Growing apart: The comparative political economy of income inequality and social policy development in affluent countries

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6 Falling back on old habits?

A comparison of the social and unemployment crisis reactive policy strategies in Germany, the UK and Sweden[1]

ABSTRACT

Although long-term processes of welfare state development have been investigated frequently, there is a surprising gap in knowledge on short-term reactions of states to sudden events. This article aims to fill this gap by examining the reactive policies, i.e. immediate policy responses to urgent social matters, of governments to the current economic crisis. We focus on social and unemployment policies of the three welfare regime ideal types of Esping-Andersen's typology, namely Germany, the UK and Sweden. We apply long-term policy development theories, most notably the convergence and path dependence theories, to understand the choices made in the different reactive policy strategies of these countries. In addition, we scrutinise whether we find similarities between the reactive policies and the converging structural welfare state developments. We use comparable data from various European and national data sources for the two years directly following the recent crisis, namely 2008 and 2009. Our analysis shows that, at least for the three countries under investigation, countries seem to have fallen back on 'old habits' by adopting social and unemployment reactive policies that can be identified based on their institutional legacies. This suggests that reactive policy strategies can be explained by different dynamics than the more structural long-term policy developments, and in our case we find evidence in support for the path dependence theory.

6.1 INTRODUCTION

The years 2008 and 2009 were characterised by worldwide financial and economic turmoil. The financial crisis quickly spread throughout the world

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and began to affect the real economies in the form of massive redundancies and bankruptcies. This crisis caused a need for urgent state interventions. Many governments provided credit supplies and guarantees for financial institutions or even nationalised distressed banks. In addition, social and unemployment policies were adopted as an attempt to stimulate the economy and to respond to the sudden increase in redundancies. Germany for instance modified a tripartite agreement on short-term unemployment, whilst the UK implemented subsidies for employers to hire employees.

An interesting question that stems from this is how to understand the reactive policies, i.e. the immediate responses of welfare states to urgent societal matters, of countries to sudden economic shocks. These policies differ in a number of aspects from structural policy-making processes such as grand welfare reforms. Reactive policies are meant to provide quick relief to an urgent crisis, the decision-making time is limited, and they only apply for a limited amount of time or are stopped when the urgent need is met. Although structural processes of welfare state development have been investigated frequently, there is a surprising gap in knowledge on reactive policies (Vis, 2009; Castles, 2010).

This article aims to fill this gap by examining the reactive policies of three countries best representing the different welfare state regime typologies, namely Germany, the UK and Sweden. Our main question is how we can explain the strategies countries follow in their social and unemployment reactive policies. Due to the lack of theories that address the subject of short-term reactions of the welfare state, we turn to structural policy development theories, namely the convergence theories and path dependence theories. From a convergence perspective we would expect similar policy solutions to the crisis, due to similarities found in the nature of the problem and in the constraints of possible solutions. However, the rivalling path dependence theory entails that specific national institutional legacies are the most decisive cause in welfare state development. It could be expected that in times of abrupt turmoil and when there is little time to react, countries are more likely to fall back on their institutional legacies. By examining the reactive policies of the three countries, we can see if the choices made by governments can be understood with similar frameworks used for structural long-term policy developments. An emphasis is placed on social and unemployment policies, as the discussion of convergence versus path dependence notably took place in this policy field, and we focus on reactive policies that took place during 2008 and 2009.

This article is structured as follows. Section 6.2 explains the theoretical framework of the crisis literature, and the convergence and path dependence theories. We derive general expectations from these theories as a framework to compare the reactive policy strategies. In Section 6.3, the methodology of this article is explained. Section 6.4 consists of the empirical description of the implemented responses of Germany, the UK and Sweden. Section 6.5

compares and interprets the national strategies, after which we discuss our conclusions in Section 6.6.

6.2 THEORETICAL FRAMEWORK

6.2.1 Reactive policy strategies of welfare states and the impact of crises

Reactive policies are the immediate responses of welfare states to urgent societal matters. The comprehensive plan behind the implemented reactive policies can be referred to as the reactive policy strategy. Specific crisis situations, such as the current financial crisis, have been a topic of investigation. Yet, most studies focus on causes or consequences of the crisis (e.g. Datz, 2009; Eichhorst *et al.*, 2010; Castles, 2010), providing short descriptions of what governments have done (e.g. Clegg, 2010), or only focus on specific policy areas such as family policies (e.g. Richardson, 2010). In the welfare state literature, there are no studies yet that provide insights in understanding the reactive policy strategies countries take in times of crises.

In agenda-setting theories the impact of crises on policy-making is examined more frequently. Here, crisis situations are understood as 'windows of opportunities' (Kingdon, 1964) or 'critical junctures' (Capoccia and Kelemen, 2007). For instance, Boin *et al.* (2009) stress that crises can be politically exploited by pushing forward certain policy answers by actors. Vis (2009) finds evidence for this stance in welfare state research, by claiming that deteriorating socio-economic situations are a necessary condition for unpopular welfare state reforms. As we can see, the key focus of these studies is in understanding the role of crises in changing the political dynamics of welfare reform. They teach us that crises can be used to implement radical changes. However, they do not provide us insight what *kind* of reactive policy strategies one can expect during crises in different countries. For this reason, we turn to theories on structural policy-making, namely the convergence and path dependence theories. Even though these theories refer to structural reforms and long-term policy-making, we use them as theoretical frameworks to reflect on when examining reactive policy strategies. In addition, applying long-term policy theories allows us to scrutinise whether we find similarities between the reactive policies and the structural welfare state developments in our country cases.

6.2.2 Path dependence theory and reactive policy strategies

In the path dependence theory, it is believed that the history or institutional legacy of a country strongly influences the policies it will adopt in the future (Pierson, 2000). Changes happen, but they are bounded or incremental, rather than being institutional overhauls (Starke, 2006: 105–6). A number of reasons are put forward to argue why welfare states developments are unequivocally path dependent. First, radical changes are difficult to accomplish and relatively expensive. Many institutions contain veto-points and have high set-up costs (Bonoli, 2001: 238), and politicians have a short time horizon in which they need to show outcomes (Pierson, 2000: 258–62). Second, existing institutional settings shape the expectations and behaviour of citizens, politicians, and pressure groups. This could entail that radical welfare reforms are likely to meet opposition from various interest groups. In addition, as the 'varieties of capitalism' literature (Hall and Soskice, 2001) argues, different institutional settings can also lead to comparative institutional advantages. These advantages act as powerful inducements to replicate existing institutions.

Central to the path dependence theory is that a number of welfare regimes or trajectories can be discerned, based on their institutional legacies. One of the most influential typologies of welfare states in this respect comes from Esping-Andersen (1990). He discerns three ideal type welfare regimes, which are the liberal, conservative and social democratic regime. Although this typology has been criticised by scholars for various reasons, there seems to be a consensus in the classification of the classic examples of the ideal types, namely Germany, the USA (and to a lesser extent, the UK) and Sweden (Arts and Gelissen, 2002).

The path dependence framework can be applied to reactive policies as follows. First, since reactive policies are used to address urgent crises in a short time frame, radical changes may be even more difficult to accomplish. Second, as argued in the varieties of capitalism approach, it could be that certain responses are expected by citizens and by pressure groups such as employer and employee organisations. For instance, there could be a demand for policies that enable society to do as much 'business as usual' as possible. Using these arguments, we should expect that countries stay close to their institutional legacies in times of crises, by using instruments that were in place or that have been used before. We would then expect distinctive differences in reactive policy strategies reflecting the countries' institutional legacies, and we would not expect policy innovation to take place.

Based on Esping-Andersen's (1990) typology, we can derive specific hypotheses of the national reactive policy strategies from a path dependence perspective. We expect Germany to have adopted a conservative strategy, with a strong inclination to maintain traditional status relations. This implies that its main focus would be to keep insiders in their jobs to preserve their industrial and firm-specific skills, combined with a low emphasis on activation. The UK should follow a liberal laissez-faire crisis response strategy, characterised by reliance on market forces with only residual engagement in social policies. For Sweden we expect a social democratic strategy. This is characterised by a combination of focus on activation, whilst securing income by universal and generous social benefits.

6.2.3 Convergence theory and crisis response policies

Contrary to the understanding of path dependence theorists, convergence theory claims that all welfare states are converging into a common model. Two important reasons are put forward why countries are slowly opting for more similar policy solutions (Starke *et al.*, 2008). First, internationalisation and global competition weaken the freedom of action of national states. Due to the increase in the dynamic nature of private economic forces, such as flows of capital and labour across national borders, governments are no longer capable of deviating much from other countries in their regulations and taxes. Second, countries are facing similar problems and have comparable constraints in their methods to deal with these problems. Low economic growth and unfavourable demographic changes restrict states to pay for extensive social policies (Pierson, 2002; Korpi and Palme, 2003). There is consistent evidence that Western European countries have chosen similar strategies in response to this permanent austerity in their structural policy development, which are retrenchment and stimulation of employment. The sickness, work accident and unemployment benefits have been lowered in most countries in terms of both their proportion in spending, as well as in terms of replacement rates (Korpi and Palme, 2003; Allan and Scruggs, 2004; Adelantado and Calderón, 2006). There has also been an increasing emphasis on activation and employability (Dingeldey, 2007), including the development of various family policies to stimulate the employment of women (Mandel and Semyonov, 2006; Lewis *et al.*, 2008). However, this process of convergence and retrenchment seems to be a very gradual development, largely without radical reforms (Pierson, 2002; Starke, 2006).

Using the logic of the convergence theory, there are several reasons why we would expect countries to have chosen similar reactive policy strategies to the crisis. First, our country cases are all members of the EU and their financial sectors are strongly internationalised. Second, the financial and economic crisis presented comparable problems of lower demands, bankruptcies and threats of mass unemployment. Taking all this into account, we could expect similar reactive policy strategies in all of the three countries under investigation, regardless of their institutional heritages.

6.3 Methods and data sources

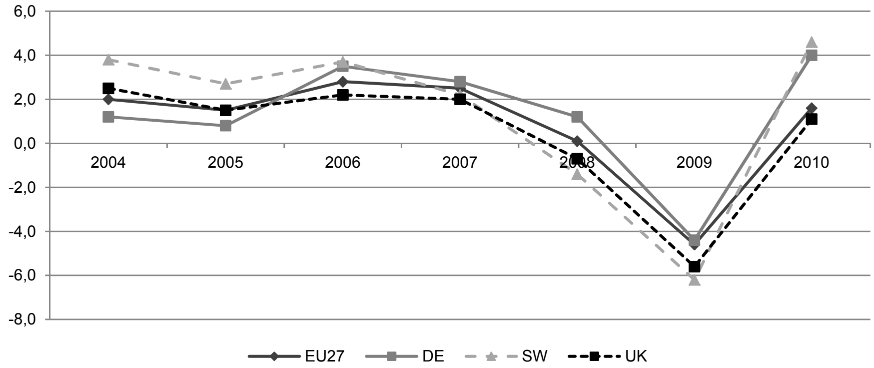
Based on Esping-Andersen's framework, we compare the three classic examples of welfare regimes, which are Germany, the UK and Sweden. These three countries differ maximally in their institutional legacies, yet they share a number of important extraneous variables. First, all three countries have experienced a sudden economic shock in terms of bankruptcies, decrease in demands, leading to drops in GDP growth rates and increase in unemployment due to the crisis. This aspect is substantiated in the next section. Second, all countries are EU member states, and all implement European Monetary Union (EMU) policies, although Germany is the only one with the euro as its currency. Third, all countries have financial sectors that are strongly internationalised. These countries, however, differ in a number of important aspects, besides their institutional legacy, which are the affiliation of the government and the composition of their economies. During the crisis, Germany and Sweden were governed by a centre right cabinet, whilst the centre left Labour Party was in office in the UK. Unfortunately, there are no alternative countries that could represent the ideal types of the regime typologies as well as the UK and Sweden, which satisfied the other requirements. Second, our country cases differ in their national economic composition, although this could also be understood as part, or a consequence, of the institutional legacies in the development of the welfare state. In other words, it is endogenous to the characteristics of the welfare regimes. These points will be taken up later in our discussion section.

A second methodological consideration is the type of policies under investigation. Although we also examine the general economic and financial policies to provide background information on how the crisis has been managed in each country, we concentrate on social and unemployment policies. We choose these policies because we are interested in welfare state policies and because the discussion of convergence versus divergence notably took place in this policy field (Vis, 2009). In addition, we focus on state-level policies, although we also refer to some of the important sectoral and company level policies. The third consideration is the period under investigation. We focus on reactive policies, which are short-term measures in reaction to the crisis. Therefore, our focus is on the years 2008 and 2009. Concerning the choice of data, we rely on comparable data from various European data sources, such as the European Industrial Relations Observatory (EIRO) and the European Commission's (EC) joint employment reports, supplemented by various documents from national sources.

6.4 THE CRISIS AND REACTIVE POLICIES

After years of relatively stable economic development, the crisis caused a severe and sudden decline in GDP in all European states. The crisis struck in a roughly similar fashion in Germany, the UK and Sweden. In 2007, the real GDP growth rates in the three countries were approximately 2 per cent (see Figure 6.1). This reversed to an average decline of approximately minus 5 to 6 per cent in 2009.

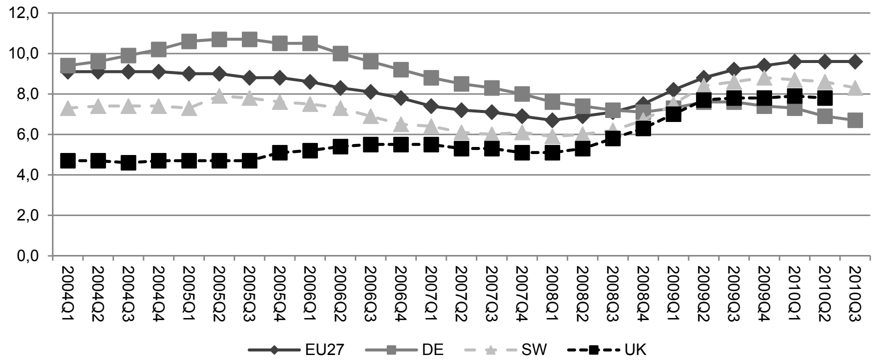
Figure 6.1 Real GDP growth rates



Note Figures for 2010 are forecast projections
Source Eurostat (2010)

The unemployment rate shows a similar course, as is evident from Figure 6.2. The unemployment rate was rather different until the first quarter of 2006, but it shows a converging pattern around the first and second quarter of 2008. In the third quarter of 2008, we can see an increase of unemployment in all countries, which continues until the third quarter of 2009. The exceptional case is Germany, which has not shown a stark increase in unemployment rates. This can be attributed to its reactive policies, which focused on keeping people in their jobs. We explain this in detail in the next section. Despite the fact that there are some deviations, it is clear that all countries faced the problem of bankruptcies, sharp decrease in demand, and a threat of mass redundancies. In the following sections, we examine what types of policies were implemented to address these issues in the three countries under investigation.

Figure 6.2 Unemployment rate per quarter



Source Eurostat (2010)

6.4.1 Conservative considerations – the case of Germany

It has been noted that Germany departed from its conservative tradition before the crisis started. During the Hartz reforms in 2003–04, unemployment and social assistance benefits were lowered and activation became an essential element in German employment policies (Seeleib-Kaiser and Fleckenstein, 2007). In addition, Germany has moved away from the male breadwinner model through implementing family policies to stimulate the employment of women (Lewis *et al.*, 2008).

Despite a favourable starting position, Germany was severely affected by the collapse in worldwide demand as a consequence of its reliance on exports (EC, 2009). From September 2008 onwards, the centre right cabinet of CDU/CSU (the Christian alliance) and FDP (the Liberals) turned to an active response strategy. The most important policies were the 'Package of Measures to Reduce Tax Burdens, Stabilise Social Insurance Contributions and Invest in Families', of October 2008, and two economic stimulus packages. The first package, 'Securing Jobs by Strengthening Growth', stimulated the economy with a government investment of € 31 billion. Its main goal was to support the viability of the financial sector, but it also consisted of Keynesian investments in long-term public goods and support to the manufacturing industry. The second stimulus package, the 'Pact for Employment and Stability in Germany', of circa € 50 billion, was used to relieve tax burdens, recuperate consumer demands, and to stimulate investments (EC, 2009).

The main German strategy in social and unemployment measures was to keep insiders in their jobs to preserve their skills by active state interventions. A number of measures were adopted to achieve this strategy. First, an existing tripartite agreement on short-term unemployment was extended and financially modified (ILO, 2009). The agreement entailed that in case of temporary shortage of orders, employers could lower labour costs by reducing working time and wages of employees. This reduced wage was paid out by the government as partial unemployment benefits so that workers did not see a remarkable decrease in their wages. The measure enabled employers to maintain their trained and skilled workers, whilst in return the employees' employment was safeguarded, occasionally supplemented with extra training. The short-time work allowances consisted of replacement rates of 60 per cent for employees without children, and 67 per cent for those with children. Before the crisis, the short-time work allowances were paid out of social security contributions of social partners, as part of the unemployment benefit scheme. Yet as a crisis measure, it was decided that the allowances were paid out of general taxes. In addition, the drawing period was temporarily extended from six to 24 months until 2009 (EIRO, 2009a; 2009b; 2009c; 2009d). Over 3 per cent of all employees were participating in short-time work schemes in 2009 (OECD, 2010: 52). This extensive use of short-term allowance schemes is the main reason why the overall unemployment rate in Germany did not rise as significantly as in other countries in Europe (see Figure 6.2), regardless of the overall decrease in demands as shown in its GDP growth patterns. The measure especially helped to preserve jobs in the male-dominated manufacturing industry (Eichhorst *et al.*, 2010; EIRO, 2010).

A second measure that provided relief to insiders was the extension of the phased early retirement scheme for older employees (EC, 2009: 24). This scheme aimed at facilitating a gradual transition of employees over 55 into retirement, subsidised by the state, to generate new positions to be replaced. When an employee over 55 cut his working time in half, the employers were to pay 70 per cent of the employee's reduced wage and contribute to the pension schemes, whilst the Federal Government bore the additional expenses (EIRO, 2009e). Third, Germany eased the burden of employers and employees by significantly lowering both their unemployment insurance contributions (from 6.5 to 2.8 per cent until 1 December 2010 and 3 per cent after that) and health insurance contributions (from 15.5 to 14.9 per cent from July 2009 onwards) (German Federal Ministry of Economics and Technology, 2008).

Germany also agreed on a number of complementary policies. In order to stimulate activation, the second stimulus package also consisted of investment on training on-the-job and job-to-job placements. In addition, the tax rate of the first income bracket was lowered from 15 to 14 per cent and the personal allowance was increased to € 7,834 from 2009, as an attempt to reduce the unemployment trap. Lastly, it adopted a number of family policies as part of the packages. For example, the universal child benefit and tax-free child allowance were raised by 4.3 per cent (German Federal Ministry of Economics and Technology, 2008) and parents received a non-recursive € 100 child bonus (EC, 2009: 24).

6.4.2 Liberal legislation – the case of the UK

Although the UK can still be characterised as a residual welfare state with a relatively low degree of social protection by the state, more recently the state has become increasingly involved in several aspects. First of all, there has been an increase in active labour market policies to stimulate employability of its workers (Dingeldey, 2007). In addition, the state has taken an active role by both developing new family policies and increasing the amount of public investment spent on these policies (Lewis *et al.*, 2008).

The UK was one of the first European countries to be heavily hit by the global crisis. Its strong ties with the financial sector in the USA made the UK vulnerable to financial shocks (Hodson and Mabbett, 2009). In 2007, Barclays Bank received two financial injections and mortgage lender Northern Rock was nationalised in 2008. The financial sector was further supported by a bailout package of £500 billion (€ 575 billion) of liquidity support, government guarantees of bank issuances, and the purchase of (toxic) bank equities. In responding to the negative effects of the financial crisis on the real economy, the Labour government implemented a number of additional policies. Most of these measures, for an amount of roughly £20 billion (€ 23 billion), were announced in the Pre-Budget Report 2008 (HM Treasury, 2008). Supplementing measures were taken in the Budget Report 2009 (HM Treasury, 2009). Many of these measures aimed to stimulate the economy, by means of Keynesian investments in infrastructure, support to the manufacturing industry and the severely afflicted housing market, and by temporary tax relief for businesses or consumers. The most important measure was a temporary cut in the value added tax (VAT) on consumption from 17.5 per cent to 15 per cent for 13 months (Clegg, 2010).

Although the British government was an active crisis manager in the financial sector, it chose a highly laissez-faire strategy in social and unemployment crisis policies. It was quite unwilling to improve, even temporarily, its already low supportive unemployment policies (Clegg, 2010: 5). Almost all that the British government implemented as reactive measures were demand-led labour market measures to stimulate activation. Most importantly, from January 2009 onwards employers received a subsidy of £2,500 (€ 2,900) when recruiting a person who has been unemployed for over six months (HM Treasury, 2009). Next to this demand-driven stimulus, activation was encouraged through increasing income tax allowances, except for high income groups (HM Government, 2009). The administration also raised its funding for programmes designed to get the unemployed back to work. A total amount of £3 billion (€ 3.4 billion) was invested in 2009 in initiatives such as 'Jobcentre Plus', 'Train to Gain', and 'Local Employment Partnerships'. Additionally, it mediated for apprenticeships tendered by private parties, and tried to enhance training possibilities for unemployed people (HM Government, 2009; EIRO, 2009f). Minimum engagements were observed in terms of passive labour market programmes as well. There was a slight increase in the maximum statutory redundancy pay for the middle and high income earners (HM Treasury, 2009: 13), a marginal non-recurring bonuses for pensioners of £60 (€ 69) and for families with children £22 (€ 25), and a temporary increase of the child allowance (HM Treasury, 2008: 6-7).

This laissez-faire approach by the government resulted in involvement from the social partners. Social partners signed collective agreements concerning the reduction of working hours and respective wages to save jobs (EIRO, 2009g). In 2009, the median pay settlement dropped to 1 per cent (EIRO, 2009h). Moreover, occupational pensions have been cut in the hardest affected sectors (EIRO, 2009h).

6.4.3 Social democratic strategies – the case of Sweden

Although even Sweden has implemented cutbacks in its welfare state in recent times (Vis, 2009), it is still exemplified by its generous social policies combined with supply-stimulus activation by public interventions and a large public sector employment. As Sweden was faring well before the crisis started, the centre-right four-party coalition was relatively late in its crisis reaction. The initial point of interest was the viability of the financial sector and the real economy (e.g. Swedish Ministry of Finance, 2008a). The Swedish Central Bank supported the long-term credits with a loan facility of SEK 60 billion (€ 6.3 billion). Keynesian investments were implemented in education, infrastructure, and research and development (e.g. Swedish Ministry of Finance, 2008b). Moreover, the corporate tax rate was lowered from 28 per cent to 26.3 per cent.

Sweden was also relatively active in adopting social and unemployment reactive policies, compared to our other country cases. In total, the state has adopted crisis policies of SEK 45 billion in 2009 and SEK 60 billion in 2010 (€ 4.7 billion and € 6.3 billion; Swedish Ministry of Finance, 2009a). Its strategy consisted of a combination of striving for full employment, whilst at the same time providing income security and cushioning temporary unemployment (Swedish Prime Minister's Office, 2008: 1).

The centre-right coalition adopted many activation programmes (the 'work-first principle'). The Swedish government provided relief and employment incentives for employers and employees by lowering payroll tax and unemployment contributions (EIRO, 2008). Both of these contributions were reduced even more for young employees, who were amongst the hardest hit during the crisis in Sweden (Swedish Ministry of Finance, 2008b; EIRO, 2008). Another incentive introduced by the Swedish government to increase employment was the reduction in the employment tax by half for employers hiring long-term unemployed persons. In the crisis package announced in December 2008, the administration also focused on creating jobs and education possibilities. To this end, the student grant for people over 25 was profoundly increased to 80 per cent of the total study allowance (EIRO, 2009i), and more was spent on different employment programmes. One of these programmes, *Lyft* ('boost'), consisted of 40,000 temporary job positions in (semi-) public sectors (Swedish Ministry of Finance, 2009b; EIRO, 2009j).

Alongside the activation incentives, the government tried to cushion temporary unemployment by means of expanding its already rather generous passive labour market programmes. The conditions to receive unemployment benefits were relaxed by reducing the qualifying period, and the complete abolishment of the requirement of a work history (Swedish Ministry of Finance, 2008b; EIRO, 2008). To ensure that these welfare programmes could be financed, municipalities received increasing grants of SEK 5 billion per year (€ 520 million), and a supplementary SEK 7 billion (€ 730 million) in 2010 (Swedish

Ministry of Finance, 2008b). Income security was also provided through changes in tax benefits. The in-work tax credit was lowered, whilst the income tax deduction was raised. The lower threshold for state income tax was also raised to increase personal allowance. Combined, these measures entailed a tax reduction of over SEK 1,000 per month (€ 105) for 97 per cent of full-time employees (Swedish Ministry of Finance, 2008b). Additionally, taxes for pensioners with marginal income-based pensions were lowered, which affected up to 90 per cent of the country's pensioners (Swedish Ministry of Finance, 2008b).

Although Sweden was active in stimulating employment whilst providing income security for individuals, it did not directly intervene in the labour market relations to protect jobs and salaries as seen in the German case. The negotiations concerning jobs and terms of employment in Sweden are bipartite and often sectoral (Van Ruysseveldt and Visser, 1996). In these negotiations between social partners, historical agreements have been made in 2008 and 2009. Although comprehensive temporary layoffs were not officially provided as an instrument for employers, social partners have agreed upon agreements concerning temporary dismissals in many sectors to avoid massive redundancies (EIRO, 2009l; 2009m; 2009n). In the manufacturing industry for instance, an agreement was reached in 2009 that salaries and working hours can be cut in case of decrease in orders, in exchange for no or less layoffs, sometimes complemented with training possibilities for employees (EIRO, 2009k). Additionally, agreements have been made at the local level concerning cuts in holiday allowances, bonuses, and wage freeze.

6.5 Comparison of the reactive policy strategies

Our comparison of the reactive policies of Germany, the UK and Sweden shows that there are remarkable differences in their reactive strategies, as is shown in Table 6.1.

Table 6.1 Overview of national social and unemployment policies

	Germany	United Kingdom	Sweden
	(1)	(2)	(3)
Employment policies: activation programmes	State investments in training-on-the-job, job-to-job placements	State investments in mediating for jobs Training possibilities for unemployed, esp. young persons Bonus for employers when recruiting long-term unemployed	Places created for temporary work in (semi-) public sectors Student grant people over 25 increased Employer tax for hiring long-term unemployed decreased
Employment policies: passive programmes	Extension of drawing period for short-time work allowances out of general taxes. State reimburses expenses of employers	Increase in maximum weekly pay to calculate statutory redundancy benefit	Qualifying period reduced, demand of work history dropped for unemployment benefits
Tax cuts/social security contribution cuts	Tax rate first bracket lowered Allowances in personal income tax increased Social security contributions lowered Health insurance contributions lowered	Allowances in personal income tax increased, except for high incomes	First threshold income tax raised In-work tax credit lowered Income tax deduction raised Social security contributions lowered, especially for young people Payroll tax contributions lowered, especially for young people
Pensions, retirement	Partial retirement scheme for older employees, subsidised by state	Marginal non-recursive pension bonus	Tax rate of pensioners lowered
Family policies	Increased child benefit, child allowance, child bonus	Marginal non-recursive child bonus and child allowance	

The German reactive policies can be interpreted as being designed to keep insiders in the labour market to preserve their skills, and provide companies with skill maintenance, through active state interventions. This was done by using short-time unemployment on a massive scale, subsidised by the state, which ensured that insiders, skilled workers, stayed in their specific jobs. This maintenance of jobs and firm- or sectoral-specific skills plays a crucial role in corporatist countries, such as Germany, to keep their competitive advantages in the global market (e.g. Hall and Soskice, 2001). Germany also implemented a phased early retirement scheme for older employees, subsidised by the state. This scheme was designed to make space for new people, without insiders bearing any of the costs. Furthermore, the implemented tax cuts are typically conservative, due to the fact that the cuts, mostly found in health insurance and social benefit contributions, provided relief for employers and already employed, who are the insiders in the labour market. The active crisis labour market programmes were also made to benefit and maintain the insider market, by providing training mostly for workers with employment. Due to this, it has been noted that job losses during the crisis have been seen mostly in the margin, thus the temporary workforce (Eichhorst *et al.*, 2010). In addition, it has been noted that the recovery packages have mostly been aimed towards male-dominated sectors, whilst no national plans were made to prevent a decline in female employment (EIRO, 2010). Overall, Germany's social and unemployment reactive policy strategy shows conservative characteristics, as its strategy has a profound inclination to maintain traditional status relations in labour markets.

The social and unemployment reactive policy strategy of the UK can be largely typified by passively relying on market forces, with a low degree of government intervention and targeted residual social policies leading to low decommodification. The unwillingness of the British government to improve its low supportive unemployment policies led to involvement at the company level to set up agreements concerning reduction of working hours and wages, but it also ended in mass redundancies. The only passive labour market programme implemented was a modest increase in the statutory redundancy pay for medium and high earners, and marginal non-recurrent bonuses targeted to pensioners and families with children. Almost all policies that the UK government did implement can be characterised as demand stimulations, such as a stimulus for employers for new hires and a stimulus for consumers by the VAT decrease. This market system reliance and demand-driven policies, along with its residual welfare state approach can be considered typically liberal, reflecting its past legacies.

The Swedish reaction is exemplified by its strong emphasis on activation, combined with the provision of income security. Sweden stimulated activation in the labour market by cutting income and employment taxes, and by actively creating places for temporary work in the (semi-) public sector to keep a skilled workforce. In addition, it has expanded its already generous income protection programmes for the general public and universal social policies. Whilst the Swedish government was very active in providing income security and stimulating activation, it did not so much directly protect jobs and salaries of employees as the German government did. Therefore, cuts in jobs, working hours and wages have occurred frequently through bipartite sectoral agreements. This approach of Sweden of providing generous universal income protection, and employment via the public sector, whilst focusing on activation can be understood as the typical socio-democratic approach.

6.6 Conclusions and discussion

This article aims to fill the gap in the research on short-term policy responses, by examining the reactive policy strategies of three welfare states, namely Germany, UK and Sweden. Our article shows that even though the crisis presented sudden and severe problems to the economies of all our three country cases, the reactive social and unemployment policy strategies of the three countries are remarkably different. These differences in reactive policy strategies can be understood largely by the different institutional legacies of the three countries as argued by Esping-Andersen (1990). Germany's strategy shows conservative characteristics by maintaining the traditional status relations, as well as focusing on keeping the key skilled male workforce in their jobs. The UK, however, chose a liberal strategy, relying on market forces whilst providing residual policies to targeted groups. Sweden on the other hand adopted strong activation measures combined with generous passive labour market schemes to provide universal income security, which is typically socio-democratic in character. In addition, our study shows that the reactive policies adopted by the national governments were essentially not new, but can be seen as a succession or extension of existing ideas and paradigms from their institutional legacies. Therefore, the degree of policy innovation was limited. In their immediate reactions, our country cases seem to have fallen back on their old habits by using the tools they know best.

As the adopted national reactive policy strategies can be largely explained by the countries' institutional legacy, it suggests that the path dependence theory is applicable to reactive policies. This result is even stronger when we consider the fact that the centre-right cabinet of Sweden used a social democratic strategy, whilst the Labour Party in the UK largely relied on liberal rationales. Still, it is difficult to assess whether the policy responses would be the same when other political affiliations would be in office. Although the UK's response was essentially based on a laissez-faire approach, it has intervened in market forces, for instance by fiscally stimulating employers to hire the long-term unemployed. Perhaps we can see here the leftist inclination, but it could also be due to the fact that the UK is less of a classic liberal example than for instance the USA (Arts and Gelissen, 2002).

In addition, our study suggests that reactive policy strategies are affected by different dynamics than structural long-term policy developments. We do not find evidence for a further process of convergence in reactive policy strategies, whereas a gradual process of retrenchment and employability in structural policy-making has been noted in long-term policy developments of the welfare states under investigation (Dingeldey, 2007). This suggests that countries fall back on their institutional legacy in the first 'fire fighting' phase of social and unemployment crisis management. In addition, our study shows that in the immediate phase, this crisis was not used to implement cutbacks or reforms, as could be expected from agenda-setting theories. Whether this crisis will be used to implement major reforms in a later state, and whether the general process of retrenchment continues then, remains to be seen.

There are some limitations to this study. It should be noted here that because of the strategic most-similar systems design case study with non-representative cases, the generalisability of the study is relatively marginal.

We have compared the archetypical European examples of the different regimes, whereas other scholars have noted that other countries are more difficult to classify using Esping-Andersen's framework (Arts and Gelissen, 2002). It would be interesting to extend this study and look at the crisis response policies of more countries, including more ambiguous cases.

A second downside of the most-similar systems design is the problem of possible extraneous variables. The countries roughly share a number of important characteristics, including their geography, their membership of the EU, and, to a certain extent, the consequences of the financial and economic crisis. Other characteristics differ, including the political affiliation and the economic composition of the three countries. For instance, Germany can be characterised by its manufacturing industry and export-driven economy, whereas the UK has a large global financial sector. Sweden is also an open economy that relies heavily on foreign markets. The differences in economic composition influenced the impact of the crisis on the national economies to a certain extent (Eichhorst *et al.*, 2010). However, we can see that industrial differences do not seem to explain the dissimilarities we find in the reactive social and unemployment policy strategies as well as the path dependence theory of institutional legacies does. In addition, the industrial differences and composition are in some ways integral parts of the legacies of these welfare states, by reflecting their institutional advantages (Hall and Soskice, 2001). In order to assess the influence of the political persuasion, more countries need to be compared. If data are available, it would also be interesting to compare previous crises responses, to see whether the conclusions made in our article can actually be applicable for different crises at different periods of time.