Did the Financial Crisis Open Up Opportunities for Welfare State Reform?[1]

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Abstract

If there was ever a momentum for welfare state reform in the form of scaling back programs, it is the (aftermath) of the financial crisis of 2008/2009; all theoretical perspectives within comparative welfare state research predict reform under this circumstance. Does this also happen? In this paper, we suggest that – at least so far – it does not. Focusing on a selection of advanced democracies (UK, US, Germany, Netherlands, Denmark, and Sweden), we find that these countries face similar problems (like rising unemployment) and that their response to these problems is rather similar, too. The latter is surprising given the theoretical expectation of variation across types of welfare state regimes. Theoretically puzzling as well is that, instead of retrenchment, these responses are typically (temporary) expansions. We propose that the public support for the welfare state is one of the main reasons for the lack of retrenchment. The two-way effect of public opinion and policy, with public opinion affecting policy *and* policy affecting public opinion, strengthens the support for the welfare state and limits rather than opens up opportunities for retrenchment. However, at the end of the day political actors will need to make some tough choices, as their budgets are ever more limited. In the longer run, we therefore expect the question of who gets what, when, and how to re-emerge, leading to possibly sharp distributional conflicts.

Keywords

Financial crisis; welfare state reform; similar and divergent responses; IPE

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Introduction

The financial crisis that hit the world hard in 2008/2009 once more made it clear that the relationship between the economic and political domains, which is central in International Political Economy (IPE), is an intimate one. Economic changes impel political responses that in turn have economic consequences, which may also warrant a response. One area in which this intimate relationship is strongly visible is the welfare state. In fact, the current financial crisis offers a strong spur for welfare state reform: all theories of welfare state change predict reform under this circumstance. Following an institutional line of argumentation, for example, the crisis offers a critical juncture at which it is possible to divert from the original path of development and embark on radical reform, including serious retrenchment and major restructuring (e.g. Pierson 2000). A socio-economic account predicts that the socio-economic dire straits are likely to translate into drastic reform (see Schwartz 2001 and Starke 2006 for overviews). Given the high strains brought forth by the financial crisis, such as rising levels of unemployment and budget deficits, this perspective predicts reform to follow. An ideational account expects ideas to have a transformative capacity at this time, because a crisis causes uncertainty that fosters the take-up of groundbreaking ideas to transform the welfare state radically (see e.g. Béland and Cox 2010; Schmidt 2008; Stiller 2010).

Are these theoretical predictions supported empirically? Has the financial crisis led to welfare state restructuring, recalibration and serious cutbacks? In this paper we present an overview of the crisis measures taken in countries selected from the different worlds of welfare: the United Kingdom (UK), the United States (US), Germany, the Netherlands, Denmark, and Sweden. We focus on the UK, Germany and Sweden because these countries are "prototypical" for the liberal, conservative and social democratic welfare state regime (Esping-Andersen 1990). The Netherlands, conversely, is a typical "hybrid" welfare state regime (Vis, Van Kersbergen & Becker 2008), combining traits form both the social democratic and the conservative regime. Moreover, we also include the US since it plays such a major role in the onset of the financial crisis, making studying the financial crisis difficult without inclusion of this case. Finally, we focus on Denmark since welfare state reform in this country has arguably been groundbreaking in its solution to the notorious efficiency–equality trade-off in the 1990s and 2000s, combining active labor market policies with a high level of generosity in benefit levels (Albæk et al. 2008). Is this innovative model capable of withstanding the onslaught of the crisis?

The analysis of our data shows that the theoretical predictions presented above cannot be supported. In fact, despite the substantial differences between the countries we study, the responses to the crisis are by and large similar. What we find are not cutbacks or radical restructuring, but (temporary?) expansions in welfare programs and rising expenditures to support banks or industrial sectors. All countries have chosen to relax their budget restraint, albeit sometimes explicitly temporarily.

This finding of the absence of radical reform is puzzling for all theoretical perspectives mentioned above. Moreover, it also presents a challenge to Iversen and Wren's (1998) service sector trilemma, in which the different worlds of welfare opt for different combinations of the goals of income equality, employment and budgetary restraint. Theoretically only the social democratic countries were expected to give up on their budgetary constraint, and all worlds of welfare were hypothesized to behave differently, but this is not what has taken place so far.

What explains these puzzling findings? Why have such dissimilar countries displayed such similar behavior? And, more speculatively, are they likely to continue to make similar choices in the (near) future? We argue that one of the reasons why the crisis has not (yet) affected the core programs of the welfare state negatively is that the crisis has not (yet) undermined public support for the welfare state. In this respect the current crisis differs substantially from the crises of the 1970s and, especially, the 1980s. At that time, the "big" welfare state was seen as one of the primary *causes* of the financial crisis, enabling cutbacks. In sharp contrast, public opinion data now show that the public does not blame the welfare state for the current crisis, but the financial sector. In fact, the welfare state is looked at as a *solution* to (at least some of) the problems. We pick up indications that voters cherish the welfare state even more because of the crisis, because the welfare state has shielded many of them from losing their jobs or too much of their income when affected negatively by the crisis. Additionally, the irresponsible behavior of bankers is seen as a major cause of the financial crisis, so the unemployed are not blamed for their condition but are seen as "deserving" of their unemployment benefit.

Once the financial sector recovers the economic "aftershocks" (Hemerijck, Knapen & Van Doorne 2009) will be tangible for many years. We expect that during the aftershocks, large differences across countries – as well as across political parties within countries – are likely to re-emerge quickly. 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 (a la Obama's bank tax)? Or by cutting back on social expenditures? Our analysis of national public debates in print and online media[2] on how to deal with the "aftershocks" indicates a keen and nervous awareness of budgetary stress and commitment to cutbacks everywhere, but also a conspicuous lack of concrete plans on how to achieve a balanced budget in the (near) future. In the UK election race in early 2010, for instance, all three main parties avoided being specific about how the shortfall will be filled. In Germany, the government is apparently committed to some tough targets on spending, but has been ordered to increase social spending by the Federal Constitutional Court because the current level is unconstitutionally low. The political struggle in the Netherlands, leading up the elections of June 2010, revolves around the amount to be cut and the time period in which to achieve this. The question of exactly how to achieve major cutbacks had been delegated to an official committee that was to indicate for each policy field or department how a 20 per cent cut of the budget can be realised. This committee offers a hotchpotch of potential measures from which to choose, but no actual choices.

The paper is structured as follows. First, we assess to what extent our six cases face similar problems. Next, we discuss their responses to the crises, which reveal substantial overlap in measures. In the subsequent section, we propose that because of a two-way effect, public opinion on the welfare state is one of the factors that helps to account for the (theoretically) puzzling findings. The final section concludes.

[2] The data collection is conducted between October, 2009 and April, 2010 using search functions on the websites: 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 limited to January 2008 and later. Full data collection information will be made available at www.barbaravis.nl at a later stage.

Similar problems?

To what extent do Denmark, Germany, the Netherlands, Sweden, the UK, and the US face similar problems as a result of the financial and economic crises? Table 1 and Figure 1 display the development of the harmonized unemployment rates in these six countries from the first quarter in 2008 to the last quarter in 2009, all adjusted for seasonal variation. Whilst in Sweden, the UK, and the US, 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 for 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).[3] Germany is the outlier in terms of unemployment, as the level does not rise throughout the period. However, 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 US (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 for all of our cases.

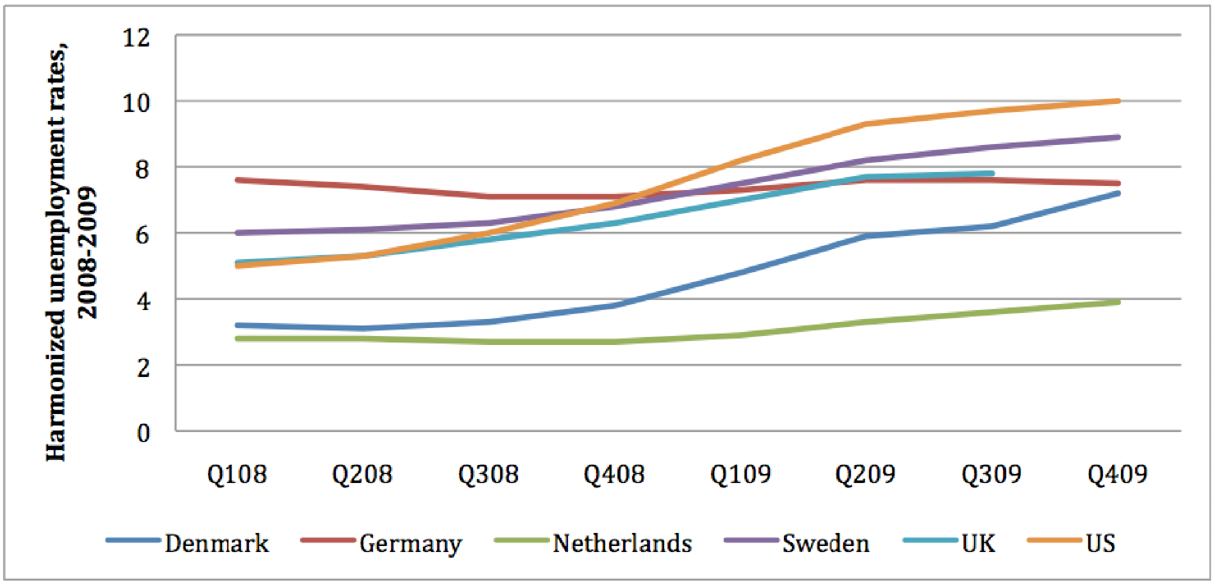
Table 1 Development of harmonized unemployment rates

	Q108	Q208	Q308	Q408	Q109	Q209	Q309	Q409
Denmark	3.2	3.1	3.3	3.8	4.8	5.9	6.2	7.2
Germany	7.6	7.4	7.1	7.1	7.3	7.6	7.6	7.5
Netherlands	2.8	2.8	2.7	2.7	2.9	3.3	3.6	3.9
Sweden	6.0	6.1	6.3	6.8	7.5	8.2	8.6	8.9
UK	5.1	5.3	5.8	6.3	7.0	7.7	7.8	..
US	5.0	5.3	6.0	6.9	8.2	9.3	9.7	10.0

Notes: Unemployment rates adjusted for seasonal variation; entries are the 1st quarter of 2008, the 2nd quarter of 2008 etcetera.
Source: OECD (2010).

[3] One reason why the level of unemployment in the Netherlands is relatively low, is the high number of so-called self-employed individuals without employees (*zelfstandigen zonder personeel*, *ZZP'ers*). Until the first quarter of 2009, the number of these ZZP'ers steadily and rapidly increased up to about 660,000 in the first quarter of 2009. After that quarter, the number of ZZP'ers started to decrease compared to the year before for the first time in a long time. Most of these previous ZZP'ers stopped their business because of too little work, typically due to the crisis, and disappeared from the working population (that is, they also did not appear in unemployment figures when being, actually, without work) (see CBS 2010).

Figure 1 Development of harmonized unemployment rates



Notes: See Table 1.

The surge in unemployment is a symptom of interlinked problems that, again, all countries face to a larger or smaller extent. The banking sector in developed democracies has serious problems of credibility and stability, with many banks requiring very large sums of money for bailouts. The Swedish government has spent the least on bailouts of our six cases, namely € 5 billion. 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 bailouts totaling around € 18 billion. In addition, the government has taken over two of Denmark's 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 bailouts. The German figures are substantially higher, with the government having a bailout program of € 480 billion accepted by parliament in December 2008. The American government resembles the German ones in terms of the level of spending, with bailouts amounting to $ 700 (€ 519) billion. The United Kingdom, finally, tops this figure, with £ 850 (€ 960) billion spent on bailouts. Although the exact figures vary across the six cases, the trend indicates that the banking sector in each country has been put under strain and requires government assistance to endure the crisis.

Another factor underlying the increased unemployment rates is the fall in exports, which is due among other factors to lower consumer confidence. Table 2 and Figure 2 display the development of exports in goods (value) in billions of US dollars in our six countries from the final quarter in 2008 to January 2010. Exports fell in all cases between the fourth quarter of 2008 (Q408) and the first quarter of 2009 (Q109). The highest reduction in percents took place in Sweden (minus 15.9 per cent), trailed by the UK (minus 15 per cent), the US (minus 14.3 per cent) and, at somewhat of a 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 US (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 fourth quarter of 2009 and January 2010.

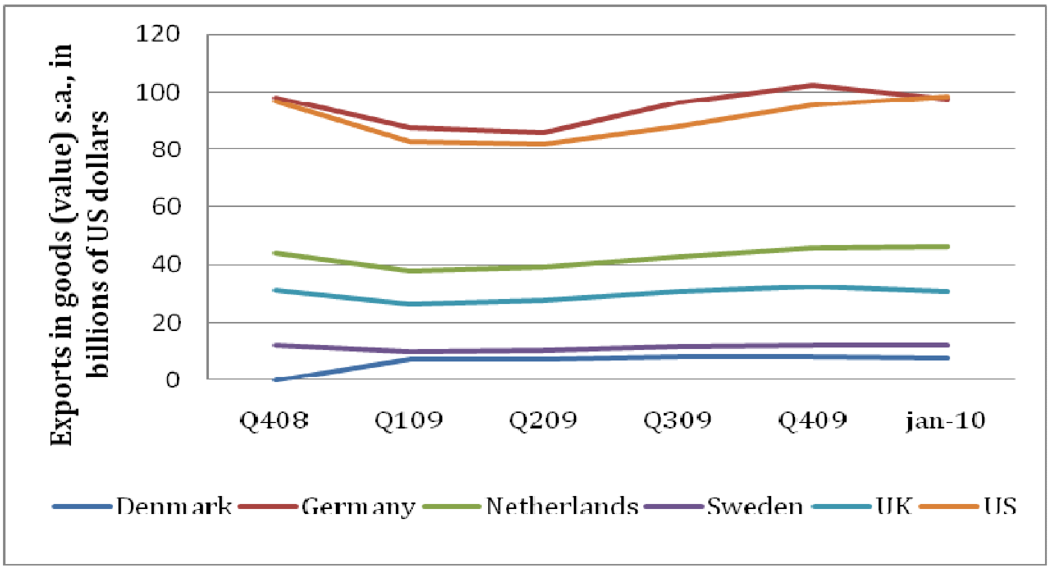
Table 2 Exports in goods (value) s.a., in billions of US dollars

	Q408	Q109	Q209	Q309	Q409	Jan-10
Denmark	7,83	7,15	7,43	7,94	8,23	7,81
Germany	98,11	87,60	86,11	96,50	102,29	97,73
Netherlands	43,82	38,15	39,14	42,85	45,77	46,38
Sweden	11,82	9,94	10,44	11,42	11,94	12,19
UK	31,19	26,50	27,74	30,47	32,42	30,47
US	96,86	83,04	81,95	87,88	95,64	98,40

Source: SourceOECD (http://stats.oecd.org/index.aspx?r=432338, accessed 29.04.2010)

Overall, the data on unemployment, the banking sector, and exports show that our six cases largely deal with similar problems. Did these similar problems evoke similar responses?

Figure 2 Exports in goods (value) s.a., in billions of US dollars



Similar responses?

How have the American, British, Danish, Dutch, German, and Swedish governments responded to the onset of the financial crisis? Which measures have they taken to cope with the adverse effects of the crisis? Apart from the emergency support for the financial sector, it is difficult to get already data on policy adjustments or new policy initiatives taken in the various countries. In order to get at least some idea of what has been going on, we have been collecting data from various sources. Table 3, for instance, gives an impression of the measures that were reported to have been taken in response to the crisis in our countries of interest. 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 rate, money creation, buying government bonds), 3) circumventing bankruptcy (creation of "bad" bank, guarantees on problem assets, financial support to banks or companies, take-over of banks, liquidity fund for banks), and 4) re-establishing trust in banking sector (guarantees on savings, guarantees of interbank lending, and increase of supervision). Information on the crisis measures taken come from a variety of sources, particularly Dutch and international newspapers (NY Times and Financial Times), *Der Spiegel* and documents from international organizations such as the Organisation for Economic Co-operation and Development (OECD) and the European Union (EU). Since we did not include Danish or Swedish newspapers, we need to be cautious in interpreting the data since we might have missed measures. With this caveat in mind, we infer from Table 3 that indeed the response to the financial crisis, if we look at indicators that fall under the heading of "circumventing bankruptcy" and "re-establishing trust", has been quite similar across cases. If our data are correct, Germany is a special case because in this country a Keynesian type of response seems to have been systematically formulated.

Table 3 Summary of crisis measures taken

	US	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				
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				

On the basis of our newspaper research, we observe that the labor market is the area to which most attention is directed and where policy-making initiatives are most frequent (and most frequently discussed), although the need of more general welfare state reform (and major restructuring) in the fields of health, education, housing, and pensions, is discussed too. Specifically, our newspaper analyses indicate that rising unemployment (or the expectation that jobs would be lost) is, next to the direct financial predicament, by far the greatest worry of all governments. If anywhere, we would expect adjustments in labor market related policies in the wake of the financial crisis. Tables 4–6 summarize the recent data on this.

Table 4 Discretionary changes in labour market policy in response to the economic downturn

	Labour demand			Measures to help unemployed find work					Income support for job losers or low-income earners				Other training measures	
	Job subsidies, recruitment incentives or public sector job creation	Reductions in non-wage labour costs	Short-time work schemes	Activation requirements	Job search assistance and matching	Job finding and business startup incentives	Work experience programs	Training programs	Generosity or coverage of unemployment benefits	Social assistance	Other payments or in-kind support	Fiscal measures for low earners	Training for existing workers	Apprenticeship schemes
DK			X	X				X						X
DE		X	X		X			X			X	X	X	
NL			X		X			X					X	X
SE	X	X			X		X	X	X			X	X	
UK	X			X	X	X	X	X			X	X	X	X
US	X				X		X	X	X		X	X	X	

Source: OECD (2009: 3, Table 1).

Table 5 Selected public support short-time work and temporary lay-off schemes addressing the recession

	Name	Eligibility	Type and extent of support	Duration
DE	Short-time work, short-time work allowance (*Kurtzarbeit*, *Kurztarbeitergeld*)	All employees, including temporary agency workers and workers on fixed-term contracts, if their employer has a decrease in earnings of at least 10%	The government pays up to 67% of the difference between the normal wage and the lower wage, as well as 50% of the social security contributions for the non-worked hours (100% in case of qualification)	Maximum 24 months
DK	Work-sharing	All employees	Eligibility to unemployment benefits	Maximum 13 weeks
NL	Short-time working (*Werktijdverkorting*, WTV) until the end of March 2009, partial unemployment thereafter	No temporary agency workers; employers have to undertake training of the staff on short-time work	70% of the wage for non-worked hours	Up to 50% of the normal working hours for a maximum of 15 months
SE	No such program			
UK	No such program			

Source: Mandl and Salvatore (2009: 12-13).

Table 6 New Income Protection Measures for Partly or Wholly Unemployed Workers in Developed Countries

Country	Adaptations to short-time working subsidies	Adaptations to benefits for the unemployed
Denmark	More flexible conditions for use of subsidized job sharing scheme	-
Germany	Extension of maximum duration of short-time working payments Increased government contribution to firms	€ 100 benefit supplement for non contributory unemployment benefit (ALG II) recipients beneficiaries with children
Netherlands	Extension of scheme for short-time working to cover firms in difficulty due the economic crisis (expired March 2009) New scheme to compensate partial unemployment (introduced May 2009)	-
Sweden	-	Reduction in contribution conditions for unemployment insurance entitlement
USA	-	Extension to maximum period of unemployment insurance entitlement

Source: Clegg (2010, table 1 [Compiled from Glassner and Galgoczi (2009); European Employment Observatory (2009); European Monitoring Centre on Change http://www.eurofound.europa.eu/emcc/index.htm; Mandl and Salvatore (2009)].

In Table 5, but not so much Table 4, the UK stands out and is an interesting case. Although the UK scored the lowest scoring 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 labor 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 for employers to hire and train an unemployed, new training places, work-focused volunteering options, and help to establish a business. The total costs of these measures are around £ 0.5 billion (€ 553 million). Furthermore, the government has committed to another £ 1.3 billion (€ 1.4 billion) 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 mostly been through tax cuts in an attempt to boost economic activity, for example the (temporary) VAT reduction that was announced at the end of 2008 (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 risen (Clegg 2010).

Tables 4–6 indicate 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 labor market policies. Our data also allow for the conclusion that in all countries cuts in core functions have not been made, at least not in the short term. The newspaper articles seem to indicate that the Nordic countries and Germany in particular have weathered the storm so far without having to retrench. In the longer term there seems to be a general acceptance that cuts need to be made. But as indicated above, exactly how, where, and when such cuts will be made is a grey area that apparently political actors seem to avoid discussing: the main political parties in the UK have not been specific with numbers about planned cuts, while the German government appears committed to meeting tough deficit targets but is being made to increase social spending by courts. Furthermore, during the 2009 German election campaign pledges of significant public spending were not uncommon. The data also reveal that – despite the rather similar problems and responses – there are still quite substantial differences between the welfare state regimes. Summarizing our impressions, we note that the social democratic regime has performed relatively well, probably because it entered the crisis with a relatively strong position. In the case of Sweden, for instance, there already had been cuts preceding the crisis, which were unpopular, but are interpreted as having helped a smooth adaptation to the recession. In addition, good financial regulation is mentioned as aiding the response. Sweden has been funneling extra money to local government to help target the money better. Germany, the main representative of the conservative regime, did not reform early on. Eurozone problems saw Germany commit to very tough deficit targets, which the government seemed intent on fulfilling, although the recent court decision has mandated increased social spending. Within the liberal regime, the US stands out because the American public seems fearful of growing government influence, something Gallup polls show very clearly (Gallup 2009b). Still, a major healthcare expansion bill was enacted. In the UK the public is still very defensive of the National Health Service, while political parties are not giving specific plans for how to deal with the budget deficit (idem).

Overall, our analysis shows that there has not been an onslaught of the welfare state in the wake of the financial crisis. The changes enacted thus far, are instead mostly (temporary) expansions of programs. We propose that the public support for the welfare state is an important explanation for why retrenchment has not (yet) taken place.

Public opinion and the welfare state

We know from the literature (for references, see below) that one of the major defensive mechanisms of the welfare state against radical reforms and drastic cutbacks concerns public opinion. That is to say, the welfare state is broadly and robustly cherished – perhaps except in the US. In fact, we notice in Europe that both right-wing and left-wing populist parties, which challenge many established policies and political convictions, have embraced a defensive stance in favor of key welfare state arrangements, particularly public pensions. In other words, it is worth investigating whether and to what extent public opinion has been affected by the crisis and in which direction. Moreover, to what extent does policy reform as a response to the crisis affect or is likely to affect public opinion on the welfare state?

As a basic tenet of democratic theory, governments are expected to act in accordance with the wishes of their people, because failure to do so may result in electoral punishment or civil disobedience. A review of the literature on public opinion and the welfare state from the last 15 years reveals two distinct theoretical and empirical findings. One camp supports the hypothesis that public opinion affects policy decisions, while the other argues that the converse is true, whereby government policy shapes public opinion. While empirically as well as theoretically these are indeed distinct mechanisms, they can both bolster the support for the welfare state in the wake of the financial crisis. If public opinion is supportive of the welfare state, which in the current climate it is, this increases welfare-friendly policies through the first mechanism. Through the second mechanism, the policies in place increase their own support once needed most, which is also the case currently. Together, these two mechanisms thus work against dramatic scaling back of the welfare state.

Public opinion as determinant of policy

Let us begin with the literature finding that public opinion is a factor influencing policy, that is to say with the first mechanism. Burstein (1998, 2003) was one of the first in the recent wave of investigations into the role of public opinion in policy outcomes. Although not focusing on social policy specifically, Burstein (1998) finds strong evidence that opinion is an important determinant of policy, and that the effect is greater when the opinion is clear to policy makers. Burstein (2003) later conducted a meta-analysis that bolsters the findings of the first review: three-quarters of the studies identified public opinion influenced policy decisions, and in at least one-third of them the impact is "substantial". Indeed, the effect remains even after accounting for the actions of interest groups and elites.

Two other reviews of related work should be noted at this point. Looking at the US only, Manza and Cook (2002) formulated three categories of effect in the literature: strong, weak, and contingent. Which group a study's results fell into depended on the methodology used, with strong effects studies providing what the authors considered to be overestimates and weak effects studies underestimates. As a result Manza and Cook support the contingent approach, which accounts for variation in policy responsiveness according to factors like coherence and structure of citizens' attitudes, budgetary constraints, and interest group activity. Manza and Cook also highlight the importance of agenda setting, since politicians and policy makers may be able to manipulate policy and opinion to alter outcomes. Context is thus crucial to the degree of impact that public opinion may have on policy decisions. This sentiment has recently been echoed by Christian (2008), who finds that US social policy reform in the mid-1990s was in part the result of public opinion but also dependent upon the context of the reform debate. The second review tests the hypothesis that regime type, using Esping-Andersen's typology, affects public attitudes toward welfare state policies (Svallfors, 2003). A cross-national comparison finds no evidence that regime type has a significant effect, and in fact variation within regime type is as large as variation between them. Rather than supporting the hypothesis that opinion affects policy this study suggests that the alternative, that policy affects opinion, is not valid.

Building upon this base of literature Brooks and Manza (2006a, 2008) argue and empirically demonstrate that public opinion affects policy both directly and indirectly.[4] The direct effect is the response of politicians to the demands of the voting public in order to avoid electoral loss and the risk of civil disobedience, while the indirect effect occurs when voters elect a party with which they identify and will thus likely enact policies that they will support. This comes, however, with the caveat that the policy area in question must be important to the public, and that opinion must be relatively coherent for politicians to react to it. Furthermore, Brooks and Manza find that policy is more responsive at the aggregate than the domain-specific level, where interest groups and officials' strategic actions may subvert public opinion, and that Christian democratic regimes are the most responsive, followed by social democratic, and finally liberal regimes. They also suggest that opinion could be responsible for the absence of welfare state retrenchment in the face of globalization and rising liberal sentiment.

Policy as a determinant of public opinion

Regarding the second mechanism, that government policy guides public opinion, there has been a flurry of activity among researchers over the last few years. Although it was once concluded that "it seems time to assert that attitudes to welfare policies are only to a very limited extent structured by differences in welfare regimes" (Svallfors, 2003, p.514) the use of regime types has endured and evolved to provide new theoretical mechanisms. Larsen (2008), for example, incorporates the literature on "deservingness" to develop a new theoretical link that uses the universalism of social policy, economic inequality, and the availability of employment to show that the effect of policy on public opinion varies between regimes. Larsen argues that the welfare state's institutional structure, as defined by universalism, inequality, and employment, frames the public's perception of the poor and unemployed, and that this influences support for social policy. Where policies are more universal and redistributive, and where the government is obliged to ensure employment, non-beneficiaries are better able to identify with beneficiaries, which increases the perceived "deservingness" of those receiving support and, in turn, increases support for the welfare state. Larsen demonstrates this link empirically using a sample of 16 countries.

[4] Kenworthy (2009) questions the validity of the results, as they are based on relatively little data.

While Larsen engages the issue as a whole others have focused on narrower domains. Matthews and Erickson (2008) expand on the idea of economic and class interests as being the determinants of attitudes by adding a values component. Although limited to Canada only, between 1993 and 2000, Matthews and Erickson are able to show that an individual's support of welfare policies is determined by both economic self-interest and by their "value orientations" regarding capitalism and the role of government. Furthermore, the affect of values on attitudes varies according to the structure in place: for selective policies the role of values is much more pronounced than for universal policies. Jaeger (2009), on the other hand, focuses on redistribution. He claims that previous studies inappropriately defined regime types and that his alternative method with a new set of indicators shows that the regime affects both the mean and variance of public support for redistribution. Contrary to his expectations Jaeger discovers that mean support for redistribution is highest in the conservative regime, followed by social democratic and then liberal.

As an alternative to a regime type-based analysis Jakobsen (2009) borrows from social psychology to show that government spending holds an influence on attitudes toward privatisation and individual responsibility, but that this influence is mediated by trust in institutions. This 'conditional adjustment hypothesis' dictates that an individual will alter his or her views to be in line with government policy but only if they trust government institutions. Similarly, Gusmano, Schlesinger and Thomas (2002) see past institutional performance as the key to public support of government intervention in the US. Survey data show a policy feedback effect, where support for private employer involvement in medical care, long-term care, and substance abuse assistance varies according to the performance of institutions in each policy domain. Gusmano and colleagues concede that this public learning process may not be the only effect of existing policy on public opinion but it is the largest of the effects measured. Furthermore, there is evidence to suggest that increased unemployment increases support for welfare policies (Blekesaune & Quadagno, 2003), although another study reports a reduction in support for welfare support during economic crisis in Finland (Sihvo & Uusitalo, 1995).

Public opinion on the welfare state

Because the world economy is still in the throes of the crisis studied here, public opinion data on social policy demands are fairly scattered and piecemeal. Our data search did, however, reveal that there is support for continuing welfare state defense in spite of the mounting financial constraints that limit the extent to which governments can meet such demands. In general terms there has been a shift in support away from the political left and toward the center-right, which some commentators have interpreted as being a result of greater trust in the center-right to run and protect the welfare state. This is a move away from the traditional standpoint, that the left will favor social spending more than the right, but is tied to greater perceived competence in economic management among center-right parties. Between the liberal regime countries, the US 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 are 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. Tellingly, Gallup also reports that Americans perceive big government as a greater threat to the country's future than big business, despite the latter's role in creating the crisis that the government is working to resolve (Ipsos MORI 2009; Gallup 2009a, 2009b).

From the literature and our own data collection of sources reporting on public opinion on social policies or the welfare state more generally, we are unable to reach any definitive conclusions. Still, we think the following "concluding impressions" would be worth investigating further. First, the economic crisis is likely to increase rather than decrease public support for welfare provision (see Blekesaune & 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 (see Burstein 1998). Third, governments are likely to respond with increased support for the welfare state where possible (see Brooks & Manza 2006b). At least a pro-welfare state rhetoric is expected to dominate, in spite of the necessity to balance the budget. Governments will somehow have to solve the tension between the popular demand to uphold welfare arrangements and the financial and economic demand to balance the budget. It is likely that activation and maximization of labor market participation (including, for instance, an extension of the pension age) are elements of the solution promoted in the wake of the crisis. We expect that while increases in aggregate welfare state effort of in welfare state generosity are limited because of budgetary constraints, there may well be domain-specific trade-offs where important domains receive extra support at the expense of less-salient domains. This does not fit, however, with Brooks and Manza (2007), who argue that aggregate welfare state effort responds to public opinion but the domain-level response is affected by the actions of political elites and interest groups. However, we think that the extreme nature of the crisis will overcome that. For instance, Ipsos-MORI polls show that the UK public is willing to accept government spending cuts, but refuses to accept cuts on health care.

Conclusion

In this paper we have highlighted social policy responses to the financial crisis of 2008/2009 in six key advanced democracies. To answer the question posed in the title, it certainly appears that the crisis has created opportunities for welfare state reform, but that the responses to date do not conform to the expectations of any theory of welfare state change. The common problems faced, including rising unemployment, reduced credibility in the banking sector, and falling exports, have been met with common reactions across the board, despite the variation in regime type. Labor market policy and banking reform have clearly received the most attention, but measures have also been taken in other policy areas, such as pensions and housing. The theme that runs throughout is that spending has been, albeit in many ways temporarily, increased in key areas, as governments try to support those who have been adversely affected by the crisis. This is not sustainable in the long run, however, as it is causing deficit spending to rise dramatically, and so we expect that politics will soon be once again about who gets what, when, how and – by extension – about who will have to carry the burden of financial and economic recovery. Such decisions will inevitably entail unpopular spending cuts, such as those that have recently sparked riots in Greece, because the crisis has bolstered public support for the welfare state, and so public opinion will be an important factor in determining the timing, extent, and pace of cuts. Although the results presented here are initial findings that are in need of supplementation, this paper has provided a first look and laid the foundations for a more in-depth study of responses to the crisis and the role played by public opinion in influencing social policy outcomes.

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