



In the wake of the economic crisis

Social change and welfare state reforms

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In the wake of the economic crisis: Social change and welfare state reforms

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Summary

The economic crisis of 2008 is a global phenomenon with far-ranging impact. Its effects reach beyond the economic sphere, impacting the lives of individuals. When confronted with job loss and financial hardship, people look for new income sources, change their world views and attitudes, and remodel their interaction with each other. As a result, societies change. Families grow closer together, and tensions between generations and between migrants and non-migrants increase. Governments have to consolidate their finances while reacting to the increasing need for welfare state intervention. In doing so, they take different approaches that reflect the country-specific history and welfare state institutions. This working paper gives an overview of social change and welfare state reform in the wake of the economic crisis. For this purpose, it presents discussions and findings from two classes that were taught at universities in Germany. The material includes the outcomes of a grounded theory study that was conducted in the framework of one of these classes, summaries from various essays that students wrote for the classes, and from a book that was used as teaching material. The arguments brought forth in the working paper illustrate how the economic crisis influences e.g. social inequalities, life-courses, family relations, anti-foreigner sentiments, migration, and welfare policies. It, thereby, serves as an excellent starting point for reflections on what societies will be like post-economic crisis.

1 Introduction

The economic crisis of 2008 shook the world. This crisis rapidly developed after the bankruptcy of the American investment bank Lehmann Brothers in 2008, and from there on it spread around the globe. Companies foreclosed, countries came close to bankruptcy, unemployment rates reached new highs, and poverty risks increased (Hemerijck, 2009). Between 2007 and 2013, almost 15 million people in the area of the Organisation for Economic Co-operation and Development (OECD) lost their jobs (Gurria, 2013a). The economic crisis hit some countries, companies, and individuals harder than others, with, for example, unemployment being particularly high among youths, and state budgets running particularly low in Greece and Spain. As a result of these developments, societies change. New groups of winners and loser in society emerge, which shapes a new landscape of social inequalities (OECD, 2011). Also, lives start to progress according to a new logic. Paid work becomes a less prominent part of life, and it thereby loses some of its structuring function for daily routines and life-courses. Lives and daily routines become less predictable, more heterogeneous, and issues beyond paid work play a more prominent role in them (Elder, 1999). All in all, a new pattern of social problems emerges, and welfare states need to react to it. The governments in welfare states need to reconsider which social problems they want to focus on, for example how much attention they want to pay to the increasing unemployment rates. At the same time, these governments need to consider how they want to react to the shrinking of public budgets, for example whether they want to cut down on some of their social expenditures (Starke, Kaasch, & Van Hooren, 2013).

This working paper explores the interplay between economic crisis, social change, and welfare state responses. It first gives an outline of how societies change due to the economic crisis, highlighting developments at the micro- and the macro-level. It then characterizes welfare state responses to the economic crisis, comparing countries representing different types of welfare states. Finally, it discusses the insight gained and reflects on the fit between the new pattern of social problems and the welfare state responses.

The information presented in this working paper stems from two university classes. Both classes were Bachelor-level classes that were taught in sociology programmes in Germany by Kathrin Komp in the framework of Erasmus teaching exchanges. The first class was entitled “Grounded theory and the social risks of the economic crisis”, and it was taught at the University of Bremen in the spring of 2013. During this class, the students and the teacher conducted a grounded theory study together. Grounded theory is a research approach that is particularly suitable for topics about which little is known. This approach aims to develop a theory from empirical observations. It, therefore, progresses

without a pre-defined plan for the analysis. Instead, it alternates between collecting and analyzing data, and it uses the findings of each analysis to decide about the approach and topic for the next data collection and analysis. In doing so, the grounded theory approach can utilize any number of qualitative and quantitative research methods and literature reviews. Thus, the study design in grounded theory studies develops during the research process, as researchers gain a deeper understanding of the research topic (Glaser, & Strauss, 2006). During the class, the students and teacher conducted two expert interviews, two interviews with people affected by the economic crisis, a macro-level analysis of a country-comparative dataset, a film analysis, an analysis of newspaper articles, and a literature review. The working paper at hand contains summaries of the main findings of the class and of the essays that the students wrote for their exams. Moreover, the authors of a recently published book on welfare state responses to the economic crisis, which was part of the course literature, contributed some information. The second class was entitled “Social inequalities and the life-course”, and it was taught at the Ludwig-Maximilians-University in Munich in the end of 2012. One of the topics discussed during this class was how the economic crisis affects life-courses, and two students wrote essays on these topics: one was a literature review, the other one was an empirical study with interviews of Spanish youths. The working paper at hand also contains summaries of these two essays.

2 Economic crisis and social change

The economic crisis changes societies. What starts out as an economic problem quickly turns into a question of how people live and interact. For example, the foreclosure of companies costs people their jobs, which in turn affects their income, their activities, and their self-esteem. As a result, people change the way they behave and interact, which alters social contacts, social networks, and social institutions (Elder, 1999). Societies in times of economic crisis are, therefore, distinctly different from societies during economically stable times. Glen Elder Jr. (1999) captured part of the social change in his seminal work “Children of the great depression”, in which he studied the experiences of people during the economic crisis of the 1930. This chapter will, therefore, start out with a summary of Elder’s findings. Then, this chapter will present findings from the grounded theory class, which go beyond Elder’s descriptions.

2.1 Social change in the wake of the Great Depression

The Great Depression is a formidable source of information on how societies and lives change in times of economic crisis. The Great Depression is the most severe economic crisis that hit the world in the

20th century. It started in 1929 and lasted until the mid-1930s, in some countries even until the 1940s (Grossman, & Meissner, 2010). An advantage of studying the Great Depression is that this event lies decades in the past. Therefore, its short-, mid-, and long-term effects have already unfolded, and researchers already collected information on all these effects. Social change in the wake of the Great Depression can be determined. Social change in the wake of the on-going economic crisis, in contrast, cannot yet fully be determined. The crisis of 2008 seems to come to a halt just now (Gurria, 2013b), some of its effects are still to unfold, and researchers still need to collect more data on it. Therefore, the Great Depression can give us some orientation on what changes are ahead of us, and on what current changes we might not yet have detected. Researchers, therefore, do well to turn they view back to the 1930s and to the present day situation when they strive to understand the social dimension of today's economic crisis. For this reason, the interest in Elder's (1999) work rekindled during the last years.

Glen Elder Jr. is research professor of sociology and psychology at the University of North Carolina at Chapel Hill and fellow of the Carolina Population Centre. His focus is mainly on life-course research and the "Children of the Great Depression" may be one of his most famous works. The book "Children of the Great Depression" illuminates social consequences of the economic crisis that started in 1929. What is special about this work is the Oakland Growth Study, which he refers to. This study was launched in 1931 by Harold Jones and Herbert Stolz from the University of California, and it collected data of 167 people until the 1980's (University of North Carolina, no year). The respondents of this study were born in 1920/21, and, therefore, grew up during the Great Depression of the 1930's. They went to schools in northeast Oakland and were part of middle-class as well as working-class families. In his book "Children of the Great Depression" Glen Elder worked very closely with this study and tried to discover potential connections between people's childhood experiences and behaviour as adults (Elder, 1999).

Elder defines critical situations as a great difference between socio-economic needs and the ability to satisfy them. Such a difference was strongly pronounced during the Great Depression which brought a wave of poverty and unemployment for the population of the USA. These coercions led to the need for new adjustment mechanisms for concerned families. A massive cut in wages or even unemployment of the father resulted often in status-loss and alcoholism, dependency on public services and support from other family members. Often mothers had to search for work and therefore neither parent was able to be a sufficient role model for their children. This may be why most deprived children had a higher status and well-paid jobs in adulthood than the one their parents had before the onset of the crisis, resulting from these experiences which have formed fixed aims for their future.

Particularly girls developed an early orientation heading away from the family and their fathers therefore they often married very early (Elder, 1999).

During the Great Depression, also the children's role within the household changed. For example, girls had to tailor and did a lot of work in house and kitchen. Boys had to do some small jobs in the neighbourhood in order to earn money or food. This might have sharpened their understanding of economic responsibility. Moreover, the critical situation and the uncertainty of the parents' jobs led to the respondents preferring secure employment over higher incomes when reaching adulthood. In addition to work and financial security, also the family increased in importance. When the women of this birth cohort grew up, their childhood tasks in household and family administration maintained their importance. The women's financial and intimate dependency on their husbands is distinctive. This might be caused by a lack of attention from their fathers and by domestic violence (Elder, 1999).

However, even though Elder succeeded in portraying the lives of children throughout and after the Great Depression, his study also leaves some questions open. First, his study deals with no more than 167 lives. Therefore, it cannot be seen as a study that is representative for the entire United States or for all possible crisis impacts. Instead, his book offers us an idea of possible consequences of such a live experience. Second, even though Elder listed some connections between childhood and adulthood, he also came across some results of the study which could not be explained via traditional assumptions. Unfortunately he missed to offer alternative explanations. Finally, the events Elder describes occurred about 80 years ago. Today people have to handle a different economic crisis and there are more possibilities of assimilation, supporting networks, political management and so on. Thus, people today might react differently to the ongoing economic crisis than people in the 1930s reaction to the Great Depression. But as research possibilities have improved, it may be time for new and larger "Oakland Growth"-studies, in order to gain new insights into today's crisis situations and crisis management.

2.2 Social change in the wake of the economic crisis of 2008

The economic crisis of 2008 triggered familiar and new changes in society. Just like Elder (1999) described in his study of the Great Depression, also the current economic crisis led to job loss, financial difficulties, depression, and a stronger focus on the family. However, the current crisis also brought social change that partly exceeds, partly contradicts Elder's (1999) findings. One important different between the Great Depression and the economic crisis of 2008 is that people nowadays can more easily react by migrating to another country. This possibility applies in particular to people residing in countries of the European Union (EU), where governments try to lower the administrative barriers for

within EU-migration (Bigo, & Guild, 2005). One important contradiction between Elder's (1999) findings and today's reports concerns the fertility behaviour. Elder reported that women during the Great Depression tried to marry and have children earlier, because this provided them with an opportunity to leave the parental household and to enter the life-phase of adulthood. Nowadays, however, people often try to establish themselves in the labour market before they start a family and have children (Mills et al., 2011). Thus, the logic people apply to their family planning today is the opposite of the logic people applied 80 years ago. As a consequence, the effect of today's economic crisis on childbearing and marrying will probably be the opposite of the effect that Elder observed. The grounded theory class at the University of Bremen discussed these and further questions about the structure of lives and societies during today's economic crisis. Figure 1 summarizes the main findings of the class.

[Figure 1 about here]

The most prominent social effect of economic crises is job loss. Some workers are laid off, some are urged to retire early, and some have to cut their working hours. These actions give the (former) workers more unstructured time and reduce their incomes. Therefore, these individuals have to find new ways to spend their time and to make ends meet. In many cases, individuals will search for new jobs and eventually enter the labour market again. However, the economic crisis reduces the amount of jobs that are available, which means that the labour market might become too small to accommodate all people who wish to work. Structural unemployment can result, and some individuals might permanently lose contact with the labour market (Coile, & Levine, 2011; Sarfati, 2013; Starke, Kaasch, & Van Hooren, 2013). The effects of such job losses are particularly dramatic for youths and for older people (Coile, & Levine, 2011; Choudhry, Marelli, & Signorelli, 2012). Youths have not yet established themselves at the labour market, and they therefore often are among the first ones to be laid off. Consequently, the unemployment rates among youths are higher than among other age groups, taking on values about twice as high as the overall unemployment rate (Choudhry, Marelli, & Signorelli, 2012). Older people, in contrast, have established themselves in the labour market, but employers therefore often consider them as workers with high salaries and possibly outdated knowledge (Perek-Bialas, & Schippers, 2013). As a consequence, older workers have difficulties to re-enter the labour market once they got laid off, they have often remain unemployed on the long-term or retire early (Coile, & Levine, 2011; Perek-Bialas, & Schippers, 2013).

As the attachment to the labour market decreases, the importance of the family increases. On the one hand, the family situation takes on a bigger influence on the structuring of lives and the shaping

of identities. Previously, Western societies have been characterized as work-centred societies, where work is the main influence on the structure of lives and the main source of identity (Kohli, 1988; Phillipson, 2004). However, as unemployment and non-employment rise, work loses some its influence. Thus, Western societies start to transform into more family-centred societies as the economic crisis progresses. In how far this transformation progresses depends on the extent to which a country is affected by the economic crisis, and on the country-specific culture. Especially Southern European countries already have a family-centred culture and they are particularly strongly affected by the economic crisis, which means that family-centrism will reach a new peak here (Ferrera 1996, 2005; OECD, 2013b). On the other hand, household production and family transfers become more important in households that are affected by the economic crisis. Where the income from paid work dwindles, people need to look for possibilities to cut their expenses and to open up new income sources. Household production and family transfers are important means to these aims. For example, some youths now delay moving out of their parental household, some middle-agers move in with their parents or grand-parents again, and some older people move in with their children again (McDaniel, Gaszo, & Um, 2013; Reid Keene, & Batson, 2010). This way, people can cut their rental expenses, and they can more easily support each other in their everyday lives.

The shift in the lives of people restructures societies. First, solidarity concentrates in the private sphere. As governments battle the effects of the economic crisis, they might have to cut social expenditures (Starke, Kaasch, & Van Hooren, 2013). Such a step highlights the importance of family solidarity even more. As a consequence, people might feel betrayed by the government, be less willing to support welfare states, and feel less solidarity with other social groups. In other words, the social glue that holds societies together might erode. Second, anti-foreigner sentiments might increase. People look for reasons for their misfortune, be it for financial difficulties, for a feeling of abandonment, or for anxiety and depression. One strategy in such situations is to identify some social groups as ‘out-groups’, and to blame the members of these group (Tajfel, 1974). As a result of this behaviour, for example, the Greeks gave more votes to the far-right party ‘Golden Dawn’ in the 2012 elections (Ellinas, forthcoming). The act of singling out and blaming foreigners becomes particularly easy when social solidarity erodes due to the economic crisis. Third, the landscape of social inequalities shifts. New groups of winners and losers in society emerge, and people need to cope with their losses or gains in social status (OECD, 2013a). A prominent example of an increasing social inequality is the one between generations. People are affected differently by the economic crisis, depending, among other things, on their age at the time when the economic crisis hits. Life-course research suggests that events

in a person's life can have long-term effects that steer entire life-courses into a new direction (Grenier, 2012). Youths are particularly susceptible to such life-course effects (Mannheim, 1928), with youth unemployment having the potential to sway entire working careers (Elder, 1999). Some scholars, therefore, label youths who live in countries with a pronounced economic crisis as members of a 'lost generation' (e.g. Bosco, & Verney, 2012; Torres, 2013). A 'lost generation' is a group of people who were born around the same time and who experienced hardship during their youth, which diminishes their chance of economically succeeding during their later years (Strauss, & Howe, 1991; Mannheim, 1928). The following sections reflect on two of these developments: the far right parties as an example of anti-foreigner sentiments, and the situation of the Spanish lost generation.

2.2.1 Anti-foreigner sentiments: The case of far right parties

The far right is, in fact, a modern and complicated phenomenon, and it bears little resemblance to its historical predecessors (Minkenberg, 2011). There won't be the Clint Eastwood-type action-bonanza films made, depicting brave and daring policemen and politicians fighting evil and somewhat vacant aggressors. There are few romantic tales of heroism where hate crime and dangerous incitements are considered, just deeply disturbing and damaging tales of divided communities, fear and hatred. This section of the working paper deals with the relative success of far right groups and parties in the wake of the financial crises. It discusses ideological tendencies connected to the far right, examining non-party groups as support of far right political parties. Moreover, it ponders how the crisis could be connected to the ideological platform of the far right. This connection is contested, but nevertheless illustrative and highly relevant for today's governments.

Minkenberg (2011), being somewhat of an authority on the issue, is quick to draw a connection between the contemporary far right and fascism and Nazism. This gives way to understand the modern far right as fragmented and not united by a transnational ideology. Xenophobia, ethnocentricity, anti-institutionalism and anti-globalisation are the most recognisable features of the far right. This means that biological racism is replaced by a view of a hierarchy of cultures, more than races, and the view that foreign influences undermine cultural values. Resentment, hatred and opposition are directed both at the minorities representing foreign and incomparable influences, and at state institutions that allow for such influences to become present in society. These views and tendencies summarize the main aspects of the contemporary far right. However, the need to acknowledge reality is more diverse, and that it is difficult to include every possible right wing group in one overarching definition.

Social inequalities persist in political support for the far right. For example, there is a

pronounced gender-difference in this support, with especially male voters supporting far right parties. Additionally, unemployment and economic deprivation are motivating factors, even though their relationship to support for right wing parties has not yet been exhaustively studied (Rydgren, 2007). Group focused enmity is an analytical tool which allows us to identify conditions in which people develop resentment towards groups, often generalizing and compiling groups based on characteristics such as ethnicity, sexuality, or religion (Zick, Küpper, & Hövermann, 2011). According to Zick et al. (2011), educational level, economic situation, social and cultural standing, and employment status relate to group focused enmity. This can, in turn, lead to crime motivated by resentment based on xenophobia, possibly hate crime, which is that most grave of threats associated with the far right.

To prevent group focused enmity, governments do not only have to build up trust between communities – they also have to build up trust into government agencies. For example, a survey from 2008 found that 50 per cent of Roma respondents did not report crimes against their person, because they did not trust the police (European Union Agency for Fundamental Rights, 2012). This number shows how an ethnic minority feels unprotected by the institutions that exist to protect all citizens. As previously stated, the far right is often associated with anti-institutionalism, anti-globalization, and anti-European sentiments. Against the background of the economic crisis, these ideas pose challenges for two reasons. First, tensions and crime motivated by group focused enmity, which might be inspired by the economic crisis, create mistrust between communities within a given state and, between the offended minorities and the government bodies that the victims now consider incapable of protecting them. Second, mistrust is generated by supporters of an alternative political agenda, who blame the state for their current predicaments (European Union Agency for Fundamental Rights, 2012). In short, the crisis generates a political climate where people might change their way of thinking and acting, and where they are more likely to place their trust in far right parties.

The considerations just presented have important implications for our societies. The increase of anti-foreigner sentiments by itself is a worrisome development, and it might increase even further as the economic crisis progresses. These sentiments might become particularly pronounced among groups that compete with immigrants for welfare state support. Especially individuals with low income, a low educational level, in precarious job, or in unemployment might form resentments based on xenophobia or other elements related to far right ideology, because they might consider labour immigrants or other minority groups as competitors for the same resources (Rydgren, 2007). This possibility makes labour market policies even more important for governments. Paid work affects people in more ways than just through their wallets, and studies from the late 1990s identifies strong welfare states as more resilient

towards increased support for the far right (Rydgren, 2007). Therefore, governments do well to address the potential alienation that labour market pressures bring about. Of course, one should not oversimplify the argument and shift the entire blame on the economic crisis (Williams, 2013). Instead, one should see reactions to the economic crisis as one of the factors that encourage right wing sympathies.

Summing up, this section of the working paper presented some of the challenges posed by far right parties and discussed their relationship with the economic crisis. Research suggests that there is a connection between far right parties and the economic crisis, and it therefore seems well-advised to consider the relationship between both phenomena. At the moment, governments need to enact fiscal discipline and austerity measures, this fact is undisputed. However, when doing so, they should consider how the cut backs affect far right positions, the social cohesion within European communities, and the trust of Europe's citizens. Fortunately, we do not seem to be heading into the same direction as the Weimar Republic once did, but the relative success of the far right should nevertheless make it one of our priorities to protect and secure the longevity of our diverse communities and to create robust democracies.

2.2.2 The Spanish lost generation

With an employment rate of 55 per cent, Spain currently registers one of the lowest employment rates in Europe (Eurostat, 2012). Youths face even lower employment rates than the rest of the population, and in the beginning of 2012, already every other Spanish citizen aged 16-25 years was without work (Govan, 2012). This tremendous extent of youth unemployment makes today's Spanish youths an example par excellence for a 'lost generation'. Researchers, policy-makers and the media even came up with distinct names for this generation: 'generation Ni-Ni', which states that the youths are neither working nor in full-time education (Govan, 2012). As a last resort, many of these youths decide to migrate. This section of the working paper focusses on a sub-group of Spanish Ni-Nis that migrate: the group of university students. These students are particularly interesting, because they are part of the future intellectual elite of Spain, and their decision to migrate makes a significant contribution to the brain-drain of Spain.

Facing bad career opportunities such as unemployment or underpaid working conditions, more and more young Spanish students and university graduates decide to leave their homeland. While the Erasmus Programme offers students the opportunity to study and live in other European countries for one or two semesters, many Spanish students decide to stay much longer than originally intended. With a number of 39 545 students in 2011/12, Spain sent out most of the Erasmus students. The most

popular destination countries for Spanish students are Italy, France, Germany and the United Kingdom (European Commission, 2013).

Focusing on their personal motivation for leaving Spain for a couple of years, five Spanish students living in Germany were interviewed for an essay for the class at the Ludwig-Maximilians-University Munich. The interviews with the two women and three men, aged between 25 and 29, were recorded and transcribed. Even though the interviewees have different characteristics (e.g. age, sex, branch of study, family background), all of them named the economic crisis as the main factor for their decision to leave Spain for a while. Four out of five took part in the Erasmus Programme before deciding to extend their stay abroad for an uncertain period of time. Willing to avoid bad career opportunities and to make the best of the desperate situation of the labour market in Spain, they now either started their master/dissertation at a German University or entered working life in Germany. The interviewed people named two different scenarios that made them justify their decision of starting a new life abroad. As they already were studying when they heard about the economic crisis, two of the respondents said that they would have studied something else if they had known about the crisis before. It was often emphasised that especially students of journalism, architecture and construction engineers have no realistic possibilities to find a job in their disciplines. Instead of wasting their time in Spain, they decided to continue their studies in Germany. By learning another language and gaining practical experience, they took advantage of the situation by developing their personalities. Even though the remaining three of the respondents could have found a job in Spain, they preferred to come to Germany. Bad working conditions such as underpaid jobs and long hours made a stay abroad attractive for them.

On the one hand, all of the interviewees said that they are sad living apart from their families and friends. On the other hand, all of them were deeply convinced that leaving their homeland for some years was their only chance not to suffer from negative time dependent effects of the economic crisis. Willing to come back when the crisis ended, three of the interviewees stressed that they want to be able to support their families in Spain financially during the crisis. While most of their relatives did not lose their jobs as a result of the economic crisis, all of them are confronted with wage cuts and tax increases.

Living in a country where daily news mainly report on rising numbers of unemployment and other negative effects of the economic crisis obviously has to be frustrating. It is easily comprehensible that young people weigh up alternatives and try to make the best of the situation. According to the mission statement of the Erasmus Programme, people living abroad for a specific time can seek “opportunities for cultural understanding and self-development” (Erasmus Student Network, 2013) by

learning another language and by generally working harder than they maybe would without the exchange. But while the economic crisis might help some Spanish youths to seize opportunities by spending time abroad, one critical question remains: How can young people who do not have the chance to spend some years abroad handle negative time dependent effects of the economic crisis?

3 Economic crisis and welfare state reforms

Do worldwide economic crises lead to fundamental change in social policy? Or do crisis reactions largely follow existing policy-making patterns? To what extent do the reactions of different countries differ? Do all countries follow similar policy trajectories – perhaps even the prescriptions of international organizations such as the OECD - or do we find significant differences between them? If the latter is the case, how can we explain those differences? In a recently published monograph titled ‘The Welfare State as Crisis Manager’ (Starke, Kaasch, & Van Hooren, 2013), some of the authors of this paper have addressed these questions. The book is based on a systematic comparison of social policy responses in four countries - Australia, Belgium, the Netherlands and Sweden - to four world economic crises which acted as exogenous shocks to their domestic economies. Besides the financial crisis of 2008 and the following ‘Great Recession’, the book also looks at the two oil shocks of the 1970s (1973 and 1979) and the worldwide recession of the early 1990s. In this section, after explaining the set-up of the book, we will discuss some of its main findings. Afterwards, this section will present the summary of an essay from the class at the University of Bremen, which describes Spain as a case study for welfare state reforms in times of economic crisis.

The countries analyzed in the book ‘The Welfare State as Crisis Manager’ are all small economies, which we can expect to be directly affected by and react to sudden world market shifts such as economic crises. After all, small economies are, due to their smaller domestic markets, more dependent on trade than large countries (Katzenstein, 1985; Obinger et al., 2010). Yet in contrast to Greece or Ireland in recent years, we can expect these countries to respond to crises in a relatively autonomous way. Besides possible voluntary policy learning, the influence of international factors is limited to the budgetary restrictions set in the European Union’s Stability and Growth Pact. Apart from that, it is national governments which have full sovereignty over policies. However, the institutional differences between the four countries are likely to matter, especially in terms of their political systems and the type of welfare regime (Esping-Andersen, 1990).

The book is based on a detailed analysis of decision-making processes and results in the context of social policy reactions to crisis in the core programmes of the welfare state. It analyzes changes in

the areas of pensions, passive and active labour market policy, health policy and family policy and asks to what extent these changes were reactions to crises and whether welfare states were used as ‘crisis managers’. The study is based on in-depth analyses of national and international primary sources (including national statistics, government reports, parliamentary debates, media reports) and a comprehensive overview of the existing secondary literature. In addition, a number of expert interviews were conducted in the countries.

It is argued that social policy responses to crises can be distinguished in at least two ways: On the one hand, there are differences in the direction of responses. While some governments respond by further expanding social protection – for example, in order to protect vulnerable groups in society or stabilize aggregate demand – others opt for sometimes drastic retrenchment. Which of these paths is chosen seems to be less a function of the immediate impact of the crisis than the more long-term recovery. In addition, genuinely political factors play a role (see below).

[Figure 2 about here]

On the other hand, in analyzing crisis policies, we need to look at the type or quality of responses – independent of their substantive content and goals. We can roughly distinguish ‘fundamental’ and ‘incremental’ reactions. (In this sense, quality is not used as a normative terms.) Often measures are introduced in line with existing welfare state institutions and regime-specific mechanisms, especially in terms of principles of eligibility and entitlement. Adjustments are thus solely made in terms of benefit levels etc. Sometimes, however, reforms entail wholly new principles. Think, for example, of the introduction of means-testing to formerly universal benefits. Figure 2 sums up the classification of crisis responses along the two dimensions of direction and quality. This yields five possible crisis responses: incremental expansion, fundamental expansion, incremental retrenchment, fundamental expansion and – importantly – non-response. The latter may be the result either of blockages or of intentional non-action, for example, when social security systems are regarded as sufficient to get the country through the crisis. One aim of the book was to systematically classify the various crisis responses across different countries and sub-areas of the welfare state and thus to make them comparable for explanatory analysis. Two questions are central: Do crises lead to fundamental change (horizontal dimension)? Under which conditions are responses expansionary or restrictive (vertical dimension)? In what follows, we present an overview of the most important findings from ‘The Welfare State as Crisis Manager’ and cite some examples from the country case studies. For a more detailed account of how national crisis responses are empirically reconstructed, compared and explained we refer to the monograph.

3.1 Global crises and social policy change: The importance of crisis routines

Among politicians and journalists, the notion is widespread that exogenous shocks such as global economic crises, natural disasters and wars make fundamental change possible. For example, the Canadian journalist Naomi Klein (2007) tried to critically expose – even before the financial crisis – how neo-liberal politicians have tried to introduce unpopular liberalization and retrenchment measures in times of crisis, as, for example, Margaret Thatcher did during the Falklands War. She argues that crises can be an opportunity to undermine democratic processes and swiftly push through unpopular reform packages. In a somewhat less polemic manner, Rahm Emanuel, the former Chief of Staff of U.S. President Obama, stated in front of an audience of business leaders in November 2008: “You never want a serious crisis to go to waste. [...] It’s an opportunity to do things that you think you could not do before.” The relationship between global crises and fundamental policy change, often in the sense of social policy retrenchment can also be found in the political science literature, for example, in the literature about ‘critical junctures’ (Capoccia, & Kelemen, 2007). Following these expectations about crisis and policy change, the empirical question to be answered refers to the issue of crises as potential ‘critical junctures’ for the development of social policy. Are crisis responses particularly likely to consist of fundamental – i.e. not just incremental – policy change?

The case studies reveal a different picture. Fundamental crisis responses are clearly the exception rather than the rule. On the basis of four exogenous shocks and four very different countries, we could find no more than one unambiguous ‘positive case’: At the beginning of the 1990s, Australia responded to the crisis with a fundamental reform of pensions and labour market policy. Between 1992 and 1994, the government introduced not only an entirely new occupational pension ‘pillar’ but also an innovative package of ‘activation’ measures (‘Working Nation’). Another possible ‘positive case’ may develop in the Netherlands. Big, fundamental reform measures are currently on the agenda. It remains to be seen, however, what the quality of the reforms will eventually be. After all, the predecessor government fell when trying to implement large-scale welfare state retrenchment.

In the other cases, either it was impossible to empirically establish a direct causal relationship between the economic crisis and particular social policy changes (e.g. in the case of Swedish pension reforms of the 1990s) or the changes were incremental in nature, anyway. Most crisis responses resembled ‘crisis routines’; specific welfare state policymaking patterns shaped crisis responses. Continental European welfare states, for example, tended to regulate labour supply – for example, through early retirement or short-time work. In Sweden and Australia, such instruments either remained

marginal or were not used at all. In Sweden, the picture was dominated by active labour market policy and some (incremental) retrenchment. Australia shows a similar pattern.

This does not mean, however, that countries never leave their traditional paths in social policy. Fundamental change did happen in all countries studied. Yet it was usually not a short or medium term crisis response. Either it happened during times when there was no crisis (e.g. in the Netherlands in the early 2000s); or it coincided with crisis, but was part of a much longer reform process that predated the moment of exogenous shock. In these cases, fundamental change was implemented despite rather than because of the crisis.

In sum, the notion of a ‘critical juncture’ according to which exogenous shocks trigger path departures in the short or medium term, is misleading. Exogenous shocks proved neither necessary nor sufficient for fundamental path departures. ‘Shock routines’ were the predominant response. A possible reason for this can be found in social psychology. According to the so-called ‘threat-rigidity thesis’, individuals – as well as organizations – do not try entirely new ways in moments of existential crisis. Instead, they respond with well-known solutions, even if they are sub-optimal (Staw, Sandelands, & Dutton, 1981). Sticking to well-known shock routines appears much less surprising from this perspective.

3.2 Parties and crisis responses: Driving on cruise control during crises?

The study also shows that crisis responses are sometimes shaped by partisan ideology, albeit only under certain conditions. The relevance of the partisan composition of government – in terms of the cabinet share of secular conservative and market-liberal parties vs. left-of-centre parties – appears ambiguous at first. In contrast to the expectations of the classical partisan thesis (Huber, & Stephens, 2001; Schmidt, 1996) we do not find a universal pattern according to which left parties expand the welfare state during world economic crises and right-wing parties respond with retrenchment. Especially in European countries (Sweden, Belgium, the Netherlands), there are only very few responses in line with this expectation. From time to time, centre-left parties even participate in cutbacks or conservative parties take part in expansionary reforms. Only in Australia, the differences are clear-cut: Labor governments expand the welfare state during moments of crisis while conservatives tend to cutback or, when in opposition, criticise expansion or try to block them. Why is this the case? Why do governments respond according to partisan expectations in some countries, but not in others? We argue that the reason for this ambiguous pattern is the existence of a mature welfare state.

An important macroeconomic effect of a generous welfare state is its role as an automatic

stabilizer (Dolls, Fuest, & Peichl, 2012; Girouard, & André, 2005). In times of crisis, the number of the unemployed, early retirees and other beneficiaries rises and public expenditure increases – without any legislative adjustments. The extra spending can thereby compensate for some of the shortfall in private spending. Hence is the stabilizing function of generous systems of social protection.

We are not only interested in these macroeconomic effects, but also in the political effects of automatic stabilizers. This is because even in countries with small automatic stabilizers like Australia - but also the United States - countercyclical stabilization of demand is frequently used. Yet discretionary fiscal stimulus packages are more prone to partisan conflict than automatic stabilization. Put differently: In countries where existing generous welfare state schemes act as crisis managers, there is less open conflict among parties over the content of crisis responses. However, when automatic stabilizers are small, parties often fight on the basis of their fundamental differences with respect to the welfare state. Partisan differences thus come out much more clearly. Conservative parties in these countries tend to argue in favour of tax cuts or even welfare state retrenchment while centre-left parties try to push through expansionary social policy. The Australian Labor Party's response to the financial crisis of 2008 is a case in point: Already in late 2008, just in time for the Christmas shopping, families and pensioners were given sizeable lump-sum payments and subsidies to first home buyers were expanded. With a volume of about 7 per cent of GDP, the Australian stimulus package was one of the largest in the whole OECD.

In many Continental and Northern European welfare states, including in Belgium and the Netherlands, cutbacks are now being introduced, similarly in Sweden in the early 1990s. In as far as there is political conflict about these cutbacks, this is not about the overall direction of policy change, but instead about the extent to which cutbacks are necessary. Moreover, current cutbacks in these countries need be seen in the context of the European debt crisis and they come after expansionary responses in the early years of the financial crisis (2008-2010).

What are some of the implications of these findings? First of all, it is important to note that the stabilizing effect of generous welfare states operates like a 'cruise control' function in times of economic crisis. While the concomitant depoliticizing effect of existing social protection schemes may not be an intended effect, it further emphasizes the stabilizing function of mature welfare states in times of economic crisis. This has also been noted by several international organizations in recent years. At the same time, the automatic rise in social spending puts additional pressure on public budgets. A lot depends on the shape of the recovery. When recovery is early and strong, it is more likely that budgets can be consolidated without having to cut back welfare state benefits. If, however, economic growth

remains low for a longer period, more frequent attacks on the welfare state become likely. An example of the impact of prolonged economic problems will be given in the following section on Spanish welfare state reforms after the 2008 financial crisis.

Overall, we find a diverse picture of social policy responses to economic crises. There is no clearly uniform dynamic, neither across historical episodes nor across the countries studied. Responses included significant, yet incremental retrenchment in Sweden in the 1990s and significant, even fundamental expansion in Australia. In any case, the alleged crisis of the welfare state does not lead to uniform cutbacks. Partly, the differences in responses can be traced back to partisan ideologies (in the context of the specific starting conditions of a country), yet very often responses followed a country-specific path of adequate responses in a given situation. ‘Shock routines’ were the predominant pattern.

3.3 Spain: A case study

This section examines how the Spanish welfare state has so far dealt with the current economic crisis. An analysis of welfare state response in Spain is highly important, because contrary to the countries discussed in the previous section, Spain is among those countries that have been struck by the crisis most severely. As the fourth largest economy within the EU it is considered ‘too big to fail’ as well as ‘too big to rescue’ (Jones, 2010). Besides, an insight into Spanish policy responses might bring further gains in knowledge about the group of Southern Europe states in general.

According to Cabrero (2011), there is not any ‘Southern Model’ for welfare states. Spain has adopted a ‘via media’ combining the three types of welfare states presented by Esping-Andersen (1990). Bismarckian features of the welfare state can be found, when it comes to the centralized management of the dual labor market with high unemployment on the one hand and the maintenance of a redistributive pension system on the other hand. Furthermore a universalized system of education and health services has been established which is linked to the idea of social rights (social democratic). It is tax-financed and managed regionally and its benefits are independent from labor market participation. This system has increasingly expanded across social services. The liberal projection of social assistance is for the Spanish case mostly linked to the term of minimum incomes. From the perspective of social protection minimum incomes differ between occupational positions: “As beneficiaries move away from the labor market, so their right to protection diminishes while qualifications for access to minimum income increase and the activation requisites are tightened” (Cabrero, 2011: 32). This comes along with the loosening of employment conditions and is partially to be referred to Europeanization of social policy (Cabrero, 2011).

Overall a general prevalence of the Bismarckian type of welfare state can be noticed. In contrast to the extension and universalization of social rights and welfare relative poverty rates remain high and “growing inequalities across occupations, age, gender and, increasingly, national origin” (Guillén, & León, 2011: 306) can be observed. Other challenges faced by the Spanish welfare state are the management of the delicate dual labour market, the new role of women, high immigration rates and an ageing population. Moreover the welfare state is subject to a process of Europeanization and so far “EU integration has involved the development of common institutions and modes of governance at supranational level, and the diffusion of procedures and policy paradigms with shared aims and objectives, including the use of benchmarks around which social outcomes can converge” (Guillén, & León, 2011: 310). Recently the economic crisis poses another very demanding problem.

Spain has been hit hard by the crisis, although its story differs from the one that is to tell about Greece and Italy for example (BBC, 2012). While experiencing an economic boom since joining the Euro, Spain’s debt-to-GDP-ratio decreased from year to year. Spain could come up with an average GDP growth rate of 4 % from 1999 to 2007 and regarding the current account balance it was even able to run surpluses from 2005 to 2007 (Éltető, 2011). But the burst of the housing bubble dragged the Spanish economy into recession. Spain was now facing an unemployment rate that was increasing to 25% in 2012 (with youth unemployment being at 55%), GDP growth figures turning negative (2008: 1%; 2009: -4%; 2012: -1%) and a debt-to-GDP-ratio exploding from 37% in 2007 to 84% in 2012 (BBC, 2013). In addition, the current account surplus turned into a deficit reaching -11% of GDP in 2012 (BBC, 2013; Schwartz, 2013). In short, due to the economic crisis, government, financial institutions, households and also other corporations and non-financial institutions are highly indebted, unemployment has reached unsustainable heights and the public deficit skyrocketed.

Spanish social policy responses to the current economic crisis can be described as double-edged. The initial response was one of fiscal stimulus, but later this had to give way to austerity measures and social expenditure retrenchment. When the housing bubble burst in 2008, the Spanish government considered this only an economic slowdown and implemented a fiscal stimulus that partially resulted from commitments made before the election in May 2008 (Dellepiane, & Hardiman, 2012). Popular measures such as income tax rebates and childbirth grants were introduced at a time when the European Union initiated Excessive Deficits Procedures against Spain. Spain committed to reducing its fiscal deficit to 3% of GDP by 2014, in line with the Stability and Growth Pact. As there were no specific requirements regarding how to reach that goal, the Spanish policy relied less on expenditure-cutting but more on revenue-increasing measures. What was called a “Social Democratic

response to the crisis” was aiming to phase out the stimulus (El País, 2010). Value added taxes were increased and the income tax rebates withdrawn to help consolidating the budget for 2010 (Conde-Ruiz, & Marín, 2013). This first phase of Spanish policy response was intended not to affect the core of social policy and the welfare state. But when Greece entered the loan-program of the ‘Troika’ in May 2010, the confidence in markets worldwide crashed (Dellepiane, & Hardiman, 2012). Interest rates for Spanish loans increased markedly and to restore confidence and to be able to keep on borrowing, the highly indebted Spanish government had to shift towards austerity measures (Sarsanedas, 2013). Emergency measures taken in May 2010 featured cuts in civil servants salaries (-5%) and politicians pay (-15%), elimination of dependency benefits and grants to infants and changes in pension entitlements (pension age was raised from 65 to 67) (Conde-Ruiz, & Marín, 2013).

In order to reach the 3% deficit target in 2013, Spain introduced further measures in April 2012 (Kanter, 2012). 10 billion Euros per year are to be saved in health and education. Therefore, university fees will increase significantly and health care benefits are going to be reduced, especially for pensioners and high income earners (Laven, & Santi, 2012). Accompanying the cuts in health care, Spain reduced its funding for drugs bills which pensioners now have to partially pay for. Moreover, changes to unemployment benefits have been made so that these are standardized from the seventh month of receiving (Conde-Ruiz, & Marín, 2013).

All in all, Spanish policy-makers dared a strong shift in their crisis management approach. Pressure by EU institutions has influenced a turn from a revenue-based fiscal stimulus program to a more spending-based policy of austerity. Beginning in May 2010 slight retrenchment in social policy can be observed. High debt and a large deficit seem to make cuts in public spending necessary which lead to successive lowering of the Spanish welfare state’s coverage. Yet it has to be noticed that Spanish policy-makers seem to try to avoid working on the core of the welfare state, a finding that is in line with the lack of fundamental policy change reported in the previous section of this working paper. But because the progress in fiscal consolidation has been modest up to now, one could maybe expect tougher measures to be introduced in a while.

4 Discussion and conclusion

The current economic crisis drives social change. Its effects reach beyond the economic sphere and transcend, among other things, societies. Increasing unemployment rates are a prominent consequence of the economic crisis, and they affect the financial situation, life-style, emotional stability, and identity of individuals. As a result, social cohesion and support for governments may decrease, and anti-

foreigner sentiments may increase. Governments will have to address these new social realities, while they also have to deal challenges to extant institutions and policies. Important challenges are the problematic situation of the economic, and the increasing need for welfare state support with is combined with shrinking public budgets. In other words, the economic crisis leaves governments between a rock and a hard place.

For individuals, the economic crisis brings two kinds of challenges. The first challenge is a material one: How to make ends meet? As income from paid work decreases, people might deplete their savings, cash in life-insurances and pension funds, or rely more heavily on financial transfers from their relatives. In the worst case scenario, they might even slide into poverty or turn to criminal activities. The second challenge is related to perceptions: How do people see themselves and the world around them? When people lose their jobs, cut their expenses, and look for new income sources, their daily activities and their way of thinking changes. Initially, people go through a transition period that might make them feel lost, let down, and void of structure and meaning. However, those feelings might disappear once people found a job again or settled into their new lifestyle. Needless to say – a new job or a new lifestyle can impact one's identity and worldview. This statement is particularly true if people migrate to another country to find a new job, as the example of Spanish Erasmus-students in this paper illustrates.

Along with the lives of individuals, also social structures change. People are affected by the economic crisis in different ways, and their responses to the crisis experience vary. According to the theory of cumulative advantages and disadvantages (Dannefer, 2003), people who are in a precarious situation will experience even more difficulties, whereas people who are in a stable situation will be less affected by the crisis. If this conclusion is correct, then the economic crisis will only deepen existing social inequalities. However, the evidence presented in this working paper suggests that the economic crisis might not only deepen, but also restructure the landscape of social inequalities. Especially inequalities between generation increase in times of economic crisis, with younger generations experiencing particularly severe and long-lasting changes in their lives. These generational inequalities might fuel the conflict between generations, which already heated up during the last decades because of population ageing (Johnson, Conrad, & Thomson, 1989). Considering that anti-foreigner sentiments are also increasing, we can expect our societies to become less solidaristic and more conflict-driven over the next years.

Welfare states have to react to the newly emerging social tensions, if they want to maintain social peace. Unfortunately, they need to do this while they have to cut their spending and meet an

increasing need for welfare state provisions for e.g. unemployed people. This combination of welfare state demands and restrictions is a challenge for any government, and this working paper showed that governments take very different approaches to meeting this challenge. Which approaches they chose, however, not only depends on the pattern of social inequalities within a country and the severity of the economic crisis. Factors such as extent political institutions, previous reform strategies, and promises made during elections also play a role. What the welfare state responses discussed in this working paper have in common, though, is that they focus on the economic consequences of the crisis. Changes in social cohesion and in the well-being of citizens are usually not addressed.

While this working paper has its merits, it also has some limitations. First, the paper presents an overview, but not a detailed description of social change and welfare state responses. Future studies are needed to explore the arguments and observations brought forth in this paper in more detail. Second, the overview presented in this paper is broad, but not encompassing. This fact is partly due to the limited time the class at the University of Bremen had for exploring social change triggered by the economic crisis. Partly, it is due to the wide variety and the long time-horizon of changes in the wake of the crisis. Thus, future research can help us identify additional effects of the economic crisis of 2008 on societies and welfare states. Third, the working paper points out crisis-related life-course effects that might unfold in the future. These life-course effects were identified according to previous research, and they therefore have a scientific basis. However, the future is unpredictable, and life-course effects might play out differently in the future than they did in the past. It would, therefore, be interesting to revisit the effects suggested in this paper in a few years or decades. Then, one could determine whether lives indeed developed as the authors of this paper expected. Finally, the working paper touches upon country-differences in effects of the economic crisis, but it does not systematically study them. The evidence presented suggests that countries differ not only in the strength of the economic crisis, but also in social change and welfare state reforms in response to the crisis. Future studies could chart these country-differences and develop country-profiles regarding the social aspects of the economic crisis. It would be particularly interesting to know whether country clusters exist and whether such clusters correspond to the welfare regimes described by Esping-Andersen (1990).

All in all, the economic crisis of 2008 is a global phenomenon that restructures the fundamentals of society. Starting out as an economic phenomenon, it quickly affects the lives of people and how people interact with each other. It has the potential to bring family members closer together, but it also has the potential to open up new social cleavages in society. Governments are challenged to consolidate their finances while steering the economy and meeting the welfare needs of their citizens. In practice,

however, the accumulation of challenges often leads governments to focus on issues related to the economy and labour markets. Questions of social cohesion, identity, and well-being, in contrast, fade into the background. As a consequence, societies transform in a way that is more complex than what political discussions suggest. Moreover, the echoes of the economic crisis will remain engrained in culture, habits, and the memories of people even after the economy stabilizes and unemployment rates drop again. We should, therefore, consider societies after the economic crisis as qualitatively different from societies before the economic crisis. Where exactly these differences lie can only be determined in the future, and the working paper at hand provides a starting point such investigations.

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Figure 1: Social change during the economic crisis of 2008

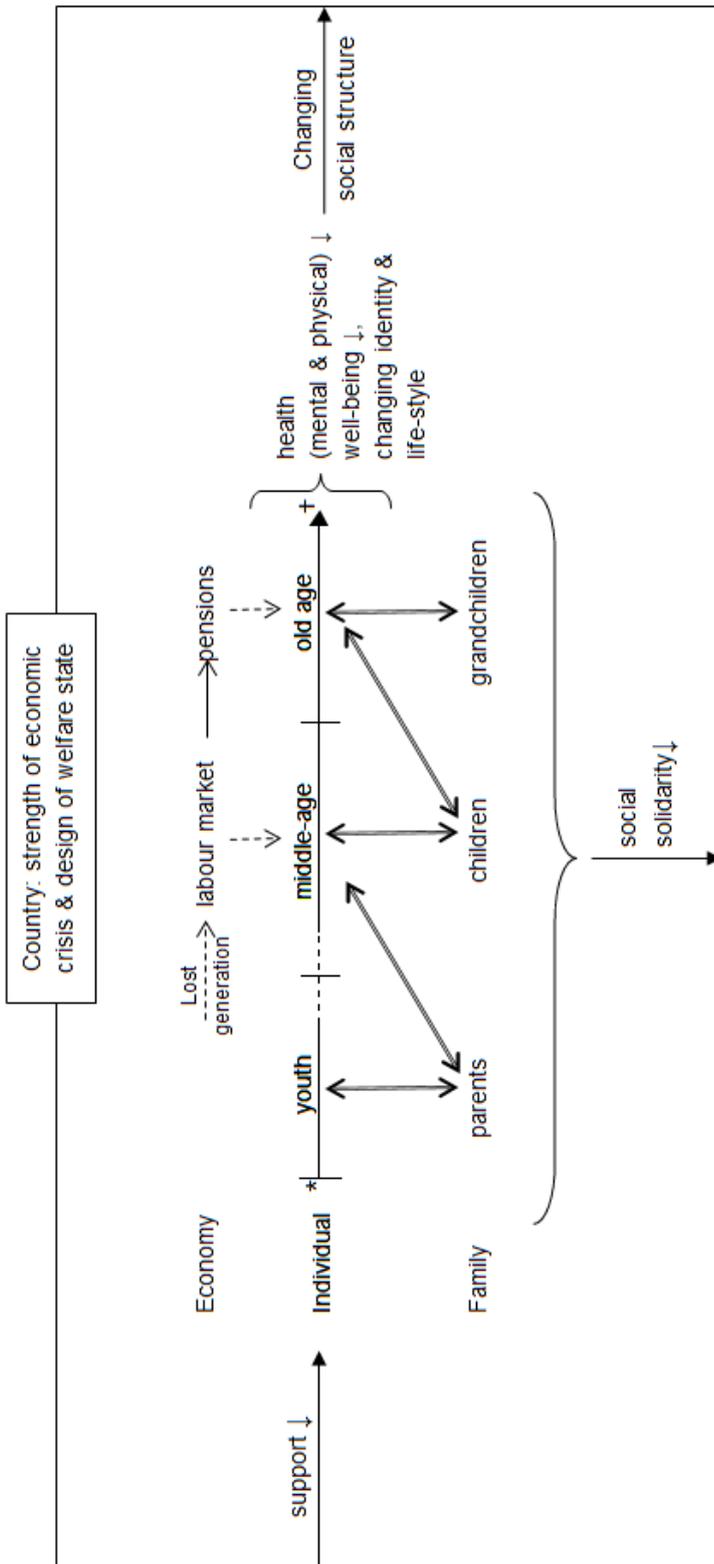
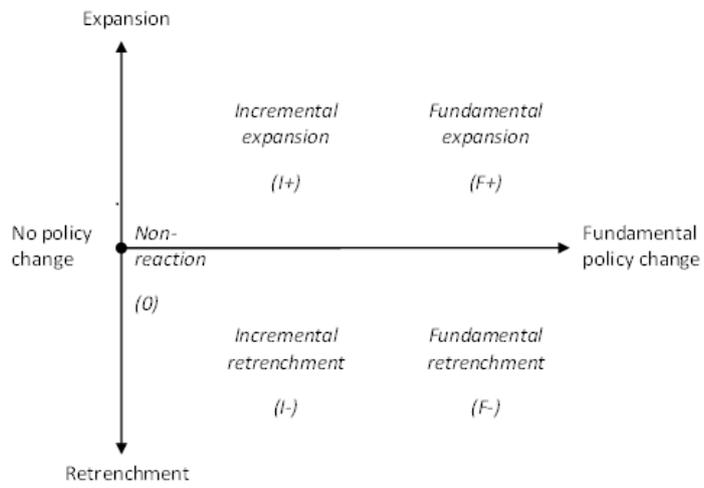


Figure 2: Typology of crisis responses



(Source: Starke, Kaasch, & Van Hooren, 2013)

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