Did the Financial Crisis Open Up Opportunities for Welfare State Reform?

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Abstract

If ever there was a momentum to roll back the welfare state, it is the (aftermath) of the financial crisis of 2008/2009. All theoretical perspectives within comparative welfare state research predict radical reform under this circumstance. But does it also happen? Our data indicate that – at least so far – it does not. Focusing on a selection of advanced welfare states (United Kingdom, United States, Germany, Netherlands, Denmark, and Sweden), we find that these countries face similar problems (like rising unemployment) and that their initial response to these problems is similar, too. The latter is surprising because theoretically we would expect varying responses across welfare state regime types. Theoretically puzzling is also that, rather than retrenchment, we observe a first phase of emergency financial bailouts and a second one of Keynesian demand management and labour market protection, including the (temporary) expansion of social programs. We argue that continuing public support for the welfare state was a main precondition for this lack of immediate radical retrenchment. However, the contours of a third phase have become apparent now that budgetary constraints are forcing political actors to make tough choices and introduce austerity policies. As a result, the question of who pays what, when, and how will give rise to increasingly sharp distributional conflicts.

Keywords

Financial crisis; welfare state reform; retrenchment; public opinion

1. Introduction: Does the crisis induce major welfare state reform?[1]

Are the financial crisis of 2008 and its economic aftershocks (Hemerijck et al. 2009) spurring major reform efforts in key social policy domains in Western welfare states? In the past decades, welfare state change has been slow, albeit persistent, even in the "frozen" welfare states of continental Europe (Esping-Andersen 1996). However, in some areas the constellation of social and political power relations around core social programs, with their rock-hard formations of vested interests, has remained such that even the most evidently dysfunctional policies effectively have been impossible to amend. But under the exceptional circumstances of the crisis and the recession, that is in times where uncertainty rules, even seemingly immovable objects (Pierson 1998) might start moving.

It is interesting to note that in all mainstream approaches to welfare state change, financial and economic crises play a theoretical role of instigators of structural and radical reform. The general thrust of the argumentation is that although tremendous pressures for reform have been accumulating in the past decades, these have not translated into drastic reform because of the various institutional and political forces that work against it. A crisis, in the sense of an indubitable threat of breakdown, is assumed to set these forces free and bring about, more or less instantaneously, radical reforms.

The institutionalist approach, for one, has a good toolbox to explain, for "normal times", social policy continuity and what has been termed "progressive change", that is the kind of change that shows no brutal departure from a developmental path, but has a specific direction all the same (Palier 2010a: 31). But an institutionalist analysis would also suggest that a crisis offers a critical juncture at which it is suddenly possible to divert more radically from the original path of development and embark upon substantial reform, including harsh retrenchment and major restructuring (see Palier 2010b). Such a path-division would reinforce the already discernable trend towards recommodification of social protection and social service systems in the most decommodified systems, leading to a convergence of welfare state regimes in the longer run (Rothgang et al. 2006).

A socioeconomic account would predict that socioeconomic dire straits provide functional demands to the political system that are likely to translate into drastic reform at the moment they are perceived or felt as systemic or existential threats (see Schwartz 2001 and Starke 2006 for overviews). Given the systemic functional pressures exerted by the financial crisis and its economic aftermath, such as rapidly rising levels of unemployment and increasing budget deficits, this perspective predicts radical retrenchment and recommodification almost as inescapable and immediate outcomes.

An ideational account would point to the fact that ideas assume an abrupt transformative capacity under extreme conditions. A crisis causes urgent uncertainty and fosters the prompt take-up of groundbreaking and previously unacceptable ideas to transform the welfare state radically and rapidly (see e.g. Béland and Cox 2010; Schmidt 2008; Stiller 2010).

Even Iversen and Wren's (1998) service sector trilemma approach, finally, would predict a fast transformation of regime specific paths and ultimately a convergence. Interestingly, and contrary to Iversen and Wren's prediction, the conservative regime did not opt for a continuation of the welfare-without-work path, but has sacrificed, like the social democratic regime, budgetary restraint. The liberal regime also went into another direction than expected, by preventing income inequality to rise more sharply and to protect employment at the expense of budgetary restraint. However, the Iversen and Wren approach would predict that all regimes first must react quickly to the threat of the breakdown of financial institutions and then, under pressure from punitive financial markets and according to self-binding international agreements, soon after *must* strive for balanced budgets again, which necessitates radical adjustments in social spending and employment policies.

In sum, the main theoretical perspectives seem to converge around the anticipation that the financial crisis in the short run and its economic aftershocks in the somewhat longer run open up an opportunity if not necessity for radical welfare state reform. In this paper we ask whether we can (already) find empirical indications that support these theoretical predictions. Is the financial crisis setting in motion a (radical) restructuring of the welfare state and/or a program of serious cutbacks in social expenditures?

2. Outline of the argument and structure of the paper

Although for some it may be too early to even raise the very issue, we have chosen to present an indicative overview of the crisis measures taken so far in countries selected from the different worlds of welfare: the United Kingdom (UK), the United States (US), Germany, the Netherlands, Denmark, and Sweden. We selected the UK, Germany and Sweden because these countries are representative for the liberal, conservative and social democratic welfare state regimes respectively (Esping-Andersen 1990). The Netherlands, conversely, is a typical "hybrid" welfare state regime (Vis et al. 2008), combining traits from both the social democratic and the conservative regime. Moreover, we include the US because of its major role in the financial crisis, making studying the financial crisis and its impact difficult without the inclusion of this case. Finally, we focus on Denmark because arguably welfare state reform in this country has been groundbreaking in its solution to the notorious efficiency–equality trade-off in the 1990s and 2000s, combining active labour market policies with a high level of generosity in benefit levels (Albæk et al. 2008). Is this innovative model capable of withstanding the onslaught of the crisis?

Below we report that the theoretical predictions presented in section 1 cannot be supported, or at least not yet. Despite substantial cross-national differences, the early responses to the crisis are by and large similar everywhere. Governments did not immediately respond with cutbacks and/or radical restructuring. On the contrary, the initial response of all governments was to reserve or invest resources to increase expenditures in support or the bail-out of banks and, somewhat later, industrial sectors. It is clear that, with a seemingly unprecedented level of international coordination, all countries, perhaps unexpectedly but nevertheless straightforwardly, embarked upon a fairly classical Keynesian intervention, first, to prevent the collapse of the banking sector and, second, to prevent a massive drop in demand. In this first phase, similarity in Keynesian response is what is most striking. In a second stage, it became rapidly clear that in spite of the intervention so far the financial crisis was causing an economic downturn that threatened to turn into a recession, with severe consequences for labour market developments. And now all countries expanded social programs or adjusted them to cushion the shock of the crisis and the expected economic malaise. Again, there was much similarity in the responses and most countries made an effort to prevent mass unemployment and to ensure that redundant workers would retain their relation with the labour market (e.g. through "part-time unemployment").

The developments seem to be in line with the expectation of the supporters of the *compensation hypothesis* that (financial) globalization and welfare effort are mutually reinforcing (see Glatzer and Rueschemeyer 2005), in spite of the fact that the latest research findings (Jahn 2006; Busemeyer 2009) seem to support more the *efficiency hypothesis* that globalization (economic openness) is negatively related to public spending. It is impossible to settle the continuing debate here, but we do wish to point out that we find that all countries initially chose to relax their budget restraint to finance bailouts, then introduced economic support measures and finally also made an effort to defend social compensation and social investment strategies, albeit usually explicitly temporarily.

The financial crisis has shown that – unlike in other recent crises (see Castles 2010) – governments this time have not tried to deny the emergency status, but squarely appealed to it in their attempt to legitimize far-reaching financial support measures. It seems that politicians have adopted the view that 'political leaders who wish to achieve substantial institutional change should not be selling the message that they can cope, but only that they could cope if armed with emergency measures' (Castles 2010: 99).

It is open to discussion if this is likely to be the case with subsequent welfare state reform too. Anticipating our analysis below, we observe that institutionally distinctive countries with ideologically diverse governments unexpectedly chose quite similar policy options in their initial and direct response to the financial crisis and that none embarked on a program of ruthless retrenchment or radical restructuring. However, we might also be picking up already the signs of a third phase in the response to the financial crisis and its economic aftershocks. The Keynesian intervention and the protective measures that followed are a costly affair and they are causing budget deficits to increase rapidly. In other words, and because we are dealing with a "moving target", it might be that the theoretical perspectives will prove to be right in the end, that is if the crisis and the initial policy responses turn out to have revolutionized the social and political foundation of the welfare state consensus. Moreover, if the pessimistic (realistic?) economists are right (e.g.

Stiglitz 2010) and the world economy is not likely to recover quickly, also precisely because governments discontinue demand management, the cumulative effects of lower tax income and social security contributions, continuing expensive financial support policies, and rising social expenditures are likely to deteriorate the already dire budgetary condition of the welfare states, adding to the pressure for drastic reform. Thus far, however, we observe that the crisis has not had the instant effect of triggering policies that harm core social programs, but we do catch sight of the fact that radical retrenchment is capturing the political agenda in many a nation.

One important precondition for the initial similarity in policy responses to occur is that the crisis did not undermine public support for the welfare state's core institutions and the role the institutions play in mitigating the domestic impact of the whims of the global (financial) markets. We briefly discuss public support for the welfare state as an important precondition for the emergence of similar responses in section 3. To illustrate the relevance of public opinion in the wake of the crisis, on which "hard" data that are comparable across countries are not available (yet), we conduct a qualitative content analysis of national public debates in print and online media.[2]

The similarity in policy responses relates to the fact that countries are facing roughly similar problems. In section 4, we show that Denmark, Germany, the Netherlands, Sweden, the UK, and the US indeed have been facing comparable problems as a result of the financial and economic crises.

Even if massive state intervention has helped the financial sector to recover quickly (which is not a guaranteed outcome yet), however, the economic aftershocks will still be tangible for many years. During the aftershocks, large differences between countries – as well as across political parties within countries – are likely to re-emerge. Where, for example, to raise the money for the risen budget deficits? Will this be in the form of higher taxes, possibly for specific groups (a la Obama's bank tax)? Or by cutting back on social expenditures? To answer these questions, our qualitative content analysis of national public debates in print and online media focuses also on how governments deal with the "aftershocks" (section 5). This analysis reveals a keen and nervous awareness of budgetary stress and commitment to cutbacks everywhere, but also (so far) a conspicuous lack of concrete plans on how to achieve a balanced budget in the (near) future. In the UK election race in early 2010, for instance, all three main parties avoided being specific about how the shortfall will be filled. In Germany, the government is apparently committed to some tough targets on spending, but it remains to be seen whether political and institutional (constitutional) resistance can be overcome. The political struggle in the Netherlands, leading up the elections of June 2010, revolved around the amount to be cut (varying from € 10 to 30 billion), the time period in which to achieve this (4 to 8 years) and which policy areas to include in the retrenchment effort.

3. Public opinion and the welfare state

One of the major defensive mechanisms of the welfare state against radical reforms and drastic cutbacks concerns a supportive public opinion (e.g. Brooks and Manza 2006a). Generally, the welfare state is broadly cherished – perhaps except in the US. More specifically, when the framing of certain core social programs and social policies triggers the so-called "deservingness heuristic" among the public, support for such programs and policies is automatic and even overrules prevailing values (Petersen et al. 2010).

It is important to note that the current crisis differs substantially from the crises of the 1970s and, especially, the 1980s. At those times, the "big" (welfare) state was seen as one of the primary *causes* of the crisis, crowding out money for investments and therefore inhibiting economic and employment growth. In sharp contrast, public opinion data now show that the public by and large does not blame the welfare state for the current crisis. In fact, currently the welfare state is viewed as a *solution* to (at least some of) the problems caused by the financial sector and the economic aftershocks.

What is the relation between public opinion and the welfare state? The literature comprises two distinct theoretical and conflicting empirical findings. One is that public opinion in certain contexts affects policy decisions (e.g. Brooks and Manza 2006a, 2008; Burstein 1998, 2003; Christian 2008; Kenworthy 2009: Manza & Cook 2002; Svallfors, 2003), while the other is that government policy and a welfare state's institutional setup shape public opinion (e.g. Blekesaune & Quadagno, 2003; Jaeger 2009; Jakobsen 2009; Larsen 2008; Matthews and Erickson 2008; Sihvo & Uusitalo, 1995). Both mechanisms, however, can bolster the support for the welfare state in the wake of the financial crisis. If public opinion is supportive of the welfare state, this increases welfare-friendly policies through the first mechanism. Through the second mechanism, the policies in place increase their own support once needed most, such as in the current crisis. Together, these two mechanisms work against dramatic scaling back of the welfare state.

An important issue is thus if the current crisis is undermining public support for the welfare state. Obviously, it is difficult to obtain contemporary data. The data we could already find, however, reveal that there is continuing support for the welfare state in spite of the mounting financial constraints that limit the extent to which governments can meet such demands. In fact, we found indications that voters cherish the welfare state even more because of the crisis, because it does precisely what it was supposed to do: shielding people from losing their jobs or protecting their income in case of unemployment.

In general terms there has been a shift in support away from the political left and toward the centre-right, which some commentators have interpreted as being a result of greater trust in the centre-right to run and protect the welfare state. This is a move away from the traditional standpoint, that the left will favour social spending more than the right, but is tied to greater perceived competence in economic management among centre-right parties. Interestingly, we also notice that both right-wing and left-wing populist parties in Europe, which challenge many other established policies and political convictions, have embraced a defensive stance in favour of key welfare state arrangements, particularly public pensions, a phenomenon called welfare chauvinism (see Mudde 2009).

Between the liberal regime countries, the US and the UK, there is some degree of divergence in public outlook. While a late 2009 Ipsos-MORI poll in the UK showed that voters there were not ready for spending cuts, Gallup polls indicate that a slight majority of Americans accept the need for temporary government expansion, but that a very large majority want it wound back either immediately or as soon as the crisis is resolved (Ipsos MORI 2009; Gallup 2009a, 2009b).

From the literature and our own qualitative content analysis, we can only present some tentative conclusions (and refer to the relevant literature for their theoretical relevance). First, it seems that the economic crisis is likely to increase rather than decrease public support for welfare provision (see Blekesaune & Quadagno 2003), making radical welfare state reform even more difficult. Second, social policy remains a salient issue that the public will have relatively clear and coherent views on, as a result of which public opinion will continue to influence government policy making and action (see Burstein 1998). Third, governments are likely to respond with increased support for the welfare state where possible (see Brooks & Manza 2006b). Quite clearly, a pro-welfare state rhetoric is dominating, in spite of frequently expressed worries about the necessity to balance the budget. We infer that in the near future many political systems are likely to experience an increased political tension between the popular demand to uphold welfare arrangements and the financial and economic demands to balance the budget. It is likely that activation and maximization of labour market participation (including, for instance, an extension of the pension age) are elements of the solution promoted in the wake of the crisis. Contrary to Brooks and Manza (2007), we expect domain-specific trade-offs to occur where specific domains receive extra support at the expense of less-salient domains, in spite of the fact that increases in aggregate welfare state effort or in welfare state generosity are limited because of budgetary constraints.

If we look at the Ipsos-MORI polls, for instance, we observe that the UK public is willing to accept government spending cuts, but refuses to accept cuts on health care.[3] A more recent Financial Times/Harris Poll (2010) supports this result. Only 8 per cent of the Britons think that healthcare should bear the biggest part of the spending cuts burden.[4] Interestingly, the same poll shows that a little over 50 per cent of Britons consider it acceptable that unemployment benefits get cut the most. In this respect, the UK differs radically from the US, where only 22 per cent considers this the best policy to cut, which is about the same level as in Germany (and France, Italy and Spain). Another interesting finding is that around 70 per cent of the respondents in the US, the UK, Germany (and France, Italy and Spain) agree with the statement that 'the large budget deficits and the spending cuts that have happened or been proposed call for a re-examination of Europe's welfare states'. Unfortunately, the poll does not provide any information about how this re-examination should look like.

All in all, we conclude that the welfare state is still cherished as a major protection against the impact of financial and economic shocks. However, it may be that the public holds contradictory views that – from a public policy point of view – are hard to square: the expensive welfare state is heartily supported, but so are cuts in government spending.

4. Similar problems?

To what extent do Denmark, Germany, the Netherlands, Sweden, the UK, and the US face similar problems as a result of the financial and economic crises? Figure 1 displays the development of the harmonized unemployment rates in these six countries from the first quarter in 2008 to the second quarter of 2010. Whilst in Sweden, the UK, and the US, the unemployment level was on the rise for the entire period, the increase was particularly sharp from the third quarter of 2008 (Q308) onwards. This is also when unemployment starts to increase in Denmark, in fact almost doubling between Q308 and Q309 from 3.3 per cent to 6.2 per cent. In the Netherlands, unemployment levels had risen as of Q409, although less than in the other countries (except Germany).[5] Germany is the outlier in terms of unemployment, because the level does not rise throughout the period. However, with 7.6 per cent unemployment, Germany had the poorest performance in terms of unemployment of these six countries anyway. By Q409 this was no longer the case: the US (10 per cent) had taken over this position, trailed by Sweden (8.9 per cent). Despite the differences between the countries, these figures show that unemployment is clearly a problem in all of our countries.

--- Figure 1 about here ---

The surge in unemployment is a symptom of interlinked problems that all countries face. The banking sector in developed democracies has serious credibility and stability problems, with many banks requiring very large sums of money for bailouts. The Swedish government has spent the least on bailouts of our six cases, namely € 5 billion (about 1.5 per cent of GDP). Compared to those of the other countries, the Swedish banks have been less eager to take this money because of the greater conditionality attached. The latter is a result of the banking crisis that Sweden faced in the early 1990s (see e.g. Englund 1999). In terms of sheer numbers the Danish government is next in line, with two rounds of bailouts totaling around € 18 billion (about 8 per cent of GDP). In addition, the government has come to the rescue of two of Denmark's (albeit relatively small) banks. The situation is similar in the Netherlands, where the government has spent about € 20 billion to take over a bank and another € 20 billion on bailouts (about 7 per cent of GDP). The German figures are substantially higher, with the German parliament having accepted a proposed bailout program of € 480 billion in December 2008 (about 20 per cent of GDP). The American response resembles that of the Germans in terms of the absolute level of spending, with bailouts amounting to $ 700 (€ 519) billion (about 5 per cent of GDP). The UK, finally, tops this figure, with ₤ 850 (€ 960) billion spent on bailouts (about 60 per cent of GDP). Although the exact figures vary across the six cases, the trend indicates that the banking sector in each country required massive government assistance to survive the crisis.

Unemployment has been rising also because of falling exports, among other things caused by lower consumer confidence. Figure 2 displays the development of exports in goods (value) in billions of US dollars in our six countries from the final quarter in 2008 to January 2010. Exports fell everywhere between the fourth quarter of 2008 (Q408) and the first quarter of 2009 (Q109). The highest reduction took place in Sweden (minus 15.9 per cent), trailed by the UK (minus 15 per cent), the US (minus 14.3 per cent) and, at some distance, the Netherlands (minus 12.9), Germany (minus 10.7 per cent), and Denmark (minus 8.7 per cent). In most countries, exports picked up after the first quarter of 2009, but not in Germany (another 2 per cent reduction) and the US (minus 1.3 per cent). Between the second and fourth quarters of 2009, all countries saw their exports increase again – in most cases to levels higher than Q408 – yet in Denmark (minus 5.1 per cent), Germany (minus 4.5 per cent), and the UK (minus 6 per cent) exports fell again between the fourth quarter of 2009 and January 2010.

--- Figure 2 about here ---

But we live in volatile times. The IMF (October 2010: 75, see also Statistisches Bundesamt Deutschland 2010) has recently predicted that, after a decline of real GDP in 2009 of 4.7 per cent, the German economy is expected to grow with a high 3.3 per cent in 2010 (although unemployment is expected to remain around 7 per cent), spurring also the Dutch and Danish economies. Overall, the data on unemployment, the banking sector, and exports show that our six countries largely deal with similar problems. Did these similar problems evoke similar responses?

5. Similar responses?

Which measures have the American, British, Danish, Dutch, German, and Swedish governments taken to cope with the adverse effects of the crisis? Apart from the emergency support for the financial sector that characterized the first phase in the crisis response, it is difficult to get data on policy adjustments or new policy initiatives taken in the various countries after that, because many proposals are still being developed or under debate. In order to get at least some idea of what has been going on, we have been collecting data from various sources.[6] Table 1, for instance, gives an impression of the measures that were reported to have been taken in the first and second phases of the response to the financial crisis and its economic aftershocks in our countries of interest. We subsume the measures under four categories 1) Keynesian measures (investing in jobs, investing in infrastructure, tax measures, and tax relief), 2) monetary policy (lowering interest rates, money creation, buying government bonds), 3) circumventing bankruptcy (creation of "bad" banks, guarantees on problem assets, financial support to banks or companies, take-over of banks, liquidity fund for banks), and 4) re-establishing trust in the banking sector (guarantees on savings, guarantees of interbank lending, and increase of supervision).

--- Table 1 about here ---

If we look at indicators that fall under the heading of "circumventing bankruptcy" and "re-establishing trust" in Table 1, we can conclude that the responses to the financial crisis have been similar across the countries. If our data are correct, Germany is a special case because in this country a Keynesian type of response seems to have been most systematically formulated.

On the basis of our content analysis, we observe that in the second response phase the labour market is the area to which most attention has been directed and where policy-making initiatives have been most frequent (and most frequently discussed). Still, the need for more general welfare state reform (and major restructuring) in the fields of health, education, housing, and pensions, continues to be a hot issue too. Specifically, our analysis indicates that, next to the direct financial predicament, rising unemployment (or the expectation that jobs will be lost) is by far the greatest worry of all governments. If anywhere, we expect major adjustments in labour market related policies in the wake of the financial crisis. Table 2 summarizes the recent data on this.

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If we examine the details of the measures taken, the UK stands out. Although the UK had the lowest score on supportive policies of all EU 15 countries before the crisis, the government has been very reluctant to improve these policies, even temporarily (Clegg 2010). The main measures taken in the UK fall under the heading of active labour market policies. As of January 2009 there is extra support for jobseekers who have been unemployed for more than six months, additional funding for the public employment office (Jobcentre Plus), a bonus of up to £ 2,500 (€ 3,000) for employers to hire and train an unemployed person, new training places, work-focused volunteering options, and help to establish a business. The total costs of these measures amount to approximately £ 0.5 billion (€ 553 million). Furthermore, the government has committed to another £ 1.3 billion (€ 1.4 billion, about 0.1 per cent of GDP) so that those individuals who become unemployed can receive their benefit more quickly (EEO 2009: 15–16). In a comparative perspective, these measures are not that substantial. Overall, the UK's approach to tackling the crisis has been characterized mostly by tax cuts in an attempt to boost economic activity (Clegg 2010). Conversely, nothing has been done to address those who are becoming unemployed – a feature in which the UK differs substantially from the rest of Western Europe. Partial unemployment is perhaps the most important of these. In Germany, there was already a partial unemployment scheme in place – in the form of structurally lower working time – which has been extended from 6 to 18 months ("stimulus package 1") and has been extended further after that. Also the contribution from the government has been increased (Clegg 2010).

Table 2 indicates that most countries, although not in all specific fields and to the same extent, have formulated new or updated existing measures in the area of both active and passive labour market policies. Our data also allow for the conclusion that in all countries cuts in core functions have not been made, at least not yet. The content analysis shows that the Nordic countries and Germany have weathered the storm so far without major retrenchments.

However, we are picking up the contours of a possible third phase in the response to the financial crisis and the economic downturn that followed. It seems that for the longer term a general acceptance has emerged that cuts need to be made. But as indicated above, exactly how, where, and when such cuts will have to be made is still a grey area that apparently political actors have avoiding discussing whenever possible. During the 2010 election campaign the main political parties in the UK, for instance, were not very specific with numbers about planned cuts. However, the new coalition government (Conservatives and Liberal Democrats) adopted a plan for £ 30 billion spending cuts (about 1.8 per cent of GDP) in its June 2010 Budget. Proposed measures include an increase in the VAT tax by 2.5 per cent (to 20) and a spending reduction of 25 per cent over the next four years for all civil service departments, except health and overseas aid. Welfare spending will be cut by £ 11 billion (about € 13 billion, 0.8 per cent of GDP) over the next five years. Child benefits will be frozen, family tax credit will be reduced, housing benefits will be capped, medicals for disability benefits will be stricter, and the increase of the state pension age from 65 to 66 will be accelerated (European Institute 2010). Total spending cuts by 2014-15 will amount to £ 81 billion (€ 90.7 billion, 5.6 per cent of GDP) (UK HM Treasury 2010). These proposed spending cuts will among others further hit welfare and public service pensions (as well as environmental levies). Additionally, the government will 'radically change the welfare system' (UK HM Treasury 2010: 28) by replacing the current system of means tested working age benefits with a new Universal Credit that would enable work to always pay. Simultaneously, the government will reduce fraud and error through a new approach and implement a Work Programme for those with the largest distance to employment.

The German government also appears to be committed to meeting tough deficit targets. In July 2010 the German government agreed on significant cutbacks in a savings plan (*Sparprogramm*), amounting to approximately € 80 billion between 2011 and 2014 (about 3 per cent of GDP). The package is a mixture of cancellation of existing subsidies, higher taxation, a major reform of the army, public administration reforms, reform of the financial sector, and several – taken on their own – relatively minor benefit cuts and entitlement restrictions (Bundesregierung 2010). At the same time, the savings package reserves € 12 billion to invest extra in education, research and development.

In the Netherlands, the exact cutbacks and their timing dominated the electoral campaign of Spring 2010 and they were a crucial part of the negotiations on the new coalition government. Cutbacks are projected to be around € 18 billion (about 3 per cent of GDP). The aim of the new government is to restore a balanced budget in 2015. Proposed measures concern modest to considerable retrenchments across various sectors, including health, pensions (a gradual increase of the retirement age), child care, disability and social assistance. The Danes face spending cuts of a, for them, draconian size of € 3.2 billion (almost 1.5 per cent of GDP). Proposed measures involve the (further) reduction of the unemployment benefit from four to two years, 20,000 less jobs in the public sector and a five per cent reduction of child benefits. Sweden is the only of our six countries where severe cutbacks in public spending are not expected. Sweden benefits from the strict fiscal rules implemented in the 1990s (European Institute 2010).

Our data reveal that – despite the similar problems and responses of the first two phases – there are still quite substantial differences between the welfare state regimes. Summarizing our findings, we note that the social democratic regime has performed relatively well, probably because it entered the crisis with a relatively strong position. In the case of Sweden, for instance, there already had been cuts preceding the crisis, which were unpopular, but can be interpreted as having helped a smooth adaptation to the recession. In addition, a good financial regulation system has been aiding the response. Sweden has been funneling extra money to local government to help target the money better. Germany, the main representative of the conservative regime, did not reform early on, but has committed to tough spending cuts to balance the budget. Within the liberal regime, the US stands out because the American public seems fearful of growing government influence, something Gallup polls show very clearly (Gallup 2009b). Still, a major healthcare expansion bill was enacted. In the UK the public is still very defensive of the National Health Service (NHS), although the new coalition government has launched a major reform program for the NHS (UK Department of Health 2010).

6. Conclusion

In this paper we have highlighted financial, economic and social policy responses to the financial crisis of 2008/2009 in six key advanced welfare states. To answer our title's question: *yes*, it appears that the crisis has created opportunities for welfare state reform. However, the responses to date do not conform to the expectations of any theory of welfare state change that political actors will immediately take up such an opportunity to implement substantial reforms. In fact, our analysis informs us that everywhere the welfare state has first jumped to the rescue of the financial sector and then introduced measures to stimulate demand, at the cost of a balanced budget. The initial response has been compensation rather than efficiency and has occurred irrespective of the political leaning of the ruling parties.

The welfare state appears in the public discourse as a crucial institution that protects people from ill fortunes beyond their control. The welfare state therefore remains popular and – under the extreme conditions of the financial crisis – is broadly supported. This continued public support for the welfare state is proving to be quite robust, especially now that the financial crisis is not in any fundamental sense blamed on, for instance, expensive social policy as the 1980s crisis was. The welfare state, then, is typically included in a political discourse on the solution to the crisis. The data on public opinion and on policy developments in the UK, the US, Germany, the Netherlands, Denmark, and Sweden also reveal the public's continued support for and trust in the welfare state. In addition, the common problems faced, including rising unemployment, reduced credibility of the banking sector, and falling exports, help to explain the common reactions across the board. However, the immediate response has been a costly affair and we find an indication that we have entered a third phase in the response to the crises. Labour market policy and banking reform have clearly received the most attention in the first phase, but measures have also been taken or are being considered in other policy areas, such as pensions and housing, announcing the arrival of a more austere period to restore balanced budgets. The theme that runs throughout is that spending has been, albeit in many ways temporarily, increased in key areas, as governments try to support those who have been adversely affected by the crisis. However, a broadly shared political conviction is developing, that the costly initial response is not sustainable in the long run, because it is causing deficit spending to rise dramatically.

The current phase is characterized by an emerging political agreement that deficit spending is rapidly approaching its limits. As a result, it is likely that the politics of reform will now quickly revolve around the question who pays what, when, and how, or in other words, who will have to carry the heavy burden of financial and economic recovery. The crucial political issues are if a swift return to a balanced budget is a *conditio sine qua non* for economic recovery and, if so, whether drastic retrenchment or a substantial increase in taxes is to do the trick. Governments in some of our countries (especially the UK, Germany, Denmark and the Netherlands) have already agreed on significant public spending cuts that may or may not add up to drastic reforms and induce new distributional conflicts. Such decisions might spark public resistance like in Greece, because the crisis has also bolstered public support for the welfare state. Public opinion will remain an important factor in determining the timing, extent, and pace of social spending cuts. In addition, the well-known resilience mechanisms of long- and well- established social programs will be automatically triggered by such measures, making outcomes uncertain.

Overall, our analysis shows that there has not been a major onslaught of the welfare state in the immediate wake of the financial crisis. The changes enacted initially, in addition to the financial emergency measures, were mostly (temporary) expansions of programs or modest retrenchments. It seems, however, that at least at the level of political planning, more drastic spending cuts are envisaged, although for a variety of political and institutional reasons it can be expected that there will be a considerable gap between intentions and achievements. In a sense, it seems that the "irresistible forces" that push for radical reform have gained further strength, but that the "immovable object" of the welfare state is simply not that easily toppled. This, however, does not imply that there has been no welfare state reform or change. Quite the contrary, during the last twenty years or so welfare states have been continually adjusted to new economic and social demands and have pursued, albeit with considerable variation, well-adapted and innovative social investment policies (see Hemerijck and van Kersbergen 2010). Whether such social investment strategies will become the victim of the pending distributional battles or be part of a new positive-sum solution to the perpetual equality-efficiency trade-offs, are questions that will dominate the political and research agenda's alike in the next decade.

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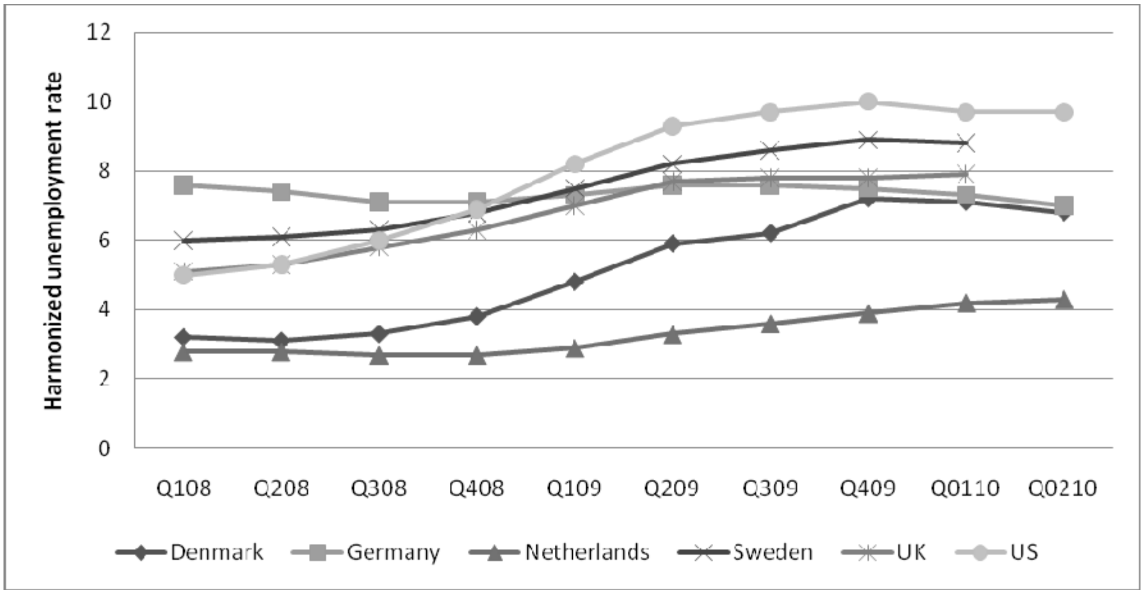
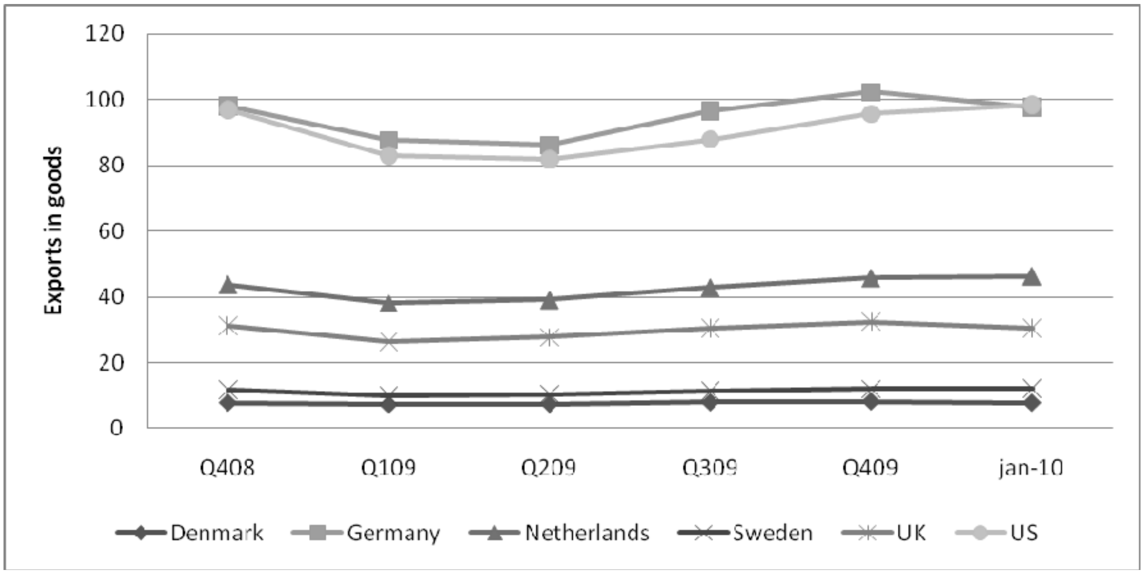
Figure 1 Development of harmonized unemployment rates



Notes: Unemployment rates adjusted for seasonal variation; entries are the 1st quarter of 2008, the 2nd quarter of 2008 etcetera.

Source: OECD (2010).

Figure 2 Exports in goods (value), in 2005 billions of US dollars



Source: OECD (2010).

Table 1 Summary of crisis measures taken

	US	NL	UK	DE	DK	SW
Keynesian measures						
Investing in jobs	X	X	X	X	X	X
Investing in infrastructure				X		
Tax measures				X		X
Tax relief				X	X	
Monetary policy						
Lowering interest rate	X	X	X	X	X	X
Money creation			X			
Buying government bonds			X			
Circumventing bankruptcy						
Bad bank (crisis bank)		X	X	X	X	
Guarantees on problem assets	X					
Financial support to banks or companies	X	X	X	X	X	X
Take-over of banks		X			X	
Liquidity fund for banks					X	
Re-establishing trust in banking sector						
Guarantees on savings (or increases its level)		X		X	X	X
Guarantees for interbank lending		X				
Increase of supervision		X				

Table 2 Labour market related measures

	US	NL	UK	DE	DK	SW
Labour demand measures						
Job subsidies, recruitment incentives, public job creation			X			X
Reductions in non-wage labour costs					X	X
Short-time working schemes		X		X	X	
Measures to help the unemployed find work						
Activation requirements			X	X		
Job search assistance and matching	X	X	X	X		X
Job finding and business startup incentives			X			
Work experience programs	X		X			X
Training programs	X	X	X	X	X	X

Sources: Clegg (2010, Table 1 [Compiled from Glassner and Galgoczi (2009); European Employment Observatory (2009); European Monitoring Centre on Change http://www.eurofound.europa.eu/emcc/index.htm], Mandl and Salvatore (2009: 12-3), OECD (2009: 3, Table 1).

Notes

[1] Earlier versions of this paper have been presented at the Dutch/Flemish Politicologe-netmaal in Leuven, Belgium, the 17th International Research Seminar of the Foundation for International Studies on Social Security, Sigtuna, Sweden, at a seminar of the research group Comparative Politics & Danish Politics of Aarhus University, and at a workshop at the Mannheim Centre for European Social Research. Thanks to all participants for their helpful comments. In addition, thanks to Christoffer Green-Pedersen, Anton Hemerijck, Carsten Jensen and Matthias Stepan for useful comments. We would also like to thank Neda Delfani for her help with collecting some of the data. Barbara Vis' research is supported by a Veni grant from the Netherlands Organisation for Scientific Research (NWO, grant nr. 451-08-012).

[2] The data collection was conducted between October 2009 and August 2010, using search functions on the websites: LexisNexis, the Economist, OECD, ICPSR, and Google News. LexisNexis search sources included: Major U.S. and World Publications, News Wire Services, TV and Radio Broadcast Transcripts, and Web Publications. Search terms used: "public opinion", "welfare state", "social policy", reform, change, amendment, initiative, development, economic, crisis, "credit crunch", Germany, US, USA, "United States", America, UK, "Great Britain", "United Kingdom", Sweden, Denmark, Italy, Netherlands. All results are limited to January 2008 and later.

[3] The plans announced in the Spending Review 2010 of the UK HM Treasury in October 2010 indicates that the government is responsive to the British voters on this point; with all departments facing spending cuts of about 19 per cent, health is (with overseas aid) the only area that will not be facing such drastic cutbacks (UK HM Treasury 2010).

[4] The data collection was conducted between October 2009 and August 2010, using

search functions on the websites: LexisNexis, the Economist, OECD, ICPSR, and Google News. LexisNexis search sources included: Major U.S. and World Publications, News Wire Services, TV and Radio Broadcast Transcripts, and Web Publications. Search terms used: "public opinion", "welfare state", "social policy", reform, change, amendment, initiative, development, economic, crisis, "credit crunch", Germany, US, USA, "United States", America, UK, "Great Britain", "United Kingdom", Sweden, Denmark, Italy, Netherlands. All results are limited to January 2008 and later.

[5] One reason why the level of unemployment in the Netherlands is relatively low, is the high number of so-called self-employed individuals without employees (*zelfstandigen zonder personeel*, *ZZP'ers*). Until the first quarter of 2009, the number of these ZZP'ers steadily and rapidly increased up to about 660,000. Then, the number of ZZP'ers started to decrease compared to the year before for the first time in a long time. Most of these previous ZZP'ers stopped their business because of too little work, typically due to the crisis, and disappeared from the working population (that is, they also did not appear in unemployment figures when being, actually, without work) (see CBS 2010).

[6] See note 1. Caveat: We did not include Danish or Swedish newspapers, so we need to be cautious in interpreting the data reported here, because we may very well have missed certain measures.