

# Lecture 1: History of the Welfare State

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# Practical Informations

- **How to reach me ?**

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- Please send an email to make sure I am available

- **Related courses at PSE**

- Public Economics M2 (Antoine Bozio, Julien Grenet, Thomas Piketty, Gabriel Zucman) : the main course for public economics
- Ageing and Public Policy M2 (Antoine Bozio) : for a more advanced course on the economics of pensions.

# Practical Informations

- **Reading list in the syllabus**
  - Articles with \* are mandatory reading
  - Feed your intellectual curiosity
- **Evaluation**
  - Exam at the end of term (short questions)
  - Pass/fail (no grades)
  - Material : slides

# Course outline

## I. Concepts : history, philosophy, economics

- 1 History of the Welfare State
- 2 Political philosophy of the Welfare State
- 3 Economics of the Welfare State

## II. Policies

- 4 Funding the Welfare State
- 5 Poverty alleviation
- 6 Insuring social risks : UI, disability
- 7 Consumption smoothing : pensions
- 8 Place-based policies
- 9 Education, training and skills
- 10 Debating reforms to the Welfare State

# Lecture outline : Definition and history

## I. Defining the Welfare State

- 1 Definitions
- 2 Types of social policies
- 3 Objectives

## II. History of the Welfare State

- 1 Early social policies
- 2 Birth of welfare state : Bismarck, Beveridge
- 3 Expansion and retrenchment

## III. Types of Welfare States

- 1 Bismarck vs Beveridge
- 2 The three world of welfare state
- 3 Alternative views

# What's in a name?

- **In English, “Welfare State”, “social spending”**
  - “Welfare state” is coined in 1941, as opposed to “warfare state”, attributed to William Temple, archbishop of York
- **In French, “État providence”, “État social”**
  - “État providence” is coined in the late 19th by MP Emile Ollivier criticizing the pretention of the State to replace social action from the Church (Rosanvallon, 1981, p. 141.)
  - Other supposed origin from social policy of the Church Pope Leon XIII with *Rerum Novarum* (Supiot, 1991)
- **In German, “Sozialstaat”, “Wohlfarstaat”**
  - “Sozialstaat” is used in the late 19th c. in Germany from economists defending a strong State interventions (*Katheder sozialist*), e.g., Adolph Wagner
  - “Wohlfarstaat” describes in the 19th c. policies to control prices (Rosanvallon, 1981, p. 141.)

# Defining the Welfare State

- **Hard to define**

- Most authors refused to define it (Titmuss, 1958)

*“There is indeed a lot of the proverbial elephant about social insurance : we may not be able to define an elephant, but we recognise one when we see it.”*  
(Atkinson, 1991, p. 113)

- Too general term (all policies affect welfare)

- **Generally accepted definition : social policies**

- Policies that aim to increase welfare of the population, notably those deemed vulnerable, by providing social care and income transfers, social insurance, consumption smoothing and benefits in kind like health care and education (Barr, 2004)

- **The range of social policies**

- Cash benefits, health care, education, housing, pension, unemployment insurance, and other welfare services

# Social policies

- **Cash benefits vs benefits in kind**

- Cash benefits : social benefits, pension, UI benefits
- In kind : education, health care, social assistance, unemployment counselling

- **Social assistance vs social insurance**

- Social insurance : cash benefits without means test on the basis of previous contributions (e.g., pensions, unemployment benefits)
- Social assistance : means-tested benefits (e.g., income support, housing benefits)
- Universal benefits : cash benefits without means test awarded based on specific conditions (e.g., child benefits)



Figure 1 – Social policies

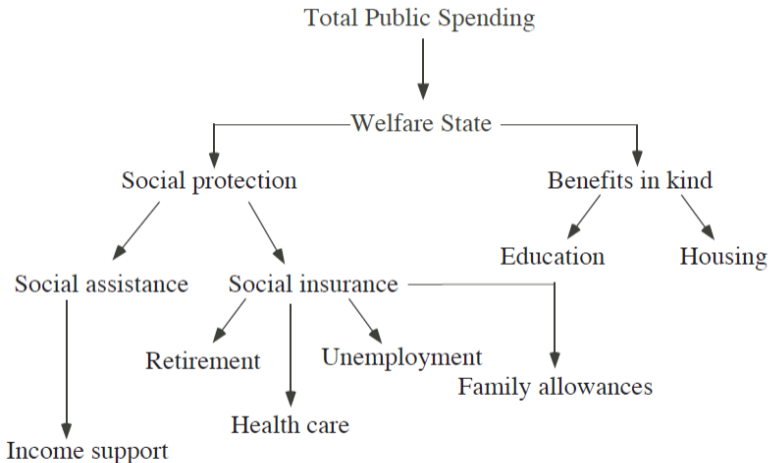


Figure 2 – Categorisation of public and mandatory private social expenditure by OECD

<b>1. OLD AGE</b>	<b>5. FAMILY</b>
Cash benefits	Cash benefits
Pension	Family allowances
Early retirement pension	Maternity and parental leave
Other cash benefits	Other cash benefits
Benefits in kind	Benefits in kind
Residential care / Home-help services	Early childhood education and care (ECEC)
Other benefits in kind	Home help / Accomodation
	Other benefits in kind
<b>2. SURVIVORS</b>	<b>6. ACTIVE LABOUR MARKET PROGRAMMES</b>
Cash benefits	PES and administration
Pension	Training
Other cash benefits	Employment Incentives
Benefits in kind	Sheltered and supported employment and rehabilitation
Funeral expenses	Direct job creation
Other benefits in kind	Start-up incentives
<b>3. INCAPACITY-RELATED BENEFITS</b>	<b>7. UNEMPLOYMENT</b>
Cash benefits	Cash benefits
Disability pensions	Unemployment compensation / severance pay
Pensions (occupational injury and disease)	Early retirement for labour market reasons
Paid sick leave (occupational injury and disease)	Benefits in kind
Paid sick leave (other sickness daily allowances)	
Other cash benefits	<b>8. HOUSING</b>
Benefits in kind	Benefits in kind
Residential care / Home-help services	Housing assistance
Rehabilitation services	Other benefits in kind
Other benefits in kind	
<b>4. HEALTH</b>	<b>9. OTHER SOCIAL POLICY AREAS</b>
Benefits in kind	Cash benefits
	Income maintenance
	Other cash benefits
	Benefits in kind
	Social assistance
	Other benefits in kind

SOURCE : The OECD SOCX Manual 2019 Edition.

# Objectives of the Welfare State

## ① Poverty alleviation

- No household should fall below a minimum standard of living. Objective to reduce the incidence of poverty.

## ② Insurance against social risks

- No one should face an unexpected large drop in living standard

## ③ Consumption smoothing

- Individuals should be able to shift income across their lifetime to smooth consumption

# Objectives of the Welfare State

## 4 Reduction in inequality

- Either vertical inequality (income level) or horizontal equity (between household types)

## 5 Social inclusion

- Aim to maintain dignity of all individuals (rights rather than charity)

## 6 Economic efficiency

- By reducing social risks, aim to foster increased welfare, better prospects for innovation and growth

## II. History of the Welfare State

- 1 Early social policies : family and the Church
- 2 England's Poor Laws
- 3 Birth of the German Welfare State : Bismarck
- 4 The Beveridge Report
- 5 Expansion and retrenchment

# Early social policies : family

- **Related-kin support**

- Family has long been the only way to insure against social risks (maternity, sickness, old-age)
- Gender roles with couples (men supporting women), children supporting older parents
- If not nuclear family, the next of kin (originally the clan)

- **Evidence of remittances (Lambrecht, EREH 2013)**

- Children became often farm's servants : employers would pay cash and in kind benefits to parents
  - e.g., in 1784 in Cérans (France), contract to notary to pay "96 livres" of pension to Louis Porteboeuf, with children paying 10 livres and nieces and nephews 4-5 livres
  - e.g., in 1786-1800 in Flanders, farm records payment to labourers and their parents
  - e.g., in 1812-1830, in Labourse (France), 26 to 53% of wages remitted to parents

# Early social policies : charity

- **Church support**

- Old and sick always seen as “deserving poor”
- Creation of almshouses in medieval Europe (10-12th c.) : hospitals for the sick and the old

e.g., Hospices de Beaune (15th c.)



- **Debate on the size of poor relief**

- Estimates available suggest little in aggregate (Lindert, 2004)
- Some argue that spending on the elderly was high before 1800 (Thompson, 1984)

# Early social policies : assistance

- **Tudor England Poor laws (1601–1834)**

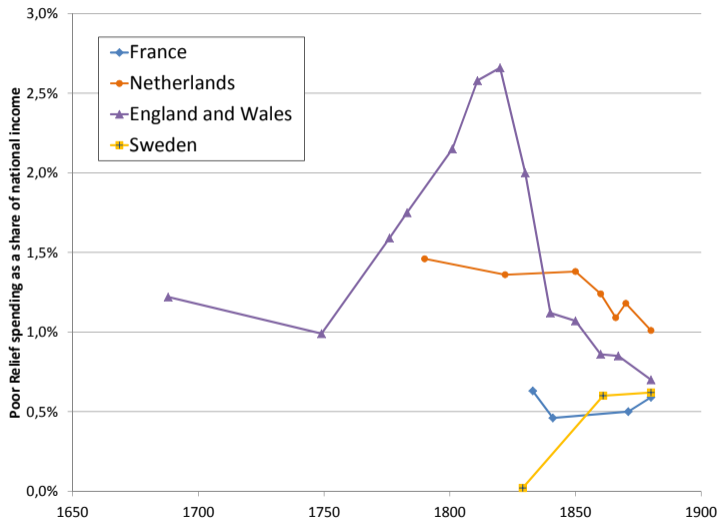
- Poor Relief Act 1601 (Elizabeth I) : Relief for those too ill or too old to work, “impotent poor”
- Administered at parish level, paid for by a local levy
  - Items of food (‘the parish loaf’) or clothing ;
  - Accommodation in almshouses ;
  - Able-bodied beggars placed in Houses of Correction.
- Poor Relief Act 1662 : poor relief only to established residents of a parish

- **New Poor Laws (1834–1948)**

- Criticisms of Old poor laws : Adam Smith (low mobility to find jobs), Malthus (poor relief increases poverty through increased fertility), David Ricardo (iron law of wage)
- Debate between land aristocracy and industry in needs of cheap labour
- Poor Law Amendment Act 1834 : poor reliefs only within workhouses



Figure 3 – Poor Relief before 1880 (as a share of GDP)



SOURCE : Lindert (1998), Tab. 2, p. 113–114.

# Early social policies : corporate solidarity

- **Corporate insurance**

- Corporations (guilds, associations, etc.) provided some insurance for their members
- Little evidence of old-age insurance : burial costs, or temporary reliefs.

- **Rise of friendly societies or mutualisme**

- Development of *sociétés de secours mutuels*, i.e. non for profit insurance (Toucas-Truyen, 1998)
- Often organised along professional lines
- British friendly societies movement
- Competition with for profit insurance and state insurance

# The birth of the German *Wohlfahrtsstaat*

- **Intellectual context**

- Economists in favour of state interventions, “pulpit socialists” (*Kathedersozialismus*)  
e.g., Adolph Wagner, Gustav von Schmoller
- Congress in 1872 in Eisenach leading to the *Vereins für Socialpolitik* : support for a social insurance scheme

- **Political context**

- Rise of socio-democrats in opposition. Repression by the German empire (party banned, leaders imprisoned)
- View that workers’s complaints were in part justified :  
*“The real grievance of the worker is the insecurity of his existence ; he is not sure that he will always have work, he is not sure that if he will always be healthy, and he foresees that he will one day be old and unfit to work.”* (Otto von Bismarck, 20 March 1884)

# Bismarck's Social Reforms

## ① Work-related accident insurance (6 July 1884)

- 1881 first project presented in Reichstag
- 1884 Law *Unfallversicherungsgesetz*
- Paid by employer's contributions, offering compensation pension to 66% of previous wage in case of full invalidity

## ② Health care insurance (15 June 1883)

- *Gesetz betreffend die Krankenversicherung der Arbeiter*
- Only for industry workers with less than 2000 euros annual wage
- The health service was established on a local basis
- Employers contributed one-third, the workers two-third
- "Sickness funds", managed by workers' representatives
- Recent research credit the reform with a causal decline in mortality (Bauernschuster et al., JEEA 2020)

# Bismarck's Social Reforms

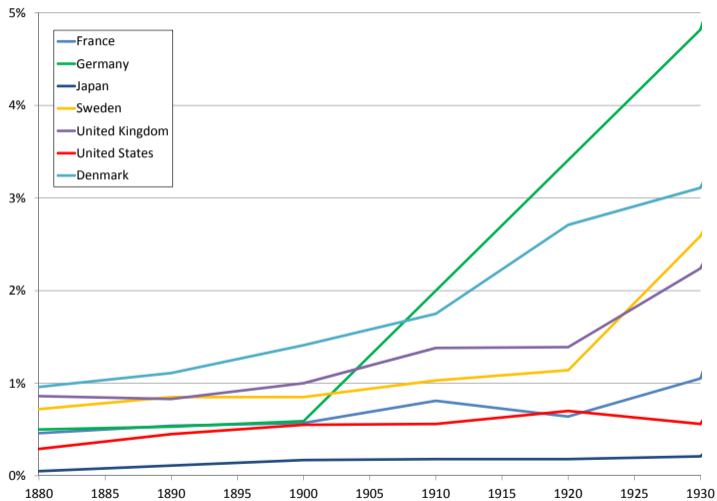
## ③ Old-age and disability insurance (1889)

- *Gesetz betreffend die Invaliditäts und Altersversicherung*
- Participation was mandatory (except for civil servants, covered by previous scheme)
- All workers concerned (not only industry workers)
- Contributory system funded by employee, employers and the State
- Pension age was set at 70

# Bismarck's Social Reforms

- **A conservative or progressive policy ?**
  - Social insurance with the aim to reduce social risk
  - Mandatory contributions, with no redistribution
  - Stated objective to reduce attraction of socialism
- **Large legacy**
  - German example led to many debates in Europe : many policy makers did make the trip to Germany (e.g., William Beveridge in 1890, and 1907)
  - Application in other countries (e.g., Austria in 1888, Hungary in 1907)
  - Large influences for US Social Security in the 1930s, or France's Social Security in 1945

Figure 4 – Social Spending (% of GDP), 1880–1930



SOURCE : Lindert (2004), Tab. 1.2, p. 12.

NOTES : Social spending includes welfare, unemployment, pensions, health and housing subsidies.

# The Beveridge report

- **Sir William Beveridge (1879–1963)**

- British economist, civil servant, director of the LSE
- First director of the first unemployment insurance scheme
- Close to Churchill Beatrice Webb (Fabian Society), Clement Attlee, Hugh Dalton, John M. Keynes (new economics), Seebohm Rowntree (studies on poverty)



- **The institutional context**

- Poor laws
- Liberal government, chancellor Lloyd George : National Insurance Act 1911
- A web of complex benefits with strong means-test





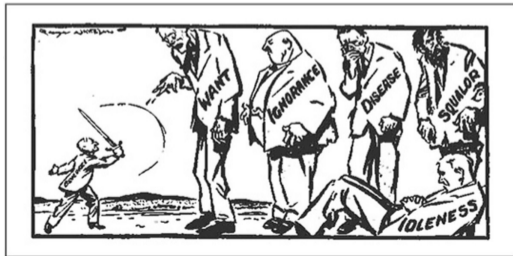
# The Beveridge report : the principles

- **An overall scheme**

- *“a revolutionary moment in the world’s history is a time for revolutions, not patching.”*

- **Taming the five giants**

- *“it is an attack upon Want. But Want is one only of five giants on the road of reconstruction, and in some ways the easiest to attack. The others are Disease, Ignorance, Squalor and Idleness.”*



# The Beveridge report : the principles

- **Social insurance and not means test**
  - a minimum should be given *“as of right and without means test, so that individuals may build freely upon it”*
- **Three assumptions to make it work**
  - *“A national health service for prevention and comprehensive treatment”*
  - *“Universal children allowances”*
  - *“Full use of the powers of the state to maintain employment”*
- **Security to look forward**
  - *“Freedom from Want cannot be forced on a democracy or given to a democracy. It must be won by them.”*

# The Beveridge report

- **Legacy of the report**
  - Huge success : 600K copies sold
  - Broadcasted by the BBC in 22 languages
  - Sent to soldiers, to occupied countries (two copies found in Hitler's bunker)
- **“Thank you Sir William”**
  - Beveridge became a national hero
  - It became a name synonym of the welfare state

# The birth of the French Social Security

- **The Conseil national de la Résistance (CNR)**
  - CNR Programme “Les jours heureux”, 15 March 1944
    - *“Un plan complet de sécurité sociale, visant à assurer à tous les citoyens des moyens d’existence dans tous les cas où ils sont incapables de se le procurer par le travail, avec gestion appartenant aux représentants des intéressés et de l’État ;”*
- **Social policies before 1945**
  - Social assistance laws from the late 19th c.
  - Social insurance laws
    - Workers’ compensation, law 9 April 1898
    - Pensions, law 5 April 1910
    - Social insurance, law 1 July 1930

# The birth of the French Social Security

- **Pierre Laroque (1879–1963)**



French civil servant, often dubbed “the father of French Social Security”, or “the French Beveridge”  
He went to London during the war, and was impressed by the Beveridge report

- **The creation of Social Security (1945)**

- Pierre Laroque was named director of the *Assurances sociales* in 1944 by the Minister of Labor Alexandre Parodi, continued under Minister Ambroise Croizat
- Set up the main texts and administrative institutions which replace previous social insurances and assistance laws

# The birth of the French Social Security

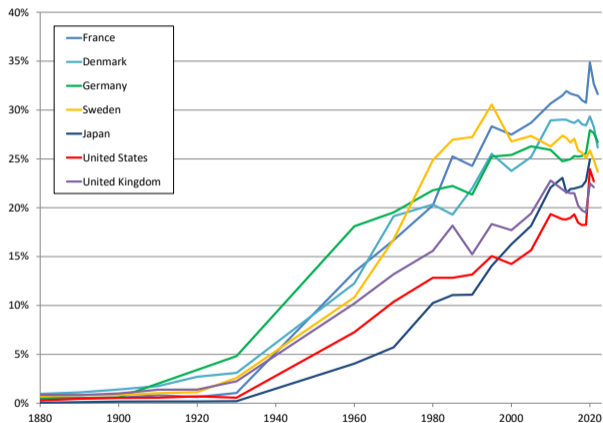
- **4-19 October 1945 Decrees – “ordonnances de 1945”**
  - Child benefits (*prestations familiales*)
  - Old-age insurance (*assurance vieillesse*)
  - Health care insurance (*assurance maladie*)
  - Workers' compensation (*assurance accidents du travail*)
- **Beveridge's spirit ?**
  - Universal coverage, unique system, rejection of assistance  
“*C'est une révolution que nous voulons faire, et c'est une révolution que nous faisons*” (Laroque, 1946)
- **Or Bismarck's legacy ?**
  - Choice of social insurance, coverage of workers (not citizen)
  - Contributive benefits based on past earnings
  - Funding only by contributions on earnings

# Expansion of social spending

- **Minimal state in the 19<sup>th</sup> c.**
  - Almost no social spending
- **Huge growth in the 20<sup>th</sup> c.**
  - Start of the increase in social spending in the 1930s
  - Social spending reached 10% of GDP in the 1960s
  - Strong acceleration during the period 1960–1980
    - See Lindert *Growing Public* (2004)
- **High level today, with some heterogeneity**
  - Social spending today  $\approx$  20% of GDP
  - Large heterogeneity in the total level :
    - France, Italy  $\approx$  30% GDP
    - Germany, Denmark  $\approx$  27% GDP
    - U.S., the Netherlands, the UK  $\approx$  16-18% GDP
    - Chile, Korea  $\approx$  12% GDP

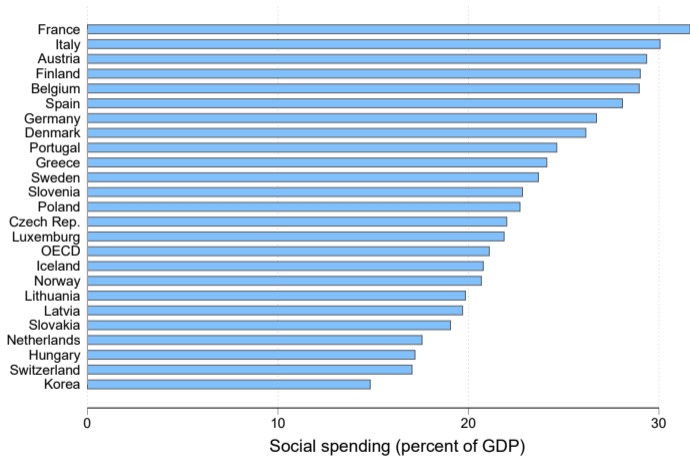


Figure 5 – Social Spending (% of GDP), 1880–2022



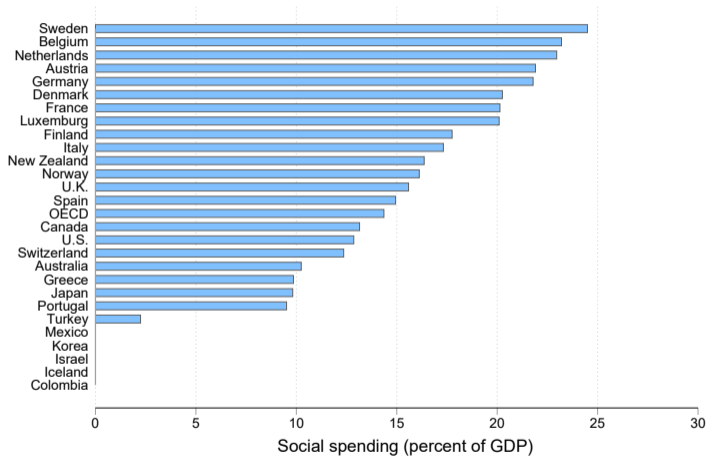
SOURCE : Lindert (2004) for period 1880-1970 ; OECD Social Expenditures for period 1980-2022.

Figure 6 – Public Social Spending (% of GDP), 2022



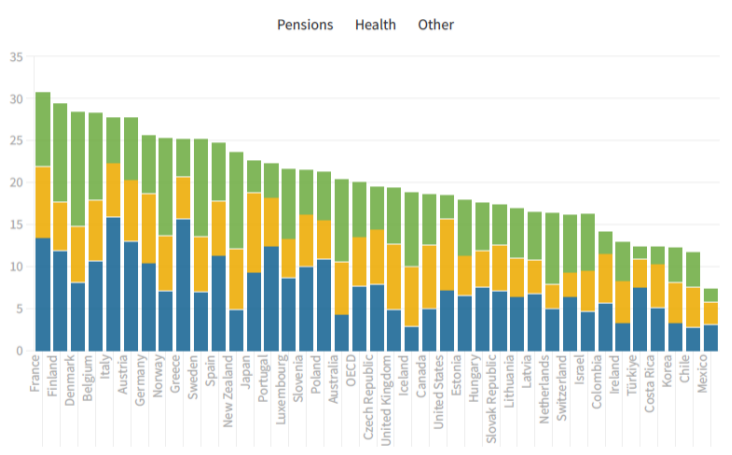
SOURCE : OECD Social Expenditures Database.

Figure 7 – Public Social Spending (% of GDP), 1980



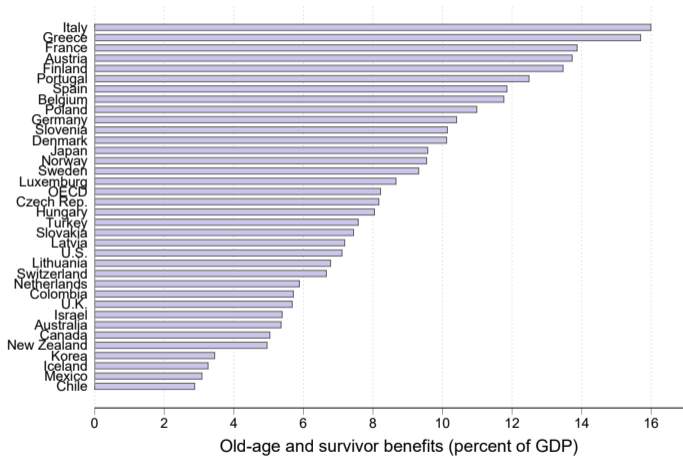
SOURCE : OECD Social Expenditures Database.

Figure 8 – Public Social Spending by broad social policy area (% of GDP), 2019



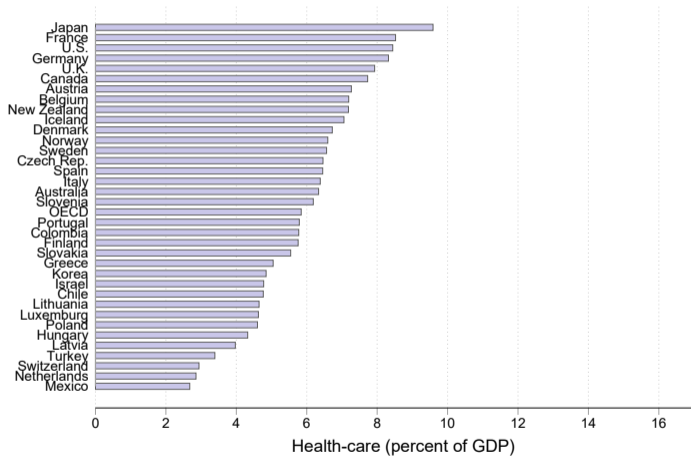
SOURCE : OECD Social Expenditures Database, Adema et al. (2023).

Figure 9 – Old-age and survivors public spending (% of GDP), 2019



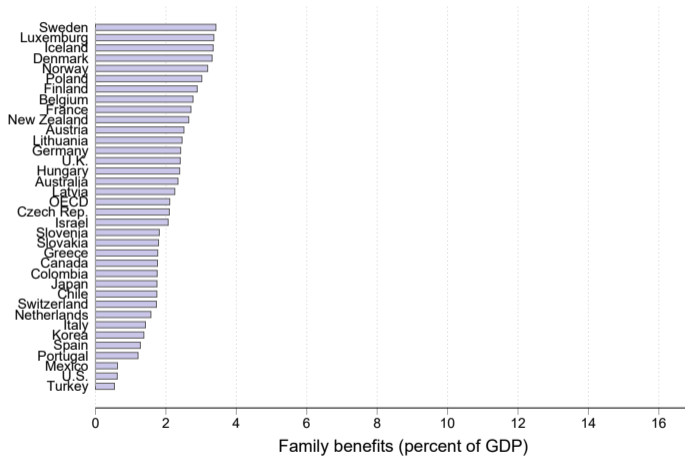
SOURCE : OECD Social Expenditures Database.

Figure 10 – Health-care public spending (% of GDP), 2019



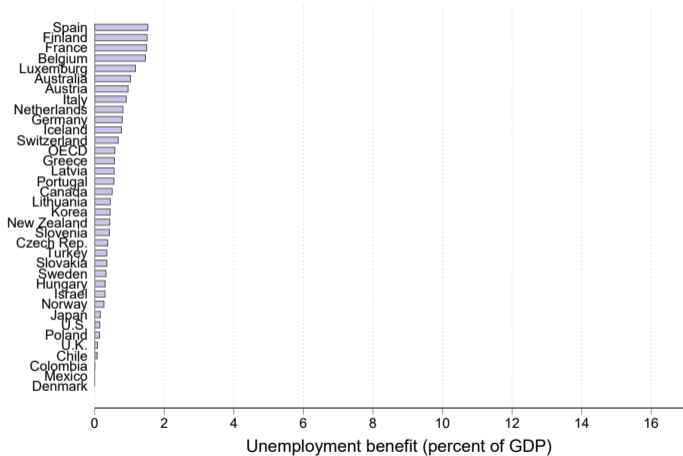
SOURCE : OECD Social Expenditures Database.

Figure 11 – Family social spending (% of GDP), 2019



SOURCE : OECD Social Expenditures Database.

Figure 12 – Unemployment benefits (% of GDP), 2019



SOURCE : OECD Social Expenditures Database.



# Issues around the measurement of social spending

## 1 Taxation of social benefits

- Countries who tax pension and social benefits appear as larger social spenders
- Larger consumption tax effectively tax away some social benefits

e.g., Denmark has a large positive effect of such taxation

## 2 Tax Breaks with a Social Purpose

- Tax cuts for pension provisions or health care provision lead to low public social spending, but higher net spending

e.g., The U.S. has large tax cuts for social provisions (health care, pension)

- Tax credit instead of social benefits

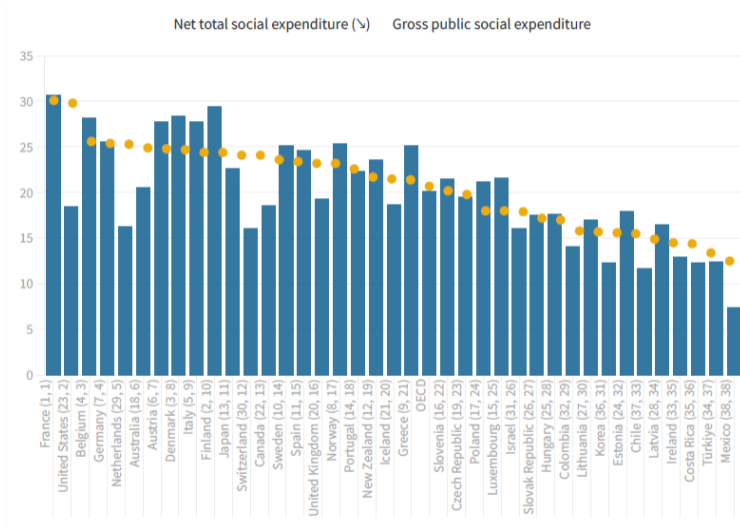
e.g., tax credit for dependent children rather than child benefit

# Issues around the measurement of social spending

## ③ Private (mandatory) social expenditure

- Private health care insurance, private pension with quasi mandatory roles  
e.g., The U.S., Switzerland, the Netherlands
- See Adema et al. (2011, 2023) for details assessment of OECD data

Figure 13 – From gross public to total net social spending (% of GDP), 2019



SOURCE : OECD Social Expenditures Database, Adema et al. (2023).

# III. Types of Welfare States

- **Variations in welfare states**
  - Social insurance vs means-tested benefits
  - Contributive vs non-contributive benefits
  - Public social insurance spending explains a large part of overall differences in public spending (notably pension spending)
- **Typologies of welfare states**
  - Different models of welfare states ([Esping-Andersen, 1990](#))
  - National differences (Nordic vs Continental vs English-speaking)
  - What explains these differences? preferences? historical accidents? philosophy?

# A classic classification : Bismarck vs Beveridge

- **Bismarckian system**



- Contributory benefit
- Funded by Social Security contributions
- Covering only workers and their family
- Managed by employee and employers' unions

- **Beveridgian system**



- Flat-rate benefits
- Universal coverage
- Funded by general taxation
- Managed by the State

# Bismarck vs Beveridge

- **Historically more complex**
  - Beveridge plan was in the form of a social insurance
    - Funded by National insurance contributions (NICs)
    - Contributory benefits proportional to years of contribution
  - Big difference : benefits expressed as absolute amount (not as share of earnings)
  - Evolution lead to marked difference with earnings-related schemes
- **Not a pertinent distinction today**
  - Most countries have hybrid systems
    - e.g., Bismarckian systems introduced means-tested benefits
    - e.g., Beveridgian systems introduced contributory pensions
  - Typology of welfare states is more complex

# Three worlds of welfare states

- **Gøsta Esping-Andersen**



Gøsta Esping-Andersen,  
Danish sociologist.  
*The Three Worlds of  
Welfare Capitalism* (1990)

- **Three worlds of welfare states**

- ① Liberal
- ② Social-democrat
- ③ Corporatist/Conservative

# Three worlds of welfare states

## ① Liberal regime

- Modest, means-tested assistance, targeted at low-income
- Strict entitlement rules often associated with stigma
- This type of welfare state encourages market solutions to social problems

e.g., English-speaking countries (US, UK, Canada, Australia)

## ② Corporatist/Conservative regimes

- Shaped by traditional family values, and tend to encourage family-based assistance
- Social insurance excludes non-working wives, and family benefits encourage motherhood
- State assistance will only step in when the family's capacity to aid its members is exhausted

e.g., Continental Europe (Germany, France, Italy, Austria, Belgium)



# Three worlds of welfare states

## ③ Social-democrat regimes

- Universal systems that promote an equality of high standards, rather than an equality of minimal needs
- Decommodification of welfare services, i.e., socializing the costs of caring for children, the aged, and the helpless
- Commitment to a heavy social service burden, which introduces an imperative to full employment policies

e.g., Nordic countries (Sweden, Norway, Finland, Denmark, the Netherlands)

## • Debates about country classification

- A southern model of welfare state (Spain, Italy, Greece)?
- Is the UK really liberal with public NHS?
- What about Asian countries like Singapore, China, etc.

# Three philosophical social thoughts

- **André Masson**



André Masson, French economist, EHESS, PSE.  
*Des liens et des transferts entre générations* (2009)

- **Liberty, Equality, Fraternity**

- ① Liberty : free agent relies on the market
- ② Equality : citizen, relies on the state
- ③ Fraternity : multi-faceted solidarity, relies on the family

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