

The Welfare State as Crisis Manager?
Comparing Social Policy Responses to Three Major Economic Crises

by

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Abstract: This paper aims to describe and explain different welfare state responses to three major economic crises: the Oil Shocks of the 1970s, the worldwide recession of the 1990s and the current Financial Crisis. Policy developments in three small open economies – Sweden, the Netherlands and Australia – are compared in order to show why the welfare state is sometimes actively used as a crisis manager in the aftermath of a crisis while, at other times, it is mainly seen as a fiscal burden. We develop a typology of policy responses to crisis and assess three working hypotheses. Through process tracing and systematic comparison we find, *first*, that political parties shape crisis responses (albeit mediated by political institutions); *second*, that the size of the existing welfare state affects policy responses and, *third*, that crises do not lead to policy innovation in a way that could be expected against the background of the historical institutionalist and ideational literature on policy change.

‘International economic crises are to countries what reagents are to compounds in chemistry: they provoke changes that reveal the connections between particularities and the general. If the comparativist can find countries subject to the same stresses, it then becomes possible to see how countries differ or converge and thereby to learn something about cause and effect’

Peter Gourevitch: *Politics in Hard Times* (1986: 221).

Welfare States and Economic Crisis

As the world is, once again, shaken by an economic and financial crisis, the state appears to be back in fashion. Indeed, in areas such as financial regulation and fiscal policy, the current crisis has clearly led to a ‘government reinvention’ (Datz, 2009). When the international banking system crumbled in 2008 and OECD economies came to a halt, voters turned to the state for determined ‘crisis management’. National and international actors reacted by various means, including banking nationalization, support programmes for domestic enterprises and attempts to reform global business regulation. The role of the *welfare* state in this story is much less clear, though. Is social policy an essential part of the strategy of ‘crisis management’ in OECD countries? Or has the system of social protection itself come under strain? Currently, OECD welfare states seem to be caught in a tension that is succinctly captured in an editorial to a recent special issue on the financial crisis:

‘The crisis has boosted social security’s status, not least in fashioning its role as a social buffer and economic stabilizer. But the crisis has also underlined that increased social spending on benefits, especially when this accompanies reduced income from contributions and investments, has reduced the latitude for maintaining, indeed increasing, levels of social spending required in the future’ (McKinnon, 2010: 2-3).

How do governments resolve this tension? As the dust from the recent crisis slowly settles, we observe a diversity of policy responses across countries. What are the causes of this diversity? Why is the welfare state sometimes used as crisis manager, while it has been subject to retrenchment in other crisis episodes? While, generally, the role of economic crisis as a trigger of social policy change is relatively well established in the literature (Keeler 1993; Starke 2008; Vis and van Kersbergen 2007), we do not know why responses to international economic shocks differ across countries and time periods. This paper attempts to shed light on these questions by analyzing social policy reactions to three consecutive economic crises in three small open OECD economies, namely Australia, Sweden, and the Netherlands.¹

We consider major economic crises, that is, instances of economic recession that affect all or almost all major economies to a considerable extent. In order to qualify for a genuine crisis, the recession must be deep and unexpected enough to shake the existing policy arrangements. Crises ‘put the system under stress’ and do so in a way that goes beyond certain industries – unlike in 2000, when the dotcom bubble burst – or certain countries – unlike the 1997 Asian Financial Crisis. Within the ‘core OECD-world’, there were three instances of major economic crisis in the last 50 years or so: The Oil Shocks of the 1970s, the worldwide recession of the early 1990s (between 1990 and 1993, depending on the country), and the

¹ This paper is part of a larger book project also including Belgium.

current financial crisis, sometimes called the ‘Great Recession’, that started in 2008. It is, however, usually much easier to define the start of a crisis than its end, because the negative effects, especially in the labour market and in public finances set in much later and last much longer than the drop in GDP. The same goes for the policy reactions to a crisis.

The variety of crisis responses is systematically mapped according to four different categories as summarised in Table 1. On the one extreme, the welfare state is explicitly used as crisis manager through an *expansion of existing schemes*, for instance, in an attempt to boost aggregate demand in a Keynesian fashion. In addition, crisis management can involve policy *innovation*. It is often argued (e.g. Bates and Krueger, 1993; Keeler, 1993; Weyland, 1998), that crises create windows of opportunity for large-scale change and path departures. If this is the case, crisis response policies should contain innovative elements which aim at new risks and problems created by the crisis. In contrast to these expansionary responses, welfare states are sometimes considered mainly as a fiscal burden in the aftermath of a crisis. *Retrenchment* is the logical consequence (Pierson, 1994; Starke, 2008). In between these two extremes there is the option of *non-reaction*, implying that social policies remain unchanged in the face of economic crisis. The reason for non-action is not necessarily incapacity to act. Governments may also be satisfied with the way in which the system of social protection deals with the problems connected to the economic shock. To make matters more complicated, governments may move from one policy strategy from another – witness the current debate about the right ‘exit strategy’ from fiscal stimulus measures and about the need for fiscal austerity policies.

Table 1: Typology of Welfare State Responses to Economic Crisis

	The welfare state as:		
	Crisis manager		Fiscal burden
Social policy instruments:	Expansion of existing schemes	Non-reaction	Retrenchment
	Innovation		

Source: own depiction.

In addition to mapping crisis responses, the main aim of this paper is to understand *why* we see different reactions. We consider a number of common approaches from the literature, namely functionalist, conflict, institutionalist and ideational accounts.

The problem with simple *functionalist* accounts is that they would expect a rather uniform policy pattern in response to the same external shock. As will be shown in detail below, however, this is not what we can observe. In fact, there is a great variety of responses, both across countries and across time (i.e. crisis episodes). Hence, it appears more fruitful to look at political-institutional explanations of crisis policies, many of which can be derived from mainstream theories of comparative welfare state research and comparative politics.

Conflict theories, for example, posit that the balance of power between different groups and their organizations explains differences in policy. Some authors have emphasized the influence of various societal groups, for example, producer groups such as agriculture and particular industries as well as specific interest group coalitions or ‘emergency coalitions’, on crisis responses (Gourevitch, 1986). It is perhaps even more straightforward to look at the partisan complexion of government. Partisan theories have been very successful in explaining the development of the welfare state and, to some extent, its reform and transformation. The partisan balance of power may therefore also influence the kind of social policy response to

crisis (Huber and Stephens, 2001; Starke, 2008). Partisan theories would expect social democrats to be more sympathetic towards active crisis management either through deficit-financed stimulus packages and an expansion of social programmes or by setting up new schemes. Conservative and market-liberal governments should be much less inclined to actively use the welfare state, out of fear to end up with a larger welfare state after the crisis. Rather than expand social policy, they should be more likely to cut back large welfare programmes that eat up resources during hard times or, at least, to revert to non-reaction. Hence our hypothesis 1:

H(1): Left-wing governments tend to use the welfare state as crisis manager while for right-wing governments, retrenchment is a priority.

Institutionalism is a broad church and many different hypotheses can be grouped under this heading. At the most general level, they claim that a country's response to crisis does not (only) depend on the characteristics of the crisis or actors' preferences, but on the opportunities available to central actors and limitations set by institutions. A straightforward institutionalist hypothesis is the idea that the extent of a crisis response depends on the number of veto points or veto players (Immergut, 1992; Tsebelis, 2002). In this sense, characteristics of the political system interact with the distribution of preferences to produce distinct crisis responses.

In addition, we are interested in a somewhat different institutionalist view of the issue. Existing policies and welfare state institutions may also shape crisis responses. Institutions and policies define the 'toolbox' policymakers have at their disposal. During recessions, existing schemes can act as automatic fiscal stabilizers of domestic demand (Darby and Melitz, 2008). This means that in countries where the classic automatic stabilizers, such as unemployment insurance schemes, are small, there is probably a greater need for fiscal expansion through temporary stimulus programmes. Those less developed welfare states are also likely to have certain 'gaps' in social protection which should become much more visible during times of economic stress. This may cause political demand to close these gaps. Conversely, countries with large welfare states in place can rely more on automatic fiscal stabilization but should also be under a greater pressure to downsize – especially if the crisis is persistent – since social expenditure tends to grow sharply during recessions.² Eventually, these processes may even lead to policy convergence (Holzinger and Knill, 2005; Starke et al., 2008). Therefore, a first institutionalist hypotheses can be formulated as follows:

H(2): The less developed a welfare state, the more likely is active crisis management (expansion and innovation) and the less likely is retrenchment.

In historical institutionalism, crises are often thought of as 'critical junctures'. For instance, Gourevitch, in his study of three major crisis episodes – the last quarter of the 19th century, the Great Depression, and the 1970s – states that '[c]ritical realignments occur during crises, not only in the electoral arena but in the terms of trade among various economic actors' (1986: 32-33).³ The theoretical literature in political science has in the years since Gourevitch's book refined this general idea and combined it with the study of path dependency (Mahoney, 2000; Pierson, 2004). While during normal times, for various reasons, many policies and institutions tend to follow path dependent trajectories, these trajectories can be punctuated through external shocks and during times of general crisis. This, then, is called a critical juncture, described by Capoccia and Kelemen as

² Castles makes a similar argument but links it to the concept of welfare regimes (Castles, 2010).

³ In a similar manner, Mark Blyth studies the 'Great Transformations' of the 1930s and 1970s (Blyth, 2002).

'a situation in which the structural (that is, economic, cultural, ideological, organizational) influences on political action are significantly relaxed for a relatively short period, with two main consequences: the range of plausible choices open to powerful political actors expands substantially and the consequences of their decisions for the outcome of interest are potentially much more momentous. Contingency, in other words, becomes paramount' (Capoccia and Kelemen, 2007: 343).

The institutionalist notion of 'critical juncture' can be combined with *ideational* theories focusing on the dominant policy paradigms and discourses that shape policies. Ideas may be situated at both the country-level and the transnational level.⁴ Particularly in times of crisis with their inherent ambiguity and uncertainty, ideas, as well as policy transfer and diffusion are expected to matter (Weyland, 2006; 2008). We therefore include a global social policy perspective (Deacon, 2007; Yeates, 2008) in the analysis, looking at potential policy learning (Stone, 2000), transfer (Dolowitz, 1998; Dolowitz and Marsh, 2000) or diffusion (Simmons et al., 2007) between countries as well as from international organisations, such as the EU, the ILO, and the OECD.

The notion of a 'critical juncture' also has implications for the institutional stickiness of welfare regimes. Departure from extant institutional patterns, often shaped by welfare regime type (Esping-Andersen, 1990), should be more likely during crises. Welfare state should borrow more easily from others and, if they actively use the welfare state as crisis manager, should introduce innovative policy solutions 'off the path'. Almost by definition, crises break up existing routines and world views and the 'logic of appropriateness' undergoes change.⁵ There are numerous examples of such crisis-induced ideational shifts:

When shocks, crises, and other disturbances create policy problems for which prevailing paradigms provide little guidance, policy makers search for new ones that help them envision new policy solutions, especially if they believe that there is evidence that the new one will work (Campbell, 2002).

This combination of the institutionalist notions of path dependency and critical juncture and the ideational theory of policy transfer yields our third hypothesis:

H(3): Crises are "critical junctures". Therefore the existing structure of the welfare state should only weakly influence a country's crisis reaction. We should rather see policy innovation and policy transfer.

Note that, in contrast to the first two hypotheses, H(3) does not refer to the difference between countries so much as to before-after differences. We should expect 'jumps' in policy trajectories and clear policy innovation.

We have chosen three small open economies for analysis. In the past, small OECD countries have proved highly adaptable to new developments and were often pioneers of social policy and models to be emulated by other, often larger, countries (Katzenstein, 1985; Schwartz, 1994). Due to the lack of a large domestic market, small states are extremely vulnerable to shifts in world markets and worldwide economic downturns. Any crisis management, including that by social policy means, should be clearly observable and

⁴ International organisations frequently react to this need for expertise in times of economic crisis by releasing thematic reports and recommendations (ILO, 2009a; 2009b; OECD, 1981; 2009b).

⁵ This is stressed, for instance, by Peter Hall who describes the transition from Keynesianism to Monetarism in Britain in the 1970s as a 'paradigm change' (Hall, 1993).

significant. Accordingly, they are ‘most-likely cases’ for policy change (Obinger et al., 2010). Equally important is that Australia, Sweden and the Netherlands were selected to represent variation in two variables of interest: welfare regimes (Esping-Andersen, 1990)⁶ and political systems (e.g. Lijphart, 1999), as well as over-time variation in the partisan complexion of government. In line with our hypotheses, presented below, they should therefore exhibit a great deal variation in terms of crisis responses. In addition, there is variation in the degree of supranational integration. The Netherlands was one of the founders of the European Union and is full participant in every respect, Sweden joined the European Union in 1995 but remains outside the Euro. Australia is of course unrelated to the EU and does not participate in another similar supranational organisation.

The cross-country comparison is combined with a specific historical perspective by comparing reactions to the current global crisis with two earlier instances of crisis, namely the Oil Shocks of the 1970s and the worldwide recession of the early 1990s.⁷ The comparison of historical sequences (Haydu, 1998; Rueschemeyer and Stephens, 1997), gives us the opportunity to identify patterns across time and space in a total of 9 national crisis episodes. Our method of analysis is qualitative and uses a wealth of information from a variety of sources, including (1) primary sources such as government declarations, documents issued by international organizations, newspaper articles and pieces of legislation as well as elite interviews, (2) comparative economic statistics, and (3) various (mostly academic) secondary sources. We examine the welfare state as social policy reforms in the fields of pension policy, unemployment compensation, active labour market policy, family transfers and services, social assistance and health policy. We trace decision-making processes in the countries during the three crisis episodes in a qualitative and comparative manner, taking the country-specific as well as the transnational context into account (on process tracing, see George and Bennett, 2005; Gerring, 2006).

The following part of the paper describes, compares and discusses the social policy responses to the three episodes of crisis in each of our cases. This is followed by an overall comparison and conclusion in which we will also assess the three working hypotheses.

The Oil Shocks of 1973 and 1979: Keynesianism and Beyond

The ‘stagflation’ phenomenon that followed the two Oil Shocks in the 1970s shook the political economies of virtually all Western countries. Many of the broadly Keynesian routines seemed not to work anymore and new ideas were taken up by policy-makers. One of them was the market-liberal movement epitomized by Reaganomics and Thatcherism in the English-speaking world. In the welfare state area, this line of thinking entailed benefit retrenchment and a marketization, if not privatization, of the provision of benefits and services. In other countries, the response was perhaps less radical but scepticism regarding the post-war welfare state consensus spread across the OECD. At the international level, the OECD – a newcomer in the field of social policy that was dominated by the ILO up to the 1970s – spearheaded the movement of the sceptics. In 1981, the OECD issued a publication

⁶ Sweden is the prototypical Social Democratic welfare state, while Australia’s formal system of social protection is clearly Liberal. However, up to the 1980s, Australia complemented this formal system with a range of informal protection policies, for example, trade protectionism and a high level of wage regulation. This led Francis G. Castles to call Australia, together with New Zealand, a ‘wage earners’ welfare state’ (Castles, 1985). Note that the Netherlands also has some Social Democratic and Liberal welfare state characteristics, but in the field of employment policy and unemployment policy it was strongly Conservative well into the 1990s.

⁷ One could argue that the worldwide depression of the 1930s constitutes another relevant case for comparison. However, the welfare state, if it existed at all, was rudimentary at the time and therefore cannot really be compared to today’s social policies (Weir and Skocpol, 1985).

entitled *The Welfare State in Crisis* (OECD, 1981) which echoed much of the criticism of rising social expenditure and included ideas on privatization and marketization. Although the book was a conference report⁸ and did not contain a clear list of policy recommendations, it was nonetheless influential on the debate on the welfare state. While the OECD report centred on the need to reduce social expenditure and address disincentives within the benefit systems, only a few years later, the ILO published a report that reflected a much more traditional defence of the post-war welfare state in the face of the international economic crisis (ILO, 1984). The international debate in the early 1980s took place between these two opposite poles.

The Oil Shocks of 1973 and 1979 hit all three of our cases, but in different ways. In terms of growth, 1977 was the worst year for the Swedish economy but Australia and the Netherlands were affected somewhat later, with deep recessions in the early 1980s. Dutch unemployment rates were running as high as around 10 per cent at that time. While Sweden was hit hard in the 1970s, it managed to shield its labour force from the downturn, using ALMPs. In the meantime budgetary deficits grew strongly in all three countries, especially after 1978. The development of the welfare states in each of the countries at the beginning of the 1970s looked quite different and so did the policy responses to the double crisis.

Australia had a less developed welfare state and lower social expenditure rate than the other countries. Politically, the 1970s were a time of turbulence, and social policies played a role in this. A more than two decades-long period of conservative predominance was ended when the Australian Labor Party (ALP) under Gough Whitlam won the 1972 federal elections on a comprehensive reform platform, focusing on ‘cities, schools and hospitals’ and a greater role of the federal government relative to the states. The stated goal was a modern Keynesian welfare state and greater redistribution and equality of opportunity in order to rebalance what was seen as conservative inactivity in the face of social problems in the preceding decades. However, Whitlam’s far-reaching social plans were met with a hostile Senate where the ALP did not have a majority. Only a few social policy measures were introduced, including higher benefit rates and pension levels and a publicly funded, universal health insurance scheme (*Medibank*) (Scotton, 2000). A growing polarisation between Whitlam’s ALP government and the conservative Senate majority led to a stalemate situation in 1974 and the ‘double dissolution’ of the House of Representatives and the Senate. The conflict culminated in the dismissal of Prime Minister Whitlam by the Governor-General in 1975. The caretaker Prime Minister Malcolm Fraser was confirmed in the 1975 election when the conservative coalition won by a very comfortable margin. It was during this politically difficult situation that the first Oil Crisis was starting to be felt in Australia (Porter, 1978; Weyland, 2006).

In response to the crisis, the *Australian* centre-right Fraser Coalition government⁹ ended Labor’s initial expansionary response to the worsening economic conditions in 1974 and embarked on a fiscally conservative course. Among other things, Fraser set up the Expenditures Review Committee, the so-called ‘razor gang’ (Stilwell, 1996: 15) to mark a clear turning point from his spendthrift predecessor. The new government legislated some benefit retrenchment for unemployment benefits between 1975 and 1980. But more importantly, the new Medibank health care scheme was being exposed to a ‘death by a thousand cuts’ strategy, which was highly unpopular with voters. Nevertheless, the Fraser government was not a market-radical government à la Margaret Thatcher. Its rhetoric – and policy – was based on a ‘pragmatic compromise’ (Mendes, 2008: 29-30) between small

⁸ The conference, held in 1980, was attended by very prominent policymakers, business and trade union representatives and academics from OECD countries, including Jacques Delors, Nathan Glazer, Wim Kok, Lester Thurow and Harold Wilensky.

⁹ In Australian political parlance, Coalition traditionally refers to a centre-right coalition government between the Liberal Party and the Country Party (renamed National Country Party in 1975 and, finally, National Party in 1982).

government conservatism and welfarist compassion. There were a number of important expansionary initiatives, most notably in family policy and pensions which, although not directly related to the crisis, emphasize that pragmatic welfare compromise.

The fall-out from the Second Oil Shock was even more severe in Australia, and contributed to another change in government, back to the Australian Labour Party under Bob Hawke. On the one hand, this marked the beginning of a series of economic liberalization reforms following what became known under the term 'economic rationalism' in Australia. However, liberalization was much less radical than what occurred in other English-speaking countries at the same time (Castles et al., 1996). Moreover, while the ALP government followed market-liberal principles in microeconomic reforms, macroeconomic strategy was corporatist in character and welfare state retrenchment was not part of the reform package (Easton and Gerritsen, 1996).

One of the central pillars of the new government's economic and social policy was the 'Prices and Incomes Accord' (the 'Accord') of 1983, the first in a series of eight corporatist agreements that ran until 1996, and the government's main instrument in tackling the stagflation crisis caused by the second Oil Shock. The key point was an exchange of wage moderation – wage movements were tied to CPI increases – against improvements in the 'social wage' which was interpreted broadly to include areas such as education policy. In terms of policy change, the government re-introduced a comprehensive health care scheme ('Medicare'), restored some of the unemployment benefit cuts and lifted the basic pension rate to 25 per cent of average male earnings. In this sense, the Australian response to the second Oil Shock was welfare state expansion, but more as a side-payment for the central goal of wage moderation than as a genuine reformist policy initiative. As economic and fiscal difficulties continued in the 1980s, however, the government became more concerned with reigning in the deficit than with expanding the welfare state.

Sweden was also faced with the first change in government for a very long period (since the 1930s). And this was more directly related to the crisis than in Australia. In 1976 a Centre-Right – or 'bourgeois', as it is usually called in Scandinavia – government came to power and ruled for two consecutive terms until 1982.

Existing post-war welfare arrangements remained unthreatened in the 1970s and 1980s. The emphasis was on classic Keynesian economic policies rather than benefit cutbacks. Even the Centre-Right coalitions did not introduce any significant cuts – partly because of the strong electoral competition from the Social Democrats (Immergut and Jochem, 2006: 119-20). In 1982 the government undertook a massive devaluation of the Swedish Krona, which led to a renewed economic boom that even inspired further expansion of social security (Palme and Wennemo, 1998: 15).

The field of labour market policy, more explicitly active labour market programs, had been framed through the introduction of the Rehn-Meidner model in the early post-war years. This early program included supply-side retraining, vocational education and relocation grants; actions to improve labour market matching; and targeted demand-side policies (Erixon, 2008). However, ALMPs had not been extensively used until the 1970s, and one of the crisis responses was to introduce more clearly targeted programs, such as for young people (Walters, 1985){Lindbeck, 1997 #2}. Meanwhile, selective tax increases were used to tackle the public deficit. Increases of the tax base were justified by the pursuit of equity (Walters, 1985: 366). One minor, but symbolic, policy change was the introduction of a waiting day in sickness insurance. This small change, however, provoked strong reactions: The Social Democrats' 1982 return to office was based on an electoral campaign during which they attacked the non-socialist government on the issue of social policy. In 1987, the waiting day was abolished.

Summing up, the Swedish response to the crisis in the 1970s was rather a non-response, using automatic stabilisers as crisis management strategy, with some more active adjustment to vulnerable groups.

In the post-war decades in the *Netherlands*, various coalition governments – which always included the Catholic People's Party (KVP) – had quickly expanded the Dutch welfare state based on a Christian-conservative ideology. The result was a 'caring state' (*verzorgingsstaat*) in which the strong were expected to care for the weak through charity or state action (Becker, 2000: 221). The share of social transfers as a percentage of GDP doubled between 1960 and 1970 (van Zanden, 1998: 65).

The Netherlands was governed by a centre-left coalition (1973-1977) led by the Labour prime-minister Den Uyl when the first Oil Crisis hit. Although the Dutch export oriented economy was strongly affected by the crisis, gas revenues initially softened the impact on public finances. Social policy responses were expansionary with the introduction of a Keynesian stimulation package. This included support for companies and the creation of extra jobs through significant public support for labour intensive sectors such as public infrastructure (Visser and Hemerijck, 1997: 159). In addition there was a raise of the minimum wage and benefits (De Vries, 2000: 73). In 1974, the minimum wage and benefit levels were linked to wage increases in the private sector. As a consequence, in the period of high inflation that followed, government expenditure increased sharply (van Zanden, 1998: 68).

Already in 1975 the Central Planning Bureau (CPB) recommended that more cautious expansion was needed. Finance Minister Duisenberg demanded a maximum social spending increase of 1% per year, but this goal was never achieved (Toirkens, 1988). The Den Uyl government was popular, but despite a large electoral victory in 1977, Den Uyl did not manage to form a new government. Instead, a centre-right coalition led by Van Agt (Christian Democrats) came to power. This government proposed a number of plans for social policy retrenchment, but these were never implemented due to internal division (De Vries, 2000: 74; Visser and Hemerijck, 1997: 133) and strong opposition from the Labour Party. In the meantime, budgetary deficits increased and the second Oil Crisis triggered a deep recession. Official unemployment levels grew strongly, although a large additional group of people who were no longer employed 'disappeared' in the Disability Benefit scheme (Becker, 2000: 224; Kuipers, 2006: 140).

In 1982, another centre-right government led by Lubbers (Christian-Democrat) in coalition with the Liberal Party came to office. This government had a very clear retrenchment programme. Welfare 'nonsense' had to be stopped (Becker, 2000: 224). This coalition's efforts were also more successful than its predecessors'. One important precondition for the coalition's success was the Wassenaar Accord of 1982, where the social partners agreed on wage moderation in exchange for working time reduction. In an interesting contrast to Australia's Accord, however, wage restraint in the Netherlands was not coupled with welfare state expansion but with retrenchment. Among the social policy measures taken were the freezing of benefit levels, decoupling them from wage increases. Some benefits, e.g. for unemployment, were decreased from 80 to 70 percent of previous earnings, and limited in duration. The first Lubbers government started a long period of retrenchment and liberalisation of the Dutch welfare state, which continues until today.

Why was Lubbers so much more successful in his retrenchment attempts than previous governments? First of all, recession in combination with growing budgetary deficits and high inactivity rates made some kind of action seem unavoidable (Green-Pedersen, 2002: 101). Publications by organisations such as the CPB and the Scientific Council for Government Policy (WRR) contributed to this general sense of emergency (Becker and Hendriks, 2008; De Vries, 2000: 75). This also contributed to the willingness of trade unions to agree on wage moderation. With declining membership rates, low morale and a government that threatened

to interfere, striking a deal with the employers was ‘the least of two evils’ (Visser and Hemerijck, 1997: 100). Moreover, with the Labour Party significantly weakened in the last election, Lubbers’ government was stronger and more unified than his predecessor Van Agt’s. Lubbers was therefore able to use the general sense of emergency and the lack of a strong political alternative to enact its retrenchment package. In the 1986 elections the Christian Democrats and Liberals campaigned with the slogan ‘Let Lubbers finish the job’, which intended to emphasise the positive effects their retrenchment policy had had. The result was a victory for the Christian Democrats and a loss for the Liberals, but together they were able to continue governing.

Comparing the three countries, we see that each country initially responded to the economic crisis through Keynesian crisis management strategies. Existing welfare state benefits were expanded and demand-side active labour market policies introduced in some cases. In Australia this was very quickly followed by retrenchment enacted by a new centre-right government, which was then again reversed when the centre-left came back in power. We see a similar pattern of party politics in the Netherlands, where the left-wing government strongly expanded the welfare state in the 1970s, while right-wing governments enacted retrenchments in the 1980s. Only in Sweden party politics seems not to have made a big difference. The centre-right government mostly relied on policies that were already in place and did not risk unpopular retrenchments.

The Early 1990s: Welfare state retrenchment and reform

The stock market collapse of 1987 (‘Black Monday’) led to the savings and loans crisis in the North America which affected other economies, especially in the English-speaking world. Moreover, around the world, economies were struggling in the early 1990s and global GDP growth slowed down considerably between 1990 and 1993. The crisis came early in Sweden and Australia compared to the OECD average which had to do with domestic circumstances rather than the global situation. Sweden did not only experience a recession but also a systemic banking and currency crisis (Englund, 1999). Sweden was also one of the countries most badly hit by the recession. The slump was long and severe not just in terms of GDP growth but also in terms of unemployment and government finance. The Australian crisis was, in comparison, a crisis of economic growth and unemployment in the first place. The Netherlands did not experience a recession in the 1990s. Economic growth only slowed down and unemployment increased slightly. Nevertheless, a crisis rhetoric was invoked, as will become clear below.

By the early 1990s, the international debate had grown considerably in terms of the number of statements, the variety of social policy players and the level of sophistication of the analyses and recommendations. The year 1994 proved particularly important. It saw the publication of the OECD *Jobs Study* (OECD, 1994) and the World Bank’s *Averting the Old Age Crisis* report (World Bank, 1994). Both reports proved highly influential in terms of the debate on welfare state reform. The World Bank report promoted its famous ‘three-pillar system’ of old age provision that included a large role for the private sector while the OECD argued in favour of radical labour market deregulation and lower income replacement rates. Though most of this cannot be qualified as prescriptions with regard to how to tackle the crisis, the ideas coming along with this might have influenced national social policy reforms.

When the economy turned sour in *Australia* in 1990, Treasurer Paul Keating (ALP) famously stated that this was the recession Australia ‘had to have’. In times of uncertain political leadership in Australia, Keating, now party leader, won the 1993 election, and his government’s crisis response focused on two fronts: the introduction of ‘activating’ labour

market policies and the set-up of a mandatory occupational pension scheme. At the heart of Keating's labour market policy stood *Working Nation*, a White Paper about economic growth and employment policy issued in May 1994 (Keating, 1994). Part of the new strategy was the so-called Job Compact, a guarantee for everyone who had been unemployed for more than 18 months of a job offer or placement in a training programme or public employment scheme. It was not a pure workfare strategy, since replacement rates were not lowered. The government introduced a mix of individual case management, job creation schemes (called 'New Work Opportunities') and wage subsidies (Jobstart). Expenditure on active labour market policies was substantially increased in 1994. Yet, despite some early success in lowering unemployment, this expansion was reversed from 1995 and the whole programme was eventually abolished in 1996 after a conservative electoral victory and the change in office. While the 1994 *Working Nation* initiative built on precursors such as the 1991 Active Employment Strategy as well as the 1986 Social Security Review – which was influenced by discussions about the 'active society' in the OECD context (OECD, 1989: 7-12) – the investment approach to active labour market policy that the Keating government introduced was nonetheless a unique response to the crisis and inspired social democratic governments in Europe and elsewhere (Finn, 1997).

However, activation was not the only policy direction. A second legislative change in 1994 pursued a 'labour shedding' strategy and therefore stood in stark contrast to the activation reforms: The Mature Age Allowance was a benefit for the long-term unemployed above the age of 60. It was paid at pension rates and beneficiaries were not required to actively look for work. In effect, it provided an early retirement option for older Australians. After having been introduced as a temporary crisis response at first, it became permanent from 1996 until its progressive abolition from 2003 onwards.

The most important reform in pension was the Superannuation Guarantee, implemented in 1992. The formerly existing occupational pensions were made compulsory. The Australian reform was thus an example of a mandatory defined-contribution second pillar as advocated by the World Bank. The pension was built on the foundations of the Accord Mark II of 1986 (see above) and was therefore introduced with support of the unions (Bateman and Piggott, 1998: 555). While the introduction was not a direct response to the crisis, it was closely linked to the government's overall corporatist strategy of dealing with the recession and unemployment rates of over 10 per cent. As in the early 1980s, the government tried to limit wage inflation through the Accord. In order to get the trade unions on board, it had to offer something in exchange. And funded pensions were the perfect vehicle. Pension contributions could be seen as a non-inflationary alternative to higher wages as well as to higher public social expenditure. The second pillar pension scheme became very popular and has grown out to be one of the largest in the OECD (OECD, 2009c: 30). The overall Australian response to the 1990s crisis was policy innovation, again framed by a corporatist agreement.

In the 1990s *Sweden* slipped into an economic crisis that was in many respects worse than anything the country had seen since the Great Depression of the 1930s. Virtually all economic indicators – of which most had been positive during the late 1980s – worsened quickly and signalled a disastrous state of the economy. Many foreign observers, but also Swedish commentators, raised doubts whether the famous 'Swedish model' of combining high growth and high employment with an egalitarian income distribution would survive this storm.

With an increasing deficit, social expenditure necessarily came under scrutiny. First the Social Democratic government introduced cutbacks. Then Centre-Right coalition came into office with the stated aim of cutting state expenditure and restructuring the welfare state. In order to do that, the Bildt administration introduced, as "den enda vägens politik" (the only way), a "New Start" package

that involved reduced taxation, privatisation and liberalisation and cuts in public spending. (Agius, 2007: 591).

The Centre-right government (1991-1994) also lowered the income replacement rate for unemployment benefits from 90 to 80 per cent of previous earnings and introduced 5 waiting days for receiving benefits. Retrenchment included further a reduction of the sickness benefit replacement rate in 1990, still under the Social Democrats. The replacement rate was reduced from 90 to 65 per cent of former earnings during the first three days of illness and 80 per cent during the first three months (OECD, 2005: 71). The Centre-right government also introduced lower replacement rates for parental leave benefit and sickness insurance (from 90 to 80 per cent, and 70 per cent for long-term recipients). When the Social Democrats came back to power in 1994, their approach was not much different. They further reduced the maximum replacement rate to 75 per cent in 1996 (Björklund, 2000:157:157; Huber and Stephens, 2001). This led to a break with the unions and, in consequence, to an alliance with the Centre party in order to realise the benefit reduction (Anderson, 2001:1082:1082). Retrenchment was announced by all three governments in several 'crisis packages' and made law by varying legislative coalitions. It was overwhelmingly enacted in a relatively co-operative multi-party manner (Dahlström, 2006; Palme and Wennemo, 1998).

However, the decision making process regarding the response to the crisis by means of labour market policies was characterised by antagonistic interests and a power struggle between the trade unions and the political parties (Bergh and Erlingsson, 2008:777f:777f). As in the previous crisis, the traditional range of active labour market policies emerged to be the main policy instrument to tackle open unemployment (Calmfors et al., 2002:4), and again low-skilled workers and young people targeted by specific measures (Anxo and Niklasson, 2006:357ff:357ff).

It would be somewhat misleading to call the Centre-right government of the early 1990s simply 'neo-liberal' or 'free-market', as the approach also respected ideas about welfare state transformation, gender equality and family policies (Bergqvist and Lindbom, 2003: 390). Consequently, in the three years that followed, there was some retrenchment, but not the dismantling of the Swedish model some welfare advocates had feared.

As Australia, Sweden saw an important pension reform in the 1990s (Palme, 2005; Sundén, 2006). There had been earlier attempts to introduce a pension reform in the late 1980s, but these had failed (Lindvall and Sebring, 2005). The reform of the 1990s originated from a proposal of the Pension Working Group, set up after the change in office in 1991. The proposal grew into a multi-party agreement along general guidelines adopted by the Riksdag just before the 1994 general election and the detailed reform package was finally legislated for in 1998. The result was a markedly changed pension system based on a 'notional defined contribution' (NDC) design. The reform included some (future) losses but has, overall, been regarded as a successful example of pension reform. Its phase-in period and effect is, however, rather long-term – full implementation of the new rules was projected to take about 20 years. While this came at the time of the crisis, it cannot be qualified as a genuine reaction to the crisis, but rather as a trigger of reform.

As the pressure of tackling the economic crisis softened, the government admitted that it had reacted somewhat hard and attenuated some of the measures taken, such as restoring the unemployment benefit level to 80 percent (September 1997). Overall, however, the management of the crisis in the 1990s in Sweden is a clear example of retrenchment policies, even if, compared to other countries, an encompassing welfare state is still in place.

In the *Netherlands* the 1990s were not so much characterised by a general economic crisis, but instead by a crisis of inactivity and hence a crisis of the (passive) welfare state. Although unemployment figures had decreased slightly, the number of people receiving disability benefits continued to increase. In 1990 disability benefits were paid for 790,000

FTEs, which is 11 percent of the total labour force (Kuipers, 2006: 135-6). For every 1000 workers there were 152 disability benefit recipients (De Jong, 1999: 262)

Lubbers' two centre-right governments (1982-86; 1986-89) had successfully enacted retrenchment, but this had not led to lower inactivity rates (De Vries, 2000: 81). In the 1989 elections the Liberals lost, and a coalition government (Lubbers III) was formed with the Christian Democrats and the Labour Party. With economic growth coming to a halt, the Labour Party suddenly found itself in a position in which they had to deal with both the inactivity crisis and budgetary deficits. In this context, the Labour Party agreed on a program of extra benefit cutbacks.

In a public lecture in 1990 Lubbers argued that 'the Netherlands is sick' (Green-Pedersen, 2002: 110). He presented disability as a new social issue that should urgently be dealt with. The crisis rhetoric used in the speech helped to put the issue front and centre (Green-Pedersen, 2002: 108; Kuipers, 2006: 150). The Labour Party ministers in government felt wanted to govern in a 'fiscally responsible way' (Kuipers, 2006: 149) and therefore obliged to stick to their earlier declaimed intentions to decrease the public deficit and in 1991 a reform the disability scheme was announced. This led to outrage both from the unions and from Labour parliamentarians. It would take another year and a half to agree on a final compromise. After the CDA threatened to strike a deal with the Liberals instead, the Labour party agreed on drastic cuts through tighter eligibility criteria, and shorter duration for younger workers (ibid.). In the mean time, the administration of the disability scheme by the social partners had come under scrutiny. A Parliamentary commission investigating the issue concluded that there was widespread abuse of the occupational insurance system. The social partners were blamed for this abuse and fairly smoothly the system was changed in such a way that the social partners were no longer involved (Kuipers, 2006: 163).

The retrenchment of the disability scheme was not the only development in social policy. Already since 1980 negotiations had been going on about improving active employment policy (Visser and Hemerijck, 1997: 162-176). The Netherlands had been criticised by the OECD for its limited functioning and reports by the Scientific Council for Government Policy (*Activerend Arbeidsmarktbeleid* (1987), which was strongly inspired by the Swedish example, and *Een werkend perspectief* (1990) drew more attention to the issue. Agreement was finally reached in 1990 with the introduction a tripartite privatised employment service. However, its accomplishments were limited and after 1994 Social Affairs Minister Melkert preferred instead to recur to publicly financed low-paid job creation. Active labour market policy never played a central role in Dutch crisis responses. However, the broad agreement on a need for activation did result in a series of child care 'stimulation measures'. The creation and use of day care services was publicly subsidised with the aim of increasing women's labour market participation. Finally, in 1994 the Christian Democrats also proposed to cut minimum pensions for the elderly, but this was met by strong public objections. The party was punished for the initiative in the elections of 1994.

To sum up, the Australian government continued a course of economic deregulation combined with corporatist bargaining and social protection. There was no turn towards welfare state retrenchment, as could perhaps have been expected. On the contrary, an innovative ALMP programme was introduced. At the same time, the crisis response in Sweden in the early 1990s centred on some expansion of ALMP schemes, but mostly on benefit cutbacks (from a very high replacement level). These cutbacks, however, were 'intended to carry the system over a crisis period, not to dismantle it' (Timonen 2003: 7; Palme and Wennemo 1998; Nordlund 2000; Bergqvist and Lindbom 2003; Lindbom and Rothstein 2004). In the Netherlands there was no deep economic crisis, but the slow down of economic growth was one of the incentives for rigorous retrenchment of the disability scheme. In addition there was some limited innovation of ALMP and childcare provision, but these can hardly be seen as a crisis response.

Overall, while we do not see a uniform response to the 1990s crisis across the three countries, policy responses were much more immediate and straightforward compared to the 1970s. Keynesian macro-stabilization was officially dead and countries either went for innovation and active crisis management (Australia) or fiscal retrenchment (the Netherlands and Sweden).

The 2008 Financial Crisis: A New ‘New Deal’?

The Financial Crisis that began in 2008 and evolved into a worldwide economic crisis, now sometimes called the ‘Great Recession’, was triggered by the collapse of a particular segment of the U.S. housing market (‘subprime mortgages’) and the derivative financial products based on this market. It quickly spread across the world via a banking and credit crisis that finally led to a worldwide economic recession, unemployment and a fiscal crisis of the state. While the unfolding of events involving the collapse of Lehman Brothers, the bail-out of major banks and the decision to introduce large fiscal stimulus packages in most OECD countries is relatively clear, the root causes of the crisis are still subject to intense debate among economists.

In the course of the Financial Crisis, market liberal ideas of economic and social policy were, at least initially, delegitimized. Perhaps not surprisingly, the ILO has called for a greater emphasis on social security and outcomes. In June 2009, a ‘Global Jobs Pact’ was formulated by the International Labour Conference, which among other things includes a pledge to secure or even extend social protection (ILO, 2009b). This is perhaps the clearest example of a new pro-welfare state climate. European Union recommendations focused initially on short term measures such as short-time working arrangements, training and activation (Council of the European Union, 2009). However, more recently deficit reduction has started to play a central role within the EU again. Under the impression of the Greek debt crisis of 2010, some countries, including France and Germany, have announced to strengthen the Stability and Growth Pact. The OECD has put an emphasis on monitoring crisis responses rather than promoting ‘best solutions’ (OECD, 2009b). This stands in stark contrast to earlier crises. There seems to have been an initial global welfare consensus, but this consensus has not been sustained now that calls for an ‘exit strategy’ in fiscal policy and deficit reduction through expenditure cutbacks have grown louder.

The Swedish and Dutch economies were quite badly affected by the economic fall-out from the 2008 Financial Crisis. In Sweden, economic growth was, in real terms, already negative in 2008 and in both countries it plummeted by more than 4 per cent in 2009, according to OECD figures (OECD, 2010). By contrast, the Australian economy appears to hold up relatively well, with 1.5 per cent real economic growth in 2009, largely thanks to continuing high demand for mineral resources, though there are some doubts about the sustainability of the Australian housing market (Economist, 2009). According to OECD estimates (OECD, 2010), the Australian deficit will amount to 3.2 per cent of GDP in 2010, the Dutch to 6.4 and the Swedish to 2.9 per cent. This is considerably lower than the projected deficit in countries such as the UK (11.5 per cent of GDP) and the U.S. (10.7).

The Financial Crisis hit *Australia* to a much lesser extent than other OECD countries. While the country has clearly suffered and unemployment has risen, there has not been a major contraction of the economy.¹⁰ Yet this has not led to self-satisfaction. The Labor government set up two large fiscal stimulus programmes (if measured as a percentage of GDP). They contained a number of measures, including sizeable income tax cuts for low-income families. The post-crisis fiscal programmes also included some spending items that

¹⁰ Some commentators even asked whether Australia may have replaced the Scandinavian system as the new economic and social model to emulate (Auer, 2009).

more explicitly followed social objectives, including an expansion of training benefits, the Child Care Rebate, a AU\$ 650 million 'Jobs Fund' (Australian Government, 2009) and a significant lift of the standard rates of the Age Pension as part of a AU\$14.2 billion pension package. Single Age Pensioners will get an additional AU\$ 32.49 per week and couples AU\$ 10.14. Arguably, the pension increase is partly an attempt to tackle a real inequality between single pensioners and married couples and less a pure crisis response. In 2009, the government also set aside additional funding for case management for jobseekers and eased income tests for some benefits.

Yet the 2009 pension package also contained an increase in the qualification age for the basic pension. The age will rise from 65 to 67 between 2017 and 2023. This measure could be seen as an example of an 'opportunistic' crisis response, since there is no clear link with current economic and fiscal problems. The rise in the pension age – as well as some of the other pension changes – broadly follow the recommendations issued by a government-sponsored review (the 'Harmer Pension Review') in 2009 (Department of Families, 2009). Several important changes to Superannuation, the occupational second-pillar pension were announced in 2010. However, they do not qualify as a crisis response as they are based on more long-term reviews of the pension system. Overall, the Australian policy after 2008 was, if anything, an expansion of existing schemes.

A centre-right coalition was in government when *Sweden* was hit particularly hard by the global economic and fiscal crisis (Regeringens proposition 2009/10:1, 200921:21). The government detailed its steps in its economic proposition for 2009/2010 and stressed public finances, employment and the welfare state as the key targets. The document states that the most important target is to bring more people into work in order to avoid permanent high unemployment levels. Interestingly, the document continues to say that preventing the cut of publicly financed jobs was one of the most cost-effective measures for slowing down the decrease of employment, and therefore it is proposed to increase the resources for the *kommuns* and *landsting*, for example in health care, care for the elderly and education (Regeringens proposition 2009/10:1, 200924f:24f). At the same time, taxes on income and pensions have been reduced Housing benefits for people with health problems have also been increased (Regeringens proposition 2009/10:1, 200925:25). The proposition makes also suggestions as to practical and university education and more active labour market policies, and an increased focus on young unemployed people (Regeringens proposition 2009/10:1, 200925:25).

The stimulus package focused on the revenue side, however, with large (and permanent) cuts in personal and corporate income tax and lower social contributions. Moreover, employers in trouble can defer the payment of social contributions under a special loans programme. Automatic stabilizers as well as fiscal stimulus led to a large change in the fiscal balance, in fact, one of the largest in the European Union (IMF, 2009). Still, by now it is clear that Sweden is one of the two EU countries that has not become subject to the EU's excessive deficit procedure¹¹. Experts from the Swedish Finanspolitiska Rådet explain this with the strength of public finances when the crisis started, leading to a significant scope for financial policies. And earlier reforms (which reduced the number of sickness absences) came to effect just at the right time and resulted in public savings. Thus the automatic stabilisers could work (Finanspolitiska Rådet, 2010). Accordingly, a recent proposition by the Riksdag expresses confidence in the future and support for the way of "not" reacting to the crisis stating that welfare was protected from the crisis and that there is now a special focus on families with children and pensioners. This means further reduction of tax on pensions and an increase in child benefits for families with several children (Riksdagens protokoll 2009/10: 143, 23 juni 2010). Now the government expects public finances to turn positive in 2012

¹¹ http://ec.europa.eu/economy_finance/sgp/deficit/countries/index_en.htm

without public savings to be enacted. Nevertheless, if there are retrenchment or other plans looming, policy changes will not become evident before the elections in September 2010.

This means what we observe as the current crisis reaction in Sweden is crisis management by tax cuts and adjusting ALMPs, but other than that the government continues to rely on the existing schemes and continues a course of welfare state reform that was determined already before the crisis (non-reaction).

In the *Netherlands*, the government invested large sums of money into saving its banking sector. The main social policy measure introduced by Balkenende's Christian-Democrats/Labour government was the expansion of part-time unemployment schemes. In addition, some (minor) extra investments went into training and employment mobility support. Quickly, however, the expansive crisis management policies were supplemented with the first retrenchments. In September 2009 the government decided to increase the retirement age from 65 to 67. This measure was presented as a crisis response. However, since the higher retirement age was only to become effective after many years, it is questionable how it is exactly related to the current crisis. Balkenende's government fell in early 2010 before it was able to implement the new retirement age.

In the elections that were held in May 2010, the crisis and its consequences for the welfare state were an important theme. Interestingly, party differences did not concern the question whether social policies should be expanded or retrenched. Instead, it was generally believed – as in the previous crisis episodes – that retrenchment was unavoidable. The question was not whether retrenchment was necessary, but merely how much retrenchment was optimal and where exactly cuts should be made. The Liberals won the election with a programme based on the most far reaching cutbacks of all parties, potentially affecting almost all areas of the welfare state. A new government is currently being formed, but among its policies will undoubtedly be welfare state retrenchment.

The policy reactions to the current crisis were, again, diverse, ranging from expansion through non-reaction to retrenchment. Overall, the response of the Australian Labor government has been expansionary in terms of spending initiatives. One important difference to the two earlier crisis episodes is political: The government has not set up an Accord-like corporatist emergency coalition with the trade unions. The response by the Swedish centre-right coalition has been to rely on existing social policies in combination with some tax relief. Retrenchment has not been an issue. In the Netherlands, on the contrary, after some initial active crisis management through a part-time unemployment scheme, the main approach shared by almost all political parties has become one of retrenchment.

Comparison and conclusion

The responses of Australia, Sweden and the Netherlands to the three crises can be summed up as follows (see Table 2): In the 1970s and early 1980s, Sweden barely changed its welfare state in response to the crisis while Australia and the Netherlands introduced reforms in line with the partisan preferences of the government of the day: After a short Keynesian start by a Labor government, the conservative Fraser government in Australia (1975 to 1983) focused on deficit reduction and lowering inflation rates through cutting back expenditure while the succeeding Centre-Left Hawke government (from 1983) departed on a course of cautious expansion as part of a corporatist agreement. In the Netherlands, the centre-left Den Uyl government in the 1970s set out with a Keynesian crisis management programme, while consecutive centre-right governments aimed for benefit retrenchment.

In the 1990s, Australia preserved existing benefit rates, set up a mandatory occupational pension system (Superannuation) and introduced „activating“ labour market policies while Sweden – in addition to activating the unemployed – cut back social benefits (although from a much higher initial level than Australia) in order to bring public finances

back into line. In the Netherlands, there was hardly an economic crisis. There was, however, a crisis of inactivity. The crisis rhetoric was used to induce a reform of the disability pension scheme. Also, some activation policies were introduced.

During the current crisis, the Australian Labor government implemented a large fiscal stimulus – even by international standards, which entailed some social policy measures. In Sweden the response was mainly to let the automatic stabilizers do their work and support employment through various active measures. In the Netherlands, some (mostly passive) crisis management policies were initially enacted, such as part-time unemployment benefits. These measures were quickly followed by retrenchment in a range of areas.

Table 2: Overview of policy responses in four countries during and after three crises

	Australia	Sweden	Netherlands
1970s & early 1980s	First welfare state expansion, then selected cutbacks (e.g. in unemployment benefits) and more targeting; partially successful attempt to dismantle the universal health care system; then: corporatist Accord: reversal of health care and unemployment benefit cuts	No significant cutbacks; Keynesian adjustment policies; activation of ALMP	First Keynesian crisis management; followed by retrenchment, e.g. freezing and cuts in benefit levels (unemployment, sickness, disability, pensions), disability scheme (WAO) used for labour shedding;
Type of reaction	change from expansion of existing schemes to retrenchment and back to expansion	non-reaction with marginal expansion (of ALMPs)	crisis management through expansion of existing schemes followed by retrenchment
Early 1990s	Activation strategy (increased ALMP expenditure) combined with new mandatory private pensions (Superannuation) as part of corporatist bargain.	Very large expansion of ALMP; significant cutbacks in unemployment, sickness benefits etc.; changes in the pension system (but not as a clear crisis response)	Reform of disability benefits and tightening of eligibility criteria for many benefits; Some expansion of ALMP (from very low level)
Type of reaction	innovation	retrenchment with exception of ALMP	retrenchment and some limited innovation
2008-??	Large fiscal stimulus (income tax cuts); increased pensions and ALMP expenditure; higher pension age announced	Only few changes in social policy (rather in taxation); emphasis on existing ALMP schemes and automatic stabilizers	Expansion of working-time reduction and part-time unemployment schemes. Some minor investments in ALMP. Large retrenchments scheduled in health care, pensions, etc.
Type of reaction	crisis management through expansion of existing schemes	non-reaction	short crisis management, followed by retrenchment

Source: Own depiction.

Comparing these policy responses, we can conclude that the welfare state *is indeed used as a crisis manager*. This is true across countries and time periods. Most initial crisis responses included expansionary ‘crisis management’ strategies. Only in the Netherlands in the 1990s

was the immediate reaction one of retrenchment. In all other instances, the first short-term measures involved the use of social policy to mediate the consequences of the crisis, mostly by expanding existing programmes. Even in Sweden in the 1990s, when the recession hit hard, investments went into ALMP. In the medium term, especially if the crisis continued to be strongly felt, the crisis management approach was often replaced by one of retrenchment. Especially Dutch policy developments after the oil crises and after the 2008 financial crisis are clear examples of this cycle from an expansionary crisis management approach to retrenchment. When, on the other hand, the crisis was more short lived, such as in Sweden in the 1970s, and in Australia in the 2000s, no significant retrenchment followed.

In terms of the three working hypotheses formulated at the beginning of this paper, our preliminary evidence corroborates the first two and sheds serious doubts on the third. The *first hypothesis* stated that crisis responses vary with the partisan complexion of government. The evidence is largely (though not entirely) in line with this theoretical expectation. Especially the difference between Australian governments of the centre-right (the Fraser government) and the centre-left (the Whitlam and the Hawke/Keating-government) can be traced to partisan differences and/or the relationship between the government and interest groups. The corporatist strategy of the Accord was to a large extent due to the close ties between the trade unions and the ALP government – symbolized by former trade union leader Bob Hawke as head of government. The Fraser government did not have the links on which such a corporatist agreement could be based: In consequence, the fight against inflation was founded upon checks on public expenditure. Also in the Netherlands, policy responses in the 1970s still clearly followed a partisan logic. After that, retrenchments were enacted by both the centre-left and the centre-right. This does not, however, mean that partisan preferences were irrelevant after the 1970s. The fact that even the Labour party enacted unpopular retrenchments can be explained by the make-up of the electoral system (Green-Pedersen, 2002). In the multi party system, the centre was always filled by the centre-right Christian Democrats. To be able to govern, the Labour Party had to confirm to their ideology. The centre of gravity was hence centre-right. The opposite was true in Sweden, where the Social Democrats, whether in government or not, were always a crucial player. The centre of gravity was hence centre-left and even centre-right governments did not dare to enact far reaching retrenchment unless this was in accordance with the Social Democrats (as in the 1990s, which can probably be explained by the extreme problem pressure at the time). Therefore, H(1) can be confirmed in a slightly modified way. Parties matter but the institutional environment filters and mediates partisan preferences about the role of the welfare state during crises.

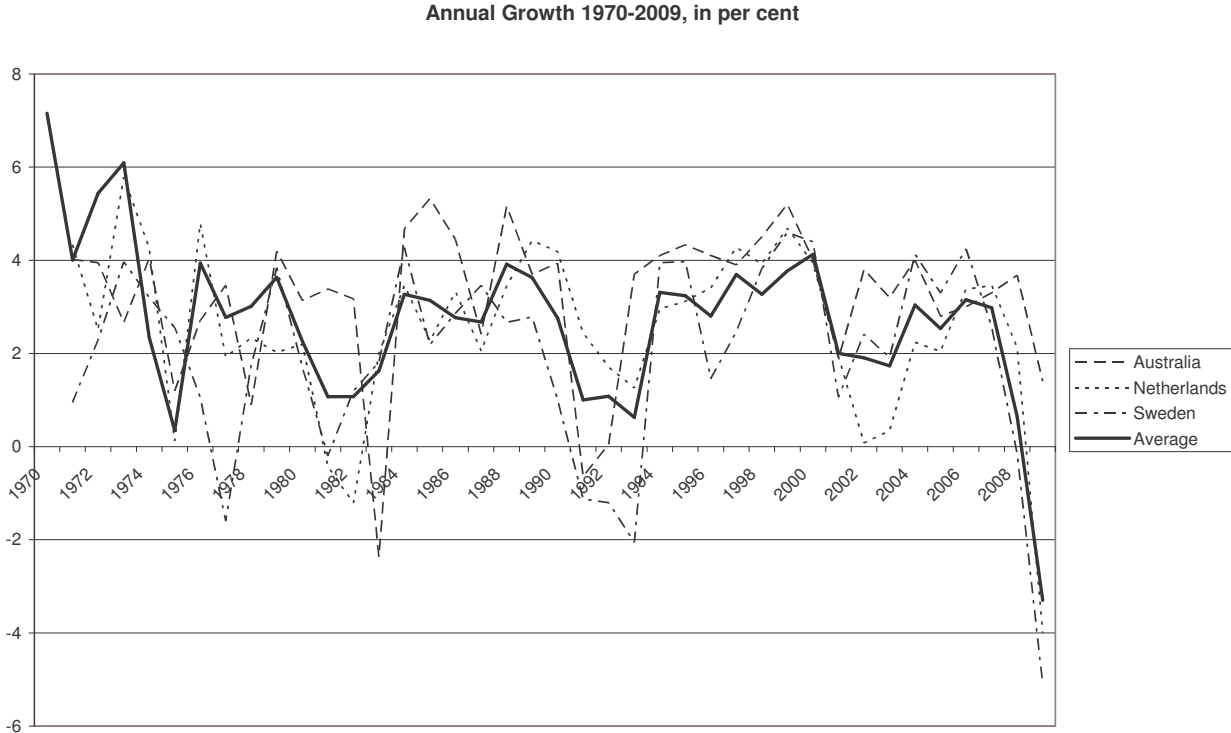
How about the size and structure of the existing welfare state? Our *second hypothesis* posited that less developed welfare states tend to react in a more active way to crises since this is when particular gaps in social protection are being felt. Furthermore, when macro-stabilization through countercyclical spending is the goal, small welfare states cannot rely on automatic fiscal stabilization as large welfare states and have to turn to discretionary measures, that is, active crisis management, either by expanding existing schemes or by setting up new ones (innovation). The empirical pattern presented in the case studies of the three episodes by and large supports this view. Australia, the smallest welfare state, has tended to deal more actively with crisis (and retrenchment driven by partisan considerations under Fraser in the 1970s, has remained rather moderate). By contrast, the Netherlands has in the medium term almost invariably turned to retrenchment, even after initial crisis management. The Dutch welfare state had grown considerably prior to the crises and retrenchment was targeted particularly to the schemes that had grown most, namely disability benefits. For Sweden, the case is somewhat weaker but at least it does not contradict the theoretical expectation that the reaction was usually not one of further expansion but one of satisfaction with the existing welfare state (in the 1970s and the current crisis) or retrenchment (in the 1990s). Note that these findings are also in line with the idea of welfare state convergence, at least in expenditure terms (Starke et al., 2008).

To what extent has the structure of the welfare state shaped crisis policies? We hypothesized, *thirdly*, that crises should attenuate path dependencies and act as ‘critical junctures’ where path departures and policy innovation are possible. Translated to our analytical grid, this implies that we should observe a lot of policy ‘innovation’ (i.e. new schemes, tailored to new risks and demands and borrowed from other countries or influenced by transnational ideas rather than by national ‘history’). Yet contrary to expectations in the reform literature, crisis episodes hardly ever led to real policy innovation. Crisis did not break up existing routines or induce governments to look for solutions in other times and places. Instead governments relied on familiar policy responses. When the 2008 crisis hit the Netherlands, the government immediately responded by introducing part-time unemployment benefits and working time reduction schemes. Its main active strategy was hence one of labour shedding, a strategy highly familiar to the Dutch welfare state. When the Swedish economy was rocked to its foundations in the early 1990s, with unemployment growing strongly, the government relied on active labour market policies, just as it had done before and would do again.

Following the lack of innovation, it also seems that transnational ideas have played a rather limited role in crisis response strategies. There are some general trends, such as the worldwide demise of Keynesianism after the 1970s. However, we found hardly any evidence of transnational ideas shaping national crisis responses. One small exception was perhaps the emphasis of ALMP in Australia and the Netherlands in the early 1990s, which was indeed informed by the worldwide emphasis on innovation. Yet the importance of ALMP has been marginal in the Netherlands, while the much greater emphasis in Australia is probably more due to party preferences than to policy learning or diffusion. Most striking is the lack of influence of ideas in the current crisis. With so much worldwide attention, and a range of international actors giving all kinds of advices, it is remarkable that even the political debate about crisis responses differed completely by country. Instead of seeking international learning opportunities, all three of our cases relied on the policy responses that they knew best.

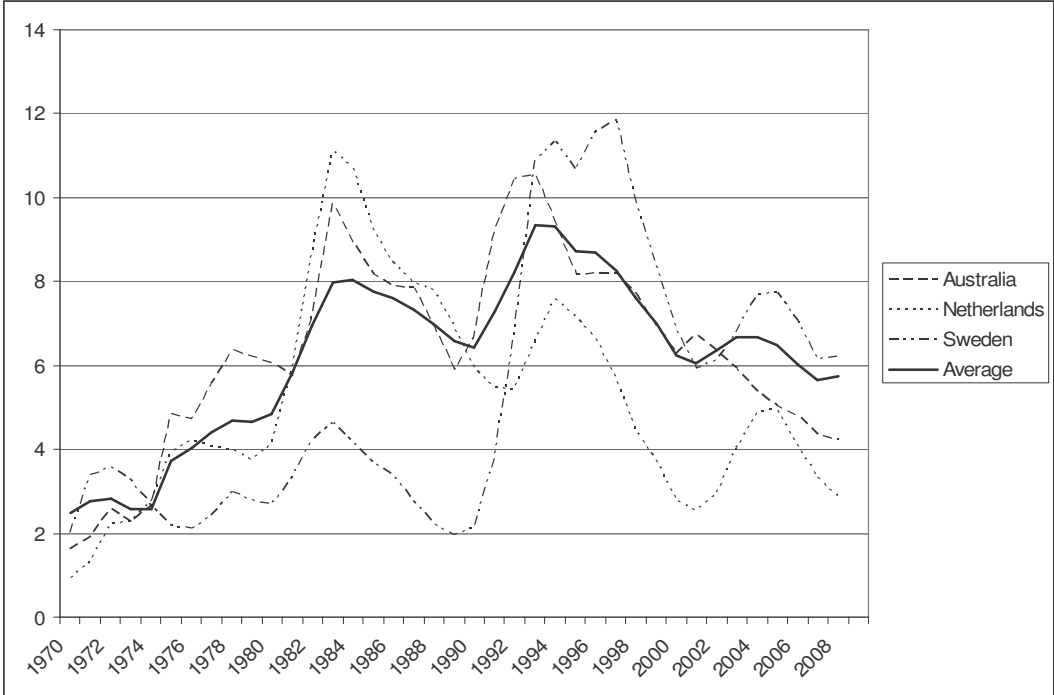
Appendix

Figure 1: GDP Growth , 1970-2009



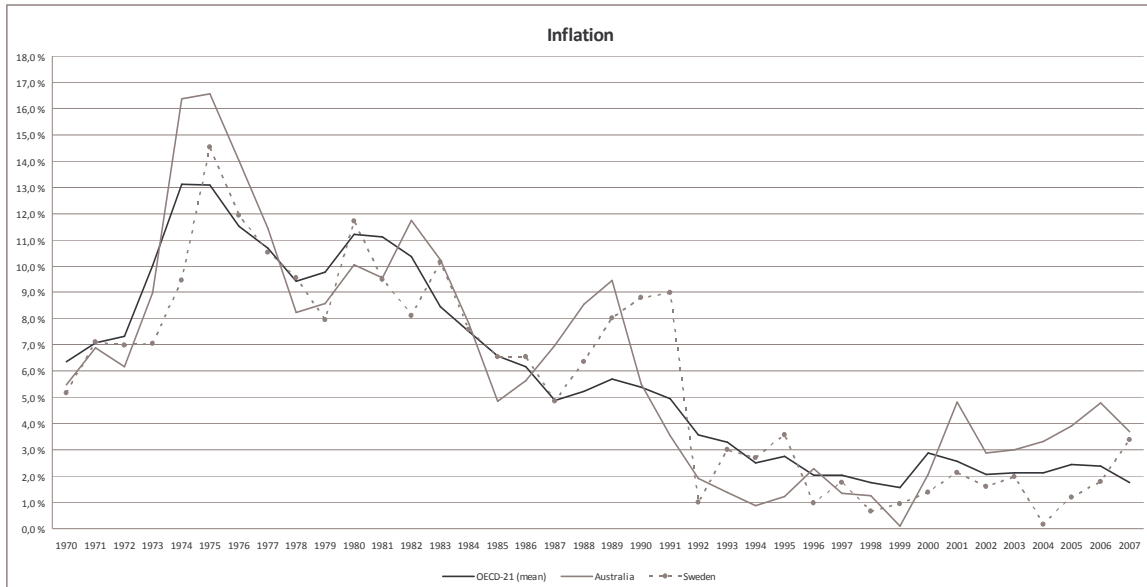
Source: 1970-2008: World Bank: World Development Indicators, 2009: OECD, Economic Outlook Database.

Figure 2: Unemployment rate, 1970-2009



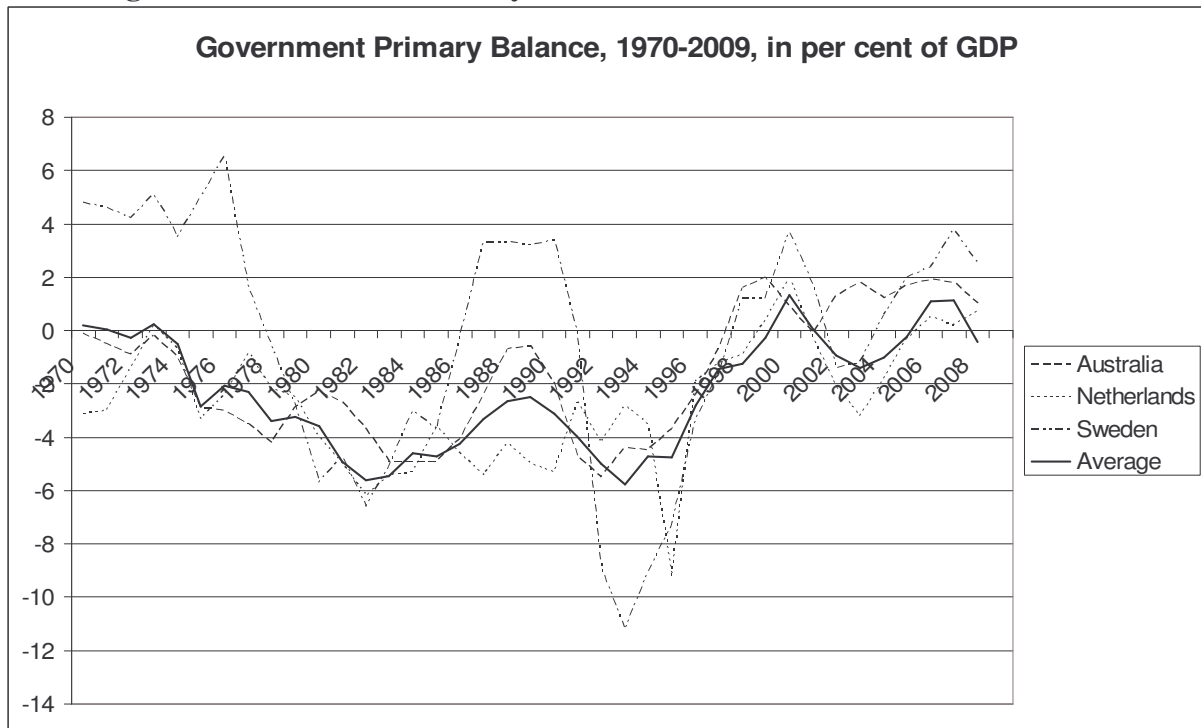
Source: OECD Economic Outlook Database.

Figure 3: Inflation, 1970-2007



Source: Quality of Government Dataset, June 2009, Inflation (%) (Original source: World Bank: *World Development Indicators*, <http://go.worldbank.org/U0FSM7AQ40>).

Figure 4: Government Primary Balance



Source: OECD Factbook.

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