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Three paths of welfare? Path dependency and policy change at the times of crisis in Sweden, the United Kingdom, and Germany

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Abstract

This article investigates the short and long term policy reactions to the Great Recession in three ideal-typical welfare regimes – social democratic (Sweden), liberal (UK) and conservative (Germany). In the face of a similar financial crisis in 2007, we draw on a historical institutionalist approach to test the hypotheses of a) strict path dependency, and b) change or even congruence between systems. The analysis focuses on labour market and social welfare policies which are examined on the basis of policy documents and interviews with key public officials in the respective fields. Results demonstrate that even if there were some trends of convergence in Swedish and German fields of social and labour policies, towards the dominant liberal paradigm, this was not the case during the crisis. Rather, the crisis-related policy changes followed the path of the dominant welfare regime or were even reinforcing its major character, as shown by the UK example.

Keywords: economic crisis, policy responses, social welfare, labour market path dependency

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Introduction: The crisis and three worlds of welfare

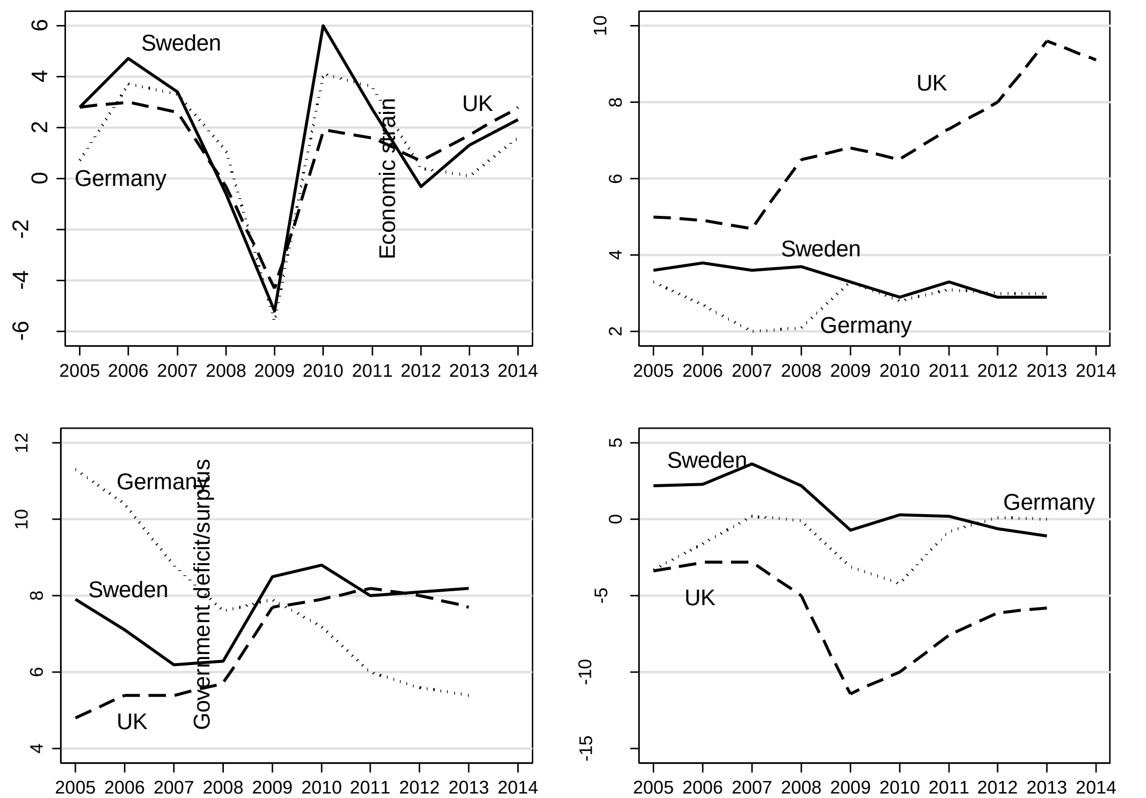
Much of the scholarship about the retrenchment of the welfare state in Western Europe, and more specifically the analysis of reactions to the recent economic crisis, focuses on aggregate level economic trends, changed benefits and budget constraints (Chung and Thewissen 2011, Kersbergen et al. 2014, Starke et al. 2013, van Hooren et al. 2014, Pontusson and Raess 2012). Such research focusing on measurable overall outcomes is important for better understanding the general political trends in times of crisis, but without a more nuanced discussion of particular policy changes it is hard to explain why and how changes took place and who can be expected to win or lose as a result of such changes. A growing number of studies suggest that welfare state transformation or retrenchment has been taking place long before the recent economic crisis, but also that different types of welfare states as described by Esping-Andersen (1990, see also Oorschot et al. 2008) have remained resilient to fundamental changes and kept their basic structure (van Kerserberen and Vis 2013, Pontusson and Raess 2012).

We argue that it is fruitful to revisit the three ideal types described by Esping-Andersen (1990) – the social democratic, the conservative and the liberal – to firstly get a sense of what the respective responses to the economic crisis were and how they were envisaged. Secondly, we tie this discussion to a broader theoretical argument about institutional path dependency. Particularly, we ask how the structure of welfare states shaped policy responses to crisis and limited or enabled institutional change. We do so by examining the reaction to the Great Recession in the "conservative" Germany, the "social democratic" Sweden and the "liberal" United Kingdom. Instead of the more general and aggregate level policy analysis, we focus on the questions of which groups of citizens were expected to win from proposed changes, as well as which problems were expected to be solved as a result of these changes. Therefore, the following investigation of paradigm shifts and stability not only builds on policy document analysis but also draws on more than 50 interviews we conducted with public officials and experts in relevant policy fields, first and foremost, labour market policy and social welfare policy.[1]

The three countries under study were not affected by the crisis as severely as the South European countries, but there was nonetheless a significant downturn of economic growth in all three countries and a significant increase of unemployment in Sweden and the UK. The UK, and to a lesser extent Germany, encountered increasing government deficits as a result of the crisis (see Figure 1). The last decade saw a considerable increase in economic strain in the UK, yet unemployment in Germany actually decreased. Such differences point towards the varying welfare regimes and countries' reactions to the Great Recession.

1 The empirical material for this article is retrieved in the framework of the international collaborative project LIVEWHAT (Living with hard times), funded by the EU FP7. All examined documents, as well as summaries of the interview material are collected in the two deliverables of the project and are available on project's website: http://www.livewhat.unige.ch/

Figure 1. Selected economic indicators in Sweden, the UK and Germany 2005-2014.



Source: Eurostat

In response to the collapse of the financial markets in 2007, but much more so after the banking crisis developed into a global economic crisis and recession, governments in many countries reacted with growth packages, bail-outs, spending cuts and, starting more slowly, with policy changes. In this paper we show what these policy changes were in the immediate post-crisis period of 2008-2009 and, in comparison, in the period of 2010-2014. We also examine which arguments were used by public officials preparing or implementing these changes, and which ideas and framings of the problems were dominating. Two principal directions of policy development could be plausible. Firstly there is the thesis of path dependency which says that all three countries should continue typical policies that characterise their welfare regimes. Secondly there is the thesis of convergence, which expects that a common global crisis with shared experiences and challenges, might lead to somewhat similar policy solutions.

The study responds to scholars who have emphasized how economic imperatives necessitate certain welfare state reforms, as well as critics of austerity politics who have not clearly enough allowed path dependencies and legacies of norms and ideas to play a role in their analyses of European crisis response and welfare state reform. We argue that institutional path dependencies, owing to the structure of the welfare state, shape policy responses. We further provide insight on how the normative legacies of these regimes enable and constrain particular reforms. In view of insights in historical institutionalism regarding the considerable 'stickiness' of welfare regimes there seems to be a need to engage in more detail with investigations of how institutional legacies have shaped and conditioned recent reforms or the lack thereof.

The paper is structured as follows. In the first section we develop the idea of path dependency in historical institutionalism and review central findings in the literature. Regardless of the applied frameworks (e.g. welfare regimes, varieties of capitalism) most scholars argue that crisis related policy reactions followed respective institutionalized patterns. However, other scholars point at signs of congruence between European welfare states and we develop this opposing hypothesis as well. In the subsequent sections we discuss in our three case studies the pre-crisis situation, the policy changes in the immediate situation of economic crisis in 2008-9, the long-term governing in the subsequent period of 2010-2014, and the perceptions and narratives of public officials we interviewed in the summer of 2014. We conclude with a discussion of our findings and a revision of our theoretical starting point.

Path dependency or policy congruence? The European welfare state after the crisis

Recent research on reactions to economic crisis in different welfare states has mainly focused on social policy legislation and general macroeconomic evaluations of crisis. The common argument is that the predominantly incremental crisis responses and the lack of fundamental changes in many countries are the result of path dependency (see e.g., Chung and Thewissen 2011, Kersbergen et al. 2014, van Hooren et al. 2014). Policy-making followed already institutionalized patterns in the respective countries resulting in different strategies to cope with the crisis in different countries. This is not surprising for historical institutionalists, as "[i]nstitutions frame the discourse, defining repertoires of more or less acceptable (and expectable) discursive interactions" (Schmidt 2003: 319). Institutions are the framework of possibilities in which actors pursue their interests and in the case of economic crisis institutions shape solutions to the crisis. More narrowly defined, policy makers act within policy paradigms which structure their crisis responses:

"Policy paradigms are the world views of bureaucrats, politicians, and other key political actors about the nature of policy problems and the range of potential and appropriate solutions. These paradigms constitute roadmaps that provide actors with cognitive tools and directions about how to interpret how key macro-institutions (like the economy) function. These cognitive understandings, in turn, shape the range of policy alternatives that come into focus." (Immergut & Anderson 2008: 358)

Basically, it is assumed that institutionalized practices, routines, and policies are difficult or almost impossible to reverse (Pierson 2000). On the other hand, it has also been argued that in particularly severe situations change is potentially possible: such a critical juncture is arguably typified by the financial crisis that hit Western Europe in 2008. Still, due to the path dependency, the institutionalist school would expect that even at the times of crisis the policy makers follow their learned paradigms. Path departure is very unlikely and the initial crisis response was in the line with this argument:

"The various responses to the crisis across the range of industrialized countries make the point that there has been no new paradigm for governance emerging as a result of the crisis. /…/ having a new paradigm requires new ideas and those appear to have been in rather short supply." (Peters et al., 2011, p. 26)

The lack of ideational change is illustrated in that coordinated market economies such as Poland, Germany, the Netherlands or Belgium solved the economic crisis better than liberal market economies such as Spain, Latvia, Ireland, Greece or Portugal (Tridico, 2013). The coordinated setup included stronger employment protection legislation which saved jobs and kept levels of inequality lower (Ibid.). It is even argued that crisis response has not required any overall ideological or policy paradigm change. Neoliberalism survived the crisis and keeps on structuring the policy making in Europe and Northern America like it had before the crisis (Thatcher and Schmidt, 2013). Governments aimed to first and foremost restore stability – and not changing existing and institutionalized procedures and rules (Hooren et al., 2014). They have generally used arrangements or schemes already in place prior to the crisis, extending or more actively supporting them" (Vaughan-Whitehead, 2011:25). Some neo-institutionalist observers see only slow and minor changes triggered by the 2008 crisis (Mayntz, 2012), focusing on what they name incremental institutional change (Streeck and Thelen, 2005).

However, there are also signs that not all responses to the economic crisis among the EU member states followed such clear patterns of path dependency. German corporate liberalism emphasizes the role of social partners and French statist liberalism traditionally involves active macroeconomic intervention by the state, but both of the countries considered changes in unemployment insurance in their stimulus packages (Vail 2010:64). Germany also introduced unprecedented stimulus packages against the dominant economic discourse:

> *"They [France and Germany] did not derive solely from economic necessity or preexisting institutional frameworks, nor did they represent straightforward responses to the preferences of interest groups. Instead, they were driven by distinctive and evolving interpretations of the crisis." (Vail 2010: 65*)

Similarly, Baltic countries – Estonia, Latvia and Lithuania – which before the crisis followed similar patterns of economic and financial policies, showed considerably different reactions to crisis (Kattel and Raudla 2013). In their analysis of various crisis responses, Pontusson and Raess (2012) note that the majority of the Western industrialized countries followed similar paths, despite the differences between their economic systems or welfare regimes. These responses could be labelled as "liberal Keynesianism" which refers to combining tax cuts and some spending increases with monetary easing, while resisting protectionist measures and eschewing targeted interventions as well as devaluations. These trends point to policy congruence rather than path dependencies. Convergence is often driven by political demand or pressure, legal obligations through international law (e.g., the EU regulations), competitive pressure, problem pressure, legitimacy pressure and desire for conformity (Holzinger & Knill 2005). Therefore it would not be surprising if crisis-related windows of opportunities for policy change were used by similar interest groups in the respective countries and if the changes did not follow the institutionalist hypothesis of path dependency.

Thus, welfare states' individual attempts to react to (the same) crisis might result in convergence of economic policies regardless of the point of departure. Prior literature on welfare state regimes and policy changes argues that welfare states react to rising unemployment rates by relaxing conditions for access to unemployment benefits and regulations for pre-retirement pensions (Korpi and Palme 2003). On the other hand, welfare states might also cut back social welfare regardless of their tradition and cope with crisis symptoms like raising public debt. This could be motivated by competition over foreign investment which is of particular importance at times of crisis. A convergence or “race to the bottom” in social and labour standards in the European Union (EU) were also predicted before the EU enlargement of the former communist bloc in 2004-2007, but the race to the bottom hypothesis has found little empirical support so far (Skupnik 2014). Rather, Fehmel shows that European welfare states in the last twenty years have converged “concerning both the method of financing the social security systems and the social benefits level” (Fehmel 2012: 54). It should also be noted that the convergence of policies in the EU is a political goal of the European Commission and laid down in the Treaty of Maastricht (Heidenreich & Zeitlin 2009).

In sum, prior studies on welfare reforms in Europe are not fully consistent in their description of eventual policy changes or stability in result of economic crisis. In the remaining of this paper we will investigate three case studies, namely Germany, Sweden, and the UK and analyse the changes in these ideal-typical welfare regimes. We test hypothesis a) that these three countries broadly stick to their policy paradigms and follow the path defined by their particular welfare regime, and hypothesis b) that they converge as a response to the crisis. Esping-Anderson's typology is based on the concept of commodification and we thus concentrate on social and labour policies, leaving out many neighbouring fields like family or health policy. We start the discussion of crisis related policy change in the social democratic Sweden, followed by the liberal UK and conservative Germany.

Sweden: a social democratic response to crisis?

In the 2000s and all the way up to the Great Recession, Sweden engaged in reforms which formed a paradigmatic shift in the social democratic tradition of welfarism. These reforms, particularly the social insurance and labour market policies adopted in 2007 and onwards, were largely driven by the political agenda of the new centre-right government elected in 2006, and re-elected in 2010. Firstly, sickness benefits became regulated through strict time limits. Secondly, there was a considerable increase in membership fees for unemployment insurance, the introduction of differentiated fees for different occupational fields, and refocusing of the labour market programs on those farthest away from the labour market: the long term-unemployed and newly arrived immigrants (Government of Sweden 2007; 2007a). However, as the crisis hit Sweden in 2009 path dependent pressures became clearly pronounced. The government at this point appeared constrained by the well-institutionalized legacy of the comprehensive welfare state. Rather than further accelerating restrictive welfare reforms, as in many European countries where austerity served as a key crisis response, the crisis slowed reforms down in Sweden.

The policy discourse of the governing coalition entering into office in 2006 had relied heavily on the notion that citizens outside the labour market were victims of flawed incentive structures, which were effectively '*locking people in*' to a dependency on the social security system and thus excluding them from society. Those receiving benefits were not cast as lazy or irresponsible but depicted as victims of the welfare state itself. Such discourse was present during the election-campaign, when the Moderates (conservative party) re-launched itself as the "workers' party" and introduced a new core concept in the political debate: exclusion. The concept implied a shift in the meaning of social exclusion as all persons not active on the labour market were identified as "excluded". Hence, those receiving different kinds of welfare benefits, such as disability pensions, unemployment benefits, and sickness benefits, were included in this category. This constituted a reversal of the fundamental idea that welfare provisions are put in place to ensure *inclusion* in society on an as equal footing as possible. This changed discourse is well described by one of our respondents, when reflecting on the introduction of cut-off points in the social insurance systems:

"There are clear incentives in these time limits. You will find this in both the unemployment insurance and the health insurance. There is a form of…it's not formulated like that, and we don't formulate it like that either, but there is a form of intimidation effect…" (Interview SE 7).

However, the radical changes were not just the result of a new government but part of a broader development of restricting access to social security systems that parallels the development in many European welfare states. From 1997 to 2002 the number of sick people doubled and costs increased and the then governing Social Democratic Party wanted to curb costs by imposing stricter rules for the Social Insurance Agency, but was reluctant to introduce formal legislation:

"The contents of the rules were not really changed. You can't really do that. If you want a change in the application you need to change the laws and rules but [the social democratic] government said that we do not think [the Social Insurance Agency] are applying the existing rules strictly enough." (Interview SE 9).

Hence, the ideas for more regulation and a move towards a more targeted model were there, but it required a centre-right government to introduce new legislation that left the Social Insurance Agency much less room for interpretation (interviews SE 9; SE 10; SE 11; SE 12; Swedish Social Insurance Agency 2014). In order to get as many people as possible out of the social insurance system and into the labour market the centre-right government added a few "sticks", by lowering the maximum level for income-based sickness benefits. In sum, there was a significant shift from universal model towards a more targeted and corporate model with restricted eligibility and lower benefits, converging with the policy development in a broader European context.

Yet what stands out in Sweden is that this political agenda was softened as a response to the crisis. As the crisis escalated in 2009 and the unemployment rate increased (see Figure 1), the unemployment benefit programmes which were otherwise reserved for long-term unemployed and young people were expanded. *"They brought in a range of measures to deal with those who were laid off, to deal with this temporary externally induced recession."* (Interview SE 1). The measures of "pumping money into the system" (interview SE 2) were otherwise contrary to centre-right government's characterization of welfare programs as contributing to exclusion. Rather than opening a window of opportunity for further reforms, the crisis led to a situation where the room for manoeuvre actually lessened. The fact that the administration of those programs was given more funds and that this funding was subsequently renewed during the crisis (interview SE 7) points to the path dependency of the social democratic Swedish system. The rhetoric of lock-in effects became less dominant as a result of the financial crisis and instead it became important to show that government cared about these large groups of people who had been laid off (interview SE 7). This is well exemplified by the abolishment of the model of differentiated fees in the unemployment insurance:

"*Almost everyone agrees that this worked better on paper than in the real world. The removing of the differentiated fees for the unemployment insurance was one of the most important demands for the labour organizations (…) this was where [the Government] had to give in*." (Interview SE 5).

Apart from going back on some of the reforms in the field of labour market policy there were also changes in the social insurance system. Some of the initially introduced reforms were also softened during the peak of the Great Recession, mostly as a result of strong public pressure before the 2010 election. A highly visible reform related to social benefits for those with tumour illnesses, with the media framing it as people with cancer were losing their benefits (interviews SE 9; SE 12). In this context, one can say that the Swedish centre-right government was rather constrained in its immediate policy-responses to crisis in the period of 2008-2010. Although it did not change the fundamental idea of their reforms, it continuously had to relate to the paradigmatic idea of an encompassing and generous welfare state, hence following the path established by many previous social democratic governments. Rather than using the crisis as an opportunity to further restrict access to welfare provisions the reforms in that direction were slowed down. The period after the 2010 is characterised by the continuation of these policies, at least until the new Social Democratic government came to power in 2014. In sum, for Sweden, the crisis seemed to have activated path dependent pressures, reducing the speed of an otherwise accelerating process of policy congruence.

UK: a liberal response to crisis?

Although the economy of the UK did not decline more severely in the crisis than in Germany and Sweden, the country was particularly vulnerable because of overexposure to the global financial system via the City of London and a large housing market bubble very sensitive to any restriction in credit availability. To try and contain the crisis the Labour government used an unprecedentedly interventionist approach to stabilise the threatened banking sector by nationalisation and recapitalisation of various banks. These measures which, at their peak, exposed the Treasury to expenses of more than £1,000 billion (National Audit Office 2014: 13) form a large part of the increased government deficit shown in Figure 1. This response was combined with the cutting of interest rates by the central bank (from 5% to 0.5%) and the injection of £375 billion of credit into the economy. Whilst these ad-hoc interventions seem to contradict the existing policy approach, there was no real change to the dominant liberal policy paradigm. Any reports on "Labour Party's re-conversion to Keynesian demand management has been greatly exaggerated" (Hodson & Mabbett 2009:1058) since the stimulus provided by these measures have "to work through monetary channels: the bail-outs were intended to revive the supply of credit." (ibid: 1053. Emphasis added).This is not surprising as, since its coming to power in 1997, the New Labour government "did not attempt to restore a previous social model, but instead sought to graft elements of social support and social investment onto the free-market policies of the previous Conservative governments" (Grimshaw & Rubery 2012: 106-7).

Still, the crisis required some additional measures and the fiscal stimulus package was combined with some changes in labour policy. From early 2009 the UK invested in job creation, including temporary bonuses for employers who took on an unemployed person and extra support for those who had been job-seeking for more than six months (Clegg 2010). However, in contrast with much of Europe, and Germany in particular, the governing Labour Party did not address those who were becoming unemployed due to the crisis (Vis *et al* 2011: 348). The Labour Party lost the 2010 general election and the long-term management of crisis measures was picked up by the Conservative-led coalition (2010-2015). If there was a slight temporary turn from the dominant liberal approach during the initial years of crisis, then 2010 onwards the Conservative-led coalition aimed to significantly reduce the role of government as set out by New Labour as trying to "square the circle of neoliberalism with a human face" (Grimshaw & Rubery 2012: 106-7). Instead, the Conservative Party declared a 'permanently leaner state' to be their end-goal. As soon as the immediate crisis abated the need for austerity measures to cut the resulting government deficit topped the political agenda consistently for the following five years; as a member of the Social Security

Advisory Committee (SSAC) put it, there has been an "*overriding objective*" to contain the growth of social security spend (interview UK 1). An expert of Social Exclusion provides further detail; "*the narrative is to introduce austerity through reduction in government budgets. It's a pretty widespread idea of benefits as passive and activation as being key*" and furthermore, "*a particular wing within the Conservative Party…is in favour of austerity falling mostly on public spending and secondly, austerity falling mostly on social security spending.*" (Interview UK 2).

As in Sweden, the predominant narrative approach was shared by the major parties in the UK. The need for cuts to achieve immediate and deep deficit reduction was also Labour's political message during the campaign of the 2010 general election. Two pieces of political narrative from subsequent Chancellors of the Exchequer demonstrate this consensus vividly. Firstly, in the run-up to the 2010 general election a promise to make cuts to public spending "deeper and tougher" than those made by Margaret Thatcher in the 1980's came from the incumbent Labour Chancellor of the Exchequer (Elliot 2010). Secondly, in government, the Conservative Chancellor repeatedly insisted that the country must follow 'Plan A' (i.e. Plan Austerity), an unavoidable long-term economic plan without a Plan B, as any other plan would lead to economic ruin (Mulholland 2010, Osborne 2013, Osborne 2015). The path dependence of crisis measures following the (neo)liberal paradigm was also a reoccurring theme in our interviews:

"Labour would have done the same, so it's not a huge amount of difference on the party side." (Interview UK 5)

"Any government would sit there and look at a large chunk of benefit spending and think – how can we reduce this? It's perpetually a challenge." (Interview UK 10*)*

"The broad consensus is the need to make cuts, and the difference concerning 'where' and 'how' is only on the fringes." (Interview UK 8)

Conservative's labour policy also continued down the path introduced by New Labour, but there was increasing use of sanctions, stringent activation measures and an individualised approach to employment (Whitworth & Carter 2014:). In terms of social security, as in Sweden, the system was seen to breed "welfare dependency" although in contrast to the "lock-in" narrative, the UK narrative came with a heavy focus on individualised blame. The Conservative diagnosis was that a "moral hazard" existed in the system which incited laziness and eroded self-discipline (Wiggan 2012: 400), leading to a narrative of "the undeserving welfare claimant" utilised by both major political parties (Romano 2015, Garthwaite 2011). The numerous cuts in social welfare at central and local level, freezes to working tax credits and child benefits as well as cuts to child tax credits and disability benefits are examples of how such a narrative is translated into policies. As one of our interviewees noted, such an approach follows a path of welfare residualisation and it is hard to turn away from this path as further cuts and retrenchment act as 'feedback loops' (Interview UK 2).

Accordingly then, there is evidence of path-dependency in the UK, of a particular nature. The underlying seam of neoliberalism has been intensified in the period following the crisis, in particular during the long-term governance of the recession under the coalition. Oliver & Pemberton (2004: 435) argue that, since the late 1980s, a generalized neoliberal paradigm had become entrenched in an 'iterative evolutionary cycle' that carried it into the 21st century. Over a decade on from this observation it is clear that this process has not slowed, indeed, it has intensified. Whilst New Labour may have widened the path somewhat to include notions of the collectivist model, that project ultimately came 'unstuck' (Grimshaw & Rubery 2012: 106). The UK is now seeing a return to a 'purer' path, within which the confines of policy are contained even more rigorously by the neoliberal paradigm. Perhaps nowhere can this be seen more clearly than in the results of the 2015 general election, in which the Conservative Party were returned to government, this time with a majority, and with a campaign to "not let Labour drag us back to square one – let us finish what we have begun" (Cameron 2015).

Germany: the conservative response to crisis?

Similar to Sweden, Germany experienced limited long-term effects of the Great Recession, particularly in comparison to the UK. In contrast to both the other case studies, the unemployment rate was declining from 2005 and continued to after 2009. The crisis response by the German government can be characterized as containing mainly "Keynesian measures" including short time work (STW), scrappage bonus and public investments in infrastructure (interview DE 3, DE 20). Germany undertook four potential Keynesian crisis measures – investing in jobs, introducing tax measures, investments in the infrastructure, and tax relief – while Sweden took the two first and the UK took only one (investing in jobs) (Vis *et al* 2011: 346). The growth packages were also clearly targeted: "*The investments in renovation of schools, kindergartens etc. were strongly needed, so it was not "digging a whole and filling it again*" (interview DE 20).

Similar to Sweden, there was the immediate response in terms of temporarily expanded labour market measures. Before the crisis the governing Social-Democratic/Green coalition had introduced far-reaching labour market reforms (the so-called "Agenda 2010") and put considerable pressure on long term-unemployed. The underlying goal was increased labour market flexibility, but similarly to Sweden and in contrast to the UK this liberal idea was not pressed further during the crisis. The German coordinated market economy (Hall & Soskice 2001) profited during the crisis from the strongly interconnected system of industrial relations which is characterised by flex-time work records and co-management by works councils, a set-up which needs a lot of trust on both sides (interview DE 2; cf. Herzog-Stein et al., 2013). Adding to already existing mechanisms of internal flexibility, the expansion and easing of STW was the most prominent and successful German crisis measure. Whereas German unemployment benefits were not changed during the crisis, the maximum duration of STW was extended from 6 months to 18 months, although this was reversed in 2011. The motivation for initiating the STW measure was, according to our interviewees, both moral and practical. First, in a social market economy the government "had to do" something against unemployment (interview DE 4), and the German mentality of stable jobs (no hiring and firing) compared to the USA is an important part of the German political economy (interview DE 6). Second, both coalition parties, the Social Democratic Party and the Christian Democratic Union (SPD and CDU) aimed to get money into the markets to support demand (interview DE 3) and through the stabilization of export-led industries other industries were indirectly stabilized (interview DE 6).

As the effect of the crisis was apparently not perceived as harmful in Germany as it was in the UK, there were also fewer efforts to manage the budget deficit via welfare cuts. The German health sector had been the target of reforms long before the crisis, and there were no measures that were as "social politically harsh" as the ones of the labour policy (Agenda 2010) reforms before the crisis (interview DE 14). One change was the reduction of the health insurance rate paid by both the employer and the employee: "*This was a relief to the employers and employees. And this was an unusual anti-cyclical process"* (interview DE 14). This rate was restored after the crisis, now with a cap on the employer's side which, however, continues the reform path of the pre-crisis period.

Overall, the small austerity package in 2010 was, notwithstanding the pressure it put on social aid beneficiaries, not very big and it did not considerably deviate from pre-crisis policies (cf. Agenda

2010). Yet it contributed to restoring trust in the government's ability to cope with the crisis. In Germany, a long memory of the 1920s and 1930s, combined with the dominant *ordo*liberal paradigm, serves to make it very difficult to have high levels of debt in the long-term. The austerity package was not only psychological but, also a message to the European partners: “*Even if our deficits were not so bad, but you have to cut, so for us the whole package had to be the same direction so it was coherent from a European perspective*” (interview DE 16). Moreover, reducing or raising social aid could not be a central part of growth or austerity packages, as this would mean a deviation from the ‘subsistence minimum’ as defined by the German law. A lower deviation from this minimum is illegal due to a Supreme Court ruling (09/02/2010), and even in the crises a higher deviation to support domestic demand was not justifiable, following the conservative, technocratic paradigm (interview DE 16). The court-ruling was a clear institutional hinder for any significant change in social policies.

To sum up, after the outbreak of the crisis Germany took immediate and costly measures to keep employment up and stimulate the economy. The reforms were unusual in their clearly Keynesian character and interventionist approach. Yet, based on the institutional setup of Germany and the strong interconnection between social actors and the government, coordination worked smoothly and the measures were almost undisputed. However, these measures were limited in time. Changes in welfare policies (e.g. health and care insurance scheme) continued the development of the pre-crisis period and therefore we can not observe a considerable shift in policies or paradigms in Germany.

Concluding discussion

We set out to look for dominant trends in crisis response in three typical welfare states – the social democratic Sweden, the liberal UK and the conservative Germany. However, rather than engaging in a comparison of macro-level indicators our analysis took a more open-ended approach allowing us to capture, in a more nuanced way, sometimes parallel, seemingly conflicting, movements of policy congruence and path dependency. As the analysis of the three cases demonstrated, the crisis triggered reactions which were highly path dependent. The social and labour policy reforms in these three countries at the times of Great Recession did not seem to converge around some more general crisis response policy. This is particularly interesting since Sweden and Germany in particular manifested clear indications of congruence with welfare reforms of a more liberal character before the crisis. These reforms were subsequently "softened" as a response to the crisis in Sweden and in Germany the initiation of the STW-scheme alleviated the effects of previously adopted policies. In the UK, on the other hand, faced by the recession, the already strong liberal character of its welfare system was further strengthened. The financial stimulus packages in the earlier stages of the crisis did not change the general character of the UKs crisis response. The dominant discourse of the Conservatives-led coalition government was paradigm-reinforcing rather than paradigm-threatening (Hay, 2013). Consequently, in contrast to Sweden and Germany, the crisis in the UK was very much discussed as connected to the size of the state, the generosity of systems of benefits and flawed incentive structures in those systems. Austerity measures in terms of further cutting back on services and benefits thus became a central part of the UKs crisis response.

These differences, especially between the UK and Sweden, are interesting. Before the crisis, the reforms in Sweden where sometimes motivated by similar arguments to those in the UK, especially as concerns the pervasive view that an overly generous welfare created exclusion-effects.

There was thus congruence towards a common logic of welfare reforms especially the notion that incomes on benefits should never supersede those of people with employment. Still, the framing of recipients of welfare benefits as lazy and workshy, while prevalent in the UK did not take hold in Sweden. Rather, the systems of benefits where largely seen as structural impediments for individuals in realizing their full potential, which in this context was taken to mean being gainfully employed.

The reforms in the examined welfare states demonstrate that governments did not use, or were not able to use, the crisis as a window of opportunity for more radical labour or social policy change. In all three countries the crisis pushed politicians towards well institutionalized policy measures and familiar narratives of the role of the state. In Sweden this entailed a slight reaffirmation of the comprehensive welfare state. In Germany it took the form of protecting the traditional pillar of the German economy, the male-dominated manufacturing industry, through the STW-scheme. And in the UK we saw a strengthening of measures to downsize the state.

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Appendix:

Full list of respondents in Sweden

SE 1: Government official, Ministry of Employment, Stockholm, 21.08.2014

SE 2: Government official, Ministry of Employment, Stockholm, 21.08.2014.

SE 3: Government official, Ministry of Employment, Stockholm, 21.08.2014

SE 4: Government official, Ministry of Employment, Stockholm, 21.08.2014

SE 5: Government official, Labor Market Committee of the Swedish Parliament, non-politically appointed, Stockholm, 22.05.2014

SE 6: Government official, Labor Market Committee of the Swedish Parliament, non-politically appointed, Stockholm, 22.05.2014

SE 7: Government official, Swedish Employment Agency, Stockholm, 04.06.2014

SE 8: Government official, Swedish Employment Agency, Stockholm, 09.07. 2014

SE 9: Government official, Ministry of Social Affairs, Stockholm, 13.08.2014

SE 10: Government official, Social Insurance Agency, Stockholm, 09.07.2014

SE 11: Government official, Social Insurance Agency, Stockholm, 09.07.2014

SE 12: Government official, Social Security Agency, Stockholm, 14.08.2014

SE 13: Government official, Parliament Committee for the Social Insurance, Stockholm, 20.05.2014

SE 14: Government official, Parliament Committee for the Social Insurance, Stockholm, 20.05.2014

SE 15: Government official, Parliament Committee for the Social Insurance, Stockholm, 20.05.2014

SE 16: Government official, Parliament Committee for the Social Insurance, Stockholm, 20.05.2014

SE 17: Government official, Parliament Committee on Taxes, Stockholm, 16.05.2014

SE 18: Government official, Parliament Committee on Taxes, Stockholm, 16.05.2014

SE 19: Government official, Parliament Committee on Social Affairs, Stockholm, 15.08.2014

Full list of respondents in UK

UK 1: Member of Social Security Advisory Committee, 09.06.2014

UK 2: Independent expert on social exclusion, 12.06.2014

UK 3: Manager, Poverty Team in the Policy and Research Department, Joseph Rowntree Foundation; York 19.06.2014

UK 4: Member of Social Mobility and Child Poverty Commission, 27.06.2014

UK 5: Social and economic research fellow, centre-right thinktank, London, 02.07.2014

UK 6: Government official, London, 03.07.2014

UK 7: Head of research, centre-left thinktank, London, 14.07.2014

UK 8: Assistant director, National Housing Federation, London, 15.07.2014

UK 9: Director, democracy campaign organisation, London, 28.07.2015

UK 10: Government official, Department of Work and Pensions, 30.07.2015

UK 11: Government official, Department of Health, London, 19.08.2015

Full list of respondents in Germany

Interview DE 1 – Bundeskanzleramt

Interview DE 2 – Federal Ministry of Labour and Social Affairs

Interview DE 3 – Federal Ministry of Labour and Social Affairs

Interview DE 4 – Federal Ministry of Labour and Social Affairs

Interview DE 5 – Federal Ministry of Labour and Social Affairs

Interview DE 6 – Federal Agency of Employment

Interview DE 7 – Federal Agency of Employment

Interview DE 8 – Federal Agency of Employment

Interview DE 9 – Member of Parliament

Interview DE 10 – Federal Ministry of Family, Soical Affairs, Women and Youth

Interview DE 11 – Federal Ministry of Education and Research

Interview DE 12 – Federal Ministry of Education and Research

Interview DE 13 – Federal Ministry of Family, Elderly, Women and Youth

Interview DE 14 – Federal Ministry of Health

Interview DE 15 – Member of Parliament

Interview DE 16 – Federal Ministry of Labour and Social Affairs

Interview DE 17 - Federal Ministry of Finance

Interview DE 18 - Federal Ministries of Economy and Innovation and of Finance

Interview DE 19 - Federal Department of Finance

Interview DE 20 - Federal Ministry of Environment

Interview DE 20 - Federal Ministry of Environment, Construction and Reactor Safety

Interview DE 22 - Federal Ministry of Environment, Construction and Reactor Safety