The theories explaining the instabilities of capitalist systems are numerous and controversial. By contrast, rising social costs caused by market failure and instabilities are a fact. Consequently, collective action to reduce social costs, caused by free market instabilities, can be justified by its welfare enhancing effect. In the following, I will outline that “what we call a welfare state” provides a systematic solution to the problem of the instabilities of capitalist systems and market failure – from a historical as well as from a conceptual viewpoint.

## **1.2. Historical evolution of the welfare state**

The usual story of the origin of the welfare state begins in the late 19th century in Germany, whereas the formal origin - the term itself - was established more than 50 years later in England.

As Bent Greve (2014) writes in his *Historical Dictionary of the Welfare State*, “the starting point for presenting and discussing what we today would label welfare state activities is Chancellor Otto von Bismarck’s reforms in Germany, starting in 1883. Similar reforms quickly followed in most European countries” (Greve, B., 2014, p. 1). Most welfare state researchers agree on the fact, that the welfare state has its substantial origins in Germany in the late 19th century, when reforms such as sickness insurance (1883), the first law on industrial injury (1884) as well as old age and invalidity insurance (1889) to provide social security were introduced. Bismarck was the first to introduce mandatory social insurances on a grand scale. Other European countries like Austria followed.

But even though these reforms might have been the starting point for the welfare state to develop, the welfare state was not yet intentionally introduced, because the prime reason to introduce social policies in the German Reich was not to systematically stabilize the prevailing capitalist economic system. At that time, the prevailing explanation of the working mechanism of capitalist systems was that it is basically a stable system. The intention was not to create a regime which resembles what we call welfare state today, but the intention was to avoid social unrest due to the developing socialist movements. Therefore, insurances were introduced to minimize risk<sup>1</sup> by creating a net of minimal protection. Social protection was thus understood in the clear mode of risk. But what we call the welfare state today goes far beyond the net of minimal protection (emergency aid policy). For a welfare state is supposed to generate social well-being and thus a certain standard of living. A large part of today's welfare state is, for example, the public service, which cannot be seen in the mode of risk. This implies that what we call welfare state goes far beyond risk management.

The true origin of the welfare state is connected to Keynes' General Theory (1936) and its influence on how the capitalist system is perceived. Keynes thus laid the economic policy foundations for the modern welfare state. Fundamental to Keynes is that there is no self-regulation of the market to achieve full employment. It follows that the state has important tasks in stabilizing macroeconomic development and balancing the cyclical fluctuations of supply and demand. Therefore, according to Keynes, state intervention is necessary to stabilize the market as a system incapable of satisfying social needs. This corresponds to the objective of a welfare state, as I addressed it at the beginning of the thesis.

The term "welfare state" was used and established (but not invented) in 1942, not long after Keynes published his influential work, by William Temple, the Archbishop of York, to contrast this ideal, welfare enhancing state with the Nazi warfare state. According to him, the welfare state had to fulfill its moral and spiritual functions in promoting human welfare (Ann Oakley et al., 2001, p. 49). This was the impetus that made the term "welfare state" publicly known and provided impulses for reflection on its objectives. One of those who reflected on the welfare state and promoted its objectives at an early stage was Lord William Beveridge who published a report entitled *Social Insurance and Allied Services* in 1942. This report was the foundation for the Beveridge model, characterized by "universal" provision of welfare, which was later developed theoretically. The idea of the welfare state was not entirely new, but the emergence

---

<sup>1</sup> There are many categories of risk, such as old age, health, maternity and family, job loss and poverty.



of the popularity of the welfare state during and especially after the world wars was no coincidence.

“The war seemed to inspire a more collectivist way of thinking, encompassing many who needed help through no fault of their own. In addition, there was a belief that the best way to reduce the possibility of another war would be to reduce tensions among countries, create jobs, and guarantee decent living standards.” (Greve, B., 2014, p. 7).

### **1.2.1. Bismarck versus Beveridge**

Since the beginning of comparative welfare research, the two historically evolved systems - the Bismarck and the Beveridge system - serve as predecessor models of welfare states. Analyzing those two systems has nothing in common with the idea of establishing ideal types but it must be recognized as a comparative analysis of social policy measures. Both systems thereby aim at “identifying and solving the problems of poverty and income inequality, promoting social cohesion and the efficiency of the economy as a whole”, as well as at improving “individual security and alleviate social tensions and unknown risks” (Leite, A. M. R., Ribeiro, H. n. r. et al., 2022, p. 260).

The Bismarck system is a model based on the social system introduced by Otto von Bismarck in Germany at the end of the 19th century. This system was financed by contributions from employees and their employers. William Henry Beveridge, on the other hand, was the head of a British commission of experts and recommended to the British House of Commons in 1942 a tax-financed basic social security system for everyone. These suggestions were realized in the British social security system after World War II.

The two systems differ in many respects such as the financing of social benefits. While the Bismarck system relies primarily on contribution-financed social insurance linked to employment, the Beveridge system finances social benefits primarily through taxes. The Beveridge and Bismarck systems thus differ fundamentally in the type of financing used to meet the financial needs of social benefits. Payments of contributions generally qualify for consideration, whereas the payment of taxes does not qualify for consideration.

Furthermore, the Bismarck system does not lead to any redistribution between different income groups, whereas the Beveridge system does. This is because in the Bismarck system, employees as well as employers pay insurance contributions jointly to the employee’s “insurance account”. The contributions are measured based on the salaries of the employees. The amount of money that employees receive from their insurance in the event of a wage loss is based on the amount

of their contributions to the insurance fund, i.e., the amount of their wages before the wage loss. In the Bismarck system, the contributions are therefore often administered privately and on a parity basis (employee and employer)<sup>2</sup>. In the Beveridge system, the services that the welfare state provides for its citizens are paid from taxes. Accordingly, all citizens are insured and the insurance costs are paid from the state budget, which is administered publicly. Since high-wage workers pay more taxes than low-wage workers or unemployed people, but receive the same benefits, the financing of the Beveridge system has a redistributive effect.

As a result, the ideal Beveridge system provides basic, equal benefit to all, irrespective of prior earnings, contributions, or performance. Contrarily, the Bismarck system aims at class politics. While benefits in the Bismarck system are assessed on the basis of lost wages, the Beveridge system provides uniform lump-sum benefit. In the Bismarck model, the administration of insurance funds is organized privately and to a certain degree directly between employers and employees. In the Beveridge model, administration is carried out by the public sector.

Over the course of time, the two systems have converged. „Bismarck and Beveridge are considered the precursors of social security in Europe, and the models are adapted to the reality of nations, making it difficult to identify 100 percent of the matrix used, often resulting in hybrid situations” (Leite, A. M. R., Ribeiro, H. n. r. et al., 2022, p. 249). These hybrid situations can usually be detected when analyzing the financing of welfare systems.

„Welches EU-Land welchem Finanzierungssystem zuzuweisen ist, ist nicht immer eindeutig. Bei einem Vergleich der beiden Systeme innerhalb Europas ist auffällig, dass in keinem Land eines der beiden Systeme in reiner Form anzutreffen ist“ (Rohwer, A., 2008, p. 26)<sup>3</sup>.

After all, the northern European countries are historically strongly tied to the Beveridge system, while the Bismarck system prevails in the central European countries. Over time, European countries have progressively converged and no longer fit into the categories of the two systems. Taxation based financing increased in countries where it had previously been low, such as France or Italy and vice versa. Anja Rohwer (2008, p. 28) identifies demographic change in Europe as one of the reasons for the convergence of the two systems. As the age pyramid shifts,

---

<sup>2</sup> The contributions of today's insurance systems (which are classified as "Bismarck systems") are usually administered in state funds, but separately from the public government budget, which administers taxes.

<sup>3</sup> Translation: "Which EU country should be assigned to which financing system is not always evident. When comparing the two systems within Europe, it is striking that in no country is one of the two systems to be found in pure form" (Rohwer, A., 2008, p. 26).

a decreasing number of working contributors have to provide benefits for an increased number of pensioners who no longer pay contributions. However, the Bismarck system lacks the necessary preconditions to cope with this demographic effect. According to Anja Rohwer (2008, p. 28), the Beveridge system is also under demographic pressure because the shift of the age pyramid leads to an additional burden on tax revenues in the health care system. Thereby, the financing of the health care system is in competition with the budget requirements of other political areas. Therefore, in Beveridge systems, social insurance systems can hardly be financed. A change from one pure system to the other pure system cannot be a solution.

It must be noted that the comparison of Beveridge and Bismarck systems is not an artificially created classification of welfare states. Both systems emerged historically and have only subsequently acquired the symbolism that is attributed to them today in welfare research. Therefore, this distinction of welfare regimes cannot be compared with Esping-Andersen's typology. However, even when comparing real welfare states with the pure forms of the Beveridge and Bismarck systems, the discussion about which country can be assigned to which of the two systems does not significantly enhance scientific progress.

### **1.2.2. Objectives of the welfare state: Well-being vs. emergency policy**

Even today, the welfare state and its objectives are not uniformly defined, for the controversy arises primarily from the difference in objectives. There is some consensus regarding the objective that welfare states need to stabilize the economic system by minimizing market risks and its impact. Therefore, especially economic crisis are challenging and shaping the welfare state and its development. What needs to be understood is that the welfare state as a system that combats market risk is not static but dynamic. As Kuhlmann (2018) writes:

“Since 2007, the global financial crisis has been another challenge for welfare state development (...). Future development of welfare states may be shaped by these and other challenges, such as increasing forced migration. As this brief overview shows, welfare states are by no means fixed institutional arrangements, but are continuously being confronted with different challenges to which they have to adapt in order to prevent institutional drift” (Kuhlmann, J., 2018, p. 16).

The dynamics of the welfare state is one reason for the controversy on further objectives of the welfare state. In short, the existence of the imperfect market and its risks gives the government the necessity to intervene in order to minimize the market risk - but to what extent? Consequently, the main question is: Does a welfare state need to maximize welfare or to satisfy minimal needs? “The core aim of all welfare states was social protection and income

maintenance, not to reshape the class structure” (Esping-Andersen, G., 2015, p. 152), but does this objective still correspond to the modern welfare state and its objectives?

Early-stage welfare state regimes were generally characterized by the objective to reduce the market risk, i.e., the risk that society is exposed to in a capitalist system. This definition, which reduces the welfare state to the mode of risk, still exists today as political scientist and sociologist, Margaret Weir, points out: “A welfare state is a state that is committed to providing basic economic security for its citizens by protecting them from market risks associated with old age, unemployment, and sickness” (Weir, M., 2001).

But this definition of the welfare state cannot do justice to “the modern welfare state regime” because modern welfare states do not only aim at generating a net of minimal protection (emergency policy) but at generating social well-being. From 1945 on, the objective of public intervention focuses on guaranteeing a certain standard of living instead of a subsistence level. While social protection can be understood in the unambiguous mode of risk, this does not apply to public service. But public services must also be understood as a means of counteracting market failure. If the market were perfect, there would be no free-rider problem and the public services could be provided by the market. Accordingly, the modern definition of the welfare state aims, on the one hand, to counteract market risks in a capitalist system and, on the other hand, to minimize market failure in order to raise the standard of living. In other words, a welfare state should combat market imperfections.

### **1.2.3. Welfare state versus interventionist economic policies**

French economist Christophe Ramaux (2018) describes the modern welfare state as a regime consisting of four pillars: Social protection, public services, labor market regulation including employment regulation and employment policy, and the fourth pillar, economic policies (budgetary, monetary, industrial and trade policies) to support activity and employment. All those pillars find their justification in the imperfection of the market and its failures.

As Greve writes, “Markets can fail for many and different reasons, and, even if there is no complete agreement on the extent of market failure, the existence of monopolies, externalities and elements related to equity and employment can be reasons for public intervention to ensure a higher level of welfare.” (Greve, Brent, 2018, p. 9).

The four pillars are the components of a systematic solution to the problems created by the imperfection of markets. Consequently, a welfare state does not only react to a specific market

failure by implementing one economic policy measure, but it provides a systematic solution to reduce the impact of market failure and market risks.

This leads me back to the main question: “what do we call a welfare state?” and “how do we distinguish the welfare state from merely interventionist economic policies?”. The system, which we call welfare state, provides a systematic solution to the problem of the instabilities of capitalist systems and market failure. Consequently, the goal of a welfare state is to minimize the instabilities of capitalist systems by systematic measures which reduce market risks associated e.g. with old age, unemployment, accidents, and sickness. As Kuhlmann (2018, p. 19) writes, a “definite” understanding of the welfare state is, neither realistic nor desirable.

### **1.3. Is there an alternative to the welfare state?**

One discussion which often comes up to challenge the welfare state and its justification is whether a welfare state is needed or whether the market, regulated to ensure perfect competition, can support and meet the same kinds of needs as the welfare state. This thesis will not elaborate on this subject in depth nor challenge the justification of market intervention in general. But one straightforward reason in favor of the welfare state needs to be mentioned: In some areas individual coverage would be too expensive for society and its individuals. Greve elaborates on the example of long-term care:

“It is not possible for the individual to know for how long and how much he or she will need care when elderly, and individual savings to cover old age would therefore need to be very large. Individual actuarial insurance is difficult to use due to information problems, and therefore in principle only two options are available: a system financed out of general taxation or mandatory social insurance. These two options will imply risk- sharing without the problems of moral hazard and adverse selection.” (Greve, B., 2018, p. 9).

A welfare state provides for risk sharing with instruments like e.g. compulsory insurance. Consequently, a welfare state minimizes the risk of private persons exposed to imperfect markets by risk sharing. This is an efficient alternative to private persons trying to protect themselves from all kinds of market risks by themselves. An effective welfare state should therefore minimize the risk to which private individuals are exposed in the free market through state intervention. In doing so, collective solutions aimed at minimizing the market risks should require less expenditure than all private individuals would incur in aggregate for their individual coverage preparing for the worst-case scenario.

## **2. A methodological analysis of comparative welfare state research**

Comparative welfare state research has evolved over several decades, with roots in the mid-20th century. Post world-war II, scholars and policymakers started to examine the diverse approaches taken by different regimes in providing social security and welfare to their citizens. Thereby, research on modern welfare states has been significantly shaped by the theory that these welfare states develop along distinct patterns, giving rise to regimes which can be categorized by key variables.

One social scientist who has shaped comparative welfare state research over the past several decades by categorizing welfare states by three “ideal types” is Gøsta Esping-Andersen. He was born in Denmark in 1947 and is now a professor of sociology at Pompeu Fabra University in Barcelona. Within his book, *The Three Worlds of Welfare Capitalism* (1990), he developed a classification of welfare states by intensively studying the institutional characteristics of welfare-state programs. In his book, he concludes that there are three worlds of welfare capitalism: liberal models, conservative (corporate) models and social democratic models.

After Esping-Andersen's work was published, there was a multiplication of comparative studies exploring welfare state variations globally. Researchers examined not only European countries but also included analyses of welfare states in other regions, such as Asia, the Americas, and Oceania. This period saw the development of various typologies and models to capture the diversity of welfare state arrangements. Comparative welfare state research also incorporated historical and institutional perspectives. Scholars began to consider how historical legacies, political institutions, and cultural factors influenced the development of welfare states. For this reason, most comparative welfare state research focuses on typologizing welfare states. In the following, I will outline why the added value of categorizing welfare states is limited from a methodological, empirical, and practical point of view.

### **2.1. Esping Andersen on the Three Worlds of Welfare Capitalism**

In his book *The Three Worlds of Welfare Capitalism* (1990), Esping-Andersen introduces his concept of welfare capitalist regimes and outlines a classification of three ideal types of welfare state regimes, which he differentiates and defines by certain properties such as the degree of decommodification and of stratification. Thereby, he makes use of empirical methods to categorize “ideal” welfare state regime types by their properties.

In general, Esping-Andersen distinguishes the welfare state that has been approached narrowly from the welfare state that has been approached broadly.

“Those who take the narrower view see it in terms of the traditional terrain of social amelioration: income transfers and social services, with perhaps some token mention of the housing question. The broader view often frames its questions in terms of political economy, its interests focused on the state's larger role in managing and organizing the economy. In the broader view, therefore, issues of employment, wages, and overall macro-economic steering are considered integral components in the welfare-state complex. In a sense, this approach identifies its subject matter as the 'Keynesian welfare state' or, if you like, 'welfare capitalism'.”, (Esping-Andersen, G., 1990, p. 2)

In his book, he follows the broad approach which is the reason he prefers to use terms such as “welfare capitalism” and “welfare-state regimes”.

In analyzing welfare state regimes, Esping-Andersen focuses on structural and institutional features. Thereby, in the first step, he doesn't trace back the differences in structural and institutional features to cross-national differences but to differences over time. Consequently, his welfare state regime clusters are explained by history. According to Esping-Andersen, “using cross-sectional designs to address dynamic hypotheses can only be undertaken with severely compromising assumptions. Chiefly, we are substituting cross-national differences at any given point in time for differences over time” (Esping-Andersen, G., 1990, p. 114).

The main focus of his structural and institutional analysis is on (1) the degree state activities are interlocked with markets (decommodification<sup>4</sup>) and (2) the role of the family in social provision (stratification<sup>5</sup>). Those indicators are of significant importance to Esping-Andersen (1990, p. 21) because he argues that the welfare state must be understood in terms of which rights it grants; how state activities are interlocked with markets and which role the family plays in social provision (stratification). Based on the criteria, rights, stratification and decommodification, Esping-Andersen clusters welfare state regimes referring to their core identity which can be explained by history. He measures the differences in the dimensions of

---

<sup>4</sup> Decommodification is the decoupling of social security from the labor market. Decommodification is conceived as any process that reduces the scope and influence of the market. A high degree of decommodification means that a person can maintain a livelihood without having to rely on the market.

<sup>5</sup> Stratification refers to the consideration of social strata in the provision of social benefits. A high degree of stratification goes hand in hand with the categorization of a society's population into groups based on socioeconomic factors such as wealth, income, race, education, ethnicity, gender, occupation, or social status.

stratification and decommodification by quantitatively measurable indicators. These dimensions and indicators can then be used to distinguish welfare states<sup>6</sup> and assign them to one of his three clusters. Esping-Andersen argues that there are three worlds of welfare state capitalism, representing historically evolved forms of institutionalization of social security and full employment: The liberal welfare state, the corporatist welfare state regime and the social democratic one. Furthermore, he explains how the three worlds of welfare capitalism emerged historically and which objectives provoked their evolution<sup>7</sup>.

The liberal welfare state cluster is characterized by a low degree of decommodification and a high degree of stratification. The liberal welfare state emphasizes above all the role of the free market by guaranteeing only the minimum or by subsidizing private welfare schemes. It is predominantly tax-financed, and transfers are usually means-tested. Therefore, liberal welfare regimes predominantly provide modest universal transfers, and its eligibility requirements are strict whereas benefits are low. As examples for this cluster of welfare states, Esping-Andersen lists Canada, the USA and Australia (see Esping-Andersen, G., 1990, p. 27). Great Britain and Switzerland are usually also categorized as liberal welfare states.

Corporatist regimes<sup>8</sup> on the other hand are characterized by a higher degree of decommodification (at least for members of the beneficiary groups) than the liberal regimes since “the historical corporatist-statist legacy was upgraded to cater to the new 'post-industrial' class structure” (see Esping-Andersen, G., 1990, p. 27). Thereby, the preservation of status differentials is still important, and the degree of stratification is quite high. Moreover, conservative regimes are typically shaped by traditional family values, and tend to encourage family-based assistance dynamics, e.g., social insurance typically excludes wives not participating in the labor market, and family benefits encourage motherhood. There is a strong link between wage labor and social entitlements. Furthermore, the redistributive effect of social benefits is low. Examples of this type are countries such as Germany and France.

---

<sup>6</sup> He analyzed 18 OECD countries in detail, among them are Australia, Austria, Belgium, Canada, Denmark, France, Germany, Italy, Netherlands, Norway, Sweden, Switzerland, United Kingdom, United States.

<sup>7</sup> He identifies three interacting factors for the evolution of three types of welfare regimes: The nature of class mobilization (especially of the working class); Class-political action structure; historical legacy of regime institutionalization.

<sup>8</sup> Corporatist regimes are also called conservative welfare states. In this paper those two terms will be used synonymously.



The third world of welfare capitalism is the social democratic model which differentiates from the liberal model in most respects. In social democratic welfare states, “the principles of universalism and decommodification of social rights were extended also to the new middle classes” (Esping-Andersen, G., 1990, p. 27). Social democratic regimes promote an equality of high standards, rather than an equality of minimal needs and are consequently characterized by universal benefits. Therefore, equality is sought at a high level. Benefits are predominantly financed by relatively high taxes. The level of decommodification is high whereas the level of stratification is low. Examples of this type are the Scandinavian countries Sweden, Norway, Denmark and Finland.

According to the author himself (2015, p. 124), his typology of welfare states has two main goals: To identify the causes of welfare state diversity and to identify whether this diversity has any influential effect on the quality of citizens’ life chances. But he did hardly achieve the second goal - instead a big discussion started about whether his three ideal types are correctly defined and whether his classification should be extended to other ideal types. This is due to his methodology according to which he tries to distinguish welfare state cluster by empirical data. From the empirical data he abstracts characteristics in which welfare states differ from one another. Those properties, identified by the subtraction of information of empirical data, are part of the defining formula which is indicated by the definition of the ideal type.

Following Esping-Andersen's work, most comparative welfare state research focused on grouping welfare states into distinct types or categories based on common characteristics. These common characteristics often include the design, scope, and purpose of social policies within a given welfare state. Many researchers have proposed other typologies or variations to capture the diversity and nuances of welfare state configurations. Some typologies might include additional categories or subtypes, and they can be based on different criteria. In general, all typologies provide a simplified framework for understanding and comparing the complex structures of welfare states, allowing researchers to identify commonalities, differences, and patterns across diverse social policy systems.

## 2.2. Criticism of Esping-Andersen's ideal types

The critique of Esping-Andersen's classification of welfare states includes, on the one hand, the methodology itself - that is, the nature of typologizing itself, and on the other hand, the parameters by which Esping-Andersen's typology categorizes welfare states.

### 2.2.1. There are endless worlds of welfare capitalism

The first line of criticism I will address, concerns the accuracy of the typology itself, that is, the degree to which it matches reality. As a reaction to Esping-Andersen's *Three Worlds of Welfare Capitalism* many alternative typologies were published – some of them similarly successful as Esping-Andersen's, some less successful and unread. Most of those further developments intended to reflect aspects that were not examined in Esping-Andersen's original typology or included more countries in the analysis.

It is evident that the indicators Esping-Andersen selected cannot describe and evaluate the conception of the welfare state with all its economic policies. Some critics object, for example, that the typology of Esping-Andersen is gender-blind<sup>9</sup>. As Clare Bambra (2007) puts it,

“aside from the overt absence of women in Esping- Andersen's analysis, the critique revolves around three other issues: the gender-blind concept of decommodification, the unawareness of the role of women and the family in the provision of welfare, and the lack of consideration given to gender as a form of social stratification.<sup>33–35</sup> These criticisms suggest limitations to the comprehensiveness and generalisability of the Three Worlds thesis – especially in regard to any claims about women, welfare and the family.” (Bambra, C., 2007, p. 1100).

But shouldn't the role of the family and the woman be taken into account in a comparison of welfare states? How social policy deals with the role of the woman and the family cannot be neglected and is an important aspect of a welfare state. After all, economic policy measures such as maternity pensions, child benefits, tax breaks for married couples can shape the nature of a welfare state.

And there are many more attributes to a welfare regime that shape the welfare state which were not taken into account in the three worlds of welfare capitalism. This leads me to my conclusion that the categorization does not do justice to the diversity of welfare states.

---

<sup>9</sup> See Arts and Gelissen (2002)

Accordingly, the categorization leads to an abstraction of welfare states in which many attributes of welfare states are neglected. In addition, a static categorization of welfare states becomes increasingly imprecise over time: Esping-Andersen tries to cluster all welfare states into three different types of regimes, but as time flies, his three categories are becoming increasingly inaccurate, and scientists have to acknowledge that most welfare states are more complex than any of the three categories. Therefore, welfare states cannot be assigned to one model each. Contrary to Esping-Andersen's ideal worlds of welfare states, there are only hybrid forms of welfare regimes observable - pure cases simply do not exist. This fact can be illustrated by many practical examples:

French economist Christophe Ramaux for example calls Esping-Andersen's typology fragile and states that all welfare states observed in reality, are a mixture of the three worlds of welfare capitalism. He illustrates his claim with the example of the French welfare system:

“Cela ne permet pas de saisir la cohérence d'ensemble de l'État social : les services publics, les politiques économiques, ces autres piliers de l'État social, ne peuvent être lus à leur aune ni d'ailleurs le droit du travail en termes d'assurance sociale. On mesure au passage la fragilité de la typologie de G. Esping-Andersen [1990]. C'est en réduisant l'État social (ou Providence) à la seule protection sociale qu'il peut qualifier la France de pays « corporatiste ». Mais cette qualification ne tient plus guère dès lors qu'est retenue une acception large de l'État social : les pays nordiques, par exemple, sont plus « corporatistes » que la France en matière de droit du travail (d'où l'absence de SMIC au Danemark et en Suède)” (Ramaux, C., 2018, p.202)<sup>10</sup>

In his article *The Lost and the New 'Liberal World' of Welfare Capitalism: A Critical Assessment of Gøsta Esping-Andersen's The Three Worlds of Welfare Capitalism a Quarter Century Later*, Christopher Deeming (2017) also points out that states like Australia, the UK and even the US cannot be called liberal states considering certain elements of the welfare state structure or evaluating the government and its actions. He argues for example that the British

---

<sup>10</sup> Translation: “This does not make it possible to grasp the overall coherence of the social state: public services and economic policies, these other pillars of the social state, cannot be read in the same light, nor can labour law be read in terms of social insurance. This shows the fragility of the typology of G. Esping-Andersen [1990]. It is by reducing the social (or welfare) state to social protection alone that he can describe France as a "corporatist" country. But this qualification is no longer valid when a broad definition of the welfare state is adopted: the Nordic countries, for example, are more "corporatist" than France in terms of labour law (hence the absence of a minimum wage in Denmark and Sweden)” (Ramaux, C., 2018, p.202). The Nordic countries are classified as liberal countries.

healthcare system contradicts the category of a liberal welfare state because it resembles social democratic countries like Sweden in many aspects. Furthermore,

“the suggestion that the UK is best described as a ‘liberal welfare regime’ is particularly problematic, given that there have been lengthy periods of what might be described as ‘social democratic’ government, which, in theory at least, might give rise to a conflicting set of policy prescriptions, as in the case of the New Labour government under Tony Blair (Powell, 2008). The same is true of the Australian Labor government in the Rudd–Gillard era (Deeming, 2014). Given the evidence for encompassing welfare functions, these nations could conceivably be considered ‘non-liberal’ and the fit with the ‘liberal’ model presented in *Three Worlds* would certainly be questionable” (Deeming, C., 2017, p. 409).

Even proponents of Esping-Andersen's categorization have to recognize that it is not possible to classify welfare states into one of the three worlds of welfare capitalism. One would need as many categories as there are welfare states in the world in order to assign each welfare state to one type. Esping-Andersen (Esping-Andersen, G., 1997, p. 171) himself also accepts this criticism, but points out that his categorization can be useful to see the forest rather than the myriad of individual trees. At the same time, however, he acknowledges the danger that the model of ideal types bear little resemblance to reality. He has got a point when defending the value of his theory, in order to determine the historical origins of a welfare state. In this respect Esping-Andersen's typology can be useful. However, his theory cannot be understood as a future-oriented theory which provides insights for the choice of efficient welfare state measures. But this criticism is predominantly attributed to the essentialist methodology Esping-Andersen uses which will be discussed in the next subchapter.

To come to a conclusion, there is much criticism regarding the reality resemblance of Esping-Andersen's typology as well as discussions about adding more categories to the existing ones. But any criticism of the resemblance of a typology to reality neglects the problem of categorizations including ideal types itself: for a static categorization can never resemble dynamic reality and a few categories cannot do justice to the individual nature of multiple welfare state regimes. Thus, the only conclusion a scientist could draw from categorizing welfare states according to Esping-Andersen's ideal types is that a welfare state is predominantly liberal, conservative, or social democratic. But in practice, not even this approximate categorization is always doubtlessly possible because different judges can assign a particular welfare state to different worlds of the welfare state. But such an approximate,

controversial conclusion is not scientific, even arbitrary to a certain degree. Therefore, typologizing itself must be questioned.

### **2.2.2. The added value of categorizing is limited**

As reasons for the success of Esping-Andersens *The Three Worlds of Welfare Capitalism* (1990), Josef Schmid (2016, p. 540) cites that the three types provide an accessible and pragmatic view of the immense diversity of welfare states.

It is beyond question that Esping-Andersen has shaped welfare state research. But the added value of this system for comparing welfare states should be questioned. With his models, Esping-Andersen explains the emergence of many welfare states and characterizes them by some indicators. However, this mode of categorization comes with scientific limitations: It describes the past and is not forward-looking, since welfare states are in a state of change. Esping-Andersen describes in detail how the three welfare state regime clusters emerged historically. The fundamental problem is that the studies of welfare states based on historical events and data are only analysis of past trends. According to Sir Karl the default of economists and sociologists is that those scientists are “deriving their predictions, on which many contemporary policies are based, from trends and not laws, and often from highly tenuous trends; and they inevitably have to do this if they are to answer policy demands.” (Hutchison, T. W., 1967, p. 504). Consequently, for his economic theory to be applicable in the present or even in the future, Esping-Andersen must constantly adapt his theory of welfare state regimes to the changing trends. But adapting his theory to match the development of actual welfare states is not in line with the mode of categorizing into static types. Brent Greve (2019) as well, criticizes the methodology of Esping-Andersen and comparable authors connecting ideal types to empirical typologies since the confusion between empirical typologies and ideal-types (see Chapter 28) continues to exist and may stand in the way of the desired theoretical progress (see Brent, G., 2019, p. 116).

Consequently, because of the static and simplified character of typologies, they are difficult to reconcile with the principle of falsification, which is a fundamental aspect of the scientific method. The principle of falsification suggests that scientific progress is achieved by testing theories repeatedly and considering every scientific theory in a status of conjecture and hypothesis<sup>11</sup>. But categorizations limit the scientific progress to the comparison of a static ideal

---

<sup>11</sup> According to Popper, scientific certainty can not be achieved.

type to a welfare state in constant change. The problem with these categorizations is therefore that the meaning of the definitions (categories) goes beyond the purpose of short labels because they are inflexible and cannot reflect the changing nature of welfare states. Research on welfare states thus wastes its time discussing which welfare state regime can be assigned to which ideal type whereas the changing individual characteristics of certain welfare states lose significance.

This leads me to one key question of my thesis: How useful are those categories of welfare regimes at all? Welfare states could also be examined provided one abstracts from categories and its essentialist methodology altogether.

Generally, the concept of using typologies as a methodological tool is not without controversy. In order to bring added value to science, a typology should not use ideal types as a goal in themselves but only if the ideal types are the means to an end<sup>12</sup>. In this respect, according to Arts and Gelissen (2002, p. 140), Esping-Andersen's typology cannot be rejected as he uses the ideal types of welfare regimes not only as dependent variables but also as independent variables<sup>13</sup>.

But despite this valid point in favor of the Esping-Andersen typology of welfare states, I can only concur with the criticism that Esping-Andersen as well as alternative typologies “focus too much on the characteristics of welfare states to the exclusion of a thorough examination of the policies and politics underpinning and supporting them” (Bambra, C., 2007, p. 1100).

But it is not possible to analyze and compare all policies of a welfare state. That's why I would like to identify what is the goal of a welfare state? This question should be subject to the same answer regardless of the measures a state takes to achieve this goal. This is the starting point of my thesis. I have argued that comparative welfare state research focusing on the categorization of welfare states has failed. But in which way can welfare states be compared and evaluated, if not based on typologies?

### **2.3. Theory, methodology and scientific progress**

The theoretical framework is one of the most important aspects in the research process. For the analysis of welfare states to promote scientific progress, the design of the chosen research

---

<sup>12</sup> See Arts and Gelissen (2002); Klant (1984)

<sup>13</sup> In order “to explain cross-national variations in dependent variables such as social behaviour and social attitudes.” (Arts, W., Gelissen, J., 2002, p. 140)

method and its theoretical framework is fundamental. In the following, I will therefore reflect on methodological positions in economics and their theoretical origins. Thereby, I will contrast the philosophical theory of essentialism with nominalism - two theoretical origins of methodological positions in economics.

Methodological positions as solutions to methodological problems are specific interpretations of philosophical theories developed to solve philosophical problems. The philosophical theories of nominalism and essentialism are solutions to the philosophical problem of how to explain change.

Since Plato, different philosophical essentialist approaches have evolved to solve the problem of change such as the Platonic type, the Aristotelian type and the Heraclitus' type<sup>14</sup>. Consequently, there is not one essentialist view but there are multiple philosophical theories of philosophical essentialism and even more methodological interpretations of those theories.

All these essentialist types of solutions to the problem of change share the premise that change can only be explained by referring to something identical. Consequently, essentialism is the philosophical position that things or concepts possess inherent, unchanging essences that define their identity. For some entity to belong to a particular category or individual, it must have those essential properties: "Most essentialisms imply that the properties essential for belonging to some category or individual together form the essence of (or essence of belonging to) that category or individual" (Barker, M. J., 2013, p. 270).

A fundamentally different approach to philosophical essentialism, is to explain change from a nominalist perspective. There are two types of philosophical nominalism which can be mentioned at this point: philosophical theories of philosophical determinism and philosophical theories of philosophical indeterminism. Philosophical determinism states that every observable event is the effect of some cause, and every effect has a cause. Thereby, the world is determined by so called causal laws in terms of strictly universal and empirical propositions. Philosophical deterministic approaches can also be further subdivided. Popper (1988), for example, distinguishes three types of determinism: Religious, physical or "scientific," and metaphysical determinism. All three approaches of philosophical determinism share the premise that all events in the universe are causally inevitable. In the context of philosophical determinism, the question of free will is controversially discussed. Because if every event, and

---

<sup>14</sup> See Politis V. Introduction in *Plato's Essentialism: Reinterpreting the Theory of Forms*. Cambridge University Press (2021)

therefore also human action, has a reason that inevitably leads to an event or action, what role does human free will play? Does it even exist? This question is controversially discussed even among convinced determinists. Accordingly, the question of free will cannot be answered unambiguously by deciding between philosophical determinism or indeterminism. Even well-known proponents of determinism, such as Richard Dawkins, Daniel Dennett and Sam Harris, opposing positions on whether free will exists<sup>15</sup>.

The question of free will has led many rational thinkers to argue in favor of indeterminism. Contemporary philosophers such as Robert Kane (2011) and Mark Balaguer (2010), for example, position themselves as indeterminists because they cannot reconcile determinism with free will. As May (May, J., 2014, p. 2849) writes, „determinism seems to rule out a robust sense of options but also prevent our choices from being a matter of luck. In this way, free will seems to require both the truth and falsity of determinism”. Therefore, philosophical indeterminism does not deny that causes exist but either (i) maintains that there is at least one occurrence of an event in the universe which was not caused by an event existing prior to that event or (ii) “rejects a certain definition of cause” (Hartshorne, C., 1958, p. 793). According to (i), the indeterministic argument implies that some events occur randomly. The alternative indeterministic approach (ii) states that

“every event has its cause or causes (...) but not every event (...) is fully and absolutely determined by its causes. In other words, an indeterminist (...) rejects a certain definition of "cause," namely that it is a condition, or set of conditions, from which only one outcome is possible, or from which, in principle or ideally, the outcome is wholly predictable. To be substituted for this is a definition which, whatever else it includes, involves the following requirement: the cause is a state of affairs, granted which something more or less like what happens subsequently was "bound to happen," or (if you prefer) could safely have been predicted. (...) Our question, then, is whether causes determine happenings absolutely, or whether they merely limit more or less sharply what can happen” (Hartshorne, C., 1958, p. 793-794).

Consequently, the universe must be either deterministic or indeterministic. Accordingly, theories and methodological positions of nominalism, refuse the idea of universal essences. Applied to social sciences, a nominalist approach presumes that only individuals and no abstract entities (such as essences, classes, or propositions) exist.

In the course of history, those philosophical theories were interpreted methodologically and applied in the social sciences. In order to analyze methodological positions implemented in

---

<sup>15</sup>see Gurmin, J. H., 2016, p. 31



welfare state research, this chapter discusses a review of some methodological positions in economics derived from philosophical theories of philosophical essentialism and nominalism.

In contrast to the essentialist methodological approaches, which aim to determine the true nature of economic systems through empirical and historical investigations and to define them; science according to nominalist methodologies begins with problems that need to be explained. It follows that all nominalist approaches try to solve certain explanatory problems by implementing situational analysis. Research on welfare states based on nominalist methodologies asks what problems welfare states are trying to solve; what theories or explanations of capitalist systems the proposed solutions are based on; and how these solutions perform.

### **2.3.1. A critique of the essentialist theory of welfare states**

Essentialist positions share the premise that the methods of theoretical social sciences are historical methods. The task of theoretical social sciences is to present historical developments and to discover the origin of this development, or to establish historical laws of development. The research questions of methodological essentialism are questions of origin and questions of historical development.

“Whatever essence is supposed to be, it is surely supposed to be what or how some entity has to be in order to be what it is rather than some other entity. Very roughly you could think of essence as what “defines” the item. This is the main thing essence is supposed to be all about. And this basic idea of essence would surely permit essences historical as well as qualitative” (LaPorte, J., 2017, p.185)

Consequently, the purpose of science according to essentialist theories is the discovery of essence. Most research on welfare states has methodologically essentialist roots.

In research on welfare states, most studies focus on the historical development of welfare states on the one hand and on characteristic features of welfare states on the other. Thereby, the historical development conditions the characteristic features. Consequently, welfare states are differentiated based on their characteristic features.

Esping-Andersen (1990), for example, focuses on the aspects of commodification and decommodification. Based on these two variables, Esping-Andersen categorizes welfare states. This approach is methodologically essentialist in nature, as a static, inherent essence of a welfare state category is derived from two variables that is the essential properties. The

relevance of those two variables emerged historically. This methodological approach is predominantly historical and inductivist. Historical and inductivist methodological essentialism is an interpretation of the Aristotelian essentialism. According to Aristotelian essentialism, essence is “what it was to be”<sup>16</sup> (Seidl et al., 1991, p. 14-17) which can also be understood as the idea of essences residing within entities as seeds of potentialities. Those seeds of potentialities are observable in certain situations. Historical and inductivist methodological essentialism therefore suggests that by observing the historical development, the essence of a social entity can be discovered. A more modern advocate of historical essentialism is Joseph LaPorte (2017, p. 185) who argues that “historical essences are essences. They meet the requirements: they explain what it is to be something—namely, a historically delimited thing”.

As Milford (2010, p. 155) points out, satisfactory explanations in the theoretical social sciences which follow historical and inductivist methodological essentialism, explain social facts, observations, processes, events, based on laws of historical development. Consequently, essentialist research questions refer, for example, to the origin and the development of institutions. By labelling the three regime types as liberal, conservative, and social democratic, Esping-Andersen distinguishes their historical origins and developmental trajectories.

However, welfare states continue to develop and so does the significance of stratification and decommodification for the concept of the welfare state. The selection of these characteristics can thus lose relevance over time and is therefore arbitrary. Furthermore, distinguishing welfare states based on selected characteristics does not do justice to the complexity of welfare states; it limits the perspective and thus does not promote scientific progress. Scientific progress would be greater if the categorization of social groups and regimes based on some characteristics was neglected.

This is why research on welfare states should focus more on methodological nominalist approaches to promote scientific progress. All positions of methodological nominalism share the premise that the method of theoretical social science is that of situation analysis. Singular explanations and models require the introduction of laws in the form of strictly general and empirical propositions (sentences). These laws are discovered, for example, by observing the behavior of a research object in changing experimental conditions. In theoretical social science,

---

<sup>16</sup> to ti ên einai (Aristotle, *Metaphysics*, 1029b)

those laws can be discovered by applying comparative statistics. The aim of science according to nominalist methods is to establish regularities by the method of situation analysis.

Welfare states cannot, of course, be studied and compared in a laboratory. However, comparative statistics can be used to observe the regularities of welfare states, which can also provide information on the impact of welfare-promoting policy measures. The comparability of performance data and the interpretation of its correlation with specific welfare measures is the most challenging part of welfare research.

### **2.3.2. The evaluation of the performance of a welfare state**

In order to compare dynamic welfare states by a static method, I will analyze indicators measuring the performance of welfare states. This comparison of welfare state regimes based on their performance will differ from most other welfare state research and comparisons by abstracting from history and specific policies. The purpose of the welfare state analysis is not to examine specific policy measures or historical events and class movements but to measure a welfare state's performance by measuring the degree to which the objectives are achieved and not how much "expense" was spent to achieve the objectives.

The most commonly used indicator of the degree of "welfare statism" in the literature is social security spending as a percentage of GDP. Measuring the share of a nation's resources that is allocated according to social rather than strict market criteria cannot be used to measure the performance of a welfare state, even though it is often understood that way. This is because this indicator cannot measure whether social spending reaches its intended welfare policy goals. Thus, in the following, I will not go into detail on how a regime fulfills its policy goals but only if it reaches them. Furthermore, this approach will neglect the historical influences that explain the constitution of a welfare state. The following analysis will therefore not follow the example of Esping-Andersen, which focuses on history and fixed welfare-theoretical dimensions to cluster welfare states.

Consequently, according to the approach discussed in the following chapter, not the type of welfare states based on specific characteristics will be studied and determined but a performance evaluation based on the objectives of welfare states. To evaluate the performance of a welfare state, indicators need to be determined which measure the degree to which the instabilities and imperfections of capitalist systems are minimized. In consequence, it is not the

financial investment in the promotion of welfare state objectives that determines performance, but the effectiveness with which these objectives are met.

Having elaborated on the objective of a welfare state in the previous chapter, I will identify indicators that measure the extent to which the objective of a welfare state has been achieved in the next chapter. This way, the performance of a welfare state should be evaluated by an approach which promotes scientific progress.

### **3. On the performance of welfare states**

In summary, the justification and purpose of welfare state policies as defined in this thesis, is to minimize social costs caused by market instabilities. Thus, according to this thesis, the definition and objective of a welfare state follows a moral theory of negative utilitarianism<sup>17</sup>. Generally, negative utilitarianism aims at reducing suffering rather than at maximizing happiness. According to negative utilitarianism adapted to the concept of the performance measurement of welfare states, the purpose of a welfare state is to reduce the social costs of market instabilities rather than maximizing economic welfare. Consequently, the introduced concept of a welfare state is limited to the “economic perspective” of a welfare state, following the moral theory of negative utilitarianism. The social perspective is thus only deduced from the economic perspective. Illustrated by a concrete example, a safety net as protection against unemployment, illness, etc. is desirable from the perspective of minimizing social costs resulting from the instabilities of the free market and not for reasons of social welfare per se.

This guiding principle of minimizing social costs caused by market instabilities is thus fundamental for the performance assessment of welfare states as outlined in the following subchapters. Since it is difficult to measure the social costs of market failures and instabilities, it is even more difficult to measure the extent to which social costs are minimized. This is a challenge that needs to be overcome when defining indicators for measuring the performance of welfare states. For this reason, the selected indicators to measure the performance of a welfare state are partly measured by the variation (standard deviation). This is because increased volatility usually implies instability.

#### **3.1. How to measure the performance of welfare states**

The aim of this paper is to measure the performance of welfare states based on certain indicators. Welfare states can then be compared by their performance in terms of the selected indicators. The comparison can be made by comparing each indicator individually or by doing a multidimensional comparison. On the basis of a multidimensional comparison, the extent to

---

<sup>17</sup> Negative utilitarianism is a moral theory that states that the main goal of ethics is to minimize suffering and pain. In contrast to positive utilitarianism, which seeks the greatest possible happiness for the greatest number of people, negative utilitarianism focuses on avoiding negative consequences. The author to introduce the term and outline the concept of negative utilitarianism is Ilmar Tammelo (1980). He described a utilitarianism according to which the suffering of as many people as possible should be minimized.

which the results of indicator measurements are positively or negatively correlated could then be analyzed. In particular, alleged conflicting goals in welfare optimization can be tested.

A one-dimensional measure which only measures the overall welfare state performance can also be derived from the multidimensional comparison. This measurement can be conducted by calculating a weighted or unweighted average of the respective rankings in relation to the measured values (indicators). This method of comparison could work as follows: For example, if 10 countries are compared, there is a ranking of 1 to 10 for each indicator, with 1 representing the worst score and 10 the best score. All ten countries are thus measured with respect to all indicators and ranked by each indicator. Afterwards, all ranks of a welfare state in relation to the selected indicators are added up and divided by the number of indicators. This gives the overall ranking. If the aim is to weight indicator differently, the weighting can be adjusted accordingly. Thereby, the absolute differences of the country scores of the respective indicator are neglected (ordinal comparison). For example, whether a welfare state in third place has a score that is three times as high as the compared welfare state in fourth place is not taken into account in the evaluation, but only that the country in third place performed better than the country in fourth place.

However, such a total value of overall welfare state performance is less informative than the multidimensional comparison because all indicator results are summarized in one figure which has limited explanatory power. In the multidimensional comparison, countries can be compared based on all indicators individually. Furthermore, a correlation of a country's indicator results over a certain period of time can be tested. For example, it could be analyzed whether changes in income equality over a certain period of time went hand in hand with changes in total economic output per capita.

To draw conclusions from comparing multiple welfare state regimes in terms of their performance without weighting the indicators is only possible if a welfare state A outperforms welfare state B with respect to the performance of one indicator and, at the same time, performs at least equally well as welfare state B with respect to all other indicators. In this case, it would be consistent to conclude that welfare state A should rank higher than B in terms of overall performance.

### 3.2. Indicators measuring the performance of welfare states

The indicators chosen to evaluate the performance of welfare states are listed and justified in the following subchapters. The indicators are defined and analyzed on how they measure the performance of welfare states. Furthermore, the method of calculating the indicators is specified. The indicators are chosen to measure the degree to which the objectives of a welfare state are met rather than the measures taken to achieve them. For this reason, common indicators such as social expenditure<sup>18</sup>, which are often used to measure the spending on social welfare, are not included. As defined in this master thesis, the performance of a welfare state does not depend on the policy measures and the related social expenditures per se, but only on the extent to which the social costs caused by market risks and the impact of market imperfections are reduced.

The chosen indicators to measure the performance of welfare states go hand-in-hand - in some cases they even depend on each other. For example, the gini coefficient and GDP per capita at PPP are only valid in their co-existence as will be addressed in the following. Not only for this example but for many indicators, the co-existence can create conflicting goals. That is, policies to achieve more income equality could lead to a lower GDP per capita<sup>19</sup>. Welfare states are particularly successful, however, if the measures taken by the welfare state can approach both goals simultaneously, e.g. increase income equality while keeping GDP per capita at PPP constant.

Liberal positions criticize the welfare state, for example, because they believe that welfare programs can reduce the incentive to work and are inefficient due to costly bureaucracy. However, these arguments<sup>20</sup> can hardly be understood as a critique of the welfare state per se, but simply describe a welfare state that is performing poorly. A welfare state that massively reduces GDP per capita at PPP by welfare policies aiming at more income equality cannot be understood as a weakness of the welfare state in general, but as an example of inefficient welfare policies. Conflicting goals are therefore part of the DNA of a welfare state and must be

---

<sup>18</sup> Social expenditure is normally calculated as public social spending in % of GDP. It is defined as the volume of resources committed by the government to health, housing, social protection (e.g. income transfers), education, and environmental protection (among others).

<sup>19</sup> This is correlation not necessarily valid but depends on the country and its wealth (absolute GDP per Capita)

<sup>20</sup> However, there are other liberal arguments criticizing the welfare state per se which cannot be dismissed because they are on a fundamental basis. They are often linked to the idealization of the market economy which contradicts the objectives of the welfare state as stated in this thesis.

reflected in the policies taken to maximize welfare. Therefore, welfare increasing policies cannot simply be derived by targeting the indicators individually. But it depends on the individual welfare function of a welfare state which policies have a welfare-enhancing effect.

### **3.2.1 GDP per Capita at PPP**

**GDP per Capita at purchasing power parity (PPP)** measures the total economic output of a country in a given year divided by the average (or mid-year) population for the same year at PPP. In order to be able to compare different countries in terms of GDP per capita, PPP is essential since the prices of goods and services relative to the currency's value (purchasing power) differ from country to country. PPP accounts for the differences in price levels between economies and equalizes the purchasing power of currencies. "In this way, PPPs show the relative price of a given basket of goods and services in each of the economies being compared with reference to a base economy measuring prices at different locations" (Purdie, E., Song, I., 2022). In order to compute the GDP at PPP, the gross domestic product of countries is converted to international dollars using purchasing power parity rates.

The GDP per capita at PPP gives a rough indication of the average living standard of one country compared to another country or compared to another period of time. GDP per capita may not be a measure of human welfare but it at least has an impact upon the welfare of a country's population. Consequently, sudden changes in the level of GDP per capita can have both negative and positive impacts. A sudden negative drop in GDP due to for example a financial crisis or sudden demographic change, will - all other things being equal - have a negative impact upon welfare. On the other hand, a sharp rise in GDP will increase welfare given all other things being equal. Consequently, not only the level of GDP per capita is decisive with regard to welfare, but also the volatility of GDP per capita at PPP. As described previously, the main objective of the welfare state is to reduce the negative impact of the market imperfections and risks. The cyclical nature of the market brings volatility to GDP per capita at PPP which needs to be reduced by policy measures which aim at promoting welfare. The volatility in GDP per capita at PPP can have numerous reasons such as for example a change in the absolute level of GDP, a change in population or an inflationary/deflationary environment.

To elaborate on the last point: In theory, if PPP holds, changes in the exchange rate of country A and country B should make up for the difference in inflation rates of country A and country B. If the inflation in country A is higher than in country B, the value of country A's currency



should decrease against the value of country B's currency. This is because inflation lowers the purchasing power of money – consequently, a change in the exchange rate should compensate for different levels of inflation. Nevertheless, an inflationary or deflationary environment<sup>21</sup> can affect GDP per capita at PPP, as the law of one price does not always apply in reality due to other factors influencing exchange rates.

Consequently, the two described indicators measuring the performance of a welfare state are the level of GDP per capita at PPP and the volatility of the GDP per capita at PPP.

**The level of GDP per capita at PPP** can be calculated as follows (usually comparing to the US Dollar):

$$\begin{aligned} & \text{GDP per Capita at PPP} \\ &= \frac{\text{nominal GDP}}{\text{population}} \times \frac{\text{Price level in home country (in local currency)}}{\text{Price level in foreign country (in local currency)}} \end{aligned}$$

**The volatility of GDP per capita at PPP** can be calculated as follows:

$$S = \sqrt{\frac{\sum_{i=1}^n (x_i - \bar{x})^2}{n - 1}}$$

S = volatility of GDP per Capita at PPP

n = number of years

$x_i$  = GDP per Capita at PPP in year i

$\bar{x}$  = average GDP per Capita at PPP

How much impact GDP per Capita at PPP and its volatility has on humans' welfare depends also on the degree of inequality of the actual monetary (re-)distribution, which will be part of the following indicator measuring welfare. Furthermore, unpaid work which has a positive effect on the welfare of a country is generally difficult to measure and cannot be reflected by the GDP.

---

<sup>21</sup> Inflation/deflation will also be addressed within price stability as a separate indicator.

### 3.2.2. Post-tax-and-transfer Gini coefficient

The post-tax-and-transfer Gini coefficient is a statistical measure reflecting the inequality of distribution. It compares the cumulative proportions of the population to the cumulative proportions of post-tax-and-transfer income received. The Gini coefficient ranges between 0 in the case of perfect equality and 1 in the case of perfect inequality. The Gini coefficient can also be expressed as a percentage, ranging from 0 (perfect equality) to 100 (perfect inequality). A low Gini coefficient is favorable and indicates a positive welfare state performance contribution because of the diminishing marginal utility of income. This argument can be challenged by the similarly popular argument that the engine of welfare and progress is inequality. The first argument favors a low Gini coefficient since the marginal utility of one additional monetary unit is much higher for a poor person than for a rich person. The diminishing marginal utility of income suggests that as an individual's income increases, the additional utility for the individual decreases. This is because each subsequent monetary unit is satisfying less and less urgent needs and wishes. The so called diminishing marginal utility was defined as an economic law by Alfred Marshall in 1890. The law itself is based on the fundamental tendency of human nature.

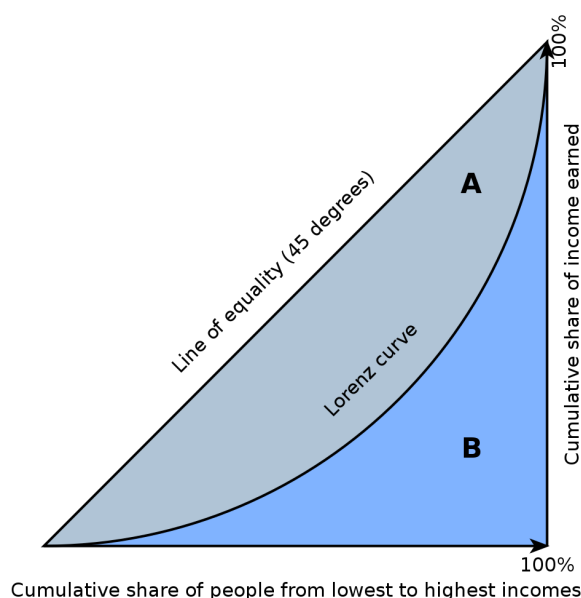
The second argument I would like to briefly address is the correlation between inequality and economic growth. Does inequality motivate people to improve their status quo or inhibit their ability to perform? Whether the correlation is positive or negative is a controversial issue in economics because there are differences depending on the income strength of countries. According to Clemens Fuest et al (2018, p.4), the assertion that there is a quasi-mechanical relationship between inequality and growth is untenable from either a theoretical or an empirical perspective and is therefore not suitable as a guideline for practical economic policy. Therefore, I would like to exclude this controversial argument and include the Gini coefficient in the performance measurement of welfare states only in the light of the diminishing marginal utility of income. Accordingly, the two indicators – the economic performance (GDP) and the Gini coefficient - co-exist. Taking into account the economic performance as a welfare promoting indicator thereby offsets the contestability of a low Gini coefficient<sup>22</sup>. GDP per capita and a low degree of inequality are therefore in combination welfare-promoting and measure the performance of welfare states.

---

<sup>22</sup> Contestability of a low Gini coefficient as a welfare indicator based on the possibility of a correlation between inequality and economic performance

The **Gini coefficient** is derived from the Lorenz curve and calculated as follows:

$$\text{Gini Coefficient} = \frac{\text{Area between the perfect equality line and the Lorenz curve (A)}}{\text{Total area under the perfect equality line (A + B)}}$$



Source: Wikipedia, 2021

$$\text{Gini Index} = \text{Gini coefficient} \times 100$$

Data on the Gini index is regularly published by countries and institutions such as Eurostat. The Gini index as measurement of inequality is commonly used because it provides the advantage of summarizing the inequality of the entire income distribution by using one single statistic which is easily accessible and comparable.

In addition to the Gini coefficient, the Median-to-Mean (M/M) ratio may be introduced to measure income distribution, because the indicator provides supplementary information about the shape and skewness of the income distribution.

The M/M ratio is a simple and intuitive measure that compares the median income to the mean (average) income of a population. It is calculated as follows:

$$\text{M/M Ratio} = \text{Median Income} / \text{Mean Income}$$

The M/M ratio complements the Gini coefficient by indicating whether the income distribution is skewed toward the top or bottom.

A Median-to-Mean (M/M) Ratio of 1 indicates that the median and the mean are equal, suggesting a symmetric distribution of income, where the income is evenly spread across the population. A M/M Ratio less than 1 implies that the distribution is right-skewed, indicating that higher incomes are more heavily weighted and there is relatively more income at the upper end of the distribution. A M/M Ratio greater than 1 indicates a left-skewed distribution, where lower incomes are more heavily weighted, and there is relatively more income at the lower end of the distribution.

### **3.2.3. Volatility of real disposable income per capita**

In many respects, the volatility of real disposable income measures the performance of a welfare state. This indicator goes hand in hand with per capita GDP at PPP and the post-tax-and-transfer Gini coefficient. In addition to the maximization of the absolute economic performance and wealth-maximizing distribution, the welfare state should minimize the impact of the imperfect market on the welfare of its population. This is because an imperfect market leads to market inefficiencies, which lead to market failures. Market failures often have an impact on the labor market which directly affects the real disposable income of labor market participants. The impact of market failures on the real disposable income can be measured by the volatility of real disposable income. But not only market failures can lead to volatility in real disposable income, but many other factors such as a sudden shortage of resources due to natural<sup>23</sup> or unnatural<sup>24</sup> conditions or a change in employment situation due to factors such as age or health.

The performance of a welfare state increases as the impact of market failures and other welfare-affecting circumstances on the welfare of society is minimized. Thus, low volatility of real disposable income increases welfare. Downward changes in real disposable income are in particular seen as problematic because they normally have a direct negative effect on the economic subject and indirectly on demand. But increases in real disposable income can also be problematic when they cause e.g. a wage price spiral which has wide-ranging effects leading to economic instabilities that are reflected in the volatility of real disposable income.

The real disposable income of households is the income available to households. It includes, for example, wages and salaries, income from self-employment, income from pensions and other social benefits<sup>25</sup> as well as income from liquid and illiquid assets. According to the OECD

---

<sup>23</sup> e.g. environmental disasters leading to resource scarcity

<sup>24</sup> e.g. wars leading to resource scarcity

<sup>25</sup> Including redistributive policy measures by the government

(2023), which calculates the percentage change in household disposable income of many countries, income is considered after deducting all payments of taxes, social security contributions and interest on financial liabilities. For household disposable income per capita, the OECD gives growth rates (percentage change from the previous period), which are real growth rates adjusted for price changes i.e. inflation<sup>26</sup>. However, the OECD calculates not only the percentage change in real disposable incomes but also the absolute household disposable income incl. social transfers. The indicator is expressed in U.S. dollars per capita at current prices and PPP<sup>27</sup>. But not only OECD is providing data on disposable income but also other data bases such as the Federal Reserve Bank of St. Louis (FRED, 2023) which retrieves the real disposable personal income per capita of the US.

The volatility of real disposable incomes is calculated as follows:

As a first step, the real disposable income is calculated.

$$\text{real disposable income} = \frac{\text{personal income} - \text{personal current taxes}}{1 + \text{inflation rate yoy}}$$

In a second step, the volatility is calculated with the formula of the standard deviation.

$$\sigma_x = \frac{1}{n-1} \sum_{i=1}^n (x_i - \bar{x})^2$$

$x$  = real disposable income

$\bar{x}$  = average real disposable income<sup>28</sup>

$x_i$  =  $i$  – th value of the sample

$n$  = size of the sample

$\sigma_x$  = volatility of the real disposable income over a historic period

---

<sup>26</sup> I have thought about including price stability as an isolated indicator to measure the performance of welfare states, since changes in prices reflect instabilities in the economy. However, I have decided to include price stability only as part of the "volatility of real disposable income" indicator since changes in prices most likely have an effect on real disposable income if they are not directly offset by an increase in disposable income due.

<sup>27</sup> PPP is not necessary as the real disposable income of a country is not to be compared as an absolute value with other countries but only the volatility of the real disposable income serves as a benchmark. For this purpose, only the historical values of real disposable income after social transfers are required.

<sup>28</sup> of historic values

Data on the real disposable income is regularly published. The volatility can be easily computed and compared to other countries. Normally, the disposable income of all private households<sup>29</sup> is used for the calculation and then, in a second step, divided by the number of inhabitants to obtain the per capita value. Thus, this indicator does not include the inequality of distribution, since it abstracts from the households as individuals.

A low volatility of real disposable income indicates that the state can successfully counteract economic risks. This indicator can also be used to study whether the state can maintain the level of welfare across generations and, for example, successfully minimize the effects of an aging society by policy measures such as provisions and redistributions.

### **3.2.4. People living in absolute poverty**

People living in absolute<sup>30</sup> poverty cannot satisfy their basic needs, such as food, shelter, and clothing. In contrary, households living in relative poverty have an income below a certain percentage, typically 50% or 60% of that country's median income. The reason for preferring the proportion of people living in absolute to the relative poverty quota as an indicator has two reasons: Firstly, welfare increases due to redistributive policies are especially sharp if basic needs aren't already met<sup>31</sup> and secondly, the Gini coefficient is already used as an indicator of income distribution in this welfare state performance measurement.

Consequently, absolute poverty is a universal baseline that does not refer to other people's incomes. According to the World Bank, the international poverty line is at USD 2.15 per day at PPP. There are also alternative definitions and ways to calculate absolute poverty.

One commonly used definition of absolute poverty and its consequences was formulated by Joseph Wresinski and was then used by Despouy in his UN report on Extreme Poverty and Human Rights:

---

<sup>29</sup> household disposable income refers only to the portion of income available to households for private consumption and private saving and not to the general government sector and corporations.

<sup>30</sup> Equivalent to extreme poverty

<sup>31</sup> According the "classical" welfare function and the diminishing marginal utility of income and wealth, one additional quantity of money increases the utility of a person living in absolute poverty more than the utility level of a wealthier person. According to Alfred Marshall (1890), the additional utility (as satisfaction, happiness) a person gets from an increase of his stock of a thing diminishes with every increase in the stock that he already has.

“A lack of basic security is the absence of one or more factors that enable individuals and families to assume basic responsibilities and to enjoy fundamental rights. Such a situation may become more extended and lead to more serious and permanent consequences. Chronic poverty results when the lack of basic security simultaneously affects several aspects of people’s lives, when it is prolonged, and when it severely compromises people’s chances of regaining their rights and of reassuming their responsibilities in the foreseeable future” (Wresinski, J., 1994, p. 3).

Because the international poverty line is easily accessible and measurable, the indicator to measure the performance of welfare states will be based on the ratio of a country’s inhabitants having less than USD 2.15 per day. This data is provided by the World Bank, OECD and other data bases.

There are multiple reasons why absolute poverty should be prevented from a philosophical point of view as well as from a legal perspective since human rights are violated when people live in absolute poverty. But there are also economic reasons why absolute poverty, and its consequences should be prevented. Furthermore, absolute poverty cannot be prevented by free market society without state intervention which puts the lives of poor people and their descendants at risk and social reintegration impossible.

Absolute poverty leads to social exclusion. The consequences for children growing up in absolute poverty vary from poor health to the absence of education and violence (Greve, B., 2019). According to Brent Greve, “those living in poverty will, less often than others, gain an education, even in countries where access to education is free of charge. This can then have long-term consequences for access to the development of human and social capital, and thereby decreased access to the labor market. (...) So, life conditions are generally improved where poverty is reduced” (Greve, B., 2019, p. 54).

In a free market society without state intervention, not only the human living in poverty himself but also his descendants will have limited chances to escape poverty and help advance society. After all, the capital of industrialized societies is young well-educated people who improve the welfare of the whole society by innovating and increasing productivity. But those well-educated generations cannot be raised in absolute poverty. Consequently, preventing people from absolute poverty does not only increase welfare of the poor but – at least in the long run – of the whole society. In general, most welfare states take the securing of the minimum subsistence level as the most important basis for increasing welfare, because – economically – welfare addresses the question of how to allocate scarce resources in an economy so that everyone is provided for.

### 3.2.5. Unemployment rate

The labor market usually reveals how a country's economy is doing. A strong labor market indicates a healthy, resilient economy. A weak labor market, on the other hand, with a high number of unemployed, low wage levels and low demand for labor, indicates weak economic activity<sup>32</sup>.

However, a low unemployment rate does not only increase welfare indirectly by indicating the strength of the economy, but also directly by increasing the welfare of workers. This is because employment not only enables workers to satisfy their material needs with a stable income, but also increases their subjective sense of welfare in connection with social recognition, which is closely linked to employment. A low unemployment rate thus promotes the welfare of a society.

At the same time, unemployment is usually strongly affected by instabilities in the market. Therefore, the labor market, which fluctuates due to instabilities, needs to be stabilized by targeted welfare policy measures.

In theory, the labor market is determined by the supply of and demand for labor. The supply of labor is influenced by various factors, such as demographic trends, the age structure of the population, and the emigration and immigration of workers. The demand for labor by companies is primarily determined by labor costs, productivity, profit expectations and consumer demand.

According to Keynes (1936), supply and demand in private markets do not automatically lead to a macroeconomic equilibrium in which there is also full employment. Unemployment can result from the "liquidity trap" and cause an equilibrium in the case of underemployment. Accordingly, Keynes analyzed that even in free market economies, the private sector is not stable and a weakening demand, due to an increased savings rate, can lead to increased unemployment. This further exacerbates the economic downturn and cannot be remedied by market forces alone. Since demand for labor depends in particular on demand for goods, increased unemployment can lead to a downward spiral: A lower investment rate (here, saving is not equal to investment) leads to higher unemployment, which leads to lower consumer

---

<sup>32</sup> Unemployment exceeded 10% during the Great Depression and the 1982 recession.



demand, which in turn can lead companies to adjust their employment demand to their sales expectations, creating further unemployment.

Due to the imperfection of the private sector, a labor market that achieves full employment without government intervention is only possible in theory provided Saysche's theorem (1836) holds. This is because savings are not fully reinvested directly but there can be a time lag.

Beyond Kenye's theory, further arguments favor an imperfect labor market: labor supply is not homogeneous, labor mobility is limited, and both employees and employers do not have complete information regarding market conditions. Therefore, labor market segmentation arises, which leads to (inefficient) unemployment in case of vacancies as well as “poor job quality, inequality and discrimination” (Deakin, S., 2013, p. 1).

### **Is a scenario of full employment desirable?**

Monetarists, unlike Keynesians, consider the private sector as stable, since they assume the validity of Saysche's theorem and, in their view, a market economy leads to an equilibrium at full employment. Therefore, monetarists focus primarily on price level stability. However, the Phillips curve outlines a trade-off between full employment and price level stability.

In economic theory, however, this trade-off between unemployment and inflation has been disputed, since only a short-run relationship is described by the Phillips curve. In the long run, according to monetarism, the result is an unemployment rate determined by structural factors, which Milton Friedman (1975) called the natural rate of unemployment (vertical curve). Accordingly, the fact that a low unemployment rate is desirable cannot be refuted by neither Keynesianism nor monetarism. Whether a high employment rate is achieved through countercyclical economic policy or by controlling the money supply is therefore irrelevant for the performance measurement and the validity of this indicator - only the result matters.

Price stability, prioritized by monetarists, is part of other indicators used in this paper to measure the performance of welfare states. Thus, a possible "short-term" trade-off is not neglected, but has been taken into account in the choice of indicators.

### **Choice of indicator: Unemployment rate versus employment fluctuation**

The unemployment rate should serve as an indicator for measuring the performance of welfare states. The lower the unemployment rate, the better the performance of the welfare state.

The unemployment rate is calculated as follows:

$$\text{Unemployment rate} = \frac{\text{Unemployed people}^{33}}{\text{Labor force}^{34}}$$

Employment fluctuation cannot serve as an indicator of the performance of a welfare state. Because fluctuation is not necessarily caused by market inefficiencies, nor does it necessarily lead to less welfare. A high fluctuation can also indicate the fast adaptability of a labor market, which can have a positive impact on a country's economic performance and thus on total welfare.

### 3.2.6. Monopoly Power of companies

A monopoly describes a company which is the only seller in an industry or a sector. Because of the absence of competition, a monopoly seller can set the price a lot higher than its marginal or average costs. If consumers cannot substitute the good nor have an alternative seller, they need to accept the price set by the monopoly. To protect consumers and the marketplace, private firm monopolies are largely prevented by regulations as they can lead to a welfare loss. A monopoly can also be welfare enhancing because one provider of a good or a service is cheaper and more efficient than multiple sellers. In this case, the government can regulate and monitor those companies to limit their pricing power. But companies can also have monopoly power even if they are not the single seller of a product. This is the case, for example, if there are few other sellers and high fixed costs, network effects or market entry barriers.

Companies with monopoly power can create a deadweight welfare loss because they can restrict the output leading to market failure. In this case, the output is lower, and prices are higher than in the competitive equilibrium which is leading to a loss in total (producer plus consumer) surplus. Monopolies can evolve naturally, destroying a perfect market with competition and a welfare-enhancing equilibrium. Consequently, monopolies are a product of imperfect markets.

In order to increase welfare and to minimize the negative effects caused by imperfect markets, welfare states reduce monopoly power by restrictive policy measures. If a government

---

<sup>33</sup> "People are classified as unemployed if they do not have a job, have actively looked for work in the prior 4 weeks, and are currently available for work" (US Bureau of Labor Statistics, 2023).

<sup>34</sup> „The labor force is made up of the employed and the unemployed. (...) those who have no job and are not looking for one are counted as not in the labor force. Many who are not in the labor force are going to school or are retired. Family responsibilities keep others out of the labor force“ (US Bureau of Labor Statistics, 2023).

successfully prevents companies with monopoly power to cause welfare losses, can be measured by calculating the pricing power of an economy's companies. The most commonly used method to calculate the degree of monopoly power is based on the Lerner index (1995). The "degree of monopoly" according to Lerner is calculated as follows:

$$L = \frac{\text{Price} - \text{Marginal Costs}^{35}}{\text{Price}}$$

Followingly, a L-value of 1 indicates absolute pricing power. A Lerner value of 0 indicates no monopoly power and a perfect competition market. A low Lerner value indicates that consumers are more sensitive for price changes. In contrary, a high Lerner value indicates that price elasticity is low. Because it is very difficult to determine the marginal costs as part of the exact cost structure of a company, the average costs are preferably taken as figure for the calculation. Average costs can be easily calculated as the balance sheet of companies usually contain both, the total costs and the units of production.

Usually, the Lerner index is used to calculate the monopoly power of one particular company and not of a whole country, but it can be extended to compare the monopoly power of the largest companies of a country taking the average of all the Lerner index values of the companies. For this purpose, the Lerner index values can be calculated from a panel data set with observations from the unconsolidated balance sheets of, for example, all companies of a country's leading stock index (large caps). To obtain the Lerner index at the country level, the weighted average of the Lerner index values of the individual companies is calculated. The weights used can be derived from the individual companies' shares of total assets at index level.

A justified criticism of this method is based on the differently weighted sectors in the leading indices of countries. According to the Lerner index, countries would perform structurally worse (have companies with strong monopoly power) if sectors with high fixed costs, network effects or market entry barriers, such as the telecommunications sector, are weighted heavily in the leading index. An alternative method of calculating a countries Lerner-Index could therefore focus on a country comparison of monopoly power at sector level. However, this would be much more extensive due to the expanded data basis and would raise the question of the weighting of the different sectors.

---

<sup>35</sup> Alternatively average costs

An alternative simplified way to calculate the monopoly power of companies is calculating the short-run price-cost margins. A perfect free market competition normally lowers profits. Followingly, if the profit margin of the companies of a country (in average) is high, this indicates monopoly power. If profit margins are low, then competition prevents monopoly power. Both ways of calculating monopoly power generate results that need to be questioned and interpreted in order to serve as a reliable indicator of monopoly power. The results of the Lerner index and the profit margins as indicators must therefore always be interpreted, and the question must be asked whether monopoly power is really responsible for prices above marginal costs or other factors.

An alternative to the Lerner index to measure monopoly power is the Herfindahl-Hirschman Index (HHI) (1980)<sup>36</sup>. In contrary to the Lerner index, which focuses on understanding the pricing behavior of individual firms and how much they can deviate from competitive pricing, HHI measures market concentration by considering the distribution of market shares among firms in a specific industry. It calculates the degree to which market share is concentrated in the hands of a few large firms. In a monopoly, one firm has complete control over the market, and the HHI will be equal to 100%, whereas in a perfectly competitive market, the HHI will be close to 0.

HHI is calculated as follows<sup>37</sup>:

$HHI = \sum(s_i^2)$ , where " $s_i$ " represents the market share of each firm.

### **3.2.7. Corruption**

According to the OECD (2015), corruption hinders economic development, leads to poorer health and education systems, destroys social capital, and thus stirs up distrust among the population towards politics and administration. Consequently, corruption can lead to material losses as well as to immaterial losses such as a lack of democracy and rule of law.

---

<sup>36</sup> "The Herfindahl-Hirschman index (...) is a statistical measure of concentration. It has achieved an unusual degree of visibility for a statistical index because of its use by the Department of Justice and the Federal Reserve in the analysis of the competitive effects of mergers. The Herfindahl index can be used to measure concentration in a variety of contexts" (Rhoades, S., 1993, p. 188).

<sup>37</sup> See Fahrmeier, K. and Pigeot, T. (2001)

In summary, corruption negatively affects resource allocation, economic development, citizens' trust in the economic and political system, and social inequality. Overall, corruption therefore leads to a loss of welfare.

Corruption can also be analyzed through game-theoretic models. It shows how the conditions of an imperfect market<sup>38</sup> lead to a suboptimal outcome due to a lack of trust and information. The corruption game can be seen as a prisoner's dilemma, where the self-interested behavior of both players (the briber and the bribed) leads to a suboptimal outcome. This is because both players would benefit from a cooperative strategy in which no bribery takes place, but due to uncertainty and mistrust they may choose the corrupt option.

Accordingly, the briber wants to gain an unfair advantage by bribing the bribed to influence a particular action or decision in his favor. The bribed is faced with the decision to accept or reject the bribe. Game theoretic analysis of the corruption game involves determining the optimal strategies of the players and the associated payoffs. Various factors are considered, such as the likelihood that the bribee will report the bribe, the amount of the bribe, the criminal consequences, etc.

Since welfare state regimes have generally recognized the welfare loss caused by corruption, anti-corruption measures such as deterrence and institutional frameworks are used to fight inflation. The success of these measures can be measured with different figures since there is no universal corruption measurement method.

The Level of corruption as part of the welfare performance evaluation needs to be measured separately by an additional indicator<sup>39</sup>. According to the World Bank (2018), a suitable indicator should measure corruption (validity criterion) across national contexts and/or across time (consistency criterion).

How corrupt a country is, can be measured by subjective indicators like surveys and case studies and objective indicators like economic indicators as well as investigations and prosecutions.

---

<sup>38</sup> A perfect market includes perfect and symmetric information which only exists in theory.

<sup>39</sup> The impact of corruption cannot be measured by other performance measurement indicators that have already been presented, because 1) the Gini index measures a country's income inequality, but not the extent to which the power of money and political office can be exploited to the detriment of the economic and political system, 2) GDP/capita at PPP cannot measure the loss of economic performance due to corruption.

The data of indices measuring corruption often take into account estimates and surveys, as corruption is hidden and difficult to quantify. Also, causality cannot always be clearly established empirically, as many causes and effects of corruption are interrelated. Therefore, the methods and indicators mentioned above can only provide limited insights. Nevertheless, they make it possible to identify trends, make comparisons across countries or regions, and monitor progress in the fight against corruption over time.

The most commonly used indicator is the so-called Corruption Perceptions Index (CPI) compiled by the Transparency International organization. The index is based on surveys and expert opinions. The database consists of 13 external sources including the World Bank, the World Economic Forum, private risk and consulting firms and think tanks (Transparency International, 2023). Every source rates countries on a different scale, therefore Transparency International transforms the individual scale into a standardized scale. Followingly, the CPI ranks countries from 0 (max. corruption) to 100 (no corruption) according to their perceived level of corruption.

**The CPI covers the following aspects of corruption** (transparency international, 2023):

- Bribery and corruption
- Theft of public funds
- Widespread abuse of public office for private purposes by public officials without consequences
- Ability of governments to curb corruption and enforce effective integrity mechanisms in the public sector
- Excessive and opaque bureaucracy that can increase opportunities for corruption
- Merit-based versus nepotistic appointments in the public sector
- Effective prosecution of corrupt public officials
- Appropriate financial transparency and conflict of interest laws for public officials
- Legal protection for whistleblowers, journalists and investigators in cases of reporting bribery and corruption
- Capture of the state by certain interest groups
- Public access to information on public affairs

Since the CPI covers many aspects of corruption, it seems the most suitable indicator for the welfare performance measurement.

But there are also other surveys and indices, such as the Global Corruption Barometer, the Business Anti-Corruption Portal survey, and the Worldwide Governance Indicators (WGI), which measure different aspects of corruption.

Objective data on corruption, such as international comparative data from judicial authorities on indictments, convictions, and sentences, are rare, difficult to compare and have limited explanatory power. For the question must inevitably be asked: Does a high level of convictions reflect a high level of corruption, or rather a pronounced efficiency and competence of the legal system that would prove the opposite? Transparency International itself states that to date there is no indicator that objectively and completely measures the level of corruption. Therefore, the World Bank (2018) suggests using subjective indices to validly measure corruption and, if possible, cross-checking them with objective indicators, even when the latter may be of a more narrow scope and time-limited availability<sup>40</sup>.

### **3.2.8. Environmental quality**

In the free economy, negative externalities lead to a loss of welfare for society. This is because the absence of a pricing for scarce, natural resources leads to market failures.

Generally, externalities in the economy can harm the environment because they result in the actual costs or benefits of an economic activity not being fully taken into account by the actors. Externalities are effects that go beyond the direct participants in an economic transaction and have an impact on third parties without compensation. Negative externalities (external costs)<sup>41</sup> occur when economic activity leads to negative impacts on the environment that are not internalized by the actors. An example is pollution from factories or vehicles. The polluters cause costs in the form of health problems, environmental damage, or resource consumption, which are borne by society as a whole, while neither the producers nor the consumers pay or are liable for these costs.

---

<sup>40</sup> According to the World bank (2018) and Treisman (2007), the CPI was found to be highly correlated with measures of actual corruption (business regulation, public perceptions of corruption).

<sup>41</sup> Positive externalities occur when an economic activity has positive effects on the environment that are not fully taken into account by economic actors. An example is the protection of natural resources or ecosystem services. For example, if a forest area is preserved and serves as a carbon sink, society as a whole benefits from the climate mitigation effects of the forest, while the owners or beneficiaries of the forest may not benefit directly from these benefits.

These externalities lead to market failures, as prices and allocation of resources do not reflect actual costs and benefits. This results in overuse of environmental resources and undervaluation of environmental quality. The negative impacts on the environment can translate into pollution, resource depletion, climate change, and loss of biodiversity.

To protect the environment from the harmful effects of externalities, welfare states take policy measures such as environmental regulations, taxes and subsidies, trade restrictions and property rights.

Whether these measures really urge economic actors to internalize the external costs and benefits of their actions can only be measured to a limited extent. Because not all policy measures lead to a pricing of external effects. The European certificate trading system, for example, is a market-based instrument that leads to the pricing of emissions based on a maximum emission level. The maximum emission level for the reduction of greenhouse gas emissions in the European Union is scientifically determined. However, it cannot be proven whether this is really the "optimal emission level", which would naturally be determined by supply and demand, since the supply is fixed. In contrast, when taxes are used, the price is fixed, and supply and demand are regulated by the market. Since the instruments have different functions, only the environmental quality itself can be measured as an indicator, and not the internalization of external effects.

Environmental quality can be assessed by measuring various indicators such as air quality (pollutants such as particulate matter, nitrogen dioxide, sulfur dioxide, etc.), water quality (pH, dissolved oxygen, pollutants), soil quality (nutrients, pH, heavy metals), noise pollution, biodiversity (species diversity), and climate data (temperature, humidity, CO<sub>2</sub> concentration). Other aspects include waste management, energy consumption, chemical pollution, and ecosystem services assessment. These methods are often used in combination to provide a comprehensive picture of environmental quality. For example, the "Ecological Footprint" of the Global Footprint Network (GFN) compares the resource demand of individuals, governments, and businesses against Earth's capacity for biological regeneration. The ecological footprint refers to the Ecological Footprint of consumption by taking into account, for example, CO<sub>2</sub> emissions and land use.

In order to put resource consumption in relation to a country's economic growth, it would be necessary to measure the ecological footprint of a country's production. This would put



productivity in relation to the efficient use of resources, which would be a good indicator to measure the performance of a welfare state.

There are also qualitative methods such as surveys to measure the subjective perception of environmental quality which compare the environmental quality of countries.

### **3.2.9. Means of payment**

A stable means of exchange for trading goods is essential for a welfare state. The currency of a welfare state as means of payment needs to be stable i.e., its value should not fluctuate excessively to gain the trust of the economic subjects. Confidence in the currency of a country supports the value of the currency. Furthermore, a stable currency lowers the volatility of goods prices. Consequently, confidence in a currency is crucial to ensuring the stability of the economy and the financial system. It provides the basis for price stability, the preservation of value and the smooth functioning of trade. Without confidence in the currency, uncertainty, capital outflows and economic problems can occur, which can destabilize the entire financial system. The performance of a currency reflects confidence in the currency and the government, as well as a country's economic performance.

A strong volatility in the value of a country's currency can (i) be a result of market failure and/or (ii) lead to market failure. Market failure can contribute to the instability of a country's currency in cases of external shocks and uncertainty such as political uncertainty, natural disasters, geopolitical events, or financial crises. Furthermore, speculation and herd behavior as well as information asymmetries can lead to volatility in a countries' means of payment.

The stability of a currency can be measured, for example, by calculating the volatility of a country's currency index. An example of a currency index is the dollar index, which measures the value of the dollar against the value of a basket of other currencies. Usually, not all currencies of the world are represented in such a basket but only the five to six most important currencies<sup>42</sup>. The composition of the U.S. Dollar Index includes, for example, EUR, JPY, GBP, CHF, SEK and CAD. Followingly, the dollar index shows how the value of the dollar develops in relation to these six currencies. A high volatility of this index points to instabilities of the USD. The volatility of a currency index can be measured as follows:

---

<sup>42</sup> Currencies are important if they have a large trading volume and are held as foreign reserve currency by central banks. In such a case, the demand for that currency is accordingly high.

$$\sigma_x = \frac{1}{n-1} \sum_{i=1}^n (x_i - \bar{x})^2$$

$x$  = value of currency index

$\bar{x}$  = average value of currency index sample

$x_i$  =  $i$  – th value of the currency index

$n$  = size of the sample

$\sigma_x$  = volatility of the currency index

### 3.2.10. Life expectancy

The life expectancy of a country's population indicates how long a resident of a specific country is expected to live on average. A high life expectancy usually indicates good health care, access to education and adequate nutrition.

Factors such as advanced medical care, improved sanitation, advances in disease control, a healthy nutrition, access to clean water, and educational opportunities can influence life expectancy. This also explains why even though the U.S. outspends its peers in terms of health care spending, life expectancy grows slower than in similarly large and wealthy countries and is 6.3 years lower than in comparable countries<sup>43</sup>. Japan in contrary, when compared to similarly large and wealthy countries, is the country with the lowest per capita health spending but had the highest life expectancy among their peers<sup>44</sup>. Followingly, higher spending on healthcare does not necessarily translate into longer lifespans because there are multiple factors influencing the life expectancy of a country despite the health care system.

In general, government intervention and regulation are needed to ensure access to quality health care as well as to promote access to education. This is because a comparably lowered life expectancy is often the result of economic instability and market failure. Factors that influence life expectancy, such as good health care and access to education, are thereby often considered public goods because they can have positive externalities for society as a whole. Better health and education for one person can have a positive impact on others by increasing productivity, promoting economic development, and enhancing overall well-being. This is because investments in health care and education pay off in the long run: A well-educated population

---

<sup>43</sup> Data from 2021, provided by Peterson-KFF Health system tracker (Rakshit, S. et al, 2022)

<sup>44</sup> Data from 2021, provided by Peterson-KFF Health system tracker (Rakshit, S. et al, 2022)

and good human health promote a country's economic growth and productivity<sup>45</sup>. Public provision of these goods strengthens human capital and benefits society. These long-term positive effects are often underestimated in the purely market-based provision of these goods.

In addition, one person's health can affect others: For example, if someone does not receive adequate health care and spreads contagious diseases, this can have a negative impact on the health of others. The market typically does not take these externalities into account, which can lead to an undersupply of health services and education. In many cases, markets fail to deliver health care and education efficiently and equitably, with the market mechanism resulting in low-income populations which lack sufficient financial resources as well as adequate access to health services and quality education. This has a negative impact on society.

Welfare states usually promote a combination of public and private approaches to providing health care and education. Because public investment and regulation can help to minimize the impact of market failures by ensuring that health and education services are accessible to all, while the private sector can promote innovation and diversity in service delivery.

There are different approaches and methods for calculating life expectancy. Most often, to calculate life expectancy, mortality rates in different age groups are taken into account. The data on mortality rates in different age groups are used to create a so-called "mortality table". In the European Union, life expectancy tables are calculated according to Farr's death rate method<sup>46</sup> (Farr, W., 2000):

$$qx = Mx / (Bx + \left(\frac{Mx}{2}\right))$$

*Mx = number of deaths at the age of x to under x + 1 years in the reported period*

*Bx = average population aged x to under x + 1 in the base period*

*qx = death probability from age x to x + 1*

*x + 1 = year of estimation*

---

<sup>45</sup> High economic performance therefore often correlates with high life expectancy, as in the case of Switzerland, for example. However, there are also exceptions, such as the USA, which has a much higher economic performance per capita than countries like, for example, Spain, but people have an average life expectancy that is much lower - in the comparison to Spain, more than 5 years shorter (OECD database).

<sup>46</sup> The method assumes that there is a constant mortality within the age intervals.

### **3.3. Limits to this method of welfare state performance measurement**

Other indicators, such as the health care system or social protection (with a focus on labor law), are also stabilizers of the welfare state and its economic system that can help minimize social costs. However, those indicators are difficult to measure quantitatively and are reflected in other indicators already introduced.

Life expectancy, for example, is an important indicator of the health of a population and can be influenced by various factors, including the efficiency of the healthcare system. Nevertheless, it is not the only factor influencing life expectancy, and there are other important determinants of health. Accordingly, the efficiency of the health care system cannot be broken down to life expectancy only, but high life expectancy is a goal of the health care system and is also reflected in the life expectancy indicator.

Social protection (with a focus on labor law) is also partly measured in indicators such as the volatility of real disposable income per capita, the unemployment rate and its volatility, as well as life expectancy.

Other factors, such as (i) jurisdiction; (ii) unpaid labor, which is not included in GDP but generates welfare for society; and (iii) the efficiency of the use of scarce resources, i.e. the goal of using scarce resources in the most efficient way to maximize welfare not only in the short term but also in the long term, also have an impact on welfare in the context of minimizing social costs caused by instability. However, they cannot be measured either, which highlights the limitations of the method introduced to measure the performance of welfare states.

In addition, the method presented does not apply any weighting to the indicators. To apply a weighting to this method of welfare state performance measurement, insights on the impact of a specific indicator on the reduction of social costs caused by the instability of the free market are relevant. But social cost analysis based on a free-market scenario compared to an economic system with implemented welfare policies is hardly valid nor reliable.

For this reason, the indicators were not weighted in an overall performance analysis. However, this reduced the degree of validity and reliability of the welfare state performance score as an unweighted summary of all indicator results. Because not all indicators measure social cost reduction to the same extent as indicated by this method. Consequently, an overall performance score suffers a lack of data quality and explanatory power - for both, a historical longitudinal analysis and a comparative cross-sectional analysis.

A ranking of the overall performance of welfare states can only forego the weighting of indicators if welfare state A outperforms welfare state B in terms of one indicator and, simultaneously, maintains at least an equal level of performance to welfare state B across all other indicators. Under these circumstances, it would be justifiable to assert that welfare state A should be positioned higher than B in the overall performance ranking.

Generally, individual indicator analysis has more explanatory power, especially when comparing the performance of multiple welfare states.

## Conclusion

Comparative welfare state research focusing on classifications and historical context limits the added value of welfare state research for the selection of welfare policies. In fact, characterizing different welfare states does not contribute to a social cost analysis nor a more evidence based social policy management. Consequently, the focus of welfare state research should be on the comparison of the performance of welfare states to draw conclusions for the selection of efficient welfare maximizing policies. Furthermore, approaching welfare state research from a quantitative viewpoint supports a more rational social policy management.

When measuring the performance of welfare states to draw conclusions for the selection of welfare policies, outcomes should be measured instead of efforts, because not all spending pays off equally. Followingly, measuring the performance of a welfare state is not about measuring social spending as e.g., the sum of spending on social programs in relation to GDP. Instead, welfare state performance measurement should focus on the goals of a welfare state and to which degree they are met.

One of the fundamental arguments of this thesis is that the instabilities of the free market, which do not live up to the perfect market, cause social costs. Those social costs justify political intervention in terms of welfare-enhancing policy interference. Consequently, the goal of a welfare state regime is to minimize the social costs caused by the imperfect free market. Therefore, the performance of a welfare state regime can be measured by the extent to which it minimizes social costs caused by free market instabilities.

To measure the extent to which social costs are minimized, indicators measuring social costs caused by free market instabilities need to be selected. For this purpose, quantitative and qualitative indicators are introduced which measure the social costs from different perspectives. Consequently, the method introduced can be associated with the social cost benefit analysis which is in project management already an important factor for private and public investment. As for social cost benefit analysis, the difficulty in measuring social costs arises from the complexity of valuing externalities, intangible factors, and interconnected societal dynamics.

Furthermore, the complexity and limitation of the method introduced in this thesis is that the amount of social cost reduction cannot be measured with respect to a single welfare policy measure, but only with respect to the welfare state regime as a system of welfare enhancing institutions and policies. However, this makes the performance measurement of a welfare state

even more complex and difficult to analyze and to interpret than the classic social cost benefit analysis used in the project management. Nevertheless, the results of the performance evaluation of welfare states may have added value for welfare policy that needs to be studied.

### **Indications for further studies on the topic of this master thesis**

The idea of this master thesis is to outline a method for measuring the performance of welfare states based on defined objectives of a welfare state. Further elaboration on the subject of the thesis could be approached by (i) questioning and extending the indicators, (ii) collecting the data needed to measure the performance of several welfare states over a historical period, and (iii) analyzing classifications of welfare states and the performance of welfare states to identify trends. Identified trends can then indicate which welfare enhancing policies are performing best.

In their paper *Measuring Welfare State Performance: three or two worlds of welfare capitalism*, Paul de Beer et al. (2001) argue that “The liberal welfare states perform consistently worse on the indicators for income levelling, income (in)equality and poverty, but not with respect to the level of social welfare” (de Beer, P., et al., 2001, p. 5). To discover this trend, the authors analyzed whether the three types of welfare states introduced by Esping-Andersen correspond to a performance ranking in terms of some traditional functions of the welfare state. As protective functions of the welfare state, the authors name the degree of income levelling by the social security and tax system; the rate of inequality of disposable household incomes; the level of social welfare (interpreted as a combination of income level and income equality) and the poverty rate. After collecting data from several welfare states that they have previously assigned to one of the ideal types according to *The Three Worlds of Welfare Capitalism*, they examine whether there are trends (correlations) in the performance of certain protective functions of the welfare state and the ideal types.

Analyzing the performance of the indicators defined in connection with ideal types which represent specific welfare-enhancing policies and regimes, would be an added value not only to comparative welfare state research but also to governmental institutions deciding on welfare policies.

## Bibliography

Alcock, P., & Glennerster, H. (Eds.). (2001). *Welfare and wellbeing: Richard Titmuss's contribution to social policy*. Policy Press.

Arts, W., & Gelissen, J. (2002). Three worlds of welfare capitalism or more? A state-of-the-art report. *Journal of European social policy*, 12(2), 137-158.

Bambra, C. (2007). Going beyond the three worlds of welfare capitalism: regime theory and public health research. *Journal of Epidemiology & Community Health*, 61(12), 1098-1102.

Barker, M. J. (2013). *Essentialism*.

De Beer, P., Vrooman, C., & Wildeboer Schut, J. M. (2001). Measuring welfare state performance: Three or two worlds of welfare capitalism? (No. 276). LIS Working Paper Series.

Deakin, S. F. (2013). Addressing labour market segmentation: The role of labour law.

Deeming, C. (2017). The lost and the new 'liberal world' of welfare capitalism: A critical assessment of Gøsta Esping-Andersen's the three worlds of welfare capitalism a quarter century later. *Social Policy and Society*, 16(3), 405-422.

Esping-Andersen, G. (1990). *The three worlds of welfare capitalism*. Princeton University Press.

Esping-Andersen, G. (2015). Welfare regimes and social stratification. *Journal of European Social Policy*, 25(1), 124-134.

Fahrmeir, K., & Pigeot, T. (2001). Statistik Kapitel 2.3.2: Alternative Konzentrationsmaße (3. Aufl.). Springer-Verlag.

Farr, W. (2000). Vital statistics: memorial volume of selections from the reports and writings. 1885. *Bulletin of the World Health Organization*, 78(1), 88.

Friedman, M., & Laidler, D. E. (1975). Unemployment versus inflation?: An evaluation of the Phillips curve.

Gelman, S. A. (2013). Artifacts and essentialism. *Review of Philosophy and Psychology*, 4, 449-463.

Greve, B. (2014). *Historical dictionary of the welfare state*. Rowman & Littlefield.

Greve, B. (Ed.). (2012). *The Routledge handbook of the welfare state*. Routledge.

Greve, B. (2018b). What is welfare and public welfare? In *Routledge Handbook of the Welfare State*. Routledge.

Greve, B. (2018). What is welfare and public welfare?. In *Routledge handbook of the welfare state* (pp. 5-12). Routledge.



Greve, B. (2019). Poverty. Routeledge.

Gurmin, J. H. (2016). Richard Dawkins, Daniel Dennett, Sam Harris: An Analysis of Free Will and Determinism. *Maynooth philosophical papers*, 8, 30-44.

Hamilton, A., & Hammer, C. (2018). Can we measure the power of the grabbing hand. *Policy Research Working Paper*, 8299.

Hartshorne, C. (1958). Freedom requires indeterminism and universal causality. *The Journal of Philosophy*, 55(19), 793-811.

Hirschman, A. O. (1980). National power and the structure of foreign trade (Vol. 105). Univ of California Press.

Hutchison, T. W. (1967). Popper, K. R.: Das Elend des Historizismus. Tübingen, 1965 (Book Review). *Zeitschrift für Nationalökonomie*, 27.

Kane, R. (Ed.). (2011). The Oxford handbook of free will. OUP USA.

Keynes, J. M. (1936). *Allgemeine Theorie der Beschäftigung, des Zinses und des Geldes*.

Klant, J. J. (1984). The rules of the game: the logical structure of economic theories. CUP Archive.

Knoop, T. A. (2009). *Recessions and depressions: Understanding business cycles*. Bloomsbury Publishing USA.

Kuhlmann, J. (2018). What is a welfare state? In *Routledge Handbook of the Welfare State*. Routeledge.

LaPorte, J. (2017). Modern essentialism for species and its animadversions. In *The Routledge handbook of evolution and philosophy* (pp. 182-193). Routledge.

Leite, A. M. R., & de Ameida Lite, E. M. et al. (2022). From Bismarck to Beveridge: Contributions for the understanding of different social security models. *Economic and Social Development: Book of Proceedings*, 255–264.

Lerner, A. (1995). The concept of monopoly and the measurement of monopoly power (pp. 55-76). Macmillan Education UK.

Marshall, A. (1890). *Principles of Economics*.

Mark, B. (2010). Free Will as an Open Scientific Problem.

May, J. (2014). On the very concept of free will. *Synthese*, 191, 2849-2866.

Milford, K. (2010). A note on Menger's problem situation and non-essentialist approach to economics. In *Austrian Economics in Transition: From Carl Menger to Friedrich Hayek* (pp. 154-175). London: Palgrave Macmillan UK.

OECD. (2019). Household disposable income. <https://www.oecd-ilibrary.org/content/data/dd50eddd-en>

- Organisation for Economic Co-operation and Development. (2015). Consequences of Corruption at the Sector Level and Implications for Economic Growth and Development. OECD Publishing.
- Pierson, C. (2004). Origins and development of the welfare state, 1880-1975. *Welfare and the state critical concepts in political science*, 47-86.
- Politis, V. (2021). *Plato's Essentialism: Reinterpreting the Theory of Forms*. Cambridge University Press.
- Popper, K. R. (1988). *The open universe: An argument for indeterminism (Vol. 2)*. Psychology Press.
- Popper, K. (2013). *The poverty of historicism*. Routledge.
- Popper, K. (2020). The Aristotelian Roots of Hegelianism. In *The Open Society and Its Enemies* (S. 219–241). Princeton University Press.
- Purdie, E., & Song, I. (2022). Purchasing Power Parities – putting a global public good to work in socioeconomic analyses. The world bank.
- Rakshit, S., McGough, M., Amin, K., & Cox, C. (2022). How does U.S. life expectancy compare to other countries? Peterson-KFF Health system tracker.
- Ramaux, C. (2018). Risque et assurance: ne pas jeter le bébé social avec l'eau du bain libéral. *Revue française de socio-économie*, (1), 201-204.
- Raven, M. J. (2011). There is a problem of change. *Philosophical studies*, 155, 23-35.
- Rhoades, S. A. (1993). The Herfindahl-Hirschman index. *Fed. Res. Bank of St. Louis.*, 79, 188.
- Rohwer, A. (2008). Bismarck versus Beveridge: Ein Vergleich von Sozialversicherungssystemen in Europa. *ifo Schnelldienst*, 61(21), 26-29.
- Say, J. B. (1836). *A treatise on political economy: or the production, distribution, and consumption of wealth*. Grigg & Elliot.
- Schumpeter, J. (1928). The instability of capitalism. *The economic journal*, 38(151), 361-386.
- Seidl, Bonitz, H., & Christ, W. von. (1991). *Aristoteles' Metaphysik : griechisch-deutsch*. 2. Halbband, Bücher VII (Z)-XIV (N) (Dritte, verbesserte Auflage). Felix Meiner Verlag.
- Tammelo, I. (1980). *Ungerechtigkeit als Grenzsituation*.
- Transparency International. (2023). <https://www.transparency.de/cpi>
- Treisman, D. (2007). What have we learned about the causes of corruption from ten years of cross-national empirical research?. *Annu. Rev. Polit. Sci.*, 10, 211-244.
- U.S. Bureau of Labor Statistics. (2023). How the Government Measures Unemployment. U.S. Bureau of Labor Statistics. [https://www.bls.gov/cps/cps\\_htgm.htm#nilf](https://www.bls.gov/cps/cps_htgm.htm#nilf)

U.S. Bureau of Economic Analysis, Real Disposable Personal Income: Per Capita [A229RX0], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/A229RX0>, December 18, 2023.

Weir, M. (2001). Welfare state.

Wikimedia Commons contributors. (2021). File: Economics Gini coefficient.svg. Wikimedia Commons.

Woodward, J. (1984). A theory of singular causal explanation. *Erkenntnis*, 231-262.

World Bank. (2023). Fact Sheet: An Adjustment to Global Poverty Lines. The World Bank.

Wresinski, J. (1994). Chronic Poverty and Lack of Basic Security: A Report of the Economic and Social Council of France. Fourth World Publications.

10. Life expectancy. (o. J.). Europäische Kommission. Abgerufen 13. Juni 2023, von [https://ec.europa.eu/health/indicators/docs/echi\\_10\\_ds\\_en.pdf](https://ec.europa.eu/health/indicators/docs/echi_10_ds_en.pdf)

# Appendix

## **Abstract:**

The thesis aims at questioning the added value of welfare state typologies from a methodological and a practical point of view and introduces a method of welfare state performance measurement. In order to define indicators measuring the performance of welfare states, the justification of welfare state policies is introduced in the light of market failure and market risk. According to this objective of the welfare state, the performance measurement focuses on the extent to which social costs caused by market risks and the negative impact of market imperfections are reduced. Consequently, this paper introduces indicators that measure the extent to which the social costs caused by market risks and market failure are minimized. The comparison of the performance of welfare states can be conducted by comparing each indicator individually or by doing a multidimensional comparison. Furthermore, the performance of one welfare state can be measured over a period of time with the aim of measuring performance development, or a welfare state can be compared with other welfare states.

## **Abstract (deutsch):**

Das Ziel der Masterthesis ist, den Mehrwert von Wohlfahrtsstaatstypologien aus methodischer und praktischer Sicht zu hinterfragen und eine Methode zur Messung der Leistungsfähigkeit von Wohlfahrtsstaaten einzuführen. Um Indikatoren zur Messung der Leistungsfähigkeit von Wohlfahrtsstaaten zu definieren, wird die Rechtfertigung sozialpolitischer Maßnahmen im Lichte des Marktversagens und des Marktrisikos eingeführt. Folglich werden in dieser Arbeit Indikatoren eingeführt, die messen, inwieweit die durch Marktrisiken und Marktversagen verursachten sozialen Kosten minimiert werden. Der Vergleich der Leistungsfähigkeit von Wohlfahrtsstaaten kann durch einen Vergleich jedes einzelnen Indikators oder durch einen mehrdimensionalen Vergleich erfolgen. Dabei können die Performanceindikatoren eines Wohlfahrtsstaates über eine Zeitspanne zur Messung der Leistungsentwicklung gemessen werden, oder mit den Performanceindikatoren eines anderen Wohlfahrtsstaates verglichen werden.