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## **Welfare States and Institutional Complementarity: From North to South**

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WELFARE STATE AND INSTITUTIONAL COMPLEMENTARITY:  
FROM NORTH TO SOUTH  
Robert Boyer

**Abstract**

The rolling back of welfare benefits in mature economies in the North on one side, and the construction of genuine forms of social security in emerging economies in the South on the other. This looks like a paradox, difficult to explain by “one size fits all” type theorizing. Nevertheless, it can be overcome by combining a structural definition of welfare systems along a comparative historical analysis of their emergence. Since social protection is at the intersection of three spheres- domestic, economic and political- it is embedded into a significant diversity of configurations across societies and epochs. Their viability is up to the coherence of the architectures organizing these spheres. Revisiting their emergence in the North delivers a common and general result: any welfare system has also to be compatible, or still better complementary, with labor market institutions, the financing by tax or/and social contributions and finally with the national production and innovation system. Examples of both successes and failures are given when synthesizing previous research on Nordic countries, continental Europe and Latin America, including Brazil and China.



# Introduction

The present session is exploring the evolving values and principles of social policy and proposes seven key questions for discussion, among them the following: “*What were the major institutions, actors and scope of social pacts or the institutional arrangements for economic and social development in the Global North when they started building welfare states? How different are these arrangements in the Global South where the new welfare states are in the making?*” This paper deals with this issue, building upon the results of a research program devoted first to the understanding of the long run transformations of institutional architectures in mature capitalisms and then the elaboration of concepts and methods required to explain why contemporary economies display a limited number of configurations.

The first step provides the theoretical background and applies it to the nature and organization of welfare states: they are the outcome of quite complex articulations between various spheres, thus potentially they are quite diverse. But their number is limited because all its components have to be complementary, or at least compatible (I). These tools are then used to detect possible regularities and common principles in the emergence, maturing and crises of welfare since the XIX<sup>th</sup> century in Europe, with a special emphasis upon Nordic societies. A second type of complementarity appears: the welfare system has to cope with most other institutional forms (II). Finally it is argued that the most successful welfare innovations in the contemporary South do implement a form or another of complementarity between various objectives, for instance concerning anti-poverty, better education and access to basic health service. The Brazilian and Chinese experiences are analyzed accordingly (III). A short conclusion wraps up the main teachings of this survey.

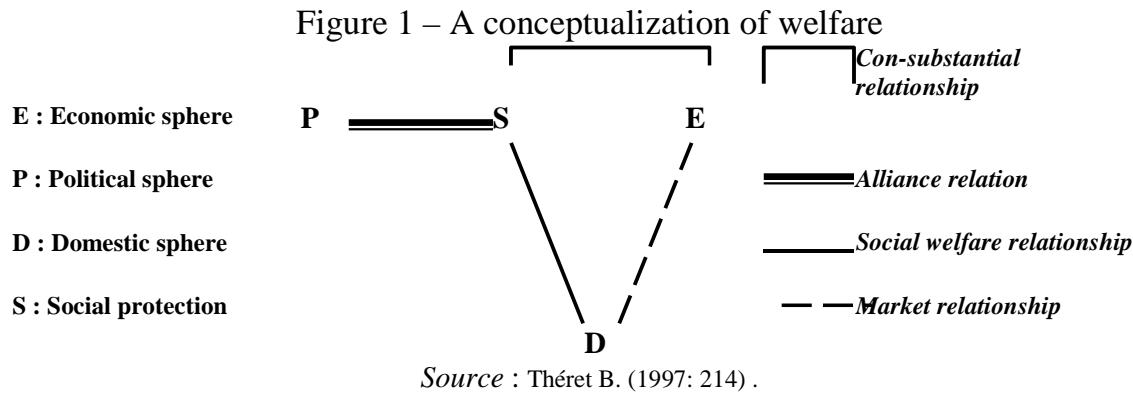
## I - A THEORETICAL BACKGROUND

What kind of entity do welfare states represent? Are they organizations or institutions? Can they be replaced by private contracts and governed by market forces? What configurations have proven to be viable and resilient in the long run? Do they exhibit common features that emerging welfare states should comply with?

### ***I.1 – The intrinsic complexity of welfare states***

Scholars have long ago recognized the complexity of the Welfare State as a social construct produced through a long historical process that has seen the emergence of salaried work and labor markets as a key component of a market economy. Simultaneously, the rise of industrial capitalism has transformed the nature of family structure, from an agrarian base to an industrial and urban configuration. Last but not least, the economic crises and social conflicts have put at the forefront the issue of the security of workers facing the new risks associated to the process of industrialization. In a sense, all Welfare States derive from the conjunction of these *three elements*: the responsibility of the *firms* concerning some industrial risks, the persisting role of *family* structures in providing some solidarity among members, and finally a political recognition of some *social rights*. Therefore, the structure of welfare can be analyzed through the lenses of structuralist theory (Théret, 1997:214). Then, each social protection

system (S) is represented by the equivalent of a molecule combining the economic sphere (E), the political sphere (P), and the domestic sphere (D) (Figure 1).

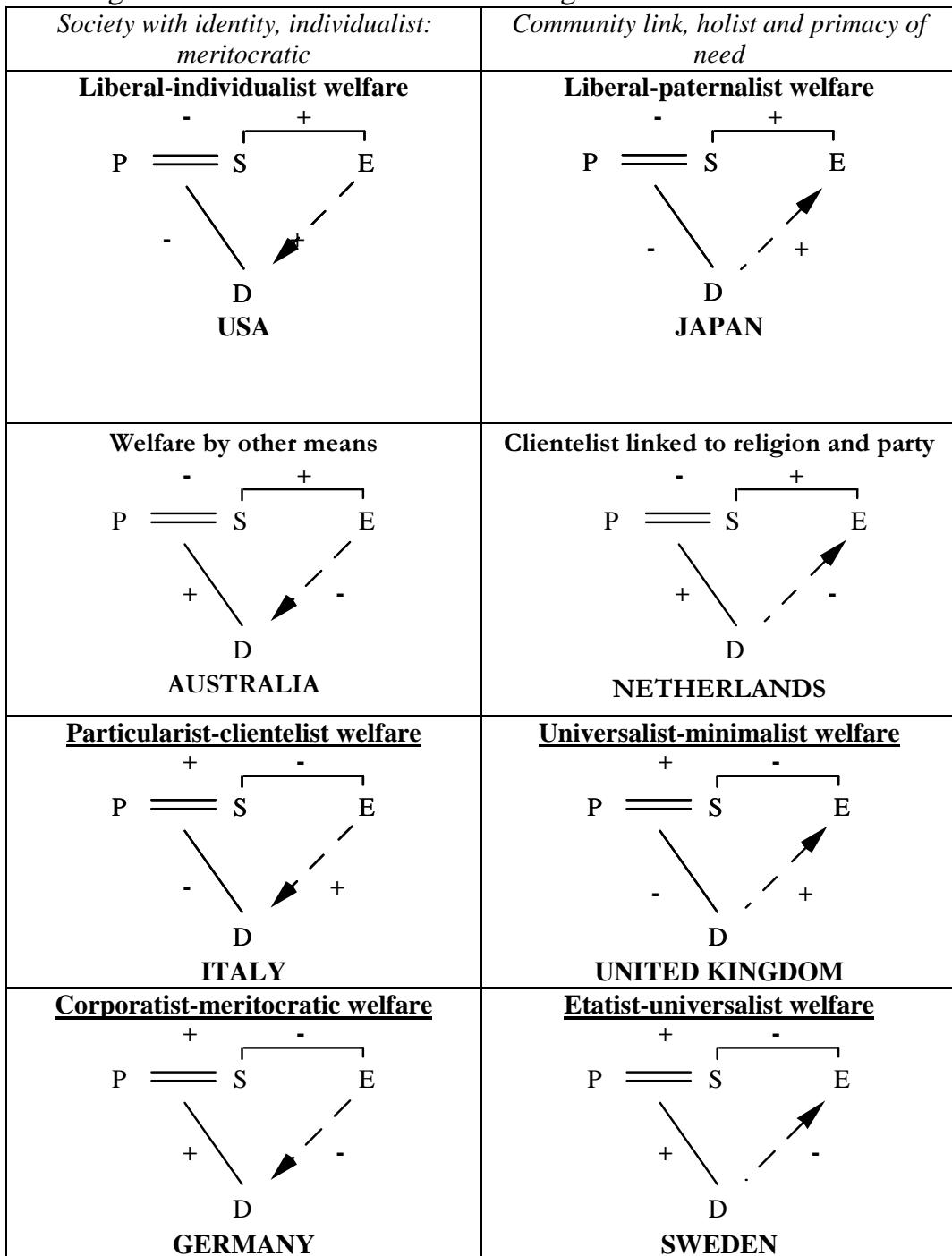


## 1.2 – A multiplicity of configurations

The structural relationship between these three elements can be analyzed according to the intensity of the links and the nature of the causality from one sphere to another. The existing welfare systems can be thus easily mapped into a genuine taxonomy, given the numerous information available from a large number of international comparisons (Flora, 1986; Esping-Andersen, 1990; Bonoli, Palier, 1995; Greve, 1996; Palier, 1998). Bruno Théret has proposed the taxonomy summarized by Figure 2. Its merit is to provide a more detailed analysis than previous ones. For instance, the American and Japanese systems that are frequently put into the same category considering the weak intervention of society wide solidarity, can be distinguished. In the American case, the economic logic of the firm is redesigning the role of the domestic sphere and imposing for example a dependence of social benefits from the competitiveness of the firm. In the Japanese configuration, the firm has to take into account a significant fraction of the social welfare, as required by the family structure. The first can be labeled as a liberal-individualist welfare, whereas the second would be liberal but paternalistic.

Similarly, the German and Swedish systems appear different: family policy is the outcome of a meritocratic welfare in Germany, whereas in Sweden a much more universal conception is developed by imposing to the firm strong constraints about the nature of gender relations. There are still other configurations such as the Italian clientelist welfare or the universal but minimalist British welfare. Still other configurations may exist: France could well belong to a hybridization of the German meritocratic welfare for the majority of social risks, along with the Swedish universalist welfare for the family regime. The core issue is thus the viability of each of these configurations, facing the same challenges represented by the new technologies, internationalization and the pressures of some powerful interest groups in favor of market competition for the supply of welfare.

Figure 2 – There is no canonical configuration for welfare State



Source : Théret B. (1997: 214).

What might explain this diversity? Are existing welfare systems the outcome of simple combinations of independent components or do they cluster around a limited number of configurations? Do the viable welfare systems correlate with specific socio-economic regimes or are they relatively independent?

### ***I.3 - How do complex systems cohere? The complementarity hypothesis.***

This is one of the key issues investigated by contemporary research in institutional economics and many hypotheses and theories have been put forward. Organizations and institutional architectures are for instance supposed to minimize transaction costs or alternatively they could be the outcome of fully rational individual strategies in search for an optimum and so on. Another avenue is explored here, following a breakthrough by theorists who tried to understand why modern productive organizations do not exhibit any continuum but are clustering around a very limited number of configurations (Milgrom & Roberts, 1990). Under the name of *supermodularity* they point out the hypothesis of *complementarity*: combining two managerial devices deliver better outcomes than the simple adding of their performance when used separately. It has to be distinguished from a series of related concepts. From mere *compatibility* if no extra benefits are reaped or from the *hierarchical domination* of one entity over another one. What are the processes that might lead to such configurations? Selection and learning are two mechanisms involved in the co-evolution of organizations, institutions, economic and social policies (Insert1).

#### **Insert 1: Four mechanisms**

##### *1. Complementarity:*

Two elements E and E' are said to be complementary if the performance R of the conjunction of E and E' is superior to any other mix of elements i.e.  $R(E,E') > R(E,A) \forall A \neq E'$  and  $R(E,E') > R(B,E') \forall B \neq E$ .

##### *2. Compatibility:* this second notion is frequently confused with the first one...but it should not! Actually E and E' are compatible if they can be jointly observed in existing economies and societies, i.e. $E \cap E' \neq \emptyset$ .

##### *3. Hierarchy:* This is a third relation between entities, with the implication of causality from

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