

Same Question, Similar Responses?
A Comparison of the Social and Unemployment Crisis
Response Policies in Germany, the UK, and Sweden

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Abstract

This paper seeks to understand the choices in social and unemployment policies of governments in reaction to the current economic crisis. It could be expected that, since the problems faced in each country were essentially equal, the responses would likewise be similar. However, according to the path dependence theory, we should expect different policy responses, based on different institutional legacies. We compare the short-term reactionary policies of three different welfare regime ideal types of Esping-Andersen's typology, namely, Germany, the UK, and Sweden. For our analysis, we use comparable data from various European and national data sources. Our study shows that although the problems caused by the crisis were essentially equal, the countries adopted remarkably different social and unemployment reactionary strategies. In addition, these differences can be understood by the different institutional legacies of the three countries. This provides support for the path dependence theory and Esping-Andersen's typology in particular.

Keywords

Economic crisis; social and unemployment reactionary policies; path dependence; Esping-Andersen; Germany, UK, and Sweden

Number of Words

8.304

1. Introduction

The years of 2008 and 2009 were characterised by a worldwide financial and economic turmoil. A sudden burst of the US housing market bubble led to severe solvency problems, which almost caused a full financial meltdown in a number of countries. The financial crisis quickly spread throughout Europe and began to affect the real economy by massive redundancies and bankruptcies. This severe crisis caused a need for urgent state interventions. Many governments provided credit supplies and guarantees for financial institutions, or even nationalised distressed banks. In addition, social and unemployment policies were adopted as an attempt to stimulate the economy and to respond to the sudden increase in redundancies.

Our key interest in this paper is to understand the choices that governments make with respect to reactionary policies to external shocks. More specifically, we investigate whether the response policies of European countries suggest a process of convergence, or if there is a distinct cross-national variance. In addition, in case of distinct variance, we explore if it can be explained by the welfare state regime typology thesis of path dependence. It could be argued that since the crisis was felt in every European welfare state in a reasonably comparable manner, the responses will likewise be similar. This convergence argument implies that the national crisis policies are comparable, due to similarities found in the external shocks and constraints experienced by each country. However, according to the rivaling path dependence thesis, we should expect different policy responses, based on the specific national institutional heritages and state of affairs. Using Esping-Andersen's (1990) typology, we should expect different responses in liberal, conservative, and social democratic regimes. In sum, our research question can be formed as follows.

To what extent are the social and unemployment reactionary policies to the financial and economic crisis in Germany, the UK, and Sweden path dependent as predicted by Esping-Andersen's welfare regime typology?

In order to answer this question, we compare the short-term reactionary policies between 2007 and 2009 of the best representatives of the different welfare regimes in Europe, which are Germany, the UK, and Sweden. Similarities found in the reactionary policies of these three countries would strongly support the convergence theory, whereas the path dependence thesis is supported when it appears that there are differences that can be explained by the existing national heritages. In this most-similar qualitative study, the emphasis will be placed on social and unemployment policies, as the discussion of convergence versus divergence notably took place in this policy field.

This paper deliberately focuses on the immediate crisis response strategies of three countries to a crisis. The crisis literature, especially the short-term responses, is a relatively underdeveloped theme in current welfare state research (Vis, 2009; Castles, 2010). Some authors argue that crises create windows of opportunity that can be politically 'exploited' to implement major reforms (Kingdon, 1964; Boin et al., 2009; Vis, 2009). However, it could also be expected that in such a short time horizon, countries stay close to their institutional heritage and institutional advantages. By systematically comparing the immediate responses

in 2008 and 2009 of three countries, this study aims towards a better understanding of these short-term crisis strategies.

This paper is structured as follows. Next section explains the theoretical framework of convergence, path dependence, and Esping-Andersen's theory of welfare regimes. Here we also summarise some major studies that examine the current welfare states using these frameworks. We argue that Esping-Andersen's typology, despite its downfalls, is still valid in understanding the state of affairs of our country cases before the economic crisis began. In addition, we formulate our hypotheses about what kind of social and unemployment policies we would expect in the different regimes, if these policies are path dependent. In the third section, the methodology of this paper is explained. The fourth section puts the hypotheses to the test by examining the implemented responses from Germany, the UK, and Sweden. The fifth section compares the national strategies, after which we discuss our conclusions in the final section.

2. Theoretical Framework

The Convergence – Path Dependence Debate

One of the central debates in comparative political economy is whether there are fundamental institutional variances between welfare states. There are at least two views in this discussion, which are the convergence theory and path dependence theory.

Some scholars, especially from neo-liberalist and neo-functionalist schools, claim that all welfare states are converging into a common model. Convergence can be defined as 'the tendency of policies to grow more alike, in the form of increasing similarity in structures, processes and performances' (Kerr, 1983: 3). In welfare state research, one of the most influential convergence arguments was formulated by Wilensky (1975). He argued that welfare state development, measured by the social security expenditures per GDP, converged, when a country reached a certain level of economic growth, specific demographic characteristics, and age of the social security system. A current prominent convergence argument, especially disseminated by neo-liberals, is that internationalisation and global competition weaken the freedom of action of national states. Due to the dynamic nature of private economic forces such as flows of capital and labour, governments are not capable of deviating from other countries. Hence, global competition leads to a harmonisation of regulations and taxes (McKenzie and Lee, 1991; Jessop and Sum, 2006). Neo-functionalists argue that changes in work situation and demography lead to 'new social risks' in all countries, which require similar policy responses (Taylor-Gooby, 2004; Armingeon and Bonoli, 2006). They stress that international organisations and political integration stimulate convergence, as they are inclined to reproduce international outcomes (Bennett, 1991; DiMaggio and Powell, 1991; Adelantado and Calderón, 2006). Hence, the neo-functionalist approach only states that policies will become more similar, and not whether policies are caught in a positive or a negative spiral (Starke et al., 2008: 978-979). Applying these convergence arguments to the crisis response policies, we should expect similar policy responses due to similar external problems and constraints.

The opposing second perspective asserts that there are fundamental differences between welfare states. Currently, this is the more prominent view in welfare state research (e.g. Vis, 2008: 29-46; Starke et al., 2008: 980). The path dependence theory states that countries follow different trajectories, based on their particular political legacy. This process of path dependence is due to positive feedback loops of increasing returns, implying that '[...] the *relative* benefits of the current activity compared with other possible options increase over time' (Pierson, 2000: 252, italics in original). It does not necessarily entail that change does not occur at all. Changes happen, but they are bounded: changes are likely to be incremental and within the existing framework, rather than being big institutional overhauls (Mahoney, 2000; Starke, 2006: 105-106).

A number of reasons are put forward to explain these increasing returns in welfare state development. Firstly, radical changes are difficult to accomplish and relatively expensive. This is due to the fact that many institutions contain veto-points and have high set-up costs (North, 1990; Bonoli, 2001: 238). In addition, politicians have a short time horizon (Pierson, 2000: 258-262; 2004). Secondly, existing institutional settings shape the expectations and behaviour of citizens, politicians, or pressure groups. The 'varieties of capitalism' literature (Hall and Soskice, 2001) argues that different institutional settings lead to comparative institutional advantages, which are powerful inducements to replicate existing institutions. Esping-Andersen (1990: 33; 1999) asserts that class coalitions are inclined to replicate the original institutions and their outcomes. Regardless of the specific reason behind the forces, according to these arguments, we would expect different crisis reactionary policies in countries based on differences in institutional heritages.

The National Heritages: The Three Worlds of Welfare Capitalism

In the path dependence literature, one of the most authoritative typologies of welfare states is Esping-Andersen's (1990) classification of liberal, conservative, and social democratic ideal type welfare regimes. He argues that the history of political class coalitions is the most essential cause of variations in welfare state policies. As Esping-Andersen puts it: 'the class coalitions in which the three welfare-state regime-types were founded, explain not only their past evolution but also their future prospects' (ibid: 33). Esping-Andersen focuses on social policy, in particular on sickness benefits, pensions, and unemployment benefits. He compares the national social policies by using two concepts, decommodification and stratification. The former refers to the capacity of social policy to allow citizens to live independently of market forces (ibid: 35-54). The latter concerns the influence of welfare states on the stratification of social order (ibid: 55-78). Using these two concepts, he discerns three ideal type welfare regimes.

Esping-Andersen's first welfare state type is the *liberal regime*, in which stratification is realised by market forces. The degree of decommodification is therefore low. There is only a residual social policy based on strict means tested conditions. Labour markets are deregulated and the focus on labour market activation, which are the direct stimuli by a state to encourage people to work, is weak. The US and the UK in Europe are the classic liberal examples. Secondly, he discerns the *conservative regime*, where social policy is relatively substantial, but with a strong inclination to maintain the traditional status relations. This implies a separation between 'insiders' and 'outsiders' of the labour market. The regime is

further characterised by a priority towards the male breadwinner, a weak impetus to activate the inactive (especially towards women), and a stringent regulation of the labour market. The archetypal conservative case is Germany. Lastly, the *social democratic regime* is exemplified by its generous and universal social policies, based on mild benefit conditions. There is an emphasis on activation and a strong role for the public sector to hire employees in order to attain full employment, for both men and women. Sweden is the textbook case of the social democratic regime type.

Esping-Andersen's typology has been criticised by scholars for various reasons (for overviews: Arts and Gelissen, 2002; Bambra, 2006; Scruggs and Allan, 2006). Most importantly, scholars have argued that Esping-Andersen has misclassified countries, or that there are more ideal types regimes to be discerned (e.g. Leibfried, 1992; Castles and Mitchell, 1993; Ferrera, 1996; Bonoli, 1997; Korpi and Palme, 1998). Often these scholars focus on different aspects of the welfare state (e.g. Goodin et al., 1999). In addition, some 'hybrid' countries, such as Switzerland and the Netherlands, have been classified in all three categories. Due to these classification difficulties, Arts and Gelissen (2002) conclude in their literature overview of the debate on Esping-Andersen's typology that the consensus seems to end at the classification of the classic examples of the ideal types, which are Germany, the US (and to a lesser extent, the UK), and Sweden.

Due to these classification problems, we could ask ourselves whether Esping-Andersen's theory is still valid in explaining the state of affairs when the crisis started in 2007. It could be argued that the original heritages have blurred, because of a general process of welfare state retrenchment, such as for instance Adelantado and Calderon (2006) for instance argue. Moreover, the European countries have politically and economically integrated more. Still, although pan-European integration through the open method of coordination (OMC) and welfare state retrenchment were repeatedly on the political agendas of the EU and its member states, the general consensus amongst scholars is that the changes have not been as radical as expected (Pierson, 1996; Swank, 2001; Castles, 2004). Moreover, the degree of cutbacks is dissimilar in different regimes, suggesting path dependence.

Starke (2006: 104, italics added) summarises, whilst examining existing studies on welfare retrenchment: '[...] according to most scholars, the extent of retrenchment possible depends on the specific institutional configuration of a political system and the *path dependence* of existing welfare state structures'. A similar conclusion is made by Pollitt and Bouckaert (2004: 33-64), investigating public management reforms across Europe. According to them, there are different trajectories in welfare state reform, depending on the national institutional context. The different trajectories that they observe, with 'new public management marketizers', such as the UK, 'maintainers' including Germany, and 'modernizers' with Sweden (ibid: 98-99), strongly overlap with Esping-Andersen's typology. Likewise, Vis (2007; 2008: 36), scrutinising social policy development in OECD-countries between 1985 and 2002, concludes that '[...] adopting the "classic" three-fold classification makes sense'. Thus, it can be argued that Esping-Andersen's framework can still be used to describe the institutional heritages of at least the classic examples of Germany, the UK, and Sweden, before the crisis started.

Hypotheses of Crisis Response Strategies

The next important issue is our expectation of the effects of the crisis onto the welfare state development. The crisis literature is a relatively underdeveloped theme in welfare state research. This especially holds for immediate crisis response strategies. A number of scholars have investigated the longer-term effects of crises on welfare state development. A strand of this literature argues that crisis situations create windows of opportunity (Kingdon, 1964; Baumgartner and Jones, 1993) that can be used by political entities to implement their body of thought (Boin et al., 2009; see also Rodrik, 1996). Vis (2009), using a longer time span, for example claims that deteriorating socio-economic situations are a necessary condition for unpopular welfare reforms. This would imply that a crisis presents possibilities to go off the rails of path dependence, leading to radical or ‘unbounded’ changes. Yet, it could also be expected that countries stay close to their institutional heritage in their short-term policy answers, as there is a lack of time to develop more radical policies. We depart from this path dependence theory from which we derive the following hypotheses.

Examining the three ideal types of welfare state regime typologies, namely Germany, the UK, and Sweden, we expect distinctive differences in their short-term social and unemployment policies in response to the current financial and economic crisis. In addition, these distinctions can be explained by the existing theory of welfare state regime typology of Esping-Andersen. More specifically, we expect that Germany has adopted a conservative strategy, with a strong inclination to maintain traditional status relations. This implies that its main focus was to keep insiders within their jobs to preserve their industrial and firm-specific skills, combined with a low emphasis on activation. In the UK, we expect a liberal *laissez-faire* crisis response strategy, characterised by reliance on market forces with only residual social policies. Our final expectation is that Sweden has adopted a social democratic strategy, with a combination of striving towards full employment whilst protecting welfare with universal and generous social benefits.

3. Methods and Data Sources

Before we turn to the empirical analysis, we need to explain our methods and data sources. We use a qualitative design, which lends itself for the in-depth investigation of institutional heritages and ideas behind policies. As we do not have a direct control over the dependent or independent variables, we select our cases strategically to ensure validity. We opt for a most-similar systems design, in which the cases only differ with respect to one variable, which is their national institutional heritage. A disadvantage of strategically selecting cases is the lack of generalisability, because the sample of three cases is not likely to be representative for all crisis policies of capitalist welfare states.

To improve comparability, we focus on European countries. Based on Esping-Andersen’s framework, we compare the three classic examples of Germany, the UK, and Sweden. These three countries differ maximally in their institutional heritages, which is the core independent variable of this study. This makes the countries three critical cases. It would strongly support the convergence theory when the policies of the three different countries are

largely similar. Moreover, the countries share a number of important extraneous variables, which allows us to apply the most-similar systems design. Firstly, the countries have been struck by the crisis in a roughly comparable manner, which is evident from comparable GDP decline rates and unemployment impacts. This aspect will be explained in more detail in the next section. Secondly, all countries are EU member states, and all implement EMU policies, although Germany is the only one adopting the euro as its currency. The countries differ in one – perhaps important – variable besides their institutional legacy, which is the affiliation of the government. During the crisis, Germany and Sweden were governed by a centre right cabinet, whilst the centre left Labour Party was in office in the UK. Unfortunately, there were no alternatives to the UK and Sweden as a liberal regime and respectively social democratic regime which satisfied the other requirements. This makes the UK and Sweden two critical cases for the path dependence theory. If the crisis policies of the UK, with a leftist inclination in office, still have liberal characteristics, it provides evidence that the existing trajectory strongly influences the policy choices, which is what the path dependence theory implies. The same holds for Sweden, with a rightist inclination but a social democratic institutional heritage. A last other extraneous variable that differs in our three country cases is differences in their economical compositions. In our discussion section, we try to deal with this issue.

A second methodological consideration is the type of policies under consideration. Although we also investigate general economic and financial policies to provide general background information on how the crisis has been managed in each country, we concentrate on social and unemployment policies. We choose for these policies, as the discussion of convergence versus divergence notably took place in this policy field (Vis, 2008: 49). Concerning the choice of data, we rely on comparable data from various European data sources, such as European Industrial Relations Observatory (EIRO) and the European Commission's (EC) joint employment reports, but we also examine various documents from supplementary national sources.

4. The Crisis and Response Strategies

After years of relatively stable economic development, the crisis caused a severe and sudden decline in GDP in all European states. The crisis struck in a roughly similar fashion in Germany, the UK, and Sweden. In 2007, the real GDP growth rates in the three countries were approximately 2% (see Figure 1). This reversed to an average decline of approximately 5% in 2009. Despite the fact that the speed at which this decline took place differs across countries, the impact of the financial and economic crisis seems to be in economic terms comparable at a macro level.

Figure 1: Real GDP Growth Rate for European Countries and the US (Source: EUROSTAT)

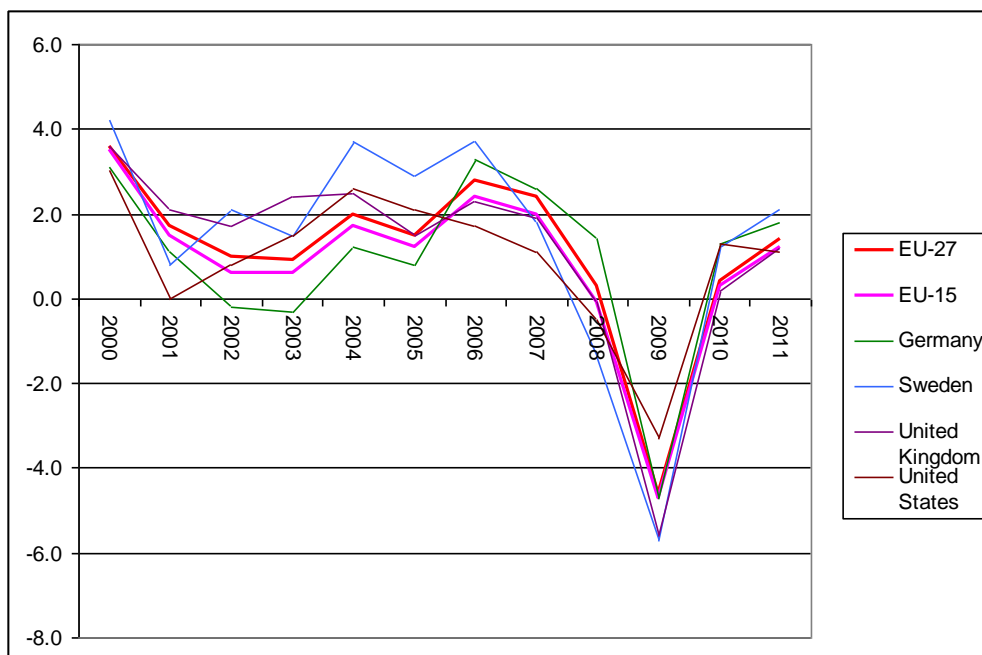
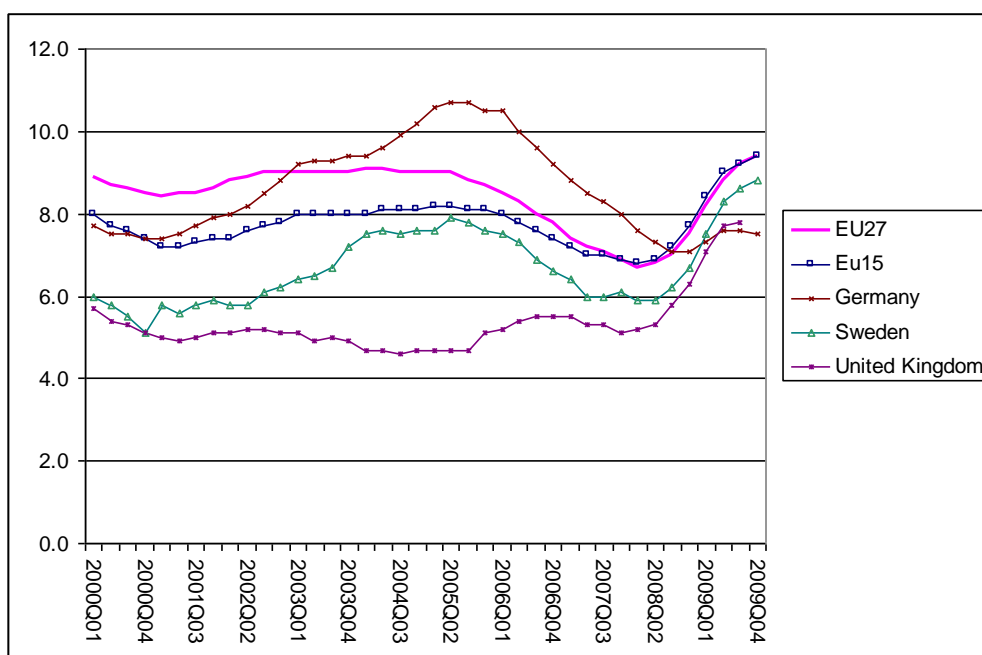


Figure 2: Unemployment Rate per Quarter (Source: EUROSTAT)



The unemployment rate shows a similar course, as is evident from Figure 2. The unemployment rate was rather different until the first quarter of 2006, but it shows a converging pattern around the second quarter of 2008. In the third quarter of 2008, we can see an increase of unemployment in all countries, which continues until the fourth quarter of 2009, the most recent data available.

Although there are differences in the degree to which unemployment rose in each country (see e.g. Eichhorst, 2010), it is clear that in all countries unemployment rose quickly and was

addressed as an urgent problem. One thing to note is that the unemployment rate in Germany did not rise as much as in other countries. However, this can be attributed to their adopted response policies, which focused on keeping people inside their jobs. We will come back to this point later.

As we can see from the two most important indicators to measure the impact of the financial and economic crisis, it seems likely that the financial and economic crisis caused severe and sudden problems in the economies of Germany, the UK, and Sweden. We now turn to the national reactionary policies.

Conservative Considerations – The Case of Germany

Germany was in a relatively favourable position when the crisis started. The unemployment dropped to a historical minimum between 2005 and 2009, when the ‘grand coalition’ of the CDU/CSU (Christian Democrats) and SPD (Social Democrats) was in office (EC, 2009: 4). Despite this favourable starting position, Germany was severely affected by the collapse in worldwide demand as a consequence of its reliance on exports. Its financial sector was affected by the crisis first. The first policy implemented by the administration was the Financial Market Stabilisation Act in October 2008, which consisted of financial guarantees and risk transfers of € 480 billion (EC, 2009: 11).

When it was apparent that the automatic stabilisers were not strong enough to counter the effects of the financial crisis on the real economy, the grand coalition and their successors in September 2009, the centre right cabinet of CDU/CSU and FDP (the Liberals), turned to a more active strategy. The most important implemented reactionary policies were the ‘Package of Measures to Reduce Tax Burdens, Stabilise Social Insurance Contributions and Invest in Families’, of October 2008, and two economic stimulus packages. The first package, ‘Securing Jobs by Strengthening Growth’, stimulated the economy with € 31 billion (EC, 2009: 22-23). Its main goal was to support the viability of the financial sector (*Kreditanstalt für Wiederaufbau*), but it also consisted of Keynesian investments in long-term public goods and support to the manufacturing industry. The second stimulus package, the ‘Pact for Employment and Stability in Germany’ of circa € 50 billion intended to relieve the tax burden, recuperate consumer demands, and to stimulate investments (EC, 2009: 23-24).

The main German strategy in social and unemployment measures was to keep insiders within their jobs to preserve their skills by active state interventions. A number of measures were adopted to achieve this strategy. Firstly, a tripartite agreement on short-term unemployment was made to prevent massive redundancies (ILO, 2009). This agreement entailed that in case of temporary shortage of orders, employers could lower labour costs by reducing both working time and wages of employees. The short-time work allowances consisted of replacement rates of 60% for employees, and 67% for employees with children. The employees received safeguard of employment in return, occasionally supplemented with extra training. The Federal Employment Agency reimbursed the costs of the employers (EIRO, 2009b; 2009c; 2009d; 2009e). The drawing period for this short-time work was extended to eighteen months. It has been estimated that 17% of all establishments in 2009 applied for short-time allowances (EIRO, 2009f; Federal Ministry of Economics and Technology, 2010). As a result of this extensive use of short-term unemployment, the overall unemployment did not rise as significantly as in other countries in Europe (see Figure 2

earlier). This short-time work measure especially helped to preserve jobs in the important manufacturing industry (Eichhorst et al., 2010).

A second measure that provided relief to insiders contained of an extension of the phased early retirement scheme for older employees (EC, 2009: 24). This scheme aimed at a gradual transition of employees over 55 by retained or new trainees, subsidised by the state. The Federal Government bore the additional expenses when an employee over 55 cut his working time in half, and the employer still paid the employee 70% of the payment and contributes to his pension (EIRO, 2009g). Thirdly, Germany eased the burden of employers and employees by lowering their social and health insurance contributions.

Germany also agreed on a number of complementary policies. In order to stimulate activation, the government invested in training on-the-job and job-to-job placements. In addition, the tax rate of the first bracket was lowered as an attempt to reduce the unemployment trap (EC, 2009: 22-23). Lastly, it adopted a number of family policies as part of the packages. The universal child benefit and tax-free child allowance were raised marginally (German Federal Ministry of Economics and Technology, 2008; EC, 2009: 23-24).

Liberal Legislation – The Case of the United Kingdom

The United Kingdom (UK) was one of the first European countries that were heavily hit by the global crisis. Its strong ties with the financial sector in the US and its decade-old housing market bubble made the UK vulnerable to financial shocks (Hodson and Mabbett, 2009: 1041). Barclays Bank received two financial injections and mortgage lender Northern Rock was nationalised. The financial sector was further supported by a bailout package of £500 billion (€ 575 billion) of liquidity support, government guarantees of bank issuances, and the purchase of (toxic) bank equities. In responding to the negative effects of the financial crisis on the real economy, the Labour government implemented a number of policies. Most of these measures, for an amount of roughly £20 billion (€ 23 billion), were announced in the Pre-Budget Report 2008 (UK HM Treasury, 2008). Supplementing measures were taken in the Budget Report 2009 (UK HM Treasury, 2009). Many of these measures aimed to stimulate the economy, by means of Keynesian investments in infrastructure, support to the manufacturing industry and the severely afflicted housing market, and by temporary tax relief for businesses or consumers. Most notably, the value added tax (VAT) on consumer expenditure was temporarily cut from 17.5% to 15.0% for thirteen months.

Although the British government was an active crisis manager in the financial sector, it chose for a highly laissez-faire strategy in social and unemployment crisis policies. It was quite unwilling to improve even temporarily its already low supportive unemployment policies (Clegg, 2010: 5). The outcome of this laissez-faire approach was as could be expected in times of turmoil. Collective agreements by the social partners were marked by reducing working hours and payments to save jobs (EIRO, 2009i). In 2009, the median pay settlement had dropped to 1% (IDS, 2009; EIRO, 2009j). Opt out clauses, including the lowering of working hours and reducing the number of part-time workers, have also been reopened (EIRO, 2010). Moreover, pensions have been cut in stricken industries (EIRO, 2009j)

Almost all implemented crisis policies that the British government did implement were active labour market measures. Most importantly, employers received £2,500 (€ 2,900) when recruiting a long-term unemployed person (UK HM Treasury, 2009a: 95). Next to this demand-driven stimulus, activation was encouraged through increasing of allowances in income tax, except for high income groups (UK HM Government, 2008). The administration also raised its funding for programmes designed to get the unemployed back to work. A total amount of £3 billion (€ 3.4 billion) was invested in initiatives such as ‘Jobcentre Plus’, ‘Train to Gain’, and ‘Local Employment Partnerships’. Additionally, it mediated for apprenticeships tendered by private parties, and tried to enhance training possibilities for unemployed people (UK HM Government, 2009; EIRO, 2009h).

The only passive labour market programme that was announced was an increase in the statutory redundancy benefit from £350 to £380 (to € 440) per week (UK HM Government, 2009). The UK proved to be relatively reluctant in adopting social policies as well. It implemented marginal non-recurring bonuses for pensioners of £60 (€ 69) and for families with children £22 (€ 25), and a temporary increase of the child allowance (UK HM Treasury, 2008: 6-7). The government also spoke of cuts in spending to ensure financial and economic stability for 2011, provided there are signs of economic recovery (see UK HM Treasury, 2008; 2009). However due to our time frame and the fact that the government has changed, we will not deal with those policies.

Social Democratic Strategies – The Case of Sweden

Sweden was, just like Germany, faring relatively well before the crisis started. At the beginning of 2008, the country even had a budget surplus and a shortage of skilled labour. For this reason, the centre-right four party coalition was relatively late in adopting social and employment crisis policies. In the Spring Fiscal Policy Bill of 15 April 2008, the government still spoke of a ‘somewhat darkened’ forecast of the future, and expected an average GDP growth of 2.3% (Swedish Ministry of Finance, 2008a). However, it soon became apparent that the export-driven economy of Sweden suffered hard from the crisis. The initial point of interest was the viability of the financial sector and the real economy (e.g. Swedish Ministry of Finance, 2008b). The Swedish Central Bank supported the long-term credits with a loan facility of SEK 60 billion (€ 6.3 billion; Riksbank, 2008). Keynesian investments were implemented in education, infrastructure, and research and development (see e.g. Swedish Ministry of Finance, 2008c). Moreover, the corporate tax rate was lowered from 28 % to 26.3 %.

Sweden was also relatively active in adopting social and unemployment policies, compared to our other country cases. In total, the state has adopted crisis policies of SEK 45 billion in 2009 and 60 billion in 2010 (€ 4.7 and € 6.3 billion; Swedish Ministry of Finance, 2009a). Its strategy consisted of a combination of striving towards full employment, whilst at the same time protecting welfare and cushioning temporary unemployment (Swedish Prime Minister’s Office, 2008: 1).

The centre-right coalition adopted many activation programmes (the ‘work-first principle’). To encourage work and working more hours, the government has reduced a number of taxes. The in-work tax credit (*jobbskatteavdrag*) has been reduced, whilst the income tax deduction for income earners has been raised. The lower threshold for state

income tax has also been raised, to increase the personal allowance. Combined, these measures entailed a tax reduction of over SEK 1,000 per month (€ 105) for 97% of the full-time employees (Swedish Ministry of Finance, 2008c). In addition, to strengthen incentives to hire new workers, the coalition reduced the employment tax by half for hiring long-term unemployed persons. In the crisis package announced in December 2008, the administration also focused on creating jobs and education possibilities. To this end, the student grant for people over 25 has been profoundly increased to 80% of the total study allowance (EIRO, 2009k), and more is spent on different employment programmes. One of these programmes, *Lyft* ('boost'), consisted of 40,000 places for temporary work in (semi-) public sectors (Swedish Ministry of Finance, 2009b; EIRO, 2009l).

Next to the encouragement of work, the government has tried to cushion temporary unemployment by means of expanding its already rather generous passive labour market programmes. There have also been changes in the unemployment benefit schemes. The conditions to receive unemployment benefits have been relaxed by reducing the qualifying period, and the requirement of a work history to join the benefit funds (Swedish Ministry of Finance, 2008c; EIRO2008b). To ensure that these welfare programmes could be financed, municipalities received increasing grants of SEK 5 billion per year (€ 520 million), and a supplementary SEK 7 billion (€ 730 million) in 2010 (Swedish Ministry of Finance, 2008c). Sweden also protected the welfare of employers and employees, pensioners, and young people. It provided relief for employers and employees by lowering social security, payroll tax, and unemployment contributions (EIRO, 2008b). Both of these contributions were reduced even more for young employees, of which relatively many are unemployed in Sweden (Swedish Ministry of Finance, 2008c; EIRO, 2008b). Additionally, to decrease social exclusion, taxes for pensioners with marginal income-based pensions have been reduced, which almost affected 90% of the country's pensioners (Swedish Ministry of Finance, 2008c).

Although Sweden actively tried to stimulate employment whilst protecting personal welfare, it did not directly intervene in the labour market relations, like Germany did to protect jobs and salaries. The negotiations concerning jobs and terms of employment in Sweden are bipartite and often sectoral (Van Ruysseveldt and Visser, 1996). In these negotiations between social partners, historical agreements have been made in 2008 and 2009. Officially, comprehensive temporary layoffs were not an available instrument to decrease the number of employees. However, to avoid massive redundancies, the social partners have agreed upon local temporary dismissals in many sectors (EIRO, 2009n; 2009o; 2009p). In the manufacturing industry for instance, an agreement has been reached in 2009 that salaries and working hours can be cut in case of few orders, in exchange for no or less layoffs, sometimes complemented with training possibilities for employees (EIRO, 2009m). Additionally, local settlements have been made on cuts in holiday allowances, bonuses, and wage freeze.

5. Comparison of the Crisis Response Strategies

Germany's social and unemployment policy strategy show conservative characteristics, as its strategy has a profound inclination to maintain traditional status relations. In general, the adopted policies were designed to keep insiders within the labour market to preserve their skills by active state interventions. Its main answer to the crisis was a strong increase in short-time unemployment, subsidised by the state, to actively ensure that insiders stayed within their specific jobs. This maintenance of jobs and firm- or sectoral-specific skills plays a crucial role in Germany to keep their competitive advantages (e.g. Hall & Soskice, 2001) to sustain the corporatist model. Germany also implemented a phased early retirement scheme for older employees, subsidised by the state. This scheme was designed to make space for new people, without insiders bearing the costs. Furthermore, the implemented tax cuts are typically conservative. The cuttings in health insurance and social benefit contributions also provided relief for the insiders, which are the employers and employees. The only active labour market programmes were training policies which again mostly benefit the insiders.

The social and unemployment reactionary policies of the UK are largely typified by passively relying on market forces, with a low degree of decommodification and residual social policies. This characteristic can also explain the reactionary policies adopted. The UK government was quite unwilling to improve even temporarily its already low supportive unemployment policies (Clegg, 2010: 5), which led to involvement at the company level in reduce working hours and wages, but also to redundancies. The only passive labour market programme was a modest increase in statutory redundancy benefit and providing marginal non-recurrent bonuses targeted to pensioners and families with children. Almost all policies the UK government did implement can be characterised as active labour market measures, such as a demand-driven stimulus for employers to hire people. This low degree of decommodification and activation with only residual policies can be considered typically liberal.

The Swedish reaction is exemplified by its strong emphasis on activation, combined with the cushioning of the consequences of unemployment and providing decent living to their citizens. Hence, these reactionary policies show a social democratic character. This can be described as a flexicurity approach, in which flexible labour markets without public interference are combined with income security to protect workers from loss of jobs and income (Wilthagen & Tros, 2004). Sweden stimulated activation by cutting income and employment taxes, and by actively creating places for temporary work in the (semi-) public sector to keep a skilled workforce. It has expanded its already rather generous passive labour market programmes and universal social policies, for insiders as well as for outsiders. Whilst the Swedish government was very active in protecting welfare and stimulating activation, it did not so much directly protect jobs and salaries of employees. Therefore, cuttings in jobs, working hours, and wages have occurred frequently through bipartite sectoral agreements.

Table 1: Overview of National Social and Unemployment Policies

	Germany	United Kingdom	Sweden
Family policies	Increased child benefit, child allowance, child bonus	Marginal non-recursive child bonus and child allowance	
Employment policies: unemployment benefits	Social security contributions lowered		Social security contributions lowered Especially for young people
Employment policies: activation programmes	Tax rate first bracket lowered State investments in training-on-the-job, job-to-job placements	Allowances in personal income tax increased, except for high incomes State investments in mediating for jobs Training possibilities for unemployed, esp. young persons Bonus of £2,500 for employers when recruiting long-term unemployed	First threshold income tax raised In-work tax credit lowered Income tax deduction raised Places created for temporary work in (semi-) public sectors Student grant people over 25 increased Employer tax for hiring long-term unemployed decreased
Employment policies: passive programmes	Reimbursement and extension of drawing period for short-time work income (60% of wages, 67% for employees with children). State reimburses expenses of employers	Marginal increase in statutory redundancy benefit	Qualifying period reduced, no more work history required
Social policies: payroll taxes, health and sickness insurances	Health insurance contributions lowered		Payroll tax contributions lowered Especially for young people
Social policies: pensions	Partial retirement scheme for older employees, additional expenses paid by state	Marginal non-recursive pension bonus	Tax rate of pensioners lowered

6. Conclusions and Discussion

This study examines the social and unemployment reactionary policy strategies of Germany, UK, and Sweden, to the current financial and economic crisis. Our main purpose is to examine if countries converge in their reactionary policies, or whether we can distinguish response strategies based on their historical legacies. Our comparison shows that the financial and economic crisis has presented sudden and severe problems to the economies of Germany, the UK, and Sweden. On a macro level, the crisis caused comparable problems to our three country cases, which is evident from the roughly similar patterns of GDP decline and rising numbers of unemployment. Even some of the responses of the countries are comparable. All three countries initially focused on financial viability and all have made Keynesian investments to counter the recession.

Yet, if we compare the strategies of the three countries in social and unemployment policies, we can see crucial differences, and these differences can be largely understood by the different institutional legacies of the three countries as argued by Esping-Andersen (1990). Germany's strategy shows conservative characteristics by maintaining the traditional status relations, as well as focusing on maintaining the key skilled workforce by keeping them into their jobs. The UK, however, chose to rely on market forces whilst providing residual policies. Sweden on the other hand, focused on protecting their workforce both by strong activation measures combined with generous passive labour market schemes, which can be typified as a flexicurity approach (Wilthagen & Tros, 2004). This implies that the social and unemployment reactionary policy strategies of the three countries can largely be understood by the existing national heritages as put forward by Esping-Anderson's (1990) welfare regime typology. This indicates that adopting the threefold typology still can make sense in understanding welfare state variations.

As the adopted national strategies can largely be explained by their existing policy past, this study finds support for the path dependence theory. This implies that the existing political legacy of a country strongly influences the type of reactionary policies that will be adopted. Apparently, to use the words of Mahoney (2000), policy changes happen, but they are bounded: incremental and within the existing institutional framework. This result is even stronger when we consider the fact that the centre-right cabinet of Sweden used a social democratic strategy, whilst the Labour Party in the UK largely relied on liberal rationales. Still, it is difficult to assess whether the policy responses would be the same when other political affiliations would be in office. Although the UK's response was essentially based on a laissez-faire approach, it has intervened in market forces, for instance by fiscally stimulating employers to hire long-term employees. Perhaps we can see here the leftist inclination, but it could also be due to the fact that the UK is less of a classic liberal example than for instance the US (Esping-Andersen, 1990; Vis, 2008). In order to assess the influence of the political persuasion, more countries need to be compared.

In addition to gaining more understanding of processes of welfare development, this study contributes to our knowledge of immediate crisis response strategies. Our study showed that our country cases stay close to their institutional core in the first 'fire fighting' phase of

crisis management. Whether this crisis will be used to implement major reforms in a later stadium remains to be seen and investigated.

There are also limitations to this study. It should be noted here that because of the strategic most-similar systems design case study with non-representative cases, the generalisability of the study is relatively marginal. We have compared the archetypal European examples of the different regimes, whereas other scholars have noted that other countries are more difficult to classify using Esping-Andersen's framework (Arts and Gelissen, 2002). It would be very interesting to extend this study and look at the crisis response policies of more countries, including more ambiguous cases. A second downside of the most-similar systems design is the problem to control for possible extraneous variables. The countries roughly share a number of important characteristics, including their geography, their membership of the EU, and the consequences of the financial and economic crisis. Other characteristics differ, for instance differences in the economical composition of the three countries. Although there are industrial differences, for instance the importance of the German manufacturing industry or the financial sector of the UK, on macro level, the consequences in GDP decline and unemployment presented comparable problems to these three nations and their social and unemployment policies. In addition, industrial differences do not seem to explain the dissimilarities we find in the immediate crisis response strategies of social and unemployment policies as well as the path dependence theory of institutional heritage does.

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