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The Age of Austerity: contesting the ethical basis and financial sustainability of Welfare Reform in Europe

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Abstract

This paper examines the policy of austerity in three European welfare regimes with differing levels of social spending and fiscal balance: Italy, Sweden and the UK. In spite of significant material differences between the three countries, the paper begins by illustrating that there is ultimately convergence in their responses to the economic crisis. These welfare regimes have justified the terms of austerity by suggesting that economic and welfare reforms address questions of 'need', 'fairness' and 'sustainability'. Contrary to dominant political and policy rationale, the paper demonstrates that austerity measures in each country fail to meet policy objectives given their own conceptions of social and distributive justice. The three welfare regimes lack cogent strategies to safeguard their financial sustainability and this results in a neo-liberal paradigm that compromises the ethical and internal coherence of austerity.

Keywords: Austerity; Ethics; Welfare Reform; Sustainability; Europe.

Introduction

This paper examines the austerity measures of three European welfare regimes with differing levels of social spending and fiscal balance: Italy, Sweden and the UK. These countries are facing *distinct* but *integral* domestic shifts and international challenges (Ryner, 1999, Chen *et al*., 2014). Socio-economic globalisation, demographic and familial change, de-industrialisation and the depreciation of labour are pushing the envelope on public budgets and services. As such, a reconsideration of how welfare is financed and delivered is needed. Within this reconsideration, ethical questions raised by austerity have to accommodate socio-economic and political realities, just as a moral economy has to be the starting point from which pragmatic concerns (if distinguishable) are addressed (Hodgson, 1999).

In the first section of this paper, I show that there are significant material differences between the three countries considered, but that there is ultimately convergence in their response to the financial crisis of 2007-08 and the subsequent 'Great Recession' (Jenkins *et al*., 2011). In spite of varying fiscal balance, all three countries have adopted a policy of fiscal consolidation. I demonstrate that alongside this trend, all three welfare regimes are departing from their respective social policy traditions. Through a consideration of the three countries, I show that the economic capabilities of these welfare systems have been shaped in large part by ideological commitments rather than purely economic constraints. Frangakis (2011) suggests that fiscal austerity has captured the political imagination of many European countries and is being used to challenge the capacity and function of the Welfare State. Given this, in understanding the phenomenon of austerity, it is important to recognise the distinction between a scarcity of resources and a scarcity of political will to generate and distribute social goods. As such, use of the term scarcity throughout the paper reflects an appreciation of the multiple ways in which it may occur.

In the second section, I illustrate how the three welfare regimes are employing a sufficiency principle of distributive justice (Frankfurt, 2000) to justify austerity measures. Political administrations have rationalised constrained spending on the grounds that resources are being targeted and cuts are being distributed according to a logic of need. In this regard, I argue that austerity measures are lacking internal coherence and policy instruments are falling short of their own objectives

In the third section, I demonstrate how an ethic of 'fairness' construed as desert-based justice has permeated austerity policy. I then critique the ethicality of welfare contractualism currently exercised; specifically the nature and extent of conditionality currently construed as fairness. I illustrate how this conception of fairness falls down owing to flawed assumptions about the way in which inequalities arise from and beyond individual effort.

In part, the current 'austerity consensus' (Farnsworth and Irving, 2012) flows from a concern about the long-term financial sustainability of welfare regimes. The fourth section of this paper suggests that Italy, Sweden and the UK lack cogent strategies so that the financial viability of their welfare state is threatened, not in spite of, but because of austerity measures. Contrary to dominant political and policy rationale, this paper concludes that economic and welfare reforms in each country fail to meet policy objectives given their own conceptions of social and distributive justice.

Public Debt and Fiscal Consolidation

Italy, Sweden and the UK have traditionally been classified as three different welfare typologies: Familial, Social Democratic and Liberal respectively (Esping-Andersen, 1990). Familial welfare regimes have conventionally focused on family as the primary mechanism of support and unit through which to target social policies. Social Democratic welfare regimes have tended to adopt a principle of universalism whereby entitlements are derived through citizenship status. Liberal welfare regimes are typically characterised as systems of residual means-tested provision. These three welfare regimes, not only differ in terms of their political and philosophical foundations, but also in terms of the socio-economic challenges they face and the reform programmes they pursue. The extent of path dependence for these welfare regimes with regards to their reactive policies is apparent (Chung and Thewissen, 2011). However, this paper focuses on a point of convergence towards which all three are moving to varying degrees: an embedding of a neo-liberal logic in welfare state design and function. Eichhorst and Knowle-Seidle (2008) demonstrate the extent of 'contingent convergence' in activation policies across a number of developed European welfare regimes. As the authors concede, activation policies represent something of a paradigm shift where 'traditional social policies are seen as part of the problem, less as a solution' (Eichhorst and Knowle-Seidle, 2008: p. 7). In identifying commonality in responses to austerity, the differing levels of public spending and fiscal balance become particularly important. By comparing these cases it is possible to establish whether European welfare regimes are departing from their respective social policy traditions due to exigent economic demands or whether a more measured transition is underway informed less by material imperative and more by common ideological commitments. I will now turn to consider the extent to which fiscal balance and economic pragmatism has informed responses to the economic crisis across all three countries.

Between 2007 and 2012, government net debt as a proportion of GDP more than doubled in the UK and increased substantially in Italy. During the same period, Sweden maintained a budget surplus that is set to decrease over the coming years. Beyond 2012, it is estimated that net debt will grow in the UK and Italy, but only slightly in comparison to the sizeable jumps witnessed after the economic crisis. From 2015/16 onwards, projections suggest that net debt will decrease slightly in both countries in line with the rest of the European Union.

Table 1: Government net debt as a % of GDP (estimates after 2012)

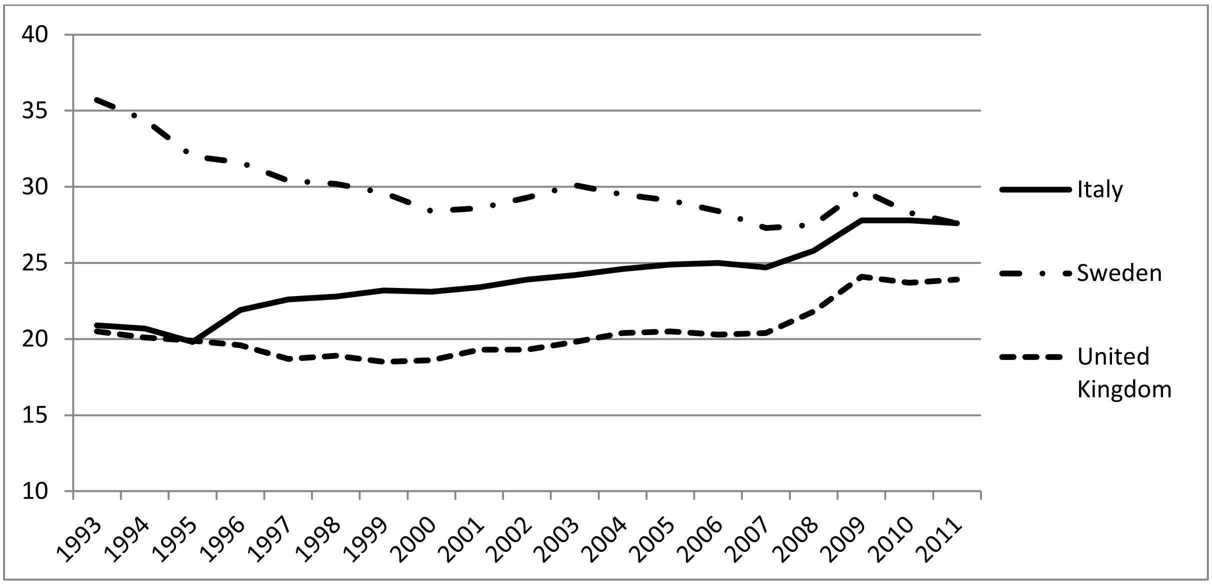
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Italy	87.1	89.3	97.9	100.0	102.6	106.1	110.5	111.2	110.1	108.0	105.4	102.8
Sweden	-17.4	-12.5	-19.5	-20.7	-18.2	-21.2	-19.4	-17.2	-15.9	-15.0	-14.7	-14.7
UK	38.4	48.0	62.4	72.2	76.8	81.6	84.8	88.0	90.6	91.2	90.9	89.4
EU	46.0	49.3	58.2	62.0	64.8	68.5	71.0	71.9	72.3	71.7	70.9	69.7

Source: IMF (2013)

There is some disagreement as to the cause and consequence of public sector debt. Analysis suggests that the higher costs of interest on sovereign loans are increasing the budget deficit and stifling the recovery of the Italian economy (Guajardo *et al*., 2011). In the UK, the two primary drivers of a growing debt-to-GDP ratio are the costs associated with financial sector support and revenue losses from reduced outputs (Frangakis, 2011). A review of fiscal consolidation measures in 17 OECD countries over the period 1978-2009 also shows that public sector debt levels are pushed up by a collapse in tax revenues and bank bailouts (Ball *et al*., 2013). This process of making private debt public debt (Reinhart and Rogoff, 2009), runs counter to the dominant notion that welfare profligacy has caused a series of structural deficits.

The history of public social expenditure across the three cases varies (OECD, 2012). From the mid-1990s to 2007, public social expenditure grew steadily in the UK and Italy. In contrast, expenditure fell substantially in Sweden but still remained high. Following its own financial crisis in the mid-1990s, Sweden underwent a series of macro-economic reforms that re-shaped the productivity and industry base of the country. Sweden also introduced a number of safeguards from the credit crisis they suffered in 1993 including guaranteed independence of the Swedish central bank, stronger monetary policy, and targets for inflation and public finance.

Figure 1: Public social expenditure as a proportion of GDP, 1990 to 2011



Source: OECD (2012)

Since 2009, all three countries have pursued their respective programmes of austerity with varying levels of success. Initial jumps in public social spending following the economic crisis have since been tempered or reversed. Already on a path to fiscal consolidation, Sweden's efforts can be seen as a continuation of their activities since the 1990s. Despite substantial privatisation and liberalisation of major industries, Italy is still faced with low productivity, low growth, high labour costs and high unemployment (OECD, 2014). Silvio Berlusconi, Mario Monti, Enrico Letta, and Matteo Renzi all announced incrementally more ambitious savings packages. A series of cuts to social expenditure have coincided with minor efforts to generate government revenue by tackling tax avoidance and raising the top rate of taxation and state pension age. The UK Conservative-Liberal Democrat Coalition government has also attempted to raise tax revenue through such instruments, but there has also been a reduction in the top rate of income tax, a reduced main rate of corporation tax and a rise in the personal income allowance (Theodoropoulou and Watt, 2011). These policies have disproportionately benefited households in the middle and at the top of the income distribution. The distributional effects of raising the personal income allowance are notably regressive (Browne, 2012). The majority of the UK's efforts have been focused on cuts to public social expenditure, particularly social security payments. Overall then, the response from political administrations across the three countries has been one of fiscal consolidation rather than accumulation: namely an 'austerity consensus' (Farnsworth and Irving, 2012). The economic crisis has precipitated restrained government revenue and social spending. By all accounts, the three countries are making efforts to move towards a quantitatively smaller Welfare State. Alongside this trend, New Public Management prevails in certain policy domains. Quasi-marketization, target-driven policy objectives and increased regulation of welfare professionals and recipients has increased state activity in some areas to 'cut waste' and 'increase efficiency and innovation' (Banks, 2011).

It may reasonably be thought that austerity arises exclusively from economic constraints. There seem to be at least two possibilities here. The first is that if welfare regimes live beyond the remit that their tax revenues allow, austerity will necessarily follow. However, Sweden currently experiences a budget surplus that actually increased following the implementation of austerity. This shows, at least in the case of Sweden, austerity is not always informed by an economic imperative to create fiscal balance. The second possibility is that austerity is necessary and good for growth in the current economic climate. Again, Sweden has continued to pursue fiscal consolidation since 1993 despite substantial economic growth. Indeed, analysis suggests that austerity stifles rather than promotes economic growth (Blanchard and Leigh, 2013). Whilst a confluence of factors undoubtedly play a role in driving the 'austerity consensus', the analysis in this section suggests that it is not exclusively driven by economic constraints. Given the aforementioned means by which austerity has been implemented across all three countries, it is reasonable to conclude that some common ideological commitments have informed responses to the economic crisis. Having established this, I now turn to examine the internal coherence of austerity measures purportedly taken to distribute resources and cuts according to a principle of need.

'Targeted' Austerity?

Since 2007, political administrations pursuing fiscal consolidation have justified tax-benefit austerity measures by maintaining that (a) constrained public resources are being directed where they are most needed; and (b) 'those with the broadest shoulders should bear the greatest load' (Jolly, 2011). Ronald Dworkin (1988) suggests that an ethically sound distribution of resources occurs when individuals are recognised as equal in terms of their moral status and right to respect. The current 'austerity consensus' engenders a rather different approach to meeting human need based on the sufficiency principle: that is, rather than an equalisation of welfare, the relief of greatest suffering is the most ethically binding principle of distributive justice (Frankfurt, 2000). Within this framework, those closest to or below the poverty line have the greatest moral claim to scarce social goods and resources. Accordingly, the state and its citizenry have a moral responsibility to fulfil the needs of those who run the greatest risk of not having them met. This line of argument is inherently in conflict with desert-based notions of justice advocated across Italy, Sweden and the UK. However, distributive justice takes many forms and inevitably welfare regimes draw upon competing principles and interests to inform public service design and provision. In the UK, the Coalition Government has committed to distributing spending and cuts in such a way that 'money goes to the people who need it most' (Cameron, 2011). Similarly, Italy and Sweden have promised to design an austerity system 'that limits the recessionary effects, [by] supporting the needy' (Letta, 2013, Lorentzen *et al.*, 2012, p.48). From this, it is clear that the sufficiency principle has proven pervasive in political rhetoric across all three countries.

In order to realise this, welfare regimes would have to effectively target resources towards those most in need of them and target cuts towards those most able to bear them. By assessing the distributional effects of fiscal consolidation it is possible to establish whether the three countries in question have fulfilled this policy ambition. Inevitably, this is difficult on the shifting sands of social and economic reform in Europe. Nevertheless a number of studies have attempted to explore how tax-benefit austerity measures have affected different groups across the income distribution. In the case of Sweden, analysis suggests that policy responses and outcomes differ between the economic difficulties of 1993 and the more recent economic downturn. Tax-benefit measures during the 1990s protected those on the lowest incomes, whereas in the late 2000's, state intervention has been less effective. Real disposable household income decreased for those at the bottom of the income distribution between 2007 and 2009 whilst the income of those at the top grew (Björklund and Jäntti, 2011). Lower social security entitlement and declining tax progressivity can be seen as primarily responsible for rising poverty and income inequality in this instance. Whilst some claim that Sweden is following its institutional legacy (Chung and Thewissen, 2011), there has been an ostensible shift: from universalism to earnings-related and means-tested social assistance accompanied by 'various cutbacks and policy changes aimed at reducing costs by implementing more restrictive criteria [of entitlement]' (Lorentzen *et al.*, 2012, p. 48). Between 1991 and 2010, the poverty rate (proportion below 60% of median income) after taxes and transfers rose from 8.7% to 17.4% (OECD, 2013a). The majority of this rise occurred following the 'Great Recession'. Whilst levels of income protection remain high by international standards, the government do not appear to have followed their espoused sufficiency principle within the context of structural recessionary and austerity effects.

According to recent research (Avram *et al.*, 2013) fiscal consolidation efforts have proven 'progressive' in Italy and the UK, as higher income groups are losing a greater proportion of their income compared to lower income groups. The slope of progressivity is incremental in Italy. Whereas in the UK, there is a significant increase in the relative proportion of income lost by those at the top of the income distribution and this effect is largely skewed towards the top 1% of earners. However, given the exponential growth in income of the top 1% of earners in recent years, these effects are not sufficiently progressive to counter the resultant increases in poverty and income inequality. Beyond this, only benefit-tax measures from 2009 to 2012 are simulated in Avram *et al.*'s research (2013). In the UK, the overall progressive effects observed were due to a 50% top rate of taxation implemented prior to the UK Coalition government. However, in 2013 the top rate of tax was cut to 45%, effectively halving the progressive effects of tax-benefit measures in the UK.

Between 2008 and 2010, poverty increased in Italy and decreased slightly in the UK (OECD, 2013a). At least in the case of the UK, we may cursorily conclude that austerity measures taken are abiding by the sufficiency principle. However, consolidation measures inclusive of those proposed up until 2015 in the UK show austerity measures proposed and those already implemented to be highly regressive (Brewer *et al.*, 2011). Looking at the UK Coalition's own account of the distributional effects of their policies spanning from 2010 to 2015, fiscal consolidation appears to hit the two extreme ends of the income distribution hardest (Treasury, 2013). Importantly though, as a proportion of net income, the top income decile group loses only 0.1% more of their household income as compared to the bottom decile group. Perhaps most noteworthy, is that those in the middle of the income distribution are net beneficiaries of direct taxation measures (Treasury, 2013). In Italy, cuts to relatively generous public sector pay have had the most progressive effect on fiscal consolidation measures, but significant social spending cuts of €20 billion in 2013 and €40 billion in 2014 are likely to counteract this (Brandolini *et al.*, 2011). Micro-simulation of forthcoming tax-benefit fiscal consolidation measures reveal 'targeted austerity' to be discernibly regressive in Italy with the real income of those already below the poverty line significantly reduced (Baldini, 2011). Avram *et al.* (2013) also modelled the counterfactual i.e. how pre-fiscal consolidation benefit-tax measures fare in terms of progressivity in comparison to the measures put in place between 2009 to 2012. The effects are less progressive in Italy and neutral in the UK. In other words, fiscal consolidation measures have cut household incomes and in no more a progressive way than would have been the case prior to the implementation of the measures. Given the real term reduction in incomes of people already below the poverty line it appears as though the sufficiency principle is not being met in the UK or Italy in spite of seemingly progressive fiscal consolidation measures. Against the backdrop of these distributional effects, macro-economic reforms, labour market dynamics, the rising cost of living and cuts to public services are likely to increase poverty in the coming years.

A potential counter-argument to criticisms of fiscal austerity, may be that consolidation measures result in a 'trickle-down' effect that can then come to fulfil the sufficiency principle in the long-term. However, a review of previous and current fiscal consolidation policy suggests that measures taken lead to a significant increase in the extent of poverty and income inequality in the short-term but also have a cumulative effect over time (Ball et al., 2013). As such, it is difficult to reconcile the empirical evidence with the political rhetoric that austerity measures taken are fulfilling the sufficiency principle of distributive justice. The distribution of resources and cuts is not informed by 'whether individuals have enough not to fall below some critical threshold of advantage' (Casal, 2007, p. 297) and the 'austerity consensus' is therefore lacking in internal coherence according to its own logic.

'Fair' Austerity?

The common ideological commitments informing fiscal consolidation have proven pervasive in shaping welfare provision and reforms across all three countries. Since 2007, a drift towards the political right has nurtured greater individualism in the ideals and praxis of social citizenship across

Europe. The constituent features of many welfare regimes have come to centre on a contractarian understanding of fairness. Within this framework, individual fulfilment of duties, primarily in the form of economic contribution, is understood as a stake in the finite resources available for welfare activity. Rather than provision for the common good, this is of benefit to the individual and the best means through which to secure particularised welfare. By implication, individuals are made accountable for their actions by withdrawal of entitlement if behaviour defined as responsible does not accompany it (Orton, 2004). A principle of exchange then for 'consumer citizens' amounts to a principle of fairness: if an individual has put into the system then they are entitled to get something out. This 'creeping conditionality' transforms citizenship entitlements into provisional goods accorded by prescribed forms of contribution and behaviour (Dwyer, 2004).

This approach was well-established prior to the 'Great Recession' (Jenkins *et al.*, 2011). However, in previous periods of elevated unemployment, political administrations have tended to soften the practice (if not the logic) of welfare contractualism. Since 2007, welfare profligacy has repeatedly been cited as a cause and consequence of public sector debt. This has intensified the dominant political rationale that endorses conditionality on the grounds of fairness: 'giving people what they deserve' (Cameron, 2011). To a great extent, the conceptions of 'fairness' and 'need' employed by the three political administrations in question conflict with one another. Resources accorded on a principle of desert, may well not be distributed towards those who most need them and vice versa. Nevertheless, a series of welfare reforms across all three countries is restricting eligibility to unemployment benefit and increasing sanctions to sharpen the focus on the responsibilities of social citizenship.

The UK government has committed to and undertaken a broad range of welfare reforms to activate people into paid employment (Cameron, 2011). As a result, securing a minimum of social security assistance is increasingly contingent on preparation to enter or engagement in the paid labour market. Since 2008, a new conditionality and sanctions regime has gradually been implemented. This has increased the work-related conditions attached to benefit receipt and increased the duration and extent of sanctions applied to those failing to fulfil work-related obligations (SSAC, 2012). These changes can be seen as the most explicit move yet to encourage and, at times compel, benefit claimants to move closer towards paid employment. In addition, the phased implementation of Universal Credit is set to introduce 'changes to the existing conditionality regime to strengthen the link between people receiving benefits and meeting their responsibilities' (SSAC, 2012: 4). Prime Minister of Sweden, Fredrik Reinfeldt, has stated his ambition to transform Sweden 'from being a high-tax society to a society that encourages work and entrepreneurship' (Reinfeldt, 2011). In many respects, paid work has always been central to Swedish policy instruments. However, a range of activation measures have been introduced in the Social Democratic case to increase work-related obligations on groups claiming social assistance (Scarpa, 2009). For example, the maximum duration of entitlement to benefits (300 days) can now only be extended for those qualifying claimants that participate in activation schemes (Sjöberg, 2011). Drastically reduced benefit entitlements through more restrictive criteria reflect the 'work-first principle' promoted in Sweden (Lorentzen *et al.*, 2012). Whilst activation policies have been harder to implement in Italy given the already meagre coverage and level of unemployment benefits (Fargion, 2013), recent proposals to squeeze and close off entitlements have been announced, and to some extent demanded by the international community. A notable departure from this is Matteo Renzi's most recent proposal to extend the period of eligibility for unemployment benefit. Nevertheless, localised activation policies have denigrated the autonomy of those without sufficient earnings or employment history to qualify for work-based social protection schemes (Jessoula, *et al.*, 2010).

Following the financial crisis then, welfare reforms worked from a principle of 'fairness' understood as desert-based justice. This approach prompts normative questions about the ethicality of welfare reforms, which I now turn to consider. I will illustrate that the current conception of 'fairness' exercised lacks ethical legitimacy for the following reasons: firstly, it fails to acknowledge and account for how an unequal distribution of resources arises (justly or otherwise); and secondly, it assumes certain conditions are met by the state when implementing and enforcing welfare contractualism.

Whilst John Rawls (2001) conceives of justice in very different terms to the political administrations of the three countries in question, his theory of Justice as Fairness offers some normative insight to evaluate some of the underlying assumptions informing desert-based conceptions of justice. Rawls (2001) argues that an unequal distribution of finite resources can justly flow from individual effort. However, Rawls argues that a number of conditions must be met in order for Justice as Fairness to be ethically legitimate. Without these conditions, Rawls believes that desert-based notions of justice are inherently problematic. The most basic condition is the 'liberty principle': that 'each person has the same indefeasible claim to a fully adequate scheme of equal basic liberties, which scheme is compatible with the same scheme of liberties for all' (Rawls, 2001: 42). Namely, basic liberties are inalienable and cannot be traded in return for other rights accrued from the second principle. The second 'difference principle' stipulates that socio-economic inequalities are just if equality of opportunity prevails and if inequalities arising benefit the least advantaged members of society. The extent to which this conception of Justice as Fairness is practicable or indeed desirable is contested (Ramsay, 1997). Nonetheless, it offers a useful lens through which to critique the ethicality of welfare reforms.

Within the context of austerity, desert-based welfare contractualism compromises the conditions of Justice as Fairness in a number of respects. Firstly, inequalities arising from such welfare reforms have vitiated the material well-being of the most vulnerable (least advantaged) groups in Europe (Eißel, 2014). As illustrated in the previous section, the three governments in question have failed to distribute resources and cuts according to principle of sufficiency and this compromises the 'difference principle'. Secondly, Amartya Sen (1999) demonstrates that individual capacity to participate democratically is contingent on sufficient social protection and material security. The 'liberty principle' then is jeopardised because welfare reforms damage the 'critical autonomy' needs (Doyal and Gough, 1991) of those experiencing poverty and the extent to which they are able to engage in the political process. In some instances, people are also trading their basic liberties in return for a residuum of social assistance – cuts to legal aid, increased sanctions and enforced work obligations are endangering the inalienability of basic liberties (CAB, 2013). Finally, it is well established that the unequal distribution of resources (through institutional means or individual effort) is still significantly determined by social structures beyond the control of individuals (Granovetter, 2005). In this respect, equality of opportunity is not being fully realised. In summary, welfare regimes undertaking a contractarian interpretation of 'fair austerity' are failing to fulfil the conditions that could proffer credibility or coherence within a Rawlsian framework of justice. Rawls' reasoning is grounded in a consideration of how inequalities (just or otherwise) may arise as a result of factors beyond individual effort. For desert-based welfare contractualism, the locus of attention and responsibility is principally on the individual. As such, it is grounded neither in empirical realities nor principles of fairness that might give rise to just inequalities.

Similarly, Stuart White (2000) challenges the legitimacy of conditionality in both theory and in practice. White (2000) suggests that 'moves in the direction of welfare contractualism are just to the extent that they form part of a broader package of policies that together work to satisfy the conditions of fair reciprocity' (White, 2000, p. 521). Accordingly, conditionality is only ethically permissible when targeted groups are provided with 'a sufficiently generous share of the social product' (White, 2003, p. 17). Those without this *Civic Minimum* 'have a proportionately reduced obligation to contribute' (White, 2003, p. 91) to society. In other words, increased welfare contractualism and conditionality can only justly exist alongside the fulfilment of and commitment to social and economic rights for all citizens. Cuts to welfare entitlements compromise the ethicality of conditionality. Without certain conditions being met by the state, many of the welfare reforms pursued are based on a false understanding of how welfare contractualism can be justly and effectively realised. As illustrated in the previous section, these conditions are not being met and in many respects political administrations are defaulting on their responsibilities to the European citizenry.

The self-defeating logic of austerity?

Thus far, this paper has examined the internal coherence of 'targeted austerity' according to the sufficiency principle and the ethicality of desert-based notions of 'fair austerity'. In relation to these two aspects of austerity, I will now illustrate that the long-term financial viability of the welfare state is threatened, not in spite of, but because of austerity measures.

The regressive distributional effects of fiscal consolidation reveal an inherent incompatibility between austerity outcomes and any long-term goals to tackle poverty and inequality. Owing to a scarcity of resources, difficult distributional decisions have to be made. It would appear though that policy choices and outcomes have not been made in the interest of fiscal balance. The distribution of scarce resources, tax cuts and rises has, in many instances, protected households most capable of weathering a reduction in real income. This places an increased burden on public finances that in no way reflects a commitment to addressing poverty and inequality. Ultimately, this undermines the logic and impetus of austerity that dictates how scarce resources should be efficaciously targeted. To this end, austerity measures are self-defeating. The UK Office for Budget Responsibility states that: 'on current policy we would expect the budget deficit to widen sufficiently over the long term to put public sector net debt on a continuously rising trajectory as a share of national income. This would clearly be unsustainable' (OBR, 2013, p. 12). Given its revenue structure and social security arbitration, the same could also be said of Italy. As previously stated, austerity has been justified based on the argument that welfare profligacy is a cause and consequence of public sector debt. It would appear though, that 'targeted' austerity (or indeed, a lack thereof) has itself compromised the legitimacy of the austerity paradigm.

Welfare reforms informed by a principle of desert also undermine the coherence of austerity strategies. Increased welfare contractualism has promulgated a 'work-biased construction of citizenship responsibilities' (Lister, 2001, p. 107). However, policy responses to the economic crisis have failed to incorporate the responsibilities of employers into the austerity dialectic. Economic reforms have been framed as a matter of necessity: a means by which to ensure the market recovers and functions effectively. This message is as strong in Sweden as it is in Italy and the UK. Reduced corporation tax and poor tax regulations are narrowing tax bases across Europe to attract and ensure a competitive market-based economy (OECD, 2013b). State responses have moderated labour market regulatory processes to 'kick start the economy'. Sweden and Italy have dismantled a great deal of collective bargaining power which has led to a two-tiered system of employment with a sub-stratum of precarious workers. Italy has been actively encouraged to depreciate the cost of labour to attract foreign direct investment and the real-term value of the national minimum wage in the UK has been falling since 2007. Alongside this, reduced collective bargaining power has weakened pre-distribution mechanisms. Consequently, European welfare states are faced with an increasing fiscal commitment to the working poor. A rising proportion of social security expenditure now goes towards in-work Tax Credits in Sweden and the UK. Whilst a necessary tool to tackle working poverty, in-work Tax Credits ultimately provide a labour subsidy to employers. Despite variation between 2007 and 2012, working poverty has increased in Sweden and the UK and grown substantially in Italy (Eurostat, 2014). As noted by Spannagel (2013), there are many factors that affect the prevalence and growth of working poverty. A significant cause though, is the institutional and regulatory arrangements shaping the quality and quantity of work. Without capacity and willingness to strengthen pre-distribution mechanisms, welfare regimes are encumbered by increasing fiscal commitments to both those inside and outside the labour market. White (2003, p. 78) suggests that the 'institutions governing economic life' extend well beyond the Welfare State. Without recognising this in the implementation of welfare contractualism, austerity measures are rendered incongruous with policy ambitions for fiscal balance. Whitworth and Griggs (2013) contest the extent to which welfare to work conditionality is necessary, just or effective in the UK. In many respects, it is possible to conclude that the austerity imperative informing welfare contractualism also lacks internal and ethical coherence at the European level.

Conclusion

In many respects, social policy developments in the three cases can be seen as a continuation and consolidation of efforts to protect the primacy and freedom of market competition. As illustrated, this is very often at the expense of poverty prevention, alleviation and financial sustainability. As acknowledged by the Prime Minister of Sweden: ‘our crisis management did not involve new policies but strengthening what we considered to be good policies for Sweden’ (Reinfeldt, 2011). The same can and has been said of Italy and the UK. Yet, it appears a neo-liberal doctrine has shaped understandings of ‘good policy’ in many instances across Europe. Political administrations have not only failed to justly realise a conception of ‘fairness’ and sufficiently target resources according to a principle of need, they have also jeopardised fiscal balance. Research on past and current financial economic crises shows that fiscal consolidation measures neither boost economic growth nor increase employment (Guajardo *et al*., 2011). This age of austerity then is part of a broader trend that embeds libertarian concerns for social justice with the primacy of economic competition in welfare discourse, governance and financing.

Reflecting on this, perhaps the logic of austerity is not necessarily self-defeating. Political administrations are making efforts to move towards a very different sort of welfare typology: one that embraces the current distributional effects and conceptual underpinnings of austerity. In this typology, the effects of austerity are seen as a necessary means by which to introduce market principles into the public services sphere. In terms of sustainability then, austerity does not necessarily compromise the viability of welfare states generally, but rather the viability of welfare states grounded in a social democratic ethic.

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