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Stream 7.1 Economic Crisis and Social Policy Reaction

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Abstract:

**“The Global Economic Crisis and Social Policy Reactions –
Sweden and Germany Compared”**

The recent global financial crisis is still challenging welfare policies. The aim of this paper is to compare the impact of the global crisis on two different welfare regimes and to analyse crisis policies implemented until summer 2010. While Germany is a model of the conservative (or christian democratic) welfare regime, Sweden represents the social democratic welfare regime. One ambition of this paper is to answer the question if institutional differences between both welfare regimes influence the crisis policies implemented since 2008.

The main argument of the paper is that beyond immediate crisis packages which were designed to stabilise the domestic financial systems, social policy reactions differ between both countries. In Sweden, the centre-right coalition “discovered” positive effects of the encompassing Swedish welfare state on domestic demand and employment. Furthermore, in contrast to policies implemented before the financial crisis, the government is keen to stabilise employment in welfare domains but does not directly subsidize specific industries. In contrast, the German Grand Coalition (until 2009) as well as the centre-right coalition directly subsidizes automotive industries and expanded specific labour market policies (“Kurzarbeit”) in order to dampen the increase of open unemployment. Hence, while in Sweden the bourgeois government follows the “social democratic tradition” not to block structural changes but to help the unemployed with social investment policies, the governments in Germany directly intervene into the economy in order to shelter dominant industries.

In both countries, the financial crisis strengthened the financial austerity regime. While Swedish governments have to fulfil explicit norms of fiscal policies, the German governments have to fulfil explicit consolidation measures integrated into the constitution (“Schuldenbremse”). This institutional frame imposes challenges to consolidate public budgets in the near future. While the German government will reduce taxes in order to stimulate domestic demand, the Swedish government is more cautious not to undermine fiscal solidity through reduced taxes. It is argued in the paper that the institutional frame of fiscal austerity will to a great extent determine future welfare policies. Beyond immediate crisis policies, future welfare reforms will depend on the ability of the respective governments to consolidate public budgets. Hence, “old” politics of “tax and spend” are on the political agenda again.

Related Publication:

Jochem, Sven, 2010: Comparative Crisis Management. Assessing the Policy Responses to the 2008-9 Economic Downturn. Country Report on Sweden, Bertelsmann Stiftung, Gütersloh (in press).

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