Reform opportunities in a bismarckian latecomer: restructuring the Swiss Welfare State

Silja Häusermann,
Government Department, Harvard University and
IPZ, University of Zurich
silja.haeusermann@pwi.unizh.ch


Introduction

With the transition to post-industrialism and financial austerity, most bismarckian welfare states have started to face similar structural challenges for reforms since the 1970s: budgetary pressures for retrenchment contrast sharply with new demands for social protection, resulting either from the instability of labor markets or the loosening of traditional family structures. Hence, welfare state policies have shifted from a dynamics of steady growth to a period of restructuring and redefinition of social rights. Even though the precise content and timing of the reforms varies across countries, similarities in the new politics and social policies in bismarckian welfare states are striking: retrenchment of existing benefits, increasingly means-tested benefit entitlements and a stronger emphasis on activation and social investment, notably with regard to former welfare state outsiders. Accounting for similarities and differences in this common trend is, however, all but obvious, since a plurality of factors may have influenced the content and timing of this process of restructuring. While many studies refer to the explanatory power of the macro-institutional context of decision making, notably the number of veto points in an electoral system (Immerguth 1992, Iversen 2005, Swank 2002), more recent studies also point to the micro-institutions of the bismarckian welfare state as variables shaping the dynamics of reform endogenously (Bonoli and Palier 1998, 2000). These micro-institutions comprise mainly the rules of eligibility and the type of benefits and financing, as well as the actual organization of policy-management. In addition, business cycles and/or the color of the party in government are supposed to
influence the dynamics of reform or stability (Huber and Stephens 2001, Korpi and Palme 2003); and last but not least, the emergence of the EMU may have triggered common dynamics of reform, as well (Palier and Manning 2003, Ferrera and Rhodes 2000).

In testing how this plurality of „usual suspects“ explains bismarckian welfare state reforms across countries, Switzerland is particularly promising for at least two reasons. Firstly, the oversized Swiss coalition government has been composed of the same major four political parties for over 45 years. National elections may shift the power balance in the national parliament to some extent, but overall, it remains stable. All parties have to negotiate constantly over reform and there are no sharp ideological changes in power relations or business cycle effects. The color of the government as an explanatory variable is therefore constant: hence, if the pace and content of the Swiss reform trajectory is similar to the other bismarckian welfare states, it is probably not party competition and power relations that explain these similarities in the first place. Secondly, Switzerland is not a member of the EU. Therefore, it provides a rare and interesting comparative test case for the direct impact of binding EU and EMU regulations on welfare state development. If reform dynamics in Switzerland are similar to those in other countries, the EU may not be the most important source of change. Given these two characteristics, the Swiss case is beneficial for the comparison in two ways: Cross-nationally, similarities between the Swiss and other cases must be attributed to common structural and institutional features, rather than electoral dynamics or the EU. Furthermore, EU and government color being constant, Switzerland is also particularly well suited for a longitudinal study of the interplay of micro- and macro-institutional factors in reform dynamics.

The main arguments of this chapter are as follows: the macro-institutions of federalism and direct democracy led to a very slow and incremental development of the Swiss welfare state in the industrial era. Social protection in Switzerland was never the result of a „bismarckian master plan“, but grew incrementally out of and alongside pre-existing, private or sub-national policies. Hence, at the end of the 1970s, the Swiss welfare state, even though increasingly bismarckian in its overal
structure and effects, was still of a rather modest size and consisted of a pragmatic bricolage of juxtaposed insurance and protection schemes.

In line with the overall argument of the project, I will show in this chapter that this structure of the Swiss welfare state itself became an important explanatory variable for the content of the ensuing reforms in two ways. On the one hand, the Swiss welfare state displayed the typical social protection loopholes of a bismarckian male breadwinner regime in a post-industrial context, thereby creating leeway for modernizing reforms and a platform for new policy actors. On the other hand, the multi-layered structure of the most developed parts of the welfare state became a blueprint for pragmatic restructuring in various other social policies. However, the content and dynamic of the reforms cannot be explained by endogenous factors alone. The consensual institutional framework and the looming threat of direct democratic votes on major social policy reforms largely account for the main mechanisms of reform, i.e. negotiation and compensation.

A last argument concerns the magnitude and dimension of regime change. The Swiss welfare state has rightly been described as a „latecomer“ (Obinger 1998, Armingeon 2001). This is why it entered the era of austerity at a somehow less developed stage than most other bismarckian welfare states. The restructuring of the Swiss welfare state since the 1970s has therefore been more of a gradual and continuous first- and second-order adaptation, than of a radical third-order paradigm shift. (Hall 1993). Nevertheless, some modernizing reforms since the 1990s tend to drive the Swiss welfare state away from a typical male breadwinner bismarckian model, towards a pragmatic hybrid of bismarckian, targeted and universalist policies. All together, these cumulative changes – similarly to other bismarckian welfare states - add up to a deeper transformation of the underlying principles of social policy in the direction of a more individualized welfare regime, combining social insurance with some basic, tax-financed minimum protection and a heavier accent on social investment.

The chapter is structured as follows. In a first part, I will review the development of the Swiss welfare state in the „golden age“ of european capitalism until the 1970s and assess its characterization in regime-terms. I will then lay out the way in which the micro-institutions of the Swiss welfare state endogenously shaped the challenges to
the welfare state, before turning to an account and interpretation of the two main strands of policy reform since the 1980s, i.e. retrenchment and modernization. The conclusions point to the mechanisms of negotiation and learning, which are driving the development of the Swiss welfare state, and reassess the importance of the different explanatory variables in a comparative perspective.

1. Welfare state growth in a context of institutional power fragmentation

In order to study the dynamics of reform after the transition to austerity and post-industrialism, one needs to understand the type of welfare state that had developed until this turning point. In Switzerland, welfare state growth was clearly and heavily influenced by the macro-institutional context of power fragmentation, i.e. direct democracy, federalism, the grand coalition and corporatism. Many authors, such as Obinger (1998), Immerguth (1992) and Armingeon (2001) have presented striking evidence that these institutions have slowed down the growth of the welfare state by several mechanisms: first of all, the federal government can only legislate on a social policy once the authority to do so is transferred from the sub-national, i.e. cantonal level to the federal level by a popular vote. Once this authority is established, the nationwide legislation that needs to be negotiated must take into account not only the pre-existing cantonal (or private) policies, but also the main interests of all major parties, labor and capital, because any bill proposal can again be challenged in a popular vote, if an actor succeeds to collect 50'000 signatures against the bill.

The legislative authority for most social policies has been transferred in the late 19th or early to mid-20th century, but in some fields, such as unemployment insurance or occupational pensions, this happened only in the 1970s, because the social problems were already at least partly addressed by voluntary, private and cantonal laws. The time lag which often occurred between the constitutional amendment and the adoption of a national bill is even more impressive (see table 1 below). In most cases, it results from lengthy negotiations and from failures in popular referenda (most clearly in the
cases of maternity insurance and mandatory health insurance, for the establishment of which several popular votes failed through).¹

This institutionally induced delay in welfare state growth had two main consequences for the future development of the welfare state. The first important effect was that the welfare state was still of a rather modest size and not „complete“ in the late 1970s, when the economic context began to turn from prosperous to financially constraining. Pension levels were still below the level prescribed in the constitution, no maternity insurance existed, health insurance was voluntary and in 1975, only 22% of the people were insured against unemployment (Armingeon 2001). It was widely acknowledged that several social problems, such as mandatory health, unemployment insurance or maternity protection, were still unsolved and that some expansive reforms needed to remain on the agenda, despite the financial difficulties. Therefore, the context of austerity after the 1970s did not trigger overall radical retrenchment, but slower growth, selective cost containment and a differently designed development of the welfare state (e.g. targeted expansion instead of overall growth of universal insurance regimes).

The second consequence of the institutionally hampered growth was that the welfare state developed in an incremental, „impure“ and layered (Streeck and Thelen 2005)

¹ From a political economy perspective, it may seem very puzzling that direct democracy hampers welfare state growth, since the median voter should always favor more redistribution (Meltzer and Richard 1981). However, the puzzle can be solved if one considers that social policies in bismarckian welfare states are often segmented, i.e. they benefit only to a specific occupational or social group of beneficiaries. Moreover, reforms are often more stratifying than redistributive and finally, they can combine very different dimensions of reform in one bill.
fashion. When strong cantonal and private regimes existed, they were (at first) often only harmonized or complemented with a national policy that alleviated the most important gaps and shortcomings of the pre-existing policies (such as with occupational pensions, unemployment insurance or family allowances). The multi-pillar old age protection scheme illustrates this most clearly: The universal basic pension scheme of 1948 provides contribution-related, but rather flat-rate benefits which remain however below the target level required by the Constitution. As a temporary solution to old-age poverty (which, of course, soon became permanent), means-tested and tax-financed complementary benefits were therefore introduced in 1972. In addition, private and business-specific occupational pension funds had been flourishing notably in high-skill sectors since the early 20th century (not least to compensate for the flat-rate character of the basic pension scheme) and voluntary private savings plans became fiscally encouraged in the 1970s. When occupational pensions became mandatory in the early 1980s, they thus built on a strong pre-existing structure of highly diversified private funds. Therefore, Swiss old age security, even though bismarckian in its overall organization and effect, relies on a set of very diversely structured social policy schemes (Nova and Häusermann 2005, BSV 1995). A similar diversity of welfare providers and policies can be observed in other fields such as health care and family policy, where various cantonal, national and private providers and regulations co-exist. Social assistance, for instance, is still purely cantonal and local. In sum, Swiss social insurance was never the result of a grand bismarckian design, but rather a slowly and pragmatically emerging bricolage of successive and diverse layers of social policy.

One important effect of this structure on the reform dynamics after the 1980s is that there was always little fundamental and categorical opposition to a specific type of policy organization. Whereas in other countries such as France or Germany, the introduction of capitalized pension funds or means-testing as such became a huge political controversy in itself - between the defenders of the contribution-financed, encompassing „régime général“ and the reformers -, the policy repertoire in Switzerland was always large and reforms rather pragmatic.

Given the fragmented and underdeveloped character of the Swiss welfare state, its classification in terms of regimes (beveridgian vs. bismarckian, liberal vs. social-
democratic vs. catholic-conservative) has been difficult and highly debated until recently. The comparatively modest level of benefits made some authors classify it as a liberal regime until the 1970s or advocate a separate classification of each policy field instead of the whole national regime (Obinger 1998). Today, however, a consensus has emerged that the Swiss regime in its overall organization and effects is mostly bismarckian or conservative, with some liberal traits (Armingeon 2001, Armingeon et al. 2004, Bonoli 2006, Bonoli et al. 2005). An assessment of Swiss social policies in terms of the main bismarckian characteristics confirms this verdict:

- Bismarckian welfare schemes typically implement work-based eligibility, i.e. only the working population is directly entitled to benefits. This rule applied in Swiss unemployment and accident insurance, mandatory occupational pension funds, family allowances, and disability pensions at the beginning of the 1980s. In some of these schemes, the work-related characteristics were and still are particularly strong, such as for occupational pensions which only include employees with an income over a certain threshold (of about 16'000 Euros per year in 1982) or for cantonal family allowances that are usually granted only to employees, but not to the self-employed. Exceptions from the rule of work-based eligibility are the basic pension scheme (AHV) and the mandatory health insurance (as well as – of course – social assistance), which both include all citizens, irrespective of labor market participation².

- Benefits in bismarckian welfare states are usually earnings-related, because the main goal of these welfare states is not redistribution, but status protection and income replacement. This characteristic applies most clearly in the Swiss case. A recent study financed by the national Research Foundation comes to the striking conclusion that overall, the Swiss welfare state does not redistribute income at all (Künzi and Schärrer 2004). The Gini-coefficient remains constant before and after taxes and transfers³. This is because some social policy schemes are strictly contribution related, such as unemployment, accident, disability and – more

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² Nevertheless, benefits in the basic pension scheme are modestly contribution-related, so that non-employed can at best expect a minimum pension.

³ This does not imply, however, that inequality is much higher in Switzerland than in other countries, because of the rather egalitarian distribution of incomes. Hence, the Gini-coefficient in Switzerland before taxes and transfers is roughly equal to the Gini-coefficient in France after taxes and transfers (Künzi and Schärrer 2004: 106).
recently - maternity insurance. Other schemes, mostly occupational and private (i.e. second and third pillar) pensions, as well as health insurance are even degressive in character, i.e. they benefit overproportionally to higher income classes, because high incomes have better insurance conditions (in pensions) and because some premiums and contributions (in pensions and health insurance) can be deducted from taxes, which results in higher tax savings, the higher the tax rate. These degressive schemes overcompensate the redistributive effects of the basic pension scheme, complementary means-tested pension benefits and social assistance. This anti-redistributive character of the Swiss welfare state was probably somewhat weaker at the beginning of the 1980s, because health insurance and occupational pensions were less developed, but structurally, the system was then equally axed on stratification as it is today.

- The typical bismarckian mechanism of financing is through contributions, rather than taxes. This also applies to a large extent to the Swiss case and has not changed decisively since the early 1980s. More than 50% of the overall costs of the welfare state today are contribution-financed (Künzi and Schärrer 2004: 12ff) and this percentage was even bigger 30 years ago. Basic pensions, occupational pensions, unemployment insurance, accident insurance and family allowances are mostly or almost exclusively financed through payroll-taxes4. The most redistributive parts of social policy, however, i.e. complementary pension benefits and social assistance, are tax-financed and health insurance, which became mandatory only in 1994, is again exceptional, because it is financed by individual premiums, independent from income.

- The fourth main characteristic of bismarckianism, i.e. devolved and decentralized policy management, has always been almost exemplified by the Swiss case. Trade unions and business organizations participate in the legislation and management of basic and occupational pensions, unemployment, accident, disability and maternity insurance. Power fragmentation, however, goes even further. Cantons and private welfare providers, such as health care insurance companies, play a powerful role in most policies, such as health insurance, occupational pensions, complementary pensions and social assistance.

4 In addition, about 50% of benefits in the capitalized occupational pension scheme are financed by the gains on capital.
Finally, the Swiss welfare state as it had developed until the early 1980s also shares the typical characteristic of bismarckian welfare states to be strongly gendered, i.e. a male breadwinner system. Maternal leave and care infrastructure were non-existent at that time. Entitlements being heavily employment- and contribution-related, women received much lower benefits throughout the pension-, unemployment-, accident- and disability insurances. The occupational pension scheme was particularly exclusionary for women, since it was accessible only for employees with a certain minimum income per year and punished labor market mobility, excluding de facto most women for whom discontinuous part-time work and atypical work is the standard form of employment in Switzerland (Wanner and Ferrari 2001).

This bismarckian male breadwinner regime was confronted to financial austerity and societal modernization from the 1970s onwards, which led to both exogenous and endogenous challenges for reform.

2. Endogenous and exogenous challenges to the Swiss welfare state

This chapter singles out the factors supposed to explain the restructuring of the Swiss welfare state since the 1980s. More specifically, I argue that the nature of the reforms can be attributed to some extent to the bismarckian institutional design of the Swiss welfare state itself, rather than to purely structural or macro-institutional variables.

Structurally, the changes confronting the Swiss welfare state are similar to those challenging its continental European neighbours. A downturn in economic growth since the 1970s and looming demographic changes tend to undermine the very basis of the contribution-financed and work-related welfare state. However, it must be noted that the „welfare without work“-problem (Esping-Andersen 1996) has always been less severe in Switzerland than in other countries. Due to a very flexible labor market and selective immigration policies, Switzerland had secured nearly full employment until the 1990s, when unemployment for the first time became a lasting reality. Still now, however, the unemployment rate still remains below 5% throughout the country and labor market participation rates are among the highest.

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5 Between 1990 and 1997, the number of unemployed grew from 18'000 to 190'000, i.e. vom 0,5% to more than 5%. Even though these numbers might seem low in international comparison, the sudden appearance of (long term-)unemployment was a major shock in Switzerland.
even among older workers. Nevertheless, growth has been almost absent for the last one and a half decades, productivity is low and the rates of long-term unemployment, disability benefits and social assistance dependencies tend to rise, creating – in combination with the negative demographic developments – a context of austerity. Hence, demands for cost containment and retrenchment became increasingly prominent on the reform agenda, even though – as sketched out above – major social insurance schemes were not yet fully developed. In the mid-1990s, the Government appointed a commission of experts, representatives from labor and capital and civil servants to develop an encompassing overview of the financial problems and possibilities of social insurance in Switzerland. This committee also served as a body for the negotiation of reform priorities and its widely publicized reports (IDAFiso I and II 1996, 1997) contributed to some limited shared understanding of the financial possibilities and threats confronting the Swiss welfare state, even though labor and capital’s scenarii of the expected demographic and economic developments continued to diverge considerably (Nova and Häusermann 2005). Hence, the important point is that a debate on cost containment and policy priorities started even before the welfare state had reached its full development. Therefore, the pressure for retrenchment was less severe and alternative – less cost-intensive and more targeted – instruments of coverage expansion came to the forefront.

The institutional design of the Swiss welfare state has co-determined not only the nature and content, but also the process of restructuring reforms. With regard to this process, power fragmentation in the formulation and management of the welfare state, combined with the macro-institutional framework of federalism and direct democracy made that any reform had to be negotiated on a broad basis and that all too drastic changes were unthinkable. Any successful reform, whether expansive or retrenching in its effect, needs to be a compromise between the relevant interests. This requirement, however, should not be understood only as a constraint for reform, because the institutional configuration simultaneously provided the opportunities for negotiation in policy-making and parliamentary committees.

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6 Most of the rise in social assistance costs must be attributed to the exclusion of long-term unemployed from unemployment insurance benefits after 1.5 to 2 years of unsuccessful job search.
However, the strong involvement of labor and capital in the design of the Swiss welfare state had not only a procedural, but also a substantial effect on the problem profile from the 1980s onwards. Indeed, the second structural change – aside austerity –, to which social policy makers were confronted was post-industrialization. The spread of atypical, mobile and unstable work relations in an increasingly service-dominated postindustrial economy, changing skill requirements on the labour market, rising divorce rates and the massive entry of women into paid employment, raising new demands for work-care balance infrastructure, have changed the social risk structure of the industrial societies and created new challenges to the welfare state (Bonoli et al. 2005, Bonoli 2005b, Bonoli 2006). With regard to this challenge, the decentralized nature of welfare state formulation and management has some relevance, too: Being concerned primarily with the protection of standard, male industrial employment, trade unions and employers had over time created a decidedly bismarckian male breadwinner model, which presented many loopholes with regard to the coverage of the abovementioned new social needs and demands. This structure of the welfare state was not only a functional response to typically industrial risk profiles, but reflected also the primary concerns and interests of the constituencies of the most important actors in welfare state development, trade unions and employers organizations. Labor market outsiders and women never belonged to labor and capital’s core clientele. Hence, the post-industrial loopholes in social insurance protection are to some extent also a consequence thereof. These loopholes in social protection became more and more pressing and visible under the influence of accelerated structural chance from the 1970s onwards. As a consequence, some agreement mainly across left and value-libertarian political parties emerged with regard to the need for modernization of policies such as maternity protection, women’s pension rights and the protection of atypical employment (Bonoli 2006: 7, Häusermann 2006, Häusermann et al. 2004). Hence, the very structure of the bismarckian welfare state produced some leeway for reforms and an opportunity for new actors to play a decisive role in welfare state restructuring.

3. The dual dynamics of reform since the 1980s

The reforms that are part of the overall restructuring of the Swiss welfare state can be divided into two categories. The first category consists of path-dependent changes
aimed at cost containment and limited retrenchment. None of these reforms consisted in a deep restructuring of the existing welfare state, but rather in a parametric redesign of eligibility conditions, as well as contribution and benefit levels. In terms of Hall’s categorization of change (1993), these reforms must be viewed as mostly first and second order changes, insofar as either only the specific setting of an existing insurance parameter was changed (e.g. benefit levels or contribution periods) or selective new instruments were introduced (e.g. new waiting periods for benefits). However, none of these reforms modified the overall goal of the existing social insurances, i.e. to provide encompassing income replacement to standard insured workers and their families. Eligibility remained work-related, benefit levels contribution-related and the whole schemes contribution-financed.

The second type of reforms, however, designed to adapt the Swiss welfare state to post-industrial risk structures, must be seen as a more structural pattern of reform, because these changes tend to direct the Swiss welfare state away from its male breadwinner, bismarckian profile in mainly two ways. Firstly, they to some extent shifted the policy goals from standard workers, male breadwinners and families to individuals, opening insurance benefits to former outsiders, mostly women. Secondly, the focus of social security on income replacement is being replaced by a focus on the enhancement of employability and labor market participation. While the first set of these reforms may be seen as second order changes (since the overall goal remained insurance and income replacement), the second set should most probably be seen as a more structural third order change, altering the very focus of social policy. Both sets of changes, however, can be subsumed in a category of modernizing reforms, adapting the Swiss welfare state to a more individualistic society and a more flexible labor market.

3.1. **Retrenchment and financial consolidation**

Attempts at financial consolidation of the Swiss welfare state started as early as in the late 1970s. The economic crisis of this decade abruptly interrupted the linear process of growth, and put concerns about cost containment to the forefront. The widespread new belief – mostly held within right-wing parties and employers organizations – was that expenditure needed to be limited in order to preserve the viability of the welfare
state in the face of future economic and demographic challenges. In spite of these concerns, considerable expansion of the Swiss welfare state continued, since many social insurance schemes remained clearly underdeveloped in the 1970s, but the further expansion became more modest, means-tested and overshadowed by a concern to limit expenditures. In addition, several schemes actually did undergo retrenchment.

In pension policy, the new dynamic started already in 1976, almost two decades before the basic pension scheme actually entered a structural financial deficit. In this early reform, the contribution levels of self-employed were raised and the indexation of pensions was decided not to follow wages, but only a mixed index of wages and prices, in order to limit pension level growth. Financial consolidation continued in the 1990s with the increase of women’s retirement age from 62 to 64 and the rise of an additional percentage-point of the value added tax on consumption, allocated entirely to the pension system. Indeed, since the VAT level in Switzerland is still at about 7%, i.e. far below the European average of more than 15%, consolidation through shifts to this consumption tax are an important issue in Switzerland. However, the most recent attempt at retrenchment was rejected in a popular vote in 2003. In this reform, the parliament had not only decided retrenchment of widows’ pensions, a further rise in women’s age of retirement and again an additional percentage-point of VAT for pension insurance, but had also denied any financial support for the flexibilisation of the retirement age. Slightly more moderate propositions for retrenchment are now again taken up by the government in a new reform proposal. In the mandatory second pillar occupational pension scheme, however, cost containing reform were successfully adopted in 2003, when the level of benefits was lowered, women’s age of retirement was raised to 65 and the legally required level of interest rate, which insurers have to grant on individual pension savings, was lowered. In addition, and somewhat paradoxically, the rise of the level of means-tested complementary pension benefits in 1985 and 1996, even though expansive in themselves, also contributed to financial consolidation in the basic universal pension scheme. Indeed, the Swiss Constitution states that basic pensions must be high enough to allow for a decent existence. However, pension levels still have not and probably will never reach this

\footnote{It was so far the most clear and „purest“ attempt at retrenchment. Moreover, it was subjected to the popular vote simultaneously with a tax reform alleviating taxes for higher income classes, so that the voting campaign gave rise to a strong left-right class cleavage (Engeli 2004).}
goal (BSV 1995). Hence, the strengthening of complementary pensions contributes to legitimize the low level of first pillar pensions (Nova and Häusermann 2005).

Cost containment also became an important issue in the mandatory unemployment insurance only a decade after its introduction in 1982. With the economic downturn in the beginning of the 1990s, massive unemployment appeared in Switzerland for the first time. The Swiss unemployment insurance was perfectly unprepared especially for long-term unemployment. Therefore, the government by decree extended the benefit period to a maximum of two years and temporarily lowered the replacement rate from 80 to 70% in 1993. This lowering of the level of benefits was then permanently confirmed in 1995. In addition, the 2002 reform enacted a longer minimum contribution period for benefit rights and also cut back on the duration of benefit entitlements from two years to one (Berclaz and Fügli 2000)

Similar cutbacks are currently under debate with regard to disability insurance. With the appearance of unemployment, more and more labor was shed into disability insurance for physical and psychological reasons, the insurance thereby accumulating a huge deficit of almost a billion Swiss francs per year by the end of the 1990s (Künzi and Schärer 2004: 44). Therefore, the upcoming reform plans to restrict access to disability benefits, to enlarge the definition of „reasonable“ work, which a partially disabled person is supposed to perform, to increase hurdles to eligibility, to introduce waiting periods for benefits to up to 6 months and to raise the contribution level.

Finally, costs have most dramatically risen in health care. Basic health care insurance has only become mandatory in 1994, but the current reform attempt is already concerned with how to handle the annually rising costs. Since health care is financed mainly (by about 2/3) through individual premiums, which are not set by law but by private insurance companies, the desastrous financial development manifests itself so far mainly through premium increases of 5-10% year after year. An average basic insurance premium for an individual person is today no less than between 150 and 250 Euros per month. Public payments to health insurance rise as well, and there are some public subsidies to alleviate premium costs for students and poor families, but these cannot prevent the insurance deficit and the raising burden, which health care imposes on household budgets especially in the middle class. Hence, the reform currently debated in parliament is concerned with limiting costs by lowering the catalogue of treatments included in basic insurance, pressuring medical doctors to
limit treatments and increasing the individual contribution of the patients (European Observatory on Health Care Systems 2000).

Given the enduring economic difficulties, notably unemployment, and the lowering of benefits described above, social assistance costs have also been rising constantly since the 1990s (Obinger 1998).

In sum, consolidation and cost containment have been constant topics in Swiss welfare state reforms over the last 15 years. Even though some challenges to financial stability, notably in disability insurance and health care, are recognized by all parties, as well as labor and capital, retrenchment remains highly controversial. In pension policy, unemployment insurance or family policy, there is no agreement on the actual problem pressure facing the Swiss welfare state, because the assumptions on future economic and demographic development, on which both sides base their conclusions, diverge considerably (Nova and Häusermann 2005). Given the micro- and macroinstitutional context of welfare policy making, cost containing reform must therefore always be negotiated and are only limited. Too drastic cuts can be challenged by a popular referendum anytime and several attempts at cuts in pension and unemployment insurance have been rejected in popular votes. Therefore, retrenchment in Switzerland is limited and incremental (Bonoli et al. 2005), belonging to the categories of first and second order change (Hall 1993).

Nevertheless, it is important to note the parallels between the mechanisms of welfare state retrenchment in Switzerland and in the other bismarckian countries. Cost containment by means of restructuring eligibility conditions, contribution levels and periods, waiting periods for benefits etc. have occurred in most of these countries. In some cases, they have not least been attributed to pressure emanating from the EMU. However, Switzerland calls this hypothesis into question, since in this case, retrenchment occurred without the country being a member of the EU. Structural pressure and the common characteristics of the bismarckian welfare states might be a more valid common explanation of these similar reform dynamics.

3.2. Recalibrating the Swiss welfare state

This second strand of reforms is probably less important than the above described in terms of the financial magnitude and consequences, but it is a more substantial change
in systemic terms, because it tackles the inherent weaknesses of the bismarckian welfare state as such. These reforms can be described as recalibration (Pierson 2001) or modernization (Bonoli 2005b, Häusermann 2005) of the welfare state, because they adapt the welfare state to specific post-industrial social needs and demands and shift the logic of social security from compensation to activation. Moreover, these reforms are very different from the first set because they are mostly expansive, i.e. they introduce genuinely new policies and policy instruments and improve the coverage of certain categories of beneficiaries. In analyzing these reforms, one can distinguish between a set of second-order reforms, widening eligibility and access to existing insurance schemes for former outsiders (while maintaining the bismarckian goal of income replacement and stratification) and a set of third order changes shifting the goal of income compensation to activation and social investment.

The first set of societal modernization’s main thrust is in granting rights and benefit entitlements to categories of the population who had none before. The proportion of these systemic outsiders grew from the 1970s onwards, because more and more people did not correspond to the profile of the standard insured anymore (Wanner and Ferrari 2001). Indeed, bismarckian welfare state provide most complete social security to male family fathers, working full time in stable employment, and over a long time period in the same firm. Atypical workers, part-time employees, and spouses typically have none or only derived rights. This welfare state is particularly deficient with regard to the coverage of women and the young, whose benefit rights in most schemes are decisively lower than those of men. When labor markets become more precarious, gender roles change and families become unstable, these new risk structures become more visible. Hence, a series of reforms since the 1990s addressed these new social needs and demands.

Most prominently, in the field of pensions, the equal splitting of contributions and benefits between spouses was introduced in 1995. Simultaneously, pension credits were granted to mothers: for each year in which they raise a child below the age of 16, they receive pension rights for a virtual income of about 2/3 of the mean income. Both changes improve the pension rights for non-working women drastically (Nova and Häusermann 2005, CONSOC 2003). Similarly, the second pillar occupational pensions were extended to more low-income earners in 2003, i.e. the access threshold
to occupational pensions was lowered from about 16'000 to 12'000 Euros per year. Even though this expansion remained clearly below the demands of the left and of women’s organization, it was an important signal for the recognition of the value of (mostly female) part-time work (Häusermann 2002).

Still in the field of occupational pensions, the law on „free movement“ of 1994 enacted the rights of workers to job mobility without being punished by pension losses. And finally, the reforms of the unemployment insurance in the 1990s extended the benefit period and thus improved the income replacement protection of long-term unemployed. These latter two reforms should also be seen as an adaptation of the Bismarckian welfare state to new labor market realities. Hence, all these reforms were recalibrating, in that they extended Bismarckian income protection to people who, for various reasons, are not active on the labor market or who are not in standard employment.

The second set of changes, by contrast, is rather focussed precisely on enhancing and enabling standard employment through activation policies. These reforms reflect an even deeper change of the underlying logic, because they shift the principle of social protection from income replacement to activation and commodification. This new trend is most visible with regard to the active labor market policies, whcih were introduced in 1995 for the first time. This reform forced the cantons to create 25'000 places of training and activation for unemployed and these measures were continuously improved and reinforced over the following years, notably in the reform of 2002 (Berclaz and Füglister 2000). Within a decade, the expenditures for active labor market policies in Switzerland have been multiplied by 6 (Bonoli et al. 2005).

The current reform of disability insurance shows a very similar thrust, including a strengthened commitment to reintegration and the early detection of employees at risk.

Recent developments in family and care policy also go in the direction of enhancing labor market participation, instead of compensating inactivity: maternity insurance for working mothers was introduced in 2004 (after a series of failed attempts to do so since the early 1980s) and in 2003, the national parliament voted a 4 year-credit of 200 million Swiss francs encouraging the development of a – so far almost completely lacking – infrastructure for external child care. The most important
developments in the reconciliation of work and care, however, have taken place at the level of the cantons and communes (Bonoli et al. 2005, Dafflon 2003). Several cantons having implemented financial encouragement of care infrastructure, in order to improve the possibilities for mothers and fathers to combine labor market participation and parenthood. Even the newly introduced complementary means-tested child allowances for poor families are designed in a way as to financially encourage parallel labor market participation.

This account of activation policies should not obscure the fact that the modernization of the Swiss welfare state has remained rather limited and far below the demands of e.g. women’s organizations or the criteria that characterize a „social investment state“ (Lister 2004). A social investment state focuses on investment in human capital in order to create and redistribute opportunities and to enable people to earn their own living. The above reforms mainly do go in this direction, but important problems of care infrastructure scarcity or inefficient active labor market policies still persist and the adoption of these reforms often depends on a series of conjunctural conditions, such as employer’s interest in female labor market participation (Bonoli et al. 2005). It can be hypothesized that in this specific field of reform, EU membership would indeed have contributed to a more rapid and comprehensive reorientation of policies (Daly, 2004; Bonoli et al. 2005). With regard to care infrastructure, for instance, the EU has adopted a directive in 2002 that establishes a target of 90% coverage of external care for children between 3 years and schooling age until 2010, a target Switzerland will doubtlessly miss by far.

In terms of the development of the bismarckian welfare states, modernization since the 1970s has also been marked by an interesting procedural change. Indeed, in the past, most reforms were designed in specialized extra-parliamentary committees composed of civil servants, trade union and business representatives, before they were handed over to parliament, where they were hardly modified and most of the time merely approved (Kriesi 1980, Sciarini 1999). Most of the recent modernizing reform elements, however, have not been introduced by trade unions and employer organizations, but only at a later stage of the reform process, i.e. by the political parties in parliament. In virtually all the important reforms of the 1990s – the pension
reforms of 1995 and 2003, the unemployment reform of 1995 and the current disability insurance reform – labor and capital were mainly stuck in controversies over the extent of retrenchment and it was only in parliament, that the modernizing elements of reform were added (Bonoli 1999, Häusermann et al. 2004). Among other reasons, this can be explained by the fact that recalibration benefits mainly to welfare state and labor market outsiders – women, unemployed, young families, atypical workers – who do not belong to the main clientele of labor and capital (Häusermann et al. 2004). Somewhat ironically, thus, the bismarckian male breadwinner welfare state that the social partners built until the 1980s became the very reason for those actors’ declining power in designing welfare state reforms more recently.

The modernization of the Swiss welfare state, should, however, not be considered as a radical upheaval. Rather, in a pragmatic and incremental fashion, new recalibrating elements were either added to the existing bismarckian insurance policies or these latter insurance policies were used to cover new risk profiles. Hence, the process of institutional change can probably most adequately be characterized by mechanisms of continuous layering and conversion (Streeck and Thelen 2005), whereby new logics of action are added to the prevailing institutions and existing institutions are redirected towards new functions.

For the sake of comparison and synthesis, the following table summarizes the three broad stages and categories of Swiss welfare state development in a synthetic manner:
Conclusion: negotiation and learning as mechanisms of reform

In this chapter, I have shown that the Swiss welfare state has indeed changed significantly since the 1970s in several respects. None of the four main characteristics of the bismarckian welfare state has been altogether transformed or abolished, but all of them are somewhat altered: A) Work-based eligibility is still the main form of benefit entitlement. However, modernizing reforms have somewhat widened the eligibility, by granting pension credits, based on a virtual income, to mothers and by recognizing more flexible and atypical forms of employment, such as part-time employment and job mobility in occupational pensions. B) Benefits continue to be heavily earnings-related. The Swiss welfare state is hardly redistributive and this characteristic has even been reinforced with the strengthening of the degressive occupational pension scheme and premium-financed health insurance. Social policy in Switzerland does not mean redistribution, but status protection. It is only the rise in social assistance expenditures, public subsidies for the financing of health care premiums for poor households and the extension of means-testing complementary pension benefits that point to some consolidation of a level of minimum protection. C) The financing has not changed radically, since most benefits are still financed through
contributions or premiums (or through gains from capital, as in the occupational pension scheme). However, there has indeed been some reinforcement of tax-financing, through the rise in federal and cantonal contributions to social insurances, the expansion of tax-financed social assistance and complementary pensions and the increase in the value-added tax (VAT) to stabilize the financing of public pensions. Further increases of the VAT are also on the agenda for the next years to come, not only for pension financing, but also in favor of the disability insurance, which is in deep deficit. D) Finally, labor and capital do stay important actors in the management and implementation of social insurances, notably with regard to unemployment insurance and active labor market measures. However, political parties have become more relevant in policy formulation, compared to the past. Many recent modernizing reforms were designed by the parties in parliament, rather than by labor and capital in the pre-parliamentary negotiations. This may be explained by the inability of the social partners to foster compromises over retrenchment, by the higher proportion of women in parliament (Bonoli 2006) or by the stronger sensibility of parties to libertarian values and gender equality, as compared to trade unions and business organizations (Häusermann et al. 2004).

The Swiss reform trajectory displays some striking similarities with reform dynamics in other bismarckian welfare states, notably some amount of benefit retrenchment, the increasing reliance on means-tested social protection minima, the growing proportion of tax-financing as compared to contributions and a growing accent on activation measures. Given that power relations are constant and that Switzerland is not a member of the EU, these commonalities should most probably be attributed to similarities in the structural challenges and the micro-institutions of the design of bismarckian welfare states.

Institutions, both on the macro-level of decision-making and on the micro-level of policy design, indeed played a crucial role in shaping the underlying mechanisms of the Swiss reform trajectory. As a conclusion, I would like to point to two of these mechanisms that weight heavily on the reform dynamics, i.e. negotiation and learning.

Both the micro-institutions of the welfare state and the macro-institutions of Swiss decision-making spread power across a wide range of actors. Not only are all
relevant actors involved in decision-making, but every reform in Switzerland can be challenged in a popular referendum vote. Hence, reforms must be carefully balanced in order to gather sufficient support from diverse collective actors. In this respect, the simultaneous emergence of cost containment and modernization since the 1980s is no coincidence, because in many reforms, the combination of both types of reform in a single reform proposal ensured precisely this requested support. Hence, the modernizing reforms often benefit from rather unexpected cross-class coalitions between leftist and socially liberal actors, because they combine retrenchment of existing benefits with expansive elements in favor of former outsiders. This pattern of reform could e.g. be observed in the 1995 pension reform and the 1995 unemployment insurance reform (Bonoli 1999, Häusermann et al. 2004, Häusermann 2006), but also in the 2003 reform of occupational pensions (Häusermann 2002) or the current reform of the disability insurance. Hence, the two strands of reform since the 1970s are not sequentially linked, one following the other, but rather politically and functionally.

Finally, learning has also become an important mechanism of reform. As I have outlined at the beginning of the chapter, the Swiss welfare state grew in a pragmatic, layered fashion. Slowly growing insurance schemes were gradually complemented by additional policies, designed to alleviate the most important loopholes. The system of old age protection exemplifies this logic, since it relies on a „multipillar“ logic, which has incrementally developed over time: flat-rate universal PAYG-pensions are complemented by means-tested and tax-financed supplementary benefits, capitalized occupational pensions and voluntary, fiscally encouraged private pension savings plans. This system, combining different logics of benefits and financing, proves to be more resilient to structural and demographic challenges than purely bismarckian regimes and has recently become a model for reform, promoted inter alia by the OCDE and the IMF. The multi-pillar structure of social protection has, however, also triggered learning processes at the national level. Recent reform propositions (e.g. Bauer et al. 2004 ) call for the emulation of this design in the fields of family and health policy, i.e. for a combination of an egalitarian, tax-financed minimum protection for the purpose of poverty relief, with PAYG- oder capitalized insurance
benefits aimed at status protection. Hence, the design of the existing welfare state itself feeds back into the dynamics of reform.

References


