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**Working Paper**

## Explaining the variety of social policy responses to economic crisis: How parties and welfare state structures interact

TranState Working Papers, No. 154

**Provided in Cooperation with:**

University of Bremen, Collaborative Research Center 597: Transformations of the State

*Suggested Citation:* Starke, Peter; Kaasch, Alexandra; van Hooren, Franca (2011) : Explaining the variety of social policy responses to economic crisis: How parties and welfare state structures interact, TranState Working Papers, No. 154, Universität Bremen, Collaborative Research Center 597 - Transformations of the State, Bremen

This Version is available at:

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# TranState Working Papers

EXPLAINING THE VARIETY OF SOCIAL  
POLICY RESPONSES TO ECONOMIC  
CRISIS: HOW PARTIES AND WELFARE  
STATE STRUCTURES INTERACT

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Staatlichkeit im Wandel • Transformations of the State  
Sonderforschungsbereich 597 • Collaborative Research Center 597



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*Alexandra Kaasch*  
*Franca van Hooren*

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TranState Working Papers

No. 154

*Sfb597 „Staatlichkeit im Wandel“ – „Transformations of the State“*

Bremen, 2011

[ISSN 1861-1176]

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(TranState Working Papers, 154)

Bremen: Sfb 597 „Staatlichkeit im Wandel“, 2011

ISSN 1861-1176

Universität Bremen

Sonderforschungsbereich 597 / Collaborative Research Center 597

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***Explaining the variety of social policy responses to economic crisis: How parties and welfare state structures interact***

**ABSTRACT**

This paper maps and explains the reactions of four welfare states – Australia, Belgium, the Netherlands and Sweden – to three global crisis situations – the oil shocks of the 1970s, the worldwide recession of the early 1990s, and the financial crisis from 2008 onwards. Two main conclusions follow from the analysis: First, using a comprehensive typology of social policy reactions to crises, we show that crisis reactions were surprisingly diverse. There is no uniform policy response, as policies range from retrenchment through non-response to welfare state expansion. Second, explaining the variation regarding expansion vs. retrenchment we focus on the partisan composition of government, and the size of the existing welfare state, which may operate as an important automatic stabilizer during recessions. While none of these factors alone is sufficient, their interaction is able to explain most of the specific social policy responses adopted in the four countries studied.

## **CONTENTS**

INTRODUCTION .....	1
ECONOMIC CRISES AND WELFARE STATE RESPONSES – A TYPOLOGY .....	2
EXPLAINING RESPONSES – THEORETICAL APPROACHES .....	4
THE OIL SHOCKS OF THE 1970S .....	6
Australia .....	6
Belgium .....	7
The Netherlands .....	9
Sweden .....	11
THE CRISIS OF THE EARLY 1990S .....	12
Australia .....	12
Belgium .....	14
The Netherlands .....	15
Sweden .....	16
THE POST-2008 RECESSION .....	18
Australia .....	18
Belgium .....	19
The Netherlands .....	21
Sweden .....	22
CONCLUSION .....	24
REFERENCES .....	26
APPENDIX .....	32
BIOGRAPHICAL NOTE .....	33

## **Explaining the variety of social policy responses to economic crisis: How parties and welfare state structures interact**

### **INTRODUCTION**

The global financial crisis beginning in 2007/08 led to a reassessment of the state's role in contemporary societies (Datz, 2009). When the international banking system was shaken in 2008, and OECD economies came to a halt, voters turned to the state for determined 'crisis management'. National and international actors reacted, at least until recently, by various means, including banking nationalization, support programmes for domestic enterprises, and attempts to reform global business regulation. What is the role of the *welfare* state in this story, though? Has social policy been an essential part of the strategies of 'crisis management' in OECD countries? Or has the system of social protection itself come under strain? OECD welfare states seem to be caught in a tension that is succinctly captured in an editorial to a 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? Economic crisis is generally considered as a trigger of social policy change (Keeler, 1993; Starke, 2008; Vis and van Kersbergen, 2007). However, there is a great diversity in policy responses across different places and times. Currently, for example, the British government is implementing far-reaching cut-backs (Taylor-Gooby and Stoker, 2011), while the Swedish welfare state was applauded for its stabilising function and hardly came under scrutiny. Why these differences?

This paper compares social policy reactions to three economic crises in four small open OECD economies. More concretely, we analyze how the oil shocks of 1973 and 1979, the global recession of the early 1990s, and the crisis that started in 2007/08 affected social policies in Australia, Belgium, the Netherlands and Sweden. We investigate what explains different crisis responses. The focus on small open OECD economies is motivated by their high adaptability to new developments, their likelihood to promptly react to external shocks, and the fact that they are often pioneers of social policy reform (Katzenstein, 1985; Obinger et al., 2010; Schwartz, 1994). The countries selected represent variation on a number of potential explanatory variables (see below for the main hypotheses), namely the partisan complexion of government, the political system, the social expenditure rate, and the institutional arrangements and dominant social poli-



cy paradigms guiding the development of the welfare state (‘welfare regimes’) (Esping-Andersen, 1990).

In theory, the causes for variation in crisis responses could be manifold. For reasons of space restriction, we will mainly look at two potential explanations in this paper.<sup>1</sup> First, the reason for the differences could be *functional*, related to the need to stabilize by means of countercyclical fiscal policy, and *political*, related to the party composition of governments. As we will show, none of these factors can fully explain the cross national and cross temporal variation in policy changes. Instead, we will argue that the interaction of party politics and existing welfare states can help to explain the direction of policy change.

## **ECONOMIC CRISES AND WELFARE STATE RESPONSES – A TYPOLOGY**

We understand an *economic crisis* as a situation of a sudden, and often unexpected, deterioration of most, or all, key macroeconomic indicators, including GDP growth, unemployment levels, inflation rates and public debt.<sup>2</sup> An *international economic crisis* is experienced simultaneously by a large number of countries world-wide, caused by an external shock. Of course, each shock had different root causes and is not entirely comparable. For instance, the macroeconomic situation of the 1970s and early 1980s was marked by high price inflation. This was not the case in the 1990s and in the current situation. However, while each episode displays some very specific conditions, we believe that these differences can be addressed in the analysis without fully giving up the comparative framework.

Social policy responses are conceptualised as those social policies that are enacted or modified either directly in response to an economic crisis, or indirectly, in response to the social and economic consequences of such a crisis. In order to meaningfully compare social policy responses across different temporal and spatial contexts, we developed a typology, consisting of two dimensions (summarized in Figure 1). As a first dimension, the direction of policy change may vary in terms of the size of the welfare state. This dimension should not be equated with the level of social expenditure. Expenditure is but one indicator of policy change, and a problematic one, at least for our purposes. For example, it could be that social expenditure rates increase in times of economic crisis as a consequence of more unemployed people claiming benefits, while policies do not change at all. In the short term, expenditure can be a bad indicator of policy decisions.

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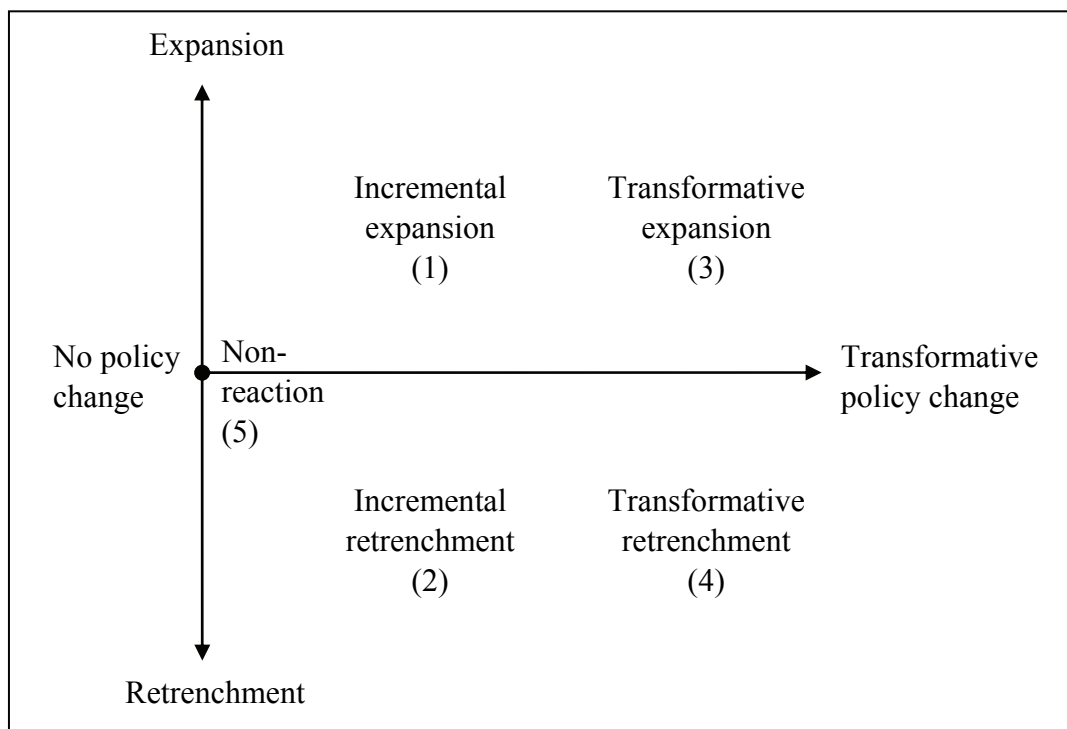
<sup>1</sup> A forthcoming book project on the topic (Starke et al., forthcoming) will include a detailed discussion of complementary explanations, including the historical institutional theory of ‘critical junctures’ and theories of transnational policy learning.

<sup>2</sup> GDP data for selected years is displayed in Figures A1-3 in the appendix.

Therefore, we analytically distinguish between expansion and retrenchment in terms of citizens' welfare state entitlements rather than aggregate expenditure.

The second dimension is the degree and quality of policy change, ranging from no change to what we call transformative policy change. We understand transformative change as a change in the principle guiding a social policy arrangement. For example, a change from an insurance-based to a means-tested scheme, or from a universal entitlement, to a means-tested provision. The principle of a social policy is not always changed explicitly. A change in the scope or level of a scheme can also imply a change in principle. For example, when a disability benefit used to be of unlimited duration, but is changed to become only of limited duration, this entails a change in principle for the group of long-term disabled.

Figure 1: Typology of social policy responses to crisis



Based on these two dimensions we distinguish five types of policy responses: *Incremental expansion* (1), or ‘more of the same’, is an expansion or minor modification of policy settings. Without altering the policy instruments or the principles guiding these schemes, the government may lift benefit levels, relax access criteria and lengthen the duration of payments. ‘Less of the same’, or *incremental retrenchment* (2) is, for example, a decrease of benefit levels, the tightening of eligibility criteria or the freezing of benefit indexation. A response to economic crisis may also involve *transformative expansion* (3), when policy instruments are changed or new programmes are added with the aim of expanding citizens' entitlements to welfare state support. An example of transformative expansion would be the introduction of active labour market policies in a

country traditionally reliant on passive cash transfers. Finally, *transformative retrenchment* (4) may be used as the window of opportunity opened by a crisis may give governments the chance to fundamentally restructure costly existing schemes with the aim of generating large savings. An example could be the abolition, or the complete overhaul, of the structure and administration of a benefit scheme, or the replacement of a benefit scheme with a cheaper alternative, also marked by different principles. Having described these conscious responses or strategies, it is necessary to point to the possibility of *non-reaction* (5). This is not to say that social expenditure cannot increase – as more people claim benefits – but only that there is no formal policy change.

### **EXPLAINING RESPONSES – THEORETICAL APPROACHES**

All the types of social policy responses to economic crisis just described can be observed in the countries studied. For reasons of space, this paper focuses on explaining the variation on the first dimension (see Starke, Kaasch und Van Hooren forthcoming for a fuller discussion). The research question is thus why some governments choose to enact expansionary social policies in response to economic crisis, while others opt for retrenchment or do not react at all? Two hypotheses are particularly important in explaining the differences in the direction of crisis responses.

The direction of policy change may be largely a *functional* result of the size of the (welfare) state.<sup>3</sup> According to Keynesian macroeconomic theory, fiscal expansion is one of the main means to overcome economic downturns. In countries with large welfare states, this happens via automatic fiscal stabilizers. On the benefit side, public expenditure rises fast as more people receive unemployment benefits and related payments (Darby and Melitz, 2008). Moreover, automatic stabilization is also taking place on the revenue side since social insurance contributions (a large share of welfare state funding in many OECD countries) are heavily counter-cyclical. The size of the welfare state as a share of GDP still varies a great deal across the core OECD, ranging from 16.0% in Australia to 28.4% in France (OECD, 2009b, figures for 2007). The smaller the welfare state, however, the smaller is the effect of automatic stabilization (Dolls et al., 2010). From a Keynesian point of view, this lack of automatic adjustments therefore calls for higher discretionary spending, including temporary or permanent benefit increases, additional emergency schemes and the like. Hence, the first – perhaps counterintuitive – hypothesis that smaller welfare states should be more likely to expand social policy while we should find either non-reaction or even retrenchment in large welfare states during moments of crisis (see also Castles, 2010). Of course, fiscal expansion – no mat-

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<sup>3</sup> To clarify, this is not a tautological hypothesis. The point is rather to explain a *change* in the size of the welfare state with its existing *level* of expansion.

ter, whether it is automatic or not – can become a problem in itself, especially when economic recovery is delayed and fiscal deficits cannot be reduced.

On the political dimension, *partisan* theories have been successful in explaining the development of the welfare state (Castles, 1982; Hicks, 1999; Huber and Stephens, 2001). Social Democratic parties – as well as the Christian democratic parties of Continental Europe (Stephens, 1979; van Kersbergen, 1995) – were found to be important drivers of the expansion of welfare states across the OECD during the immediate post-World War II decades. However, with regards to the period *after* the first Oil Shock, the impact of party politics has become more contested. While some authors still find an impact of left-wing political parties on social policy expansion, others maintain that left-wing parties can no longer be seen as the guarantors of welfare state expansion (Huber and Stephens, 2001; Kittel and Obinger, 2003; Korpi and Palme, 2003; Pierson, 1994). Nonetheless, the hypothesis that crisis responses are caused by differences in the partisan composition of governments, more concretely that social democrats and Christian democrats respond by expanding or protecting the welfare state while secular conservatives and liberals are more likely to enact cutbacks – is still highly plausible and will be discussed.

At the same time, crisis responses, including functional and partisan responses, may be mediated by *political institutions*. In many countries parties frequently have to collaborate in government, either within formal coalitions or in minority situations. This affects the scope of parties being able to achieve their goals, and it might even encourage them to change their initiatives towards those which are more feasible in a coalition government (Green-Pedersen, 2002). Moreover, powerful institutional veto players such as second chambers and strong constitutional courts may enter the picture and dilute the potential partisan impact on policy or make even functionally important adjustments harder to enact (Immergut, 1992; Tsebelis, 1995). It may be the case, however, that veto players become less important in situations of crisis. Emergencies that call for swift and decisive action tend to strengthen the executive and may even motivate partisan players to make more concessions under time pressure. During crises the effect of institutional structures on policy may therefore be weak or even disappear altogether.

In addition to the simple additive effects of these variables, we need to consider the possibility of causal interactions. This means that we explore the hypothesis that the scope for partisan crisis management policies is conditioned by the size of the existing welfare state. For small welfare states, this would imply that the political left would pursue a broadly Keynesian policy of ad-hoc expansion; while the right is much more concerned with the fiscal risks associated with expansion and possible disincentives to work of higher benefits, which implies a non-response or even welfare state cutbacks. In countries with large welfare states, even social democrats would not opt for further ex-

pansion as the welfare state is essentially already functioning as an automatic stabiliser (Cohen and Follette, 2000). The dominant, and more consensual, crisis response would be one of non-response or, sometimes, cutbacks – justified by fiscal imperatives (high deficits).

To disentangle the role of party politics, the welfare state and their interaction effect we approach our cases by carefully tracing the political process (Bennett, 2008; George and Bennett, 2005). 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 at least 12 national crisis episodes. In addition to looking at cross-case regularities, we analyze processes at the within-case level in order to tap the causal mechanisms of crisis policymaking.

## **THE OIL SHOCKS OF THE 1970S**

In 1973 and 1979 two oil shocks marked the end of three decades of almost continuous, unprecedented economic growth and expanding welfare states in most Western countries. The oil shocks induced stagflation and high unemployment rates, and let budgetary deficits grow in all four countries.

### **Australia**

The 1970s were a time of turbulence in Australia. 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 modern welfare state based on universalism, greater redistribution and equality of opportunity. Despite economic downturn, political instability and a constitutional crisis, the Whitlam government was able to enact a significant share of its plans, including significantly higher pension rates (Edwards and Whiteford, 1988: 60) and Medibank, a publicly funded, universal health insurance scheme (Scotton, 2000). The impact of the First Oil Crisis hardly deterred the Whitlam government in its intention to modernise the Australian welfare state (Porter, 1978). It believed to have a strong mandate to implement its plan “to its last detail” (cited in Bach, 2003: 282). Initially, the government’s macroeconomic response to the crisis followed the Keynesian recipes (expenditure growth and tax cuts). And while the 1975 budget was more restrictive, it did not affect the expansionary course in social policy. Against the counterfactual of no first oil crisis, the reaction by the Whitlam government must probably be seen as one of ‘non-reaction’, at least in terms of social policy.

As a consequence of political and constitutional conflicts in 1975, a conservative ‘Coalition’<sup>4</sup> under Malcolm Fraser won the 1975 election by a comfortable margin. As the economic crisis continued, the Fraser government embarked on a more fiscally conservative course, extended to social policy; and even supported by a Senate majority (rare in Australia). Its rhetoric, and to some extent its policy, was now openly anti-Keynesian (‘Fight Inflation First’ was the slogan). Some benefit retrenchment for unemployment benefits was introduced, as was a pension means test for people above the age of 70. Most importantly, the new universal Medibank health care scheme was exposed to a ‘death by a thousand cuts’ strategy in the years after 1975 and eventually abolished. A number of expansionary initiatives proposed by prominent policy inquiries were shelved. While the Fraser government was not a market-radical government à la Thatcher (Hood et al., 1988; Mendes, 2008: 29-30), and despite some minor expansionary initiatives, its overall crisis response was one of welfare state retrenchment.

The fall-out from the second oil shock was more severe, especially in terms of growth and employment. It contributed to another change in government in 1983, back to the Australian Labour Party under Bob Hawke. Hawke started a process of microeconomic liberalisation of the economy (Castles et al., 1996), without making use of welfare state retrenchment. The central pillar of the new government’s macroeconomic and social policy strategy was the Prices and Incomes Accord (the ‘Accord’) of 1983<sup>5</sup> – an agreement between the trade unions and the ALP (excluding employers) based on an exchange of wage moderation against improvements in the ‘social wage’. The government further re-introduced a comprehensive health care scheme (‘Medicare’) which almost exactly restored the universal scheme set up by the Whitlam government. Some of the unemployment benefit cuts were also restored, and the basic pension rate was lifted back to 25% of average male earnings. In fact, most benefits increased in real terms after 1983 (Edwards and Whiteford, 1988: 68). In this sense, the Australian response to the second oil shock was welfare state expansion, even though it was more a side-payment for the central goal of wage moderation than a genuine reformist policy initiative.

## **Belgium**

Highly dependent on exports, Belgium faced hard times in the 1970s. Unemployment grew sharply, while public finances had already been an issue before the oil shocks,

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<sup>4</sup> 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).

<sup>5</sup> The first in a series of eight corporatist agreements that ran until 1996.

with public debt being significantly higher than in other European countries (Cassiers et al., 1996: 190). At the same time, the political situation was highly unstable. Belgium saw no less than 13 different cabinets in the ten years following 1973. The governing parties were never entirely ousted but there was usually a change in one of the partners with whom the pivotal Christian democrats cooperated in office – socialist parties, liberals, or both.<sup>6</sup> This was accompanied by a rising socio-economic conflicts where employers, concerned about high inflation rates, called for an end to the traditional wage indexation regime. When no compromise on wage moderation was found, centralized bargaining broke down and the state tried to intervene directly in wage setting in 1976 (Hemerijck et al., 2000; Van Ruysseveldt and Visser, 1996), provoking a general strike. Further attempts to get trade unions to accept wage restraint failed in the 1970s. Eventually, wage restraint was imposed by the state in the early 1980s.

Under the Christian-democrat led governments of the 1970s, the most significant social policy response to the crisis was the decision to introduce various early retirement options (Gieselink et al., 2002). This included a ‘conventional early retirement’ instrument, effectively a top up benefit for older workers made redundant during the process of industrial restructuring. The benefit was paid by the last employer or through sectoral funds. A special government fund was used in cases of bankruptcy (De Deken, 2002: 30). The overall package was, thus, expansionary and made this so-called ‘bridge pension’ highly popular among workers.<sup>7</sup> In 1975 a law made it possible to lower the minimum retirement ages (65 for men and 60 for women) in sectoral collective agreements to extremely low levels (De Deken, 2002: 30; Gieselink et al., 2002: 584). Several further early retirement options were set up in the late 1970s (Gieselink et al., 2002). Although the original early retirement benefit was intended to be a temporary crisis response, its popularity soon put pressure on the government to regularly renew the scheme. These early exit policies emerged as a politically and – at least in the short run – economically beneficial solution for a number of different players. For employers, early retirement was a relatively cheap way of restructuring the labour force (Ebbinghaus, 2006). Officially, however, early retirement was introduced as a means to combat mass unemployment, especially youth unemployment, which had increased significantly after the first oil shock.

Criticism of the early crisis measures came up in the early 1980s, against the background of continued rising unemployment and skyrocketing public deficits. A new cent-

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<sup>6</sup> What is more, the 1970s were the period when all three parties split along language lines into a French-speaking and a Dutch-speaking party.

<sup>7</sup> Before 1975, the only way to go on retirement before reaching the statutory eligibility age (65 years for men, 60 years for women) was the financially unattractive option to retire with benefit reductions.

re-right coalition enacted austerity measures from 1982 onwards, including tightening the early retirement scheme (lowering average benefits, abolishing the exit option for female workers from age 55). Moreover, the system of unemployment benefits was re-designed in an incremental manner, away from the ‘Bismarckian’ earnings-related structure towards a minimum income benefit that made it much less favourable for high-income earners (Clegg, 2007; Marx, 2007).

Overall, the initial Belgian response to the oil shocks of the 1970s was an attempt to use welfare state expansion as crisis management, by reducing labour supply of older workers in the manufacturing sectors (designed as a temporary measure). Yet the take-up of the different early exit options was enormous. The centre-right government shied away from abolishing these popular policies but eligibility criteria were somewhat tightened in the early 1980s. Apart from that, early exit remained one of the cornerstones of Belgian social policy. Other notable crisis reactions were moderate cutbacks for higher-income unemployed and ‘cohabitants’ as well as numerous increases in social contributions.

## **The Netherlands**

The Netherlands was governed by a centre-left coalition (1973-1977), led by the Labour party (PvdA) prime-minister Den Uyl, when the first oil shock hit. Although the Dutch export oriented economy was strongly affected by the crisis, revenues from the country’s large natural gas reserves initially softened the impact on public finances. The immediate reaction of the government was an expansive Keynesian policy (Green-Pedersen, 2002: 110), including support for companies and the creation of jobs through public support for labour intensive sectors such as public infrastructure (Visser and Hemerijck, 1997: 159).

Not directly related to the economic crisis, but as part of the plans and ambitions with which the Den Uyl government had taken office in 1973 (Visser and Hemerijck, 1997: 212), some expansive social policies were enacted, including increases in the minimum wage level, the level of social assistance and public pensions (De Vries, 2000: 73). In 1974, the minimum wage and benefit levels were linked to wage increases in the private sector and in 1975 a universal social insurance for disability (AAW) was introduced<sup>8</sup>. More directly related to the economic downturn were some first experiments with a voluntary early retirement scheme (VUT), a private arrangement negotiated between trade unions and employers’ organisations, with the state only contributing through a preferential tax treatment.

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<sup>8</sup> The AAW introduced a benefit at social assistance level to all people who were unable to work due to a disability. For people who had previously been in employment, the WAO provided an additional income.



Even though budget deficits increased during the 1970s, while it was realised that economic growth might not return to its previous levels and unemployment would continue to grow, due to natural gas revenues “an expansionary course seemed feasible and appropriate” (Visser and Hemerijck, 1997: 212), and there was no agreement about the need to cut public expenditure (Toirkens, 1988: 32-4; Van Praag, 1990: 156-7). As Minister Boersma (ARP) later put it, there was a strong adherence to “Keynes’ theory, in which I, and many with me, still had an absolute faith” (Boersma, 1998: 92).

The second oil shock of 1979 hit the Netherlands much harder than the first. It triggered a recession and led to fast growing rates of unemployment. Initially, the centre-right Van Agt government (consisting of Christian Democrats and Liberals, 1977-1981) “responded” by non-reaction. Meanwhile, employers actively used unemployment and especially disability benefit schemes (WAO & AAW) to shed unproductive, mostly older workers (Becker, 2000: 224; Kuipers, 2006: 140). One policy measure enacted was to make the tax exemptions for private early retirement (VUT) permanent. Thus, the Dutch crisis response was one of labour force reduction through passive benefit schemes, but this can hardly be seen as a deliberate government choice. It were the social partners that managed unemployment, disability and private early retirement schemes. However, the government did choose to introduce tax exemptions for early retirement, and it chose not to alter the other schemes. Therefore, the response of the centre-right government to the second oil shock was one of welfare state expansion through non response and some incremental expansion.

After a brief intermezzo of an unstable centre-left governing coalition in 1981, in 1982 a coalition was formed consisting of the Christian Democrats and the Liberal Party led by Prime Minister Ruud Lubbers (CDA). By that time the economic situation had substantially worsened and had become a main issue in the national elections (Irwin, 1983: 71). While all parties agreed that cuts in government expenditure were necessary, the Christian Democrats and Liberals were most in favour of stopping, in Lubbers’ words, welfare ‘nonsense’ (Becker, 2000: 224). Relatively quickly they agreed on a programme of retrenchment (Irwin, 1983: 75). Once in power they enacted cuts including the freezing of unemployment, disability and pension benefit levels by temporary decoupling them from wage increases. The benefits for unemployment and disability were later also decreased from 80 to 70% of previous earnings, and limited in duration.

Social policy retrenchment was justified by reference to economic necessity (Green-Pedersen, 2002: 99). Organisations such as the Central Planning Bureau and the Scientific Council for Government Policy (WRR) contributed to a general sense of emergency and no alternative (Becker and Hendriks, 2008; De Vries, 2000: 75). Although the government enacted cuts in all social policy areas, it did not change the passive nature of the Dutch welfare state. The strong emphasis on social security transfers instead

of social services, the reliance on working time reduction, and even the linkage between benefits and wages were not changed structurally (Van Kersbergen, 1998: 84).

## **Sweden**

The Swedish welfare state is commonly regarded as being at the height of its development in the 1970s – looking back at many years of economic growth coming along with welfare state expansion driven by a dominant social democratic government. When the oil shock began to be felt from about 1977 onwards, however, the crisis management was mainly left to a centre-right government (1976-1982).

The first oil shock affected the country by destabilising the Swedish economy through a raw material boom in manufacturing and following highly inflated profits and wage-cost explosion in the mid-1970s. This was intensified by the supply shock caused by rising oil prices. Initially, the social democratic government treated the situation rather as a temporary downturn and reacted with typical counter-cyclical measures. Later responses, introduced by the Centre-right government in office from 1976, had both a restrictive and expansive character but were hardly a coherent and broad crisis response (Stephens and Bradshaw, 1995). Clearly classifying as concrete crisis management, in the context of rising unemployment among particular groups of the population, legislation in 1975 introduced partial pensions (as a form of part-time employment). In 1976, retirement age was lowered from 67 to 65. Nevertheless, compared to Belgian and Dutch policies with regard to early retirement and disability schemes, these policies appear rather marginal (De Deken 2002). Also, cash assistance for those ineligible for regular unemployment benefits was introduced.

It was only in the beginning of the 1980s, after the second oil shock, that a stronger sense of an economic and fiscal crisis emerged, calling for some kind of a reaction to tackle exploding public deficit (Premfors, 1998). Apart from devaluations of the crown in 1977, in 1980 the Centre-right government reduced the compensation for part-time pensions and introduced one waiting day for sickness benefits. Not a massive cut-back but it resulted in significant voter loss and helped the Social Democrats in 1982 to return to power. Apart from automatic stabilizers, the Centre-right government introduced some ALMPs. Labour market measures included subsidized and soft loans to specific branches, the expansion of public works and the public sector and training programmes; thus, incremental expansion. Also, new branches became part of the social security system, dental insurance was included in the social security plan and the housing allowance was increased (Palme and Wennemo, 1998: 15).

Back in government, the Social Democrats promptly abolished the waiting day for sickness pay, and introduced some special labour market and educational programmes targeted at young people and supporting self-employment. It was further made possible

to re-qualify for unemployment compensation through participation in training programmes. At the same time, though not a straightforward crisis response, neo-liberal ideas got somewhat stronger in Sweden in the 1980s. Examples are the introduction of some private health care provision, and a discussion emerging in both right and left wing parties about welfare state limitations (Nygård, 2006).

Accordingly, the initial emphasis in Sweden was rather consensually on classic Keynesian economic policies, not cutbacks. Particularly compared to the crisis responses in other countries (and to the crisis in the 1990s) this can be best classified as a non-response, with some rather symbolic, marginal adjustments.

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The responses to the first oil shock was generally Keynesian, consisting of expansion or non-response. When more awareness of the crisis situation emerged after the second oil shock, retrenchment became part of crisis management measures as well. Conservative governments were more willing to introduce some cutbacks, most clearly in the case of Australia. But also the three European countries saw some retrenchment while most of it was rather minor or symbolical, and much happened in a spirit of consensus that ‘something had to be done’.

## **THE CRISIS OF THE EARLY 1990S**

A stock market collapse in October 1987, known as the ‘Black Monday’, marked the beginning of a global crisis that affected various countries. It struck in a period of financial liberalisation and innovations fuelling a worldwide credit boom and high levels of international economic growth. While the stock market itself quickly recovered, and, initially, mainly North American countries were affected, the subsequent savings and loans crisis spread especially in English-speaking countries. However, the global recession of the early 1990s had multiple causes and is probably best described as a cyclical downturn aggravated by domestic and regional economic events transmitted through the globalized economy. The climax in Western Europe, in the form of a currency crisis, was reached in 1992/93 (Jonung et al., 2008: 3).

### **Australia**

The recession in Australia began in September 1990, lasting one year. Unemployment rose sharply during 1991-92 to over 10%. Politically Australia was going through a transition period. Treasurer Paul Keating was actively pushing for change, including change in leadership. After a failed first attempt to replace Hawke in June 1991, Keating finally gained the position of ALP leader and was elected Prime Minister six months

later. Meanwhile, the conservative opposition launched a radical policy blueprint, entitled *Fightback!*, which included neo-liberal policies.

In February 1992, the Keating government reacted with what became the government's main crisis response – the *One Nation* package, “a strategy of spending on substantial and necessary public investments now while private investment is weak and bringing the Federal Budget back into surplus when private investment is strong” (Keating, 1992: 5). The government decided to boost public demand after pressure from the left wing of the party and from ALP state premiers, and after consultations with trade unions and business lobbyists. The package included income tax cuts, increased spending on active labour market policy and higher family benefits as well as a significant lump-sum family benefit payment for low and middle-income families. The social and labour market component of the spending package made up 45.3% of the whole package (calculations based on Keating, 1992: Attachment B). This demonstrates that the welfare state was not seen as part of the problem during the recession but as an important part of the solution. Further measures in 1992 confirm this impression. At a youth unemployment summit in July, the government promised to allocate additional resources on jobs and training.

In addition, and already in August 1991, the government had announced a major change to the Australian pension system. It was to develop into a multi-pillar system through the so-called Superannuation Guarantee, effective in July 1992, which extended occupational pensions to over 70% of employees and institutionalized an employer contribution rate of 3% (to be raised to 9% by 2002). The pension was built on the foundations of the Accord Mark II of 1986, and was therefore introduced with support of the unions (Bateman and Piggott, 1998: 555). The key, as in the 1980s, was wage moderation. In order to get the trade unions on board, funded pensions were the perfect vehicle for the government to offer something. Pension contributions to private pension funds increase workers' ‘deferred wage’ without leading to immediate wage inflation. Moreover, compulsory superannuation was regarded as an instrument to tackle Australia's foreign-debt problem by boosting domestic savings (Gruen and Stevens, 2000: 57).

After a ‘surprise victory’ in the 1993 election, the Keating government addressed the issue of labour market policy. While economic growth had returned by 1992, unemployment was still high, especially long-term unemployment. *Working Nation*, a government White Paper (Keating, 1994) proposed a number of legislative changes including the so-called Job Compact, a guarantee of a job offer, placement in a training programme, or public employment scheme for everyone unemployed for more than 18 months, based on the principle that ‘every Australian has a right to a job’ (Keating, 1994: 30). The government introduced a mix of individual case management, job creation schemes (called ‘New Work Opportunities’) and wage subsidies (Jobstart). Perhaps

surprisingly, given this direction, the government also introduced a small ‘labour shedding’ scheme in 1994. 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 (never gained the importance of similar programmes in continental Europe, however).

To sum up, the Australian response to the 1990s crisis consisted in incremental welfare state expansion in the short term – especially through One Nation – and some expansionary policy innovations in the medium and long term. As in the early 1980s, the ALP government’s initiatives were framed by a corporatist agreement.

## **Belgium**

Belgium had gradually begun to recover from the second oil shock from 1984 onwards, though, for example, net levels of public debt were still at a crushing rate of over 100% of GDP. Then, as a result of the international economic crisis, during the first half of the 1990s, the unemployment rate rose to, and stayed at, around 9%. 1993 was the worst year in terms of growth, as the economy contracted by about 1% in real terms.

The political situation had somewhat stabilized in the early 1990s (compared to the 1970s/80s), with governments changing much less frequently (Timmermans and Moury, 2006). A crucial figure was the Christian democrat Jean-Luc Dehaene, Prime Minister from 1992 to 1999 who headed two consecutive Christian democrat-Socialist cabinets. Apart from the recession and its consequences, the early 1990s were dominated by the issue of language politics and federalism with a major constitutional reform in 1993 that transformed Belgium into a ‘real’ federal system.

In terms of crisis responses, the 1990s appear as a decade of failed reforms, at least when it comes to big structural changes in economic and social policy. The Dehaene government, with great aplomb, announced negotiations for a new ‘Social Pact’ in 1993 to replace the old Social Pact of 1944 as the foundation of the Belgian welfare state (Kuipers, 2006: 91). The proposed Pact included a mix of tax increases, benefit cut-backs, public employment and employer incentives for job creation. The government’s proposals provoked a storm of protests by the trade unions and the Socialist union federation walked out of the negotiations (Hemerijck et al., 2000: 242). While the original Pact failed, most measures were nonetheless introduced as part of what came to be called the *Global Plan*. Overall, changes in social policy, including the measures of the Global Plan, were incremental.

Yet, as in the 1970s, parts of the welfare state were still seen as effective means to manage the crisis and therefore not retrenched, which led to rising expenditure levels in the first half of the 1990s. Total public social expenditure as a percentage of GDP rose

from 23.8 in 1990 to 27% in 1995. In part, this was due to the continuation of labour shedding. The early exit option remained very popular among employers and older workers. Accordingly, the total number of claimants had continued to grow significantly during the 1980s. There is little evidence that, when recession returned to Belgium, early exit was no longer seen as an effective crisis response. On the contrary, a new national collective agreement in 1993 introduced even a new early exit route, the ‘partial’ early retirement pension. In terms of beneficiary numbers, this route remained marginal. Further general pension reforms were enacted in 1996, including a number of rather modest cutbacks (Anderson et al., 2007). Civil servants’ pensions, however, remained shielded. An uneven development continued to characterize unemployment insurance policy. In terms of benefit levels, some categories of unemployed saw benefit increases above price inflation in the early 1990s, others saw cutbacks. Overall, no clearly planned or comprehensive reform of unemployment benefits was introduced in the 1990s (Adnet, 2002).

It was in the 1990s that Belgium gained its international reputation as a non-reformer. Indeed, the Belgian welfare state did not change very much during the first half of the 1990s, compared to many other countries. Overall, the crisis reaction was marked by continuity and non-reaction, but perhaps less due to the conviction that the system was working but due to a multiplication of distributional and cultural conflicts that could not be entirely solved by the political system.

## **The Netherlands**

In the Netherlands, the 1990s were not characterised by a genuine economic crisis, as GDP growth never actually turned negative. Moreover, unemployment had decreased during the 1980s and only increased slightly between 1993 and 1995. However, activity rates continued to be low. In particular, the number of people receiving disability benefits continued to increase. In 1990 disability benefits were paid for 790,000 FTEs, or 11% of the total labour force (Kuipers, 2006: 135-6). Instead of an economic crisis, the early 1990s have been characterised by a “crisis of inactivity” (Kuipers 2006).

In 1989, a new government was formed by Christian Democrats and the Labour Party. Eager to return to government after eight years of opposition, the Labour Party agreed on a coalition agreement that included “stringent measures to further reduce the burden of public debt, tax and social security contributions” (Kuipers, 2006: 149). The party wanted to present itself as “ready to govern, and in a responsible way” (Ibid.: 149). However, when the economic situation worsened in 1990, the Christian Democrats maintained that even more stringent measures were necessary.

In a public lecture in September 1990, Lubbers argued that “the Netherlands is sick” (Green-Pedersen, 2002: 110), referring to the high number of people relying on disabili-

ty benefits. This crisis rhetoric helped to put the issue front and centre (Green-Pedersen, 2002: 108; Kuipers, 2006: 150). The slowdown of economic growth formed a test for the Labour ministers, who wanted to stick to their earlier declaimed intentions to decrease the public deficit. Since the number of disability claimants continued to grow, the government saw a reform of the disability benefit scheme (WAO) as unavoidable. In July 1991, a reform was announced. Among other things, the disability benefit had to be limited in duration. Also, the first six weeks of sickness benefits were to be paid by the employer. The reform plan led to outrage from both the unions and Labour parliamentarians. In October 1991, 250,000 people demonstrated against the planned reforms (Lucardie et al., 1991: 18).

It would take another year and a half to agree on a final compromise. Only after the Christian Democrats threatened to strike a deal with the Liberals instead, Labour MPs finally agreed on drastic cuts through tighter eligibility criteria and a shorter duration for new claimants. In the meantime, the administration of the disability scheme by the social partners had also come under scrutiny. A parliamentary commission had concluded that there was widespread abuse of the occupational insurance system to get rid of unproductive workers. The social partners, responsible for administering occupational insurances, were politically blamed for this abuse. Fairly smoothly, the administrative system was changed in such a way that the social partners were no longer involved. Instead, the administration was privatised, and an independent public body commissioned the system (Kuipers, 2006).

The reform of the WAO and especially the subsequent reform of the administration of occupational insurances can be seen as examples of transformative retrenchment. Although the economic crisis of the early 1990s reinforced the need for reform, the reform should not be seen as an immediate crisis response. Instead, it is a response to continuously high levels of inactivity. The international climate (OECD, EU) that increasingly criticized high wage costs and high inactivity rates have probably contributed to a legitimisation of the reforms, especially because this international discourse was picked up by national actors, such as the WRR.

## **Sweden**

Perhaps as a consequence of not taking crisis management or prevention more seriously after the crises in the 1970s, the crisis in the early 1990s hit Sweden with such a power that automatic stabilizers were clearly not sufficient for crisis management. Unemployment levels rose significantly and remained at record high levels of above 10% from 1993 onwards. There was consensus that a decisive response to the crisis was needed. This time the welfare state was in the focus of crisis management measures, and this included extensive retrenchment.

Plans to reform parts of the Swedish welfare state, and first steps to cutting unemployment and sickness benefits had already been undertaken in 1991 by the new Centre-right government, in office from 1991-1994, as well as the criteria for receiving disability pensions had been tightened. The more comprehensive and explicit crisis response came in September 1992 in the form of two austerity packages, agreed upon by both, the Centre-right government and the Social Democrats in opposition at the time. For labour market policies this brought about a reduction of income replacement rates for unemployment benefits, and a five-days waiting period; but also compulsory unemployment insurance was introduced. With regard to pensions there were benefit cuts, as well, as the basis for calculating the benefits was reduced by 2%. For the sickness benefit a one-day waiting period was introduced, and employers had to pay the first two weeks of sick pay. Regarding family policy, child allowances were affected, as earnings-related benefits were cut from 90 to 75% (later raised to 80%).

However, in fact, it was then a Social-democratic government, back to power in 1994 that “accepted the basic TINA logic as they began cutting back several social welfare policies” (Steinmo, 2002:852), that, however, were classified by Palme et al (2002) as more evenly distributed than previous (“centre-right”) reforms. The consolidation programme, designed for 1995 to 1998, comprised tax increases and cuts in expenditures. For pensions, for example, this meant that the adjustment of pensions was linked to the size of the budget deficit (Government Bill 1994/95). Regarding unemployment benefits, it was no longer possible to re-qualify for unemployment benefits by just taking part in training programmes and relief work. Another round of cut-backs was introduced in 1996 with a further reduction of unemployment benefits, and five waiting days for receiving benefits. Also, though rather short-termed, the monthly benefit per child was lowered, and social assistance benefits were cut.

Thus, with regard to the 1990s crisis in Sweden, crisis management has taken place by way of incremental retrenchment (UI benefits, eligibility criteria, benefit indexation), and to a lesser extent incremental expansion (ALMP). This was pursued by both centre-right and Social-democratic governments, often rather consensual. It is also important to take into account that in the 1990s Sweden was in a process of privatising part of the social security schemes (e.g. care sector, pensions, education); this was not explicitly associated with the crisis, but might be classified as having fitted well with the need to reduce public expenditure.

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Crisis responses in the 1990s were more diverse than in the 1970s/80s. We see Australia with incremental and some transformative expansion, Belgium with mostly non-reaction. In the Netherlands, and Sweden, on the other hand, retrenchment can be observed. Sweden, the big welfare state, found itself in a situation of structural imperatives that resulted in consensual retrenchment.



## **THE POST-2008 RECESSION**

The most recent crisis (beginning in 2007/2008) was triggered by the collapse of a particular segment of the US housing market ('subprime mortgages'), which caused a breakdown of major mortgage and investment banks and near-breakdowns of others who then had to be bailed out. Due to the globalisation of finance, banks and other financial institutions worldwide got into trouble in no time (Hemerijck et al., 2009:13). Lack of credit led to falling investment and consumption. The post-2008 recession – unlike the oil shocks of the 1970s – was clearly a demand-side shock.

### **Australia**

This crisis affected Australia comparatively little. While GDP dropped during only a single quarter (Q4 2008) and unemployment peaked at below 6% (about a year later), this mild recession was accompanied by continuously high demand for Australian natural resources, a big drop in the Australian dollar in the second half of 2008, a sound banking sector, and a backdrop of good fiscal and economic performance previous to the crisis (OECD, 2010: 8). During the crisis, employment was shifted from full-time towards part-time. Thus, instead of laying off workers, employers chose to retain them – even without backing from a state-sponsored short-time working scheme or strict protection against dismissal. This must be seen against the backdrop of a significant shortage of skilled workers in the Australian economy, that was already obvious before the crisis and was expected to remain an issue after it.

In response to the worsening conditions, the Labour government under Kevin Rudd decided upon several large fiscal stimulus programmes in 2008 and 2009 that contained sizeable income tax cuts for low-income families, higher pension payments, subsidies for home buyers, and large-scale investment in infrastructure projects. The estimated total volume of the stimulus measures adopted amounts to 7% of GDP, making it the third largest package in the OECD (OECD, 2010). Social policy measures played an important part in the stimulus response, especially at the beginning (Gruen, 2009).

The first of these stimulus packages (Rudd and Swan, 2008) was worth A\$10.4 billion, of which A\$4.8 billion alone went into pensions in the form of a lump sum payment of A\$1,400 for each Age Pensioner (A\$2,100 for couples, and A\$1,000 for recipients of a carer's allowance), to be paid by December 2008. A larger review of the pension system (Harmer Review) was already underway and due to report in 2009. Therefore, the government deferred any structural changes of the pension system to a later date. Low-income families also received a lump sum payment of A\$1,000 for each child. To further assist young families – as well as the housing sector – assistance to first home owners was increased. In the 2009-10 budget, the government announced changes to family tax benefits, including less generous indexation rules for higher-income families.

A range of policy changes were introduced that were only indirectly linked with the crisis, including a higher pension age, higher minimum pension benefits (particularly for single pensioners) and changes to Superannuation (occupational second-pillar pension).<sup>9</sup> Even in the field of labour market policy, some of the measures enacted in the aftermath of the crisis had been planned a long time ago against the backdrop of the skills deficit. For example, a ‘Jobs Fund’ (Australian Government, 2009) was set up to subsidize employment and training initiatives at the local level. The government also set aside additional funding for case management for jobseekers and eased income tests for some benefits. As part of the stimulus packages, additional funding for laid-off workers became available through the so-called Structural Adjustment element of the scheme. A similar programme was set up at the level of the states and territories.

In sum, the Australian response to the 2008 financial crisis was quick and decisive. In terms of social policy, the response was clearly one of incremental expansion. According to the OECD, about a quarter of the stimulus spending (1.1 of GDP) was spent in the form of transfers to individual households (OECD, 2009a: 64). Because Australia’s automatic stabilizers are small, the emphasis was strongly on discretionary spending, and temporary measures. The government made sure that no general welfare state expansion (beyond the changes already in the making prior to the crisis) was initiated.

## **Belgium**

Belgium’s economic performance during the first crisis years was close to the OECD average in terms of GDP, unemployment and fiscal deficits. Again, public debt is the main exception to this pattern. However, even before the 2008 financial crisis, the political situation in Belgium had been novel, difficult and at times chaotic. The process of government formation following the 2007 election was affected by long-standing linguistic conflicts; with the main point of disagreement concerning constitutional reform, including the distribution of powers across the different state levels (Sinardet, 2010). Flemish parties generally call for a greater degree of devolution – notably in the field of social policy – while Walloon parties want to preserve federal competences in these areas. These constitutional issues could not be solved and negotiations continued even after a government was formed. Early elections took place in June 2010 but, until the

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<sup>9</sup> Two policy reviews had been set up before the crisis. First-pillar pension reforms were largely based on the Harmer Review (Department of Families, 2009), second-pillar changes partly on the Henry Review (Australia’s Future Tax System, 2010).

time of writing (September 2011), no government could be formed<sup>10</sup>, again due to struggles over constitutional issues.

The Belgian crisis measures must be seen against the backdrop of the constitutional and government crisis unfolding simultaneously but largely independently. These measures were initiated by the Van Rompoy and Leterme governments – both coalitions between the Christian democratic parties, the liberals and the French-speaking socialists – as well as by the Leterme caretaker government from 2010 onwards. The crisis reactions in the area of social policy centred on three main initiatives<sup>11</sup>: short-time work schemes (already introduced prior to the crisis), reduced social contributions and active labour market measures. Short-time work or temporary unemployment schemes provide unemployment benefits for a period of several months during which the work contract is not terminated (Hijzen and Venn, 2011). White collar workers are not included in the schemes. Instead, they have increasingly made use of an alternative ‘time credit’ system during the downturn, originally invented to improve work-life balance (Vandaele, 2009: 591). The temporary expansion of the (blue-collar) short-time work scheme was part of a national collective agreement between the social partners in late 2008. Compensation rates were increased, and the scheme was extended towards atypical workers. Moreover, the Flemish regional government introduced an additional bonus for some workers (Vandaele, 2009: 591). Due to the rising demand from employers of white-collar workers for a similar benefit, the government introduced a similar short-time work scheme for white-collar workers in 2009. Not surprisingly, given the generous schemes, the number of workers on short-term working benefits rose steeply (Hijzen and Venn, 2011: 18). Other measures included an expansion of the existing Work Bonus system which lowers social contributions for low-income earners, further training and job search assistance. Some of the latter measures were implemented at the level of communities and regions.

To sum up, the crisis response in Belgium has been one of moderate expansion of already existing schemes, particularly short-time work schemes. Some of the additional crisis measures were enacted on a temporary basis and renewed several times since.

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<sup>10</sup> Famously, this made the Belgian government formation the longest in the modern democratic history of the world.

<sup>11</sup> It should be noted that the years before the political crisis of 2007 were, in fact, a period of wide-ranging social policy reform (by Belgian standards). The Generation Pact of 2005 which changed both the general pension scheme and restricted early retirement should be mentioned, along with earlier reforms such as the introduction of a central pension fund, the so-called Silverfund (2001), to compensate for an expected pension expenditure hike in 2010-2030; a new long-term care insurance in Flanders (2001); the introduction of the Work Bonus, a reduction of social contributions for low-income workers (2001) and higher unemployment benefits (2005).

When looking at the whole welfare state, the dominant tendency has been one of continuity and non-response. The extremely high level of public debt, however, will make some more wide-ranging measures necessary. Whether it will be possible to place the burden of fiscal consolidation mainly on the revenue side – as was the case in the past – is doubtful. In any case, more wide-ranging measures are conditional on the formation of a legitimate government.

## **The Netherlands**

When the financial crisis hit, the Netherlands was governed (since 2006) by a coalition of Christian Democrats and the Labour Party led by Prime Minister Balkenende. Besides large cash injections in the financial sector, the first immediate crisis responses in autumn 2008 included working time reduction and the introduction of mobility centres. In March 2009, the government announced a package of crisis response measures, emphasising that “national investments will not repair the world economy”, and automatic stabilisers would be enough to stimulate the economy. Therefore, only some temporary and targeted measures were undertaken. The package consisted of the expansion of part-time unemployment schemes, some investments in (re-)training and mobility of employees, and special attention to fighting youth unemployment. A distinction was immediately and explicitly made between short-term and long-term responses:

*We are dealing with short-term developments. This and next year we will settle for high budget deficits [...]. In the long run we of course have to find a road towards a solid budgetary balance.*<sup>12</sup>

Thus, an agreement was already made about future retrenchments. In an extra coalition accord the government parties committed themselves to reducing budget deficits by at least 0.5% of GDP per year. A long-term ‘sustainability package’ included the increase of the retirement age to 67 and cuts in the health care budget. However, before these long-term measures could be implemented, Balkenende’s government fell in early 2010<sup>13</sup>.

In the May 2010 elections, the crisis and its consequences for the welfare state were an important theme (Holsteyn, 2010), and the socio-economic left-right dimension played an important role. However, it was generally believed that retrenchment was

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<sup>12</sup> <http://www.rijksoverheid.nl/onderwerpen/kredietcrisis/documenten-en-publicaties/videos/2009/03/26/presentatie-maatregelen-tegen-economische-crisis.html>

<sup>13</sup> The government crisis of February 2010 was the direct consequence of a conflict about sending troops to Afghanistan. This conflict was the last in a sequence of internal disagreements within the governing coalition. Most of the internal friction between the Christian Democrats and the Labour Party was seemingly not related to economic or social policy, but instead to foreign policy.

unavoidable. Only the necessary scope of retrenchment was contested. The Liberals won the elections, with a programme based on the most far reaching retrenchment of all parties, including almost all areas of the welfare state. The other big winner was Wilders' Party for Freedom, whose programme mixed an appeal for the preservation of existing social benefits (such as retirement at age 65) with strong anti-immigrant sentiments. After long negotiations, a minority government was formed, consisting of Liberals and Christian Democrats, and supported by Wilder's Party for Freedom. Central in the accord reached by the coalition partners were cut-backs to tackle the crisis, and to restore public finances.

Among the main areas of retrenchment are health care (cost containment combined with an increase in insurance contributions) and a reform and retrenchment of disability benefits for younger people. In total, the cabinet proposes to save €18 billion, and yet it has been called unambitious and socially conservative by many (The Economist, 2010). Cuts are introduced gradually, with the retirement age raised by only one year in 2020. Only the intended reform of the disability benefits for younger people can be seen as a form of transformative retrenchment.

It seems that Wilders has had a substantial influence on the government's programme. His social conservatism prevented radical retrenchment of the welfare state. After some short expansionary emergency measures, both the Christian Democrats/Labour government and the subsequent Liberal/Christian Democrats coalition opted for gradual retrenchment. Contrary to the 1980s, the extent to which the welfare state is held responsible for (exacerbating) public deficits is limited. 'Big government' more generally is instead blamed.

## **Sweden**

A centre-right coalition was in government when Sweden was hit particularly hard by the 2008 financial crisis. GDP growth turned negative and inflation peaked in 2008. Unemployment went from just above 6% in 2007 to almost 8% in 2010. However, one has to consider that the overall economic and financial situation for Sweden was rather stable, and lessons had clearly been learned from the 1990s crisis. The situation made some kind of reaction or management of the crisis clearly necessary. However, in contrast to the 1990s, the welfare state was not the focus of retrenchment. The measures undertaken were expansive, attempting to protect people from the consequences of rising unemployment. The on-going reform path of the centre-right government, in power since 2006, was partly continued (focussing on activation measures) and partly interrupted, or even contradicted, by short-term crisis measures.

More concretely, in October 2008 the immediate crisis response by the Swedish government focused on the financial market (Antolín and Stewart, 2009; Jochem, 2010).

Later, 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. Being well aware of the difficulty of the Swedish model to cope with high levels of unemployment, as experienced in the 1990s-crisis, the document states that the most important target is to bring more people into work in order to avoid permanent high unemployment levels. This should be achieved through letting the system's automatic stabilisers work (not cut backs), and through the use of short-term expansionary measures and adjustment of ALMPs for most vulnerable groups. More concretely, it is said that preventing the cut of publicly financed jobs was one of the most cost-effective measures for slowing down the decrease of employment. Therefore it is proposed to increase the resources for the regional and local levels (kommuns, landsting), for example, in health care, care for the elderly and education. The proposition makes suggestions as to practical and university education and more ALMPs, and an increased focus on young unemployed people. Discretionary changes in ALMPs in response to the crisis included job subsidies and recruitment incentives, job-search assistance, work experience programmes and matching, training programmes (ILO, 2009:23). At the same time, taxes on income and pensions have been reduced and housing benefits for people with health problems have been increased (Regeringens proposition 2009/10:1, 200924f:24f). In October 2009, legislation for the smoothing of the adjustment of pensions was passed in order to make sure that pensioners would not face a loss of income (Bonnet et al., 2010; Jochem, 2010:27).

In September 2010 the Centre-right government was confirmed in office – also speaking for the acceptance of its crisis management by the population. The country relied on its automatic stabilizers together with some expansionary measures in the form of activation programmes. Now, the country finds itself once again in the focus of international interest and admiration – it is one of the very few countries not facing the EU's excessive deficit procedure<sup>14</sup>; and the IMF and the OECD praise: “The Swedish economy is strong like Pippi Longstocking!”

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The social policy responses to the most recent global economic crisis do mostly not regard the welfare state as the problem for budget deficits, and retrenchment – in the countries studied in this paper – has mostly been of limited importance, with the exception of the Netherlands so far. Short-term measures were clearly expansionary, and non-reaction or the use of automatic stabilisers was the dominant approach, with the exception of Australia where the government referred to incremental expansion (short-term measures).

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<sup>14</sup> [http://ec.europa.eu/economy\\_finance/sgp/deficit/countries/index\\_en.htm](http://ec.europa.eu/economy_finance/sgp/deficit/countries/index_en.htm)

## CONCLUSION

This condensed overview of the experience of four countries during three different crisis episodes leads to a number of conclusions. The first important conclusion is that the variation in crisis responses both across countries and across periods is rather striking. We find expansion and retrenchment in different countries at different times, in different combinations, and with different emphases on different fields of the welfare state. The depth of the crisis does not explain a particular crisis response. There simply is no uniform crisis response! This finding defies easy generalization about a ‘retreat’ or a ‘return of the state’ as crisis manager.

In the first period, we find expansionary initiatives in most countries, although some retrenchment can be found under the conservative government in Australia and the Netherlands, and to some extent even Belgium. In the 1990s, the focus is on retrenchment in Sweden, in particular, and also in the Netherlands. However, we see little change in Belgium and even further expansion in Australia. The current crisis led to short-term expansion in most countries, particularly in Australia, and to a lesser extent in the Netherlands and Belgium. Sweden has weathered the storm without any significant policy changes. Here, the stated aim is to use the existing arsenal of generous welfare state schemes to buffer the fallout from the crisis. Only in the Netherlands was initial expansion immediately followed by retrenchment. Overall, across crisis episodes, we do not find the drastic turn from generosity and expansion to retrenchment, or the other way around, in crisis responses, that has been part of the political debate on the welfare state.

When comparing the countries instead of periods, we see an uneven pattern but Australia stands out as the country that most consistently reacted to crisis by expanding welfare state schemes. The three European countries tended to be less enthusiastic when it comes to further expansion and either did not change existing schemes or even cut back in the face of high deficits. This supports the functional hypothesis according to which the size of existing automatic stabilizers determines the crisis response. One significant exception to this pattern is the expansion of early exit schemes in Belgium and the Netherlands in the 1970s. This policy innovation can perhaps be attributed to the particular structure of the corporatist system that made it easier for employers and employees to externalize part of the cost of industrial restructuring.

There is also a partisan pattern in the crisis responses. It is particularly clear in the case of Australia, where Labour governments have been consistently in favour of using welfare state schemes and even expanding them after crises while the Liberal Party and the National Party have either strongly opposed these measures while in opposition or, as in the case of the Fraser government in the 1970s and early 1980s, even enacted cut-backs. This pattern is much less clear-cut in the other three countries. We see some turning points, for example, in Belgium and the Netherlands in the early 1980s, but no ge-

neral partisan divergence. Part of this certainly has to do with the institutional set up and the multi-party cabinets and/or minority governments that did not allow for radical changes.<sup>15</sup> But the pattern also conforms to the interaction hypothesis formulated at the beginning of this paper. Partisan differences should be more pronounced in smaller welfare states as crisis responses are much less ‘automatic’ and need to be made explicit. This makes decisions about welfare state changes during economic downturns subject to much more ideologically laden fights about the appropriate role of the state. Retrenchments enter the agenda in larger welfare states usually once the fiscal pressure becomes too high to be ignored. However, the solutions – usually moderate retrenchments – are much less of a partisan issue.

These findings should be regarded as first suggestions in need of further in-depth analysis. What we have learned is, in short: the welfare state is used as a mechanism of responding to major economic crises. If it is a reasonably big welfare state, it is – explicitly or implicitly – used as an automatic stabiliser; and by that way automatic expansion is accepted as a way of tackling the crisis. However, large welfare states can also become a burden to public finances, especially when economic recovery is delayed. While short-term measures are often rather expansionary, long-term reactions may well look differently and include retrenchment.

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<sup>15</sup> Note, however, that the typical Australian government – including all governments included in this analysis except the Fraser government – lacks a majority in the powerful Australian Senate.



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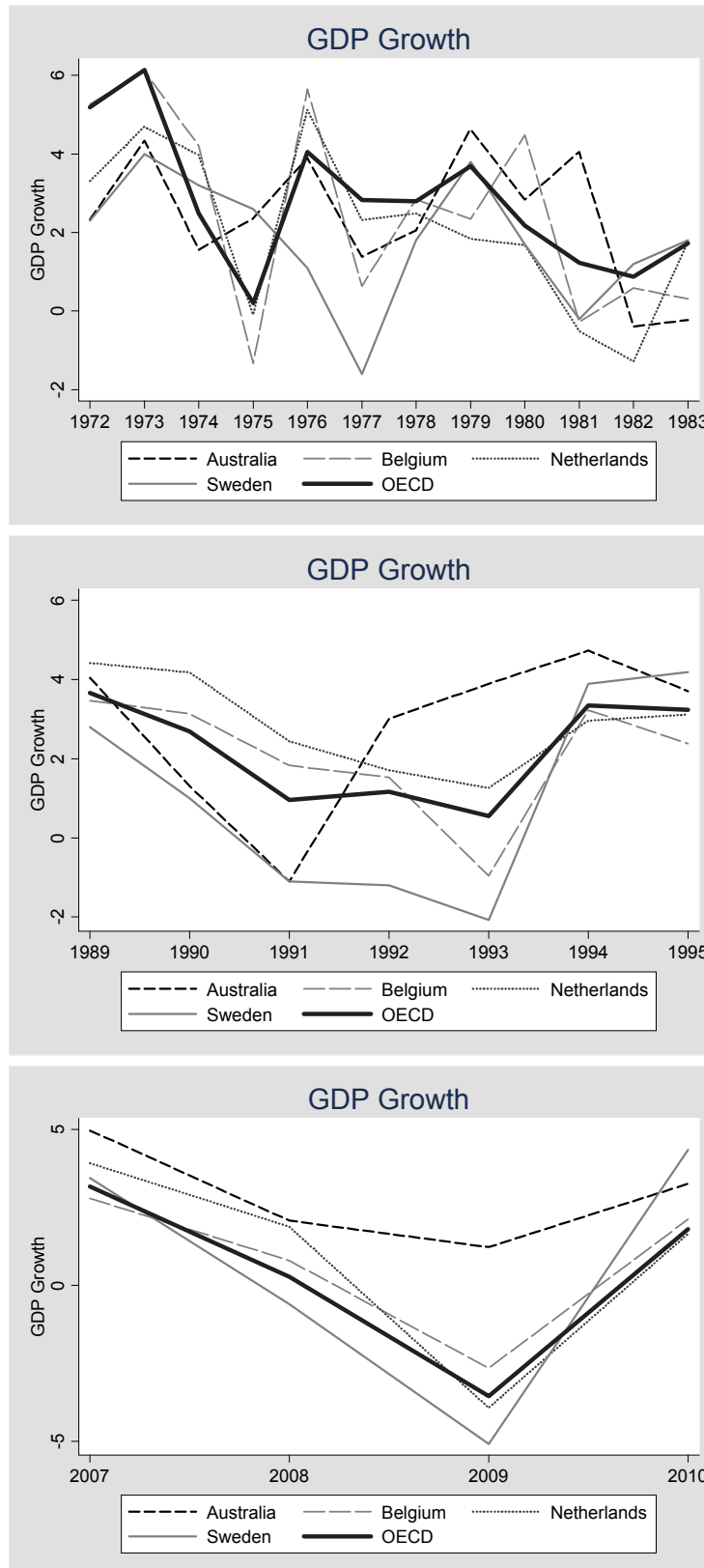
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APPENDIX

Figure A1-3: Real GDP Growth rates, selected countries, in %



Note: 'OECD' refers to average figure for 21 core OECD countries. 2010 data are estimates.

Source: OECD Economic Outlook Database, Economic Outlook No. 88 (OECD, 2011).

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