Social Policy & Administration issn 0144–5596
DOI: 10.1111/j.1467-9515.2011.00778.x
Vol. 45, No. 4, August 2011, pp. 338–353

To What Extent Did the Financial Crisis Intensify the Pressure to Reform the Welfare State?

Barbara Vis, Kees van Kersbergen and Tom Hylands

Abstract

If ever there was momentum to roll back the welfare state, it is the (aftermath) of the financial crisis of 2008–09. All theoretical perspectives within comparative welfare state research predict radical reform in this circumstance, but does it also happen? Our data indicate that – at least so far – it does not. Focusing on a selection of advanced welfare states (the UK, the USA, Germany, the Netherlands, Denmark and Sweden), we find that these countries face similar problems and that their initial response to these problems is also similar. The latter is surprising because, theoretically, we would expect varying responses across welfare state regime types. Rather than retrenchment, we observe a first phase of emergency capital injections in the banking sector and a second of Keynesian demand management and labour market protection, including the (temporary) expansion of social programmes. Continuing public support for the welfare state was a main precondition for this lack of immediate radical retrenchment. However, the contours of a third phase have become apparent now that budgetary constraints are forcing political actors to make tough choices and introduce austerity policies. As a result, the question of who pays what, when, and how will likely give rise to increasingly sharp distributional conflicts.

Keywords

Financial crisis; Welfare state reform; Retrenchment; Public opinion

Introduction

Are the financial crisis of 2008 and its economic aftershocks (Hemerijck *et al.* 2009) spurring major reform efforts in key social policy domains in Western welfare states? It is interesting to note that in all mainstream approaches to welfare state change, financial and economic crises play a theoretical role of instigators of structural and radical reform (see e.g. Kuipers 2006: chapter 2 for an overview). The general thrust of the argumentation is that although

Address for correspondence: *Dr Barbara Vis, Department of Political Science, VU University Amsterdam, De Boelelaan 1081, 1081 HV Amsterdam, the Netherlands. Email: b.vis@vu.nl*

tremendous pressures for reform have been accumulating in the past decades, these typically do not translate into drastic reform because of the various institutional and political forces that work against them. A crisis, in the sense of an indubitable threat of breakdown, is assumed to set these forces free and bring about, more or less instantaneously, radical reforms.

The institutionalist approach, for one, has a good toolbox to explain, for 'normal times', social policy continuity and what has been termed 'progressive change', that is, the kind of change showing no brutal departure from a developmental path but with a specific direction nonetheless (Palier 2010a: 31). But an institutionalist analysis would also suggest that a crisis offers a critical juncture at which it is possible to divert from the original path of development and embark upon substantial reform, including harsh retrenchment and major restructuring (Palier 2010b). A socio-economic account would predict that socio-economic dire straits provide functional demands to the political system that are likely to translate into drastic reform at the moment they are perceived or felt as systemic or existential threats (see Schwartz 2001 and Starke 2006 for overviews). Given the pressures exerted by the financial crisis and its economic aftermath, such as rapidly rising levels of unemployment and increasing budget deficits, this perspective predicts radical retrenchment and recommodification almost as inescapable and immediate outcomes.

An ideational account would point to the fact that ideas assume a transformative capacity under extreme conditions. A crisis causes urgent uncertainty and fosters the prompt take-up of groundbreaking and previously unacceptable ideas to transform the welfare state radically and rapidly (see e.g. Béland and Cox 2010; Stiller 2010).

Finally, even Iversen and Wren's (1998) service sector trilemma approach would predict a fast transformation of regime specific paths. Interestingly, and contrary to Iversen and Wren's prediction, the conservative regime did not opt for a continuation of the welfare-without-work path, but has sacrificed, like the social democratic regime, budgetary restraint. The liberal regime also went in another direction than expected, by preventing income inequality from rising more sharply and protecting employment at the expense of budgetary restraint.

The main theoretical perspectives converge around the anticipation that the financial crisis in the short run and its economic aftershocks in the somewhat longer run open up an opportunity if not necessity for radical welfare state reform. Can we (already) find empirical indications that support these theoretical predictions? Is the financial crisis setting in motion a (radical) restructuring of the welfare state and a programme of serious cutbacks in social expenditures? In the next section, we argue that, so far, it is not. After a first phase of supporting banks, a second one of mainly macroeconomic policies followed, which upheld and expanded rather than retrenched welfare programmes. We argue that the supportive public opinion on the core welfare state programmes is an important precondition in this regard. In the third, and ongoing, phase, cutbacks of social expenditures are entering the agenda, but it remains to be seen how this will play out.

Outline of the Argument and Structure of the Article

The financial crisis and its economic aftershocks are a moving target, making studying their effects on social policy-making intricate. Still, we would like to present an indicative overview of the measures taken so far in countries selected from the different worlds of welfare: the UK, the USA, Germany, the Netherlands, Denmark and Sweden. We select the UK, Germany and Sweden because these countries are representative of the liberal, conservative and social democratic welfare state regimes respectively (Esping-Andersen 1990). The Netherlands, conversely, is a typical 'hybrid' welfare state regime (Vis *et al.* 2008), combining traits from both the social democratic and the conservative regimes. Moreover, we include the USA because of its major role in the financial crisis. Finally, we focus on Denmark because, arguably, welfare state reform in this country has been groundbreaking in its solution to the notorious efficiency–equality trade-off in the 1990s and 2000s, combining active labour market policies with a high level of generosity in benefit levels (Albæk *et al.* 2008).

Below we report that the theoretical predictions presented in the first section cannot be supported, or at least not yet. Despite substantial cross-national differences, the early responses to the crisis are by and large similar everywhere. Governments did not immediately respond with cutbacks or radical restructuring. On the contrary, the initial response of all governments was to reserve or invest resources to support or bail out banks and, somewhat later, industrial sectors. With a seemingly unprecedented level of international coordination, all countries embarked upon a fairly classical Keynesian intervention, first, to prevent the collapse of the banking sector and, second, to prevent a massive drop in demand. In this first phase, the similarity in response is what is most striking. In the second phase, it became rapidly clear that in spite of the intervention the financial crisis was causing an economic downturn that threatened to turn into a recession, with severe consequences for labour market developments. Consequently, all countries expanded social programmes or adjusted them to cushion the shock of the crisis and the expected economic malaise. Again, there was much similarity in the responses and most countries made an effort to prevent mass unemployment and to ensure that redundant workers would retain their relation with the labour market (e.g. through 'part-time unemployment').

The developments seem to be in line with the *compensation hypothesis* that (financial) globalization (economic openness) and welfare effort are mutually reinforcing (Glatzer and Rueschemeyer 2005). This conflicts with recent findings supporting the *efficiency hypothesis* of a negative relationship between globalization and social expenditures (Jahn 2006; Busemeyer 2009). Different from the latter's predictions, and in line with the compensation hypothesis, we find that all countries initially chose to relax their budget restraint to finance the collapsing banking sector, then introduced macroeconomic support measures and finally also made an effort to defend social compensation and social investment strategies, albeit usually explicitly temporarily.

We are also already picking up the signs of a third phase in the response to the financial crisis and its economic aftershocks. The Keynesian intervention and the following protective measures are a costly affair and they are causing budget deficits to increase rapidly. It might be that the theoretical perspectives will prove to be right in the end, that is if the crisis and the initial policy responses turn out to have revolutionized the social and political foundation of the welfare state consensus. Moreover, if the pessimistic (realistic?) economists are right (e.g. Stiglitz 2010) and the world economy is not likely to recover quickly, also precisely because governments discontinue demand management, the cumulative effects of lower tax income and social security contributions, continuing expensive financial support policies, and rising social expenditures are likely to deteriorate the already dire budgetary condition of the welfare states, adding to the pressure for drastic reform. Thus far, however, we observe that the crisis has not had the instant effect of triggering policies that harm core social programmes, but we do catch sight of the fact that the issue of radical retrenchment is capturing the political agenda in many a nation.

As indicated, we argue that one important precondition for the initial similarity in policy responses is that the crisis did not undermine public support for the welfare state's core institutions and the role the institutions play in mitigating the domestic impact of the whims of the global (financial) markets. To illustrate the relevance of public opinion in the wake of the crisis, on which 'hard' data that are comparable across countries are not available (yet), we conduct a qualitative content analysis of national public debates in print and online media.[1] We discuss public support for the welfare state as an important precondition for the emergence of similar responses in the third section. The initial similarity in policy responses relates to the fact that countries are facing roughly similar problems. In the fourth section, we show that Denmark, Germany, the Netherlands, Sweden, the UK and the USA have, indeed, been facing comparable problems as a result of the financial crisis and its aftershocks.

The aftershocks will likely be tangible for many years. During this time, large differences between countries – as well as across political parties within countries – are likely to re-emerge. Where, for example, to raise the money for the risen budget deficits? Will this be in the form of higher taxes, possibly for specific groups (*à la* Obama's bank tax)? Or by cutting back on social expenditures? To answer these questions, our qualitative content analysis of national public debates in print and online media focuses also on how governments deal with the aftershocks. This analysis reveals a keen and nervous awareness of budgetary stress and commitment to cutbacks everywhere, but also (so far) a conspicuous lack of concrete plans on how to achieve a balanced budget in the (near) future (fifth section). The final section concludes.

Public Opinion and the Welfare State

A supportive public opinion is one of the major defensive mechanisms of the welfare state against radical reforms and drastic cutbacks (e.g. Brooks and Manza 2006a). Generally, the core programmes of the welfare state are broadly cherished – except perhaps in the USA. More specifically, when the framing of certain core social programmes triggers the so-called 'deservingness heuristic' among the public, support for such programmes and policies is automatic and even overrules prevailing values (Petersen *et al.* 2010). The current crisis differs substantially from the crises of the 1970s and, especially, the 1980s. At those times, the 'big' (welfare) state was seen as one of the primary *causes* of the crisis, crowding out money for investments and thereby inhibiting economic and employment growth. In sharp contrast, public opinion data now show that the public by and large does not blame the welfare state for the current crisis. Instead it is viewed as a *solution* to (at least some of) the problems caused by the financial sector and the aftershocks.

What is the relation between public opinion and the welfare state? The literature comprises two distinct theoretical and conflicting empirical findings. One is that public opinion in certain contexts affects policy decisions (e.g. Brooks and Manza 2006a, 2007; Burstein 1998, 2003; Christian 2008; Kenworthy 2009; Manza and Cook 2002; Svallfors 2003), while the other is that government policy and a welfare state's institutional setup shape public opinion (e.g. Blekesaune and Quadagno 2003; Jaeger 2009; Jakobsen 2010; Larsen 2008; Matthews and Erickson 2008; Sihvo and Uusitalo 1995). Both mechanisms can bolster support for the welfare state in the wake of the financial crisis. If public opinion is supportive of the welfare state, this increases welfare-friendly policies through the first mechanism. Through the second mechanism, the policies in place increase their own support when needed most, such as in the current crisis. Together, these two mechanisms work against dramatic scaling back of the welfare state.

An important issue is thus whether or not the current crisis is undermining public support for the welfare state. Obviously, it is difficult to obtain contemporary data. The data we could find through our content analysis (see note 1), however, reveal that there is continuing support for the welfare state in spite of the mounting financial constraints that limit the extent to which governments can meet such demands. In fact, we found indications that voters cherish the welfare state even more because of the crisis, because it does precisely what it was supposed to do: shields people from losing their jobs or protects their income in the case of unemployment.

Between the liberal regime countries, the USA and the UK, there is some degree of divergence in public outlook. While a late 2009 Ipsos-MORI poll in the UK showed that voters there were not ready for spending cuts, Gallup polls indicate that a slight majority of Americans accept the need for temporary government expansion, but that a very large majority want it wound back either immediately or as soon as the crisis is resolved (Ipsos-MORI 2009; Gallup 2009a, 2009b).

From the literature and our analysis, we can present some tentative conclusions. First, it seems that the crisis and its aftershocks are likely to increase rather than decrease public support for welfare provision (Blekesaune and Quadagno 2003), making radical welfare state reform even more difficult. Second, social policy remains a salient issue that the public will have relatively clear and coherent views on, as a result of which public opinion will continue to influence government policy-making and action (Burstein 1998). Third, governments are likely to respond with increased support for the welfare state where possible (Brooks and Manza 2006b). Quite clearly, a pro-welfare state rhetoric is dominating, in spite of frequently expressed worries about the need to balance the budget. We infer that in the near future many political systems are likely to experience an increased political tension between the popular demand to uphold welfare arrangements and the financial and economic demands to balance the budget. It is likely that activation and maximization of labour market participation (including, for instance, an extension of the pension age) are elements of the solution promoted in the wake of the crisis. Contrary to Brooks and Manza (2007), we expect domain-specific trade-offs to occur where specific domains receive extra support at the expense of less-salient domains, in spite of the fact that increases in aggregate welfare state effort or in welfare state generosity are limited because of budgetary constraints.

If we look at the Ipsos-MORI polls, for instance, we observe that the UK public is willing to accept government spending cuts, but refuses to accept cuts on health care.[2] A more recent *Financial Times*/Harris Poll (2010) supports this result. Only 8 per cent of Britons think that health care should bear the biggest part of the spending cuts burden.[3] Interestingly, the same poll shows that a little over 50 per cent of Britons consider it acceptable that unemployment benefits get cut the most. In this respect, the UK differs radically from the USA, where only 22 per cent considers this the best policy to cut, which is about the same level as in Germany (and France, Italy and Spain). Another interesting finding is that around 70 per cent of the respondents in the USA, the UK, Germany (and France, Italy and Spain) agree with the statement that 'the large budget deficits and the spending cuts that have happened or been proposed call for a re-examination of Europe's welfare states'. Unfortunately, the poll does not provide any information about what this re-examination should look like.

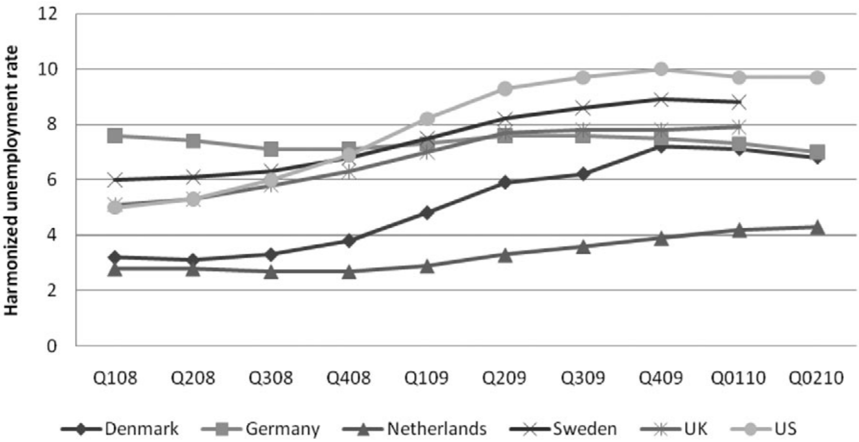
We conclude that the welfare state is still cherished as a major protection against the impact of financial and economic shocks. However, it may be that the public holds contradictory views that – from a public policy point of view – are hard to square: the expensive welfare state is heartily supported, but so are cuts in government spending.

Similar Problems?

To what extent do Denmark, Germany, the Netherlands, Sweden, the UK, and the USA face similar problems as a result of the financial crises and its aftershocks? An important indicator for the state of the economy is the level and change in unemployment. Figure 1 displays the development of the harmonized unemployment rates in these six countries from the first quarter in 2008 to the second quarter of 2010. Whilst in Sweden, the UK and the USA, the unemployment level was on the rise for the entire period, the increase was particularly sharp from the third quarter of 2008 (Q308) onwards. This is also when unemployment starts to increase in Denmark, in fact almost doubling between Q308 and Q309 from 3.3 per cent to 6.2 per cent. In the Netherlands, unemployment levels had risen as of Q409, although less than in the other countries (except Germany). Germany is the outlier in terms of unemployment, because the level does not rise throughout the period. However,

Figure 1

Development of harmonized unemployment rates



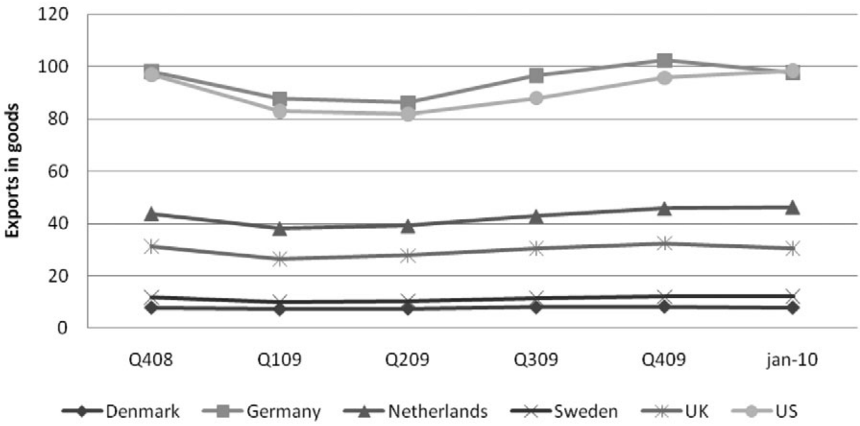
Source: OECD 2010.
Note: Unemployment rates adjusted for seasonal variation; entries are the 1st quarter of 2008, the 2nd quarter of 2008, etc.

with 7.6 per cent unemployment, Germany had the poorest performance in terms of unemployment of these six countries anyway. By Q409 this was no longer the case: the USA (10 per cent) had taken over this position, trailed by Sweden (8.9 per cent). Despite the differences between the countries, these figures show that unemployment is clearly a problem in all of our countries.

The surge in unemployment is a symptom of interlinked problems that all countries face. The banking sector in developed democracies has serious credibility and stability problems, with many banks requiring very large sums of capital injections. The Swedish government has spent the least of our six cases, namely €5 billion (about 1.5 per cent of GDP). Compared to those of the other countries, the Swedish banks have been less eager to take this money because of the greater conditionality attached. The latter is a result of the banking crisis that Sweden faced in the early 1990s (see e.g. Englund 1999). In terms of sheer numbers the Danish government is next in line, with two rounds of capital injections totaling around €18 billion (about 8 per cent of GDP). In addition, the government has come to the rescue of two of Denmark's (albeit relatively small) banks. The situation is similar in the Netherlands, where the government has spent about €20 billion to take over a bank and another €20 billion on capital injections (about 7 per cent of GDP). The German figures are substantially higher: in December 2008, the German Parliament approved capital injections of €480 billion (about 20 per cent of GDP). The American response resembles that of Germany in terms of the absolute level of spending, with capital injections amounting to US$700 billion (€519 billion) (about 5 per cent of GDP). The UK, finally, tops this figure, with

Figure 2

Exports in goods (value), in 2005 billions of US dollars



Source: OECD 2010.

£850 billion (€960 billion) of expenditure (about 60 per cent of GDP). Although the exact figures vary across the six cases, the trend indicates that the banking sector in each country required massive government assistance to survive the crisis.

Unemployment has been rising also because of falling exports, among other things caused by lower consumer confidence. Figure 2 displays the development of exports in goods (value) in billions of US dollars in our six countries from the final quarter of 2008 to January 2010. Exports fell everywhere between Q408 and Q109. The highest reduction took place in Sweden (minus 15.9 per cent), trailed by the UK (minus 15 per cent), the USA (minus 14.3 per cent) and, at some distance, the Netherlands (minus 12.9), Germany (minus 10.7 per cent), and Denmark (minus 8.7 per cent). In most countries, exports picked up after the first quarter of 2009, but not in Germany (another 2 per cent reduction) and the USA (minus 1.3 per cent). Between the second and fourth quarters of 2009, all countries saw their exports increase again – in most cases to levels higher than Q408 – yet in Denmark (minus 5.1 per cent), Germany (minus 4.5 per cent), and the UK (minus 6 per cent) exports fell again between the Q409 and January 2010.

But we live in volatile times. The International Monetary Fund (2010: 75, see also Statistisches Bundesamst Deutschland 2010) has recently predicted that, after a decline of real GDP in 2009 of 4.7 per cent, the German economy is expected to grow by a high 3.3 per cent in 2010 (although unemployment is expected to remain around 7 per cent). Overall, however, the data on unemployment, the banking sector, and exports show that our six countries largely deal with similar problems. Did these similar problems evoke similar initial responses?

Similar (Initial) Responses?

Which measures have the American, British, Danish, Dutch, German and Swedish governments taken to cope with the adverse effects of the crisis? Apart from the emergency support for the financial sector characterizing the first crisis response phase, it is difficult to get data on policy adjustments or new policy initiatives taken in the various countries, because many proposals are still being developed or are under debate. In order to get at least some idea of what has been going on, we have been collecting data from various sources (see note 1). Table 1 summarizes the measures taken in the first and second phases of the response to the financial crisis and its economic aftershocks, as we found them in our qualitative content analysis. We subsume the measures under four categories: (1) Keynesian measures (investing in jobs, investing in infrastructure, tax measures, and tax relief); (2) monetary policy (lowering interest rates, money creation, buying government bonds); (3) circumventing bankruptcy (creation of 'bad' banks, guarantees on problem assets, financial support to banks or companies, take-over of banks, liquidity fund for banks); and (4) re-establishing trust in the banking sector (guarantees on savings, guarantees of inter-bank lending, and increase of supervision).

Table 1

Summary of crisis measures taken

	USA	NL	UK	DE	DK	SW
Keynesian measures						
Investing in jobs	X	X	X	X	X	X
Investing in infrastructure				X		
Tax measures				X		X
Tax relief				X	X	
Monetary policy						
Lowering interest rate	X	X	X	X	X	X
Money creation			X			
Buying government bonds			X			
Circumventing bankruptcy						
Bad bank (crisis bank)		X	X	X	X	
Guarantees on problem assets	X					
Financial support to banks or companies	X	X	X	X	X	X
Take-over of banks		X			X	
Liquidity fund for banks					X	
Re-establishing trust in banking sector						
Guarantees on savings (or increases its level)		X		X	X	X
Guarantees for interbank lending		X				
Increase of supervision		X				

Note: An X in the table indicates that one or more measures were taken that fall under a specific category (such as investing in jobs). To assess whether a particular measure was taken, we conducted a qualitative content analysis of written and (online) media sources (see note 1).

Table 2

Labour market related measures

	USA	NL	UK	DE	DK	SW
Labour demand measures						
Job subsidies, recruitment incentives, public job creation			X			X
Reductions in non-wage labour costs					X	X
Short-time working schemes		X		X	X	
Measures to help the unemployed find work						
Activation requirements			X	X		
Job search assistance and matching	X	X	X	X		X
Job finding and business startup incentives			X			
Work experience programmes	X		X			X
Training programmes	X	X	X	X	X	X

Sources: Clegg 2010: Table 1 (Compiled from Glassner and Galgóczi (2009); European Employment Observatory (2009); European Monitoring Centre on Change, http://www.eurofound.europa.eu/emcc/index.htm (accessed April 2010); Mandl and Salvatore 2009: 12–13; OECD 2009: 3, Table 1.

If we look at the indicators falling under the heading of 'circumventing bankruptcy' and 're-establishing trust' in table 1, we observe similar responses. If our data are correct, Germany is a special case because in this country a Keynesian type of response seems to have been most systematically formulated.

Our content analysis reveals that in the second response phase the labour market is the area to which most attention has been directed and where policy-making initiatives have been most frequent (and most frequently discussed). Still, the need for more general welfare state reform (and major restructuring) in the fields of health, education, housing and pensions, continues to be a hot issue too. Specifically, our analysis indicates that, next to the direct financial predicament, rising unemployment (or the expectation that jobs will be lost) is by far the greatest worry of all governments. If anywhere, we expect major adjustments in labour market related policies in the wake of the financial crisis. Table 2 summarizes the recent data on this.

If we examine the details of the measures taken, the UK stands out. Although the UK had the lowest score on supportive policies of all EU 15 countries before the crisis, the government has been very reluctant to improve these policies, even temporarily (Clegg 2010). The main measures taken in the UK fall under the heading of active labour market policies. As of January 2009 there is extra support for jobseekers who have been unemployed for more than six months, additional funding for the public employment office (Jobcentre Plus), a bonus of up to £2,500 (€3,000) for employers to hire and train an unemployed person, new training places, work-focused volunteering options, and help to establish a business. The total costs of these measures amount to approximately £0.5 billion (€553 million). Furthermore, the government has committed to another £1.3 billion (€1.4 billion, about 0.1 per cent of GDP) so that those individuals who become unemployed can receive their benefit more quickly (EEO 2009: 15–16). In a comparative perspective, these measures are not that substantial. Overall, the UK's approach to tackling the crisis has been characterized mostly by tax cuts in an attempt to boost economic activity (Clegg 2010). Conversely, nothing has been done to address those who are becoming unemployed – a feature in which the UK differs substantially from the rest of Western Europe. Partial unemployment is perhaps the most important of these. In Germany, there was already a partial unemployment scheme in place – in the form of structurally lower working time – which has been extended from 6 to 18 months ('stimulus package 1') and has been extended further after that. Also the contribution from the government has been increased (Clegg 2010).

Table 2 indicates that most countries, although not in all specific fields and to the same extent, have formulated new or updated existing measures in the area of both active and passive labour market policies. Our data also indicate that in all countries cuts in core functions have not been made, at least not yet. However, we are picking up the contours of a third phase in the response to the financial crisis and its aftershocks. It seems that a general acceptance has emerged that cuts need to be made in the long term, but political actors have avoided discussing exactly how, where, and when such cuts will have to occur. During the 2010 election campaign the main political parties in the UK, for instance, were not very specific with numbers on planned cuts. The new coalition government (Conservatives and Liberal Democrats) adopted a plan for £30 billion spending cuts (about 1.8 per cent of GDP) in its June 2010 Budget. Proposed measures include an increase in the VAT tax by 2.5 per cent (to 20 per cent) and a spending reduction of 25 per cent over the next four years for all civil service departments, except health and overseas aid. Welfare spending will be cut by £11 billion (about €13 billion, 0.8 per cent of GDP) over the next five years. Child benefits will be frozen, family tax credit will be reduced, housing benefits will be capped, medicals for disability benefits will be stricter, and the increase of the state pension age from 65 to 66 will be accelerated (European Institute 2010). Total spending cuts by 2014–15 will amount to £81 billion (€90.7 billion, 5.6 per cent of GDP) (HM Treasury 2010). These proposed cuts will, among other things, further hit welfare and public service pensions (as well as environmental levies). Additionally, the government will 'radically change the welfare system' (HM Treasury 2010: 28) by replacing the current system of means tested working age benefits with a new Universal Credit that would enable work to always pay. Simultaneously, the government will reduce fraud and error through a new approach and implement a Work Programme for those with the largest distance to employment.

The German government also appears to be committed to meeting tough deficit targets. In July 2010 the German government agreed on significant cutbacks in a savings plan (*Sparprogramm*), amounting to approximately €80 billion between 2011 and 2014 (about 3 per cent of GDP). The package is a mixture of cancellation of existing subsidies, higher taxation, a major reform of the army, public administration reforms, reform of the financial sector, and several – taken on their own – relatively minor benefit cuts and entitlement restrictions (Bundesregierung 2010). At the same time, the savings package reserves €12 billion to invest in education, research and development.

In the Netherlands the exact cutbacks and their timing dominated the electoral campaign of Spring 2010, and they were a crucial part of the negotiations on the new coalition government. Cutbacks are projected to be around €18 billion (about 3 per cent of GDP). The aim of the new government is to restore a balanced budget in 2015. Proposed measures concern modest to considerable retrenchments across various sectors, including health, pensions (a gradual increase of the retirement age), child care, disability and social assistance. The Danes face spending cuts of a, for them, draconian size of €3.2 billion (almost 1.5 per cent of GDP). Proposed measures involve the (further) reduction of the unemployment benefit from four to two years, 20,000 less jobs in the public sector and a 5 per cent reduction of child benefits. Sweden is the only one of our six countries where severe cutbacks in public spending are not expected. This is because Sweden benefits from the strict fiscal rules implemented in the 1990s (European Institute 2010).

Conclusion

We have highlighted the financial, economic and social policy responses to the financial crisis of 2008–09 in six key advanced welfare states. To answer our title's question: the crisis intensified the pressure to reform the welfare state reform to some extent, but, to date, the various pressures have not translated into drastic welfare state reform. The responses hereby fail to confirm the expectations of any theory of welfare state change, in which political actors are expected to take up the opportunity to implement substantial reforms. Governments have first jumped to the rescue of the financial sector and then introduced measures to stimulate demand, at the cost of a balanced budget. The initial response has been compensation rather than efficiency and has occurred irrespective of the political leaning of the ruling parties.

During the crisis and its aftershocks, the welfare state appeared a crucial institution protecting people from ill fortunes beyond their control. The welfare state's core programmes therefore remain popular and – under the extreme conditions of the financial crisis – are still broadly supported. This continued public support for the welfare state is proving to be quite robust, especially now that the financial crisis is not in any fundamental sense blamed on, for instance, expensive social policy as the 1980s crisis was. The welfare state, then, is typically included in the political solutions to the crisis. The data on public opinion and on policy developments in the UK, the USA, Germany, the Netherlands, Denmark and Sweden also reveal the public's continued support for and trust in the welfare state.

In addition, the common problems faced – including rising unemployment, reduced credibility of the banking sector and falling exports – help to explain the common reactions across the board. However, the immediate response has been a costly affair and we find an indication that we have entered a third phase in the response to the crises. Labour market policy and banking reform have clearly received the most attention in the first phase, but measures have also been taken or are being considered in other policy areas, such as pensions and housing, announcing the arrival of a more austere period to restore balanced budgets. The theme that runs throughout is that spending has been, albeit temporarily, increased in key areas, as governments try to support those who have been adversely affected by the crisis. However, a broadly shared political conviction is developing, that the costly initial response is not sustainable in the long run, because it is causing deficit spending to rise dramatically.

The current, third, phase is characterized by an emerging political agreement that deficit spending is rapidly approaching its limits. Consequently, it is likely that the politics of reform will now quickly revolve around the question who pays what, when, and how, or in other words, who will have to carry the heavy burden of financial and economic recovery. The crucial political issues are if a swift return to a balanced budget is a *conditio sine qua non* for economic recovery and, if so, whether drastic retrenchment or a substantial increase in taxes is the key. Governments in some of our countries (especially the UK, Germany, Denmark and the Netherlands) have already agreed on significant public spending cuts that may or may not add up to drastic reforms and induce new distributional conflicts. Such decisions might spark public resistance like in Greece, because the crisis has also bolstered public support for the welfare state. Public opinion will remain an important factor in determining the timing, extent, and pace of social spending cuts. In addition, the well-known resilience mechanisms of long- and well-established social programmes will be automatically triggered by such measures, making outcomes uncertain.

We conclude that there has not been a major onslaught against the welfare state in the immediate wake of the financial crisis. It seems, however, that more drastic spending cuts are envisaged, although for a variety of political and institutional reasons there will probably be a considerable gap between intentions and achievements. Pressures that impel radical reform have gained further strength, but the welfare state is simply not that easily toppled. This, however, does not imply that there has been no welfare state reform or change. On the contrary, during the last 20 years or so welfare states have been continually adjusted to new economic and social demands, and governments have pursued, albeit with considerable variation, well-adapted and innovative social investment policies. Whether such social investment strategies will become victims of the pending distributional battles or be part of a new positive-sum solution to the perpetual equality–efficiency trade-offs is a question that will dominate the political and research agendas alike in the next decade.

Acknowledgments

Earlier versions of this article have been presented at the Dutch/Flemish Politicologen-etmaal in Leuven, Belgium (2009), the 17th International Research Seminar of the Foundation for International Studies on Social Security, Sigtuna, Sweden (2009), at a seminar of the research group Comparative Politics & Danish Politics of Aarhus University, at the workshop 'Politics in Hard Times', Mannheim, Germany (2010) and at the NIG Work conference (2010). Thanks to all participants for their helpful comments. In addition, thanks to Christoffer Green-Pedersen, Anton Hemerijck, Carsten Jensen and Matthias Stepan and the anonymous referees of *Social Policy & Administration* for useful comments. We would also like to thank Neda Delfani for her help with collecting the data. Tom Hylands' research was supported by a Fulbright-Schuman grant from the US Department of State and the European Commission. Barbara Vis' research is supported by a Veni grant from the Netherlands Organisation for Scientific Research (NWO, grant nr. 451-08-012).

Notes

1. We conducted the qualitative content analysis between October 2009 and August 2010, using search functions on the websites of: LexisNexis, the Economist, OECD, ICPSR and Google News. LexisNexis search sources included: Major U.S. and World Publications, News Wire Services, TV and Radio Broadcast Transcripts, and Web Publications. Search terms used: 'public opinion', 'welfare state', 'social policy', reform, change, amendment, initiative, development, economic, crisis, 'credit crunch', Germany, US, USA, 'United States', America, UK, 'Great Britain', 'United Kingdom', Sweden, Denmark, Italy, Netherlands. All results are limited to January 2008 and later.
2. The plans announced in the Spending Review 2010 of the UK HM Treasury in October 2010 indicates that the government is responsive to the British voters on this point; with all departments facing spending cuts of about 19 per cent, health is (with overseas aid) the only area that will not be facing such drastic cutbacks (HM Treasury 2010).
3. This analysis is indicative of the measures taken as well as of public opinion. Still, given that we are dealing with a moving target about which systematic data are unavailable (yet), this is the best we can do. See note 1 for information on the content analysis.

References

Albæk, E., Eliason, L. C., Nørgaard A. S. and Schwartz, H. M. (eds) (2008), *Crisis, Miracles, and Beyond: Negotiated Adaptation of the Danish Welfare State*, Aarhus: Aarhus University Press.

Béland, D. and Cox, R. H. (eds) (2010), *Ideas and Politics in Social Science Research*, Oxford: Oxford University Press.

Blekesaune M. and Quadagno, J. (2003), Public attitudes toward welfare state policies: A comparative analysis of 24 nations, *European Sociological Review*, 19, 5: 415–27.

Brooks, C. and Manza, J. (2006a), Why do welfare states persist? *The Journal of Politics*, 68, 4: 816–27.

Brooks, C. and Manza, J. (2006b), Social policy responsiveness in developed democracies, *American Sociological Review*, 71, 3: 474–94.

Brooks, C. and Manza, J. (2007), *Why Welfare States Persist: The Importance of Public Opinion in Democracies*, Chicago, IL: University of Chicago Press.

Bundesregierung (2010). Sparprogramm http://www.bundesregierung.de/Webs/Breg/DE/Sparprogramm/sparprogramm.html (accessed August 2010).

Burstein, P. (1998), Bringing the public back in: Should sociologists consider the impact of public opinion on public policy, *Social Forces*, 77, 1: 27–62.

Burstein, P. (2003), The impact of public opinion on public policy: A review and an agenda, *Political Research Quarterly*, 56, 1: 29–40.

Busemeyer, M. R. (2009), From myth to reality: Globalisation and public spending in OECD countries revisited, *European Journal of Political Research*, 48, 4: 455–82.
Christian, J. L. (2008), When does public opinion matter? *Journal of Sociology and Social Welfare*, 35, 1: 133–56.
Clegg, D. (2010), Labour market policy and the crisis: Britain in comparative perspective, *Journal of Poverty and Social Justice*, 18, 1: 5–17.
Englund, P. (1999), The Swedish banking crisis: Roots and consequences, *Oxford Review of Economic Policy*, 15, 3: 80–97.
Esping-Andersen, G. (1990), *The Three Worlds of Welfare Capitalism*, Cambridge: Polity Press and Princeton, NJ: Princeton University Press.
European Employment Observatory (EEO) (2009), Background paper on measures to deal with the economic crisis, http://www.eu-employment-observatory.net/resources/reports/EEOBackgroundPaper-EconomicCrisisMeasures11April2009.pdf (accessed February 2010).
European Institute (2010), EU austerity: A country-by-country table, http://www.europeaninstitute.org/June-2010/eu-austerity-a-country-by-country-table/html (accessed August 2010).
Financial Times/Harris Poll (2010), Spending cuts are preferred to higher taxes to reduce deficits in the U.S., Great Britain, France, Italy, Spain and Germany, http://www.harrisinteractive.com/NewsRoom/HarrisPolls/FinancialTimes/tabid/449/ct/ReadCustom%20Deafult/mid/1512/Artcleld/438/Default.aspx (accessed August 2010).
Gallup (2009a), Americans OK with short-term government growth, http://www.gallup.com/poll/117523/Americans-Short-Term-Government-Growth.aspx (accessed April 2010).
Gallup (2009b), Big gov't. still viewed as greater threat than big business, http://www.gallup.com/poll/117739/Big-Gov-Viewed-Greater-Threat-Big-Business.aspx (accessed April 2010).
Glassner, V. and Galgóczi, B. (2009), Plant-level responses to the economic crisis in Europe, *ETUI–REHS Working Paper No. 2009.01*, http://osha.europa.eu/en/news/etui_working_paper_plant_level_responses_economic_crisis_europe_01.09022009 (accessed April 2010).
Glatzer, M. and Rueschemeyer, D. (eds) (2005), *Globalization and the Future of the Welfare State*, Pittsburgh, PA: University of Pittsburgh Press.
Hemerijck, A., Knapen, B. and van Doorne, E. (2009), *Aftershocks. Economic Crisis and Institutional Choice*, Amsterdam: Amsterdam University Press.
HM Treasury (2010), *Spending Review 2010*, http://www.direct.gov.uk/prod_consum_dg/groups/dg_digitalassets/@dg/@en/documents/digitalasset/dg_191693.pdf (accessed October 2010).
International Monetary Fund (IMF) (2010), *World Economic Outlook: Recovery, Risk, and Rebalancing*, October, Washington, DC: IMF.
Ipsos-MORI (2009), Voters not ready for spending cuts, http://www.ipsos-mori.com/researchpublications/researcharchive/poll.aspx?oItemId=2473 (accessed April 2010).
Iversen, T. and Wren, A. (1998), Equality, employment, and budgetary restraint: The trilemma of the service sector economy, *World Politics*, 50, 3: 507–46.
Jaeger, M. M. (2009), United but divided: Welfare regimes and the level and variance in public support for redistribution, *European Sociological Review*, 25, 6: 723–37.
Jahn, D. (2006), Globalization as 'Galton's problem': The missing link in the analysis of diffusion patterns in welfare state development, *International Organization*, 60, 2: 401–31.

Jakobsen, T. G. (2010), Public versus private: The conditional effect of state policy and institutional trust on mass opinion, *European Sociological Review*, 26, 3: 307–18.
Kenworthy, L. (2009), The effect of public opinion on social policy generosity, *Socio-Economic Review*, 7, 4: 727–74.
Kuipers, S. (2006), *The Crisis Imperative: Crisis Rhetoric and Welfare State Reform in Belgium and the Netherlands in the Early 1990s*, Amsterdam: Amsterdam University Press.
Larsen, C. A (2008), The institutional logic of welfare attitudes, *Comparative Political Studies*, 41, 2: 145–68.
Mandl, I. and L. Salvatore (2009), Tackling the recession: Employment-related public initiatives in the EU member states and Norway, Dublin: European Foundation for the Improvement of Living and Working Conditions, http://www.eurofound.europa.eu/docs/erm/tn0907020s/tn0907020s.pdf (accessed February 2010).
Manza, J. and Cook, F. L. (2002), A democratic polity? Three views of policy responsiveness in the United States, *American Politics Research*, 30, 6: 630–67.
Matthews, J. S. and Erickson, L. (2008), Welfare state structures and the structure of welfare state support: Attitudes towards social spending in Canada, 1993–2000, *European Journal of Political Research*, 47, 4: 411–35.
Organisation for Economic Co-operation and Development (OECD) (2009), *Addressing the labour market challenges of the economic downturn: A summary of country responses to the OECD-EC questionnaire*, Paris: OECD, http://www.oecd.org/dataoecd/15/29/43732441.pdf (accessed February 2010).
Organisation for Economic Co-operation and Development (OECD) (2010), Main economic indicators, http://lysander.sourceoecd.org/vl=5371915/cl=38/nw=1/rpsv/ij/oecdstats/16081234/v195n1/s1/p1 (accessed August 2010).
Palier, B. (2010a), Ordering change: Understanding the 'Bismarckian' welfare reform trajectory. In B. Palier (ed.), *A Long Goodbye to Bismarck? The Politics of Welfare Reform in Continental Europe*, Amsterdam: Amsterdam University Press, pp. 19–44.
Palier, B. (2010b), The long conservative corporatist road to welfare reforms. In B. Palier (ed.), *A Long Goodbye to Bismarck? The Politics of Welfare Reform in Continental Europe*, Amsterdam: Amsterdam University Press, pp. 333–87.
Petersen, M. B., Slothuus, R., Stubager, R. and Togeby, L. (2010), Deservingness versus values in public opinion on welfare: The automaticity of the deservingness heuristic, *European Journal of Political Research*, 50, 1: 24–52.
Schwartz, H. (2001), Round up the usual suspects! Globalization, domestic politics, and welfare state change. In P. Pierson (ed.), *The New Politics of the Welfare State*, Oxford: Oxford University Press, pp. 17–44.
Sihvo T. and Uusitalo, H. (1995), Economic crises and support for the welfare state in Finland 1975–1993, *Acta Sociologica*, 38, 3: 251–62.
Starke, P. (2006), The politics of welfare state retrenchment: A literature review, *Social Policy & Administration*, 40, 1: 104–20.
Statistisches Bundesamst Deutschland (2010), Detailed results on the gross domestic product in the 2nd quarter of 2010, Press release no. 293/24 August 2010, http://www.destatis.de/jetspeed/portal/cms/Sites/destatis/Internet/EN/press/pr/2010/08/PE10__293__811,templateId=renderPrint.psml (accessed August 2010).
Stiglitz, J. E. (2010), *Free Fall. America, Free Markets, and the Sinking of the World Economy*, New York, NY: W.W. Norton & Company.
Stiller, S. (2010), *Ideational Leadership in German Welfare State Reform: How Politicians and Policy Ideas Transform Resilient Institutions*, Amsterdam: Amsterdam University Press.
Svallfors, S. (2003), Welfare regimes and western opinions: A comparison of eight western countries, *Social Indicators Research*, 64, 3: 495–520.
Vis, B., Van Kersbergen, K. and Becker, U. (2008), The politics of welfare state reform in the Netherlands: Explaining a never-ending puzzle, *Acta Politica*, 43, 2–3: 333–56.