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Path dependency and convergence of three worlds of welfare policy during the Great Recession: UK, Germany and Sweden

Abstract

This paper investigates policy responses to the Great Recession in Sweden, the United Kingdom, and Germany. Faced with the global financial crisis in 2007, responses in the respective countries differed considerably and followed the “old” paths of their institutional legacies. We focus on labour market and social welfare policies and demonstrate how these differing responses were shaped by path dependent ideational paradigms. Since these paradigms are first and foremost carried by policy communities, the analysis does not, in contrast to prior studies, only rely on policy documents but outlines the process as seen from the perspective of key public officials and experts in the respective fields. The paper shows how the crisis was perceived and which kinds of arguments were used for explaining the liberal (UK), conservative (Germany) and social-democratic (Sweden) responses to crisis.

Key words: welfare state, policy change, economic crisis, labour policy, path dependency, convergence

Introduction

Much 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 (Armingeon 2012; Chung & Thewissen, 2011; Kersbergen et al., 2014; Pontusson & Raess, 2012; Jónsson & Stefánsson 2013; Streeck & Schäfer 2013). Such a focus on measurable overall outcomes is important for

better understanding political trends in times of crisis. However, researchers have also turned to more nuanced and contextually-informed accounts seeking to make sense of strategies of crisis response and policy change (Armingeon 2012; Armingeon et al. 2015; Farnsworth & Irving 2015; van Hooren et al., 2014; Shahidi 2015, Starke et al. 2014, Starke et al. 2013; Taylor-Gooby 2013). We aim to add to this field in welfare studies and crisis response by examining country-specific understandings of the crisis and the concomitant response from the perspective of key public officials and experts from the field of labour and social policies in three Northern European countries: Germany, Sweden, and the UK. These countries have been the object of intensive scrutiny on a variety of topics (e.g. Béland et al 2014; Kammer 2012; Oesch 2006; Pontusson & Raess 2012; Thelen 2014) as they have often been taken to approximate the ideal typical welfare state regimes as defined by Esping-Andersen (1990; cf. Emmenegger et al. 2015): conservative, social democratic and liberal, respectively. The pressures on these three countries due to the crisis, although moderate compared to several Southern European states, were rather similar at first. However, the shape and form of crisis response differed significantly across the three cases. For example, Chung and Thewissen (2011, cf. Lallement 2011) suggested that short-term reactions to the Great Recession in these countries followed the well-known path defined by their institutional legacies. In the UK the crisis prompted severe cuts in benefits and public expenditure on welfare services. In Sweden significant cuts in welfare benefits were initiated before the crisis but were moderated, and in some instances reversed, in response to the crisis. Germany on the contrary responded by triggering its well-institutionalized support for its heavy industry but also pursued limited austerity. Against this description, other commentators, for example Shahidi (2015), claim that post-crisis changes to labour market policies in these three (and other) advanced welfare states did not follow the “old” paths, arguing that the variations are better explained by economic and fiscal conditions. Among others, Hermann (2014) argues that the hegemony of

neoliberal ideology in Europe is inflicting convergent crisis responses across countries (cf. Farnsworth & Irving 2012) and different welfare regime types.

We propose that some disagreements in prior studies of crisis response are related to the empirical approaches focusing on policy documents and macroeconomic data which do not show in detail how path dependent pressures have played out in practice and shaped responses to the crisis. We contribute to the discussion by offering insights in how the normative legacies of these three ideational regimes enable and constrain particular labour and social reforms. Our investigation draws on interviews with more than 50 key public officials and experts in fields of labour market policy and social welfare policy.¹ The interviews provide us with internal observations, understandings, and professional experiences of the crisis which enables us to better contextualize policy changes. Combined with the analysis of policy documents, these narratives show how ideational legacies and paradigmatic understandings shape policymaking in times of crisis. This approach not only provides a more complete picture of the crisis response in these countries, but, by highlighting the dominant narratives within the policy domain, better identifies the mechanisms behind outcomes of path dependency or convergence.

Path dependency, convergence and the European welfare state after the crisis

Recent research on reactions to economic crisis in European welfare states focuses mainly on social policy legislation and general macroeconomic evaluations of crisis. The common argument is that in many countries incremental crisis responses and the absence of

¹ The empirical material for this article was 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 available in a form of two deliverables of the project. See project's website:

<http://www.livewhat.unige.ch/>

fundamental changes are the result of path dependencies shaping policymaking (Chung & Thewissen, 2011; Kersbergen et al., 2014; Lallement 2011; Pontusson & Raess, 2012, van Hooren et al., 2014). Apart from the fact that large-scale organizations and redistributive institutional arrangements are difficult and costly to reform, there are also ideational components that create path dependent pressures. From this perspective “[i]nstitutions frame the discourse, defining repertoires of more or less acceptable (and expectable) discursive interactions” (Schmidt, 2003, p. 319). This further contributes to the ‘stickiness’ of institutionalised practices, routines, and policies (Pierson, 2000). Institutions make up the framework of possibilities and constraints in which actors pursue their preferences. Policymakers act within policy paradigms which are expected to structure their crisis responses. As Immergut and Anderson (2008, p. 358) stated:

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.

This lack of ideational change has been illustrated in the way that coordinated market economies, such as Belgium, Germany, the Netherlands, Poland and Sweden, reacted to the economic crisis with extended unemployment benefits and short term work schemes. Within this group, reactions differed between conservative regimes securing employment (e.g. Germany) and social democratic responses adjusting benefits for the unemployed (Sweden). In comparison, economies such as Spain, Ireland, Greece, Portugal and, in particular the UK, reacted with ‘liberal’ policies (Lallement 2011; Tridico, 2012). From this perspective the

crisis response of recent years has not required any overall ideological or policy paradigm change. Governments aimed to first and foremost restore stability, not change existing and institutionalised procedures and rules (van Hooren et al., 2014). This meant that policymakers in Europe “generally used arrangements or schemes already in place prior to the crisis, extending or more actively supporting them” (Vaughan-Whitehead, 2011 p. 25). In other words, path departure is very unlikely and “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). Findings of incremental change in the form of layering, drift, conversion, displacement, and exhaustion (Streeck & Thelen 2005), rather than comprehensive institutional change, are therefore to be expected (Mayntz 2012, cf. Starke et al. 2013).

While we agree that path-dependent pressures were important in shaping the response to the crisis in many European countries, prior studies have not explained well how such dependencies played out in practice. This general lack of clarity, with little focus on mechanisms which explain the path dependent processes, can at times even muddle the differences between path dependency arguments and arguments for policy convergence across regimes.

This also results in uncertainties regarding to what extent these conclusions are really competing, or, rather speaking to different levels of analysis. For instance, it has been shown that pre-crisis trends of welfare state retrenchment continued through the crisis years but also that these developments have been more or less consistent across welfare state regimes (Elsässer et al. 2015). Similarly, Fehmel (2012, p. 54) argues 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”. Evidence of convergence is found in general and it is argued that reactions, despite some variations across regimes, followed one

overarching paradigm (Preunkert 2015), namely neoliberal policy prescriptions (Hermann 2011; Farnsworth & Irving 2015). Thus, while these researchers highlight the presence of convergence around a general model or paradigm they also rely on the notion that this paradigm has remained stable throughout the crisis (Crouch 2011; Schmidt & Thatcher 2013).

While these indications of convergence cannot be ignored they do not necessarily serve as basis for making competing claims with those who have pointed to path dependencies. The differences might concern competing claims regarding the level at which path dependencies work. For instance, while states, not least EU Member States (cf. Holzinger & Knill 2005), converge around a common general paradigm, this paradigm is in itself associated with a high degree of path dependency. Even if we accept that European welfare states are generally converging around a common paradigmatic model, also affecting their crisis response, there are still numerous instances where path dependencies produce specific effects within a broader framework of convergence.

We argue that examining the narratives of crisis and the ways in which responses to crisis are perceived by key political actors helps us to better understand how the processes of path dependency and convergence might take place at different levels. The three cases chosen for analysis demonstrate the aforementioned dynamics as the respective welfare regimes in Sweden, Germany and the UK have arguably become less distinctive during the last 30 years (Holzinger & Knill 2005). However, their varied responses to the Great Recession (Chung & Thewissen, 2011) indicate that there are still non-negligible differences between them (Lallement 2011). Focusing on macro-economic indicators or policy documentation is not enough for describing these dynamics: we need additional information from those in the policymaking process which shows how the chosen responses to crisis relate to different aspects of institutional legacies and social norms. In particular, we hypothesize that policy makers argue along the lines of their respective welfare regime when commenting,

interpreting and describing reactions to the crisis. Signifying the paradigms and welfare regimes they stand for, these interpretations and framings are core to the question of how path dependency works (Béland & Cox 2010). How bureaucrats, policy makers, and advocates perceived and framed the crisis is key as they shape action plans, advise politicians, and embody institutional (and ideational) stickiness.

Case selection, method and data

Our investigation builds on a systematic analysis of changes in labour market policy and social welfare policies in three countries which represent different ideal-types of welfare regimes (Esping-Anderson 1990; Arts & Gelissen 2002). Although conservative Germany, liberal United Kingdom and social-democratic Sweden are all members of the European Union and faced the same Great Recession since 2007, they carry significantly different institutional legacies. The cases are partly selected because prior studies, especially Chung and Thewissen (2011), provide detailed description of policy reforms in these countries and have shown that at least in the case of initial crisis response the changes followed the path defined by their institutional legacy. We can thus go one step further here and investigate the ideas behind this and whether it is really appropriate to describe the result as path dependent. The selected countries were affected by the crisis less than South European countries, but as shown in Figure 1, they still jointly experienced significant decline in economic growth in 2009. Other figures such as economic strain or unemployment rate followed different patterns however, arguably due to the national economic composition and institutional legacies.

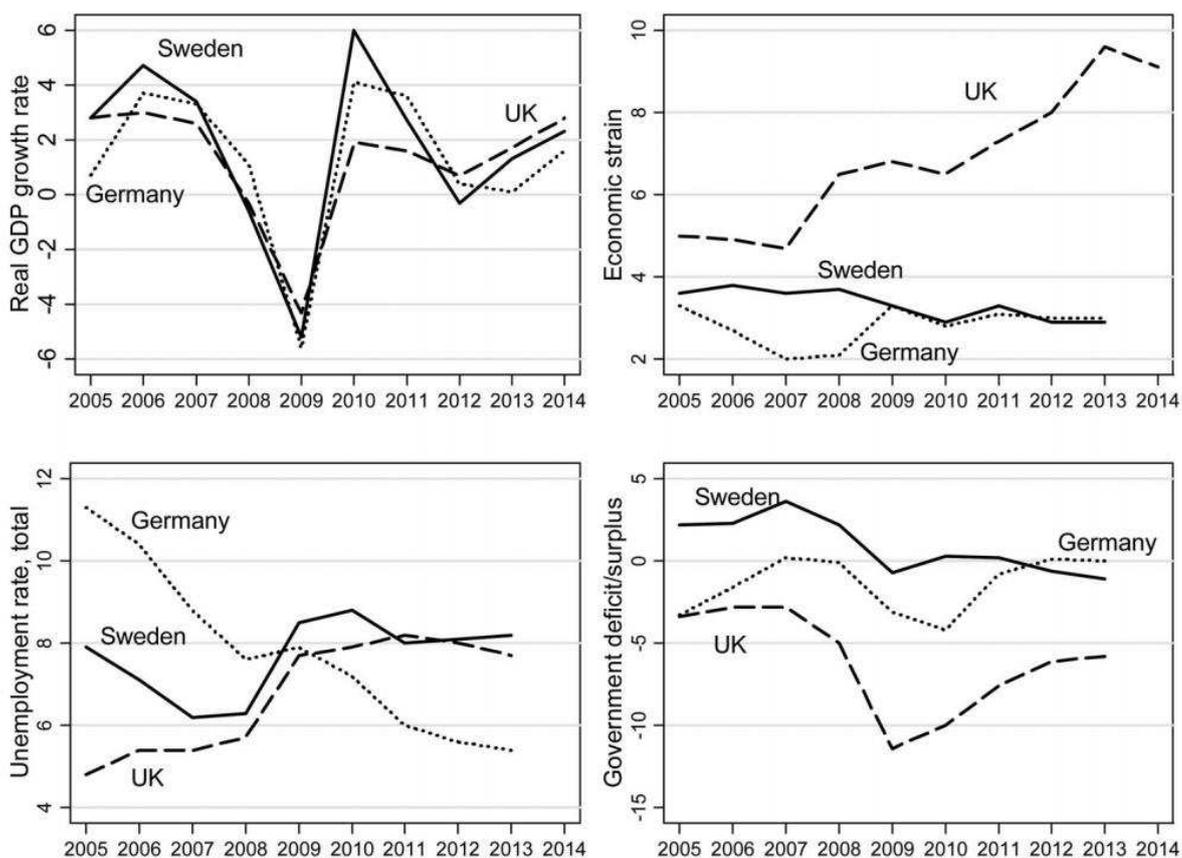


Figure 1. Selected economic indicators in Sweden, the UK and Germany 2005–2014.
 Source: Eurostat 2015.

Our analysis also considers social welfare and labour market reforms before the crisis because, obviously, one cannot fully understand the reaction to crisis without knowing, for example, the initial level of welfare generosity or labour market policies. We aim to provide qualitative description of crisis response (cf. Starke et al. 2014), and information for the analysis is obtained from the careful reading of original policy documents, as well as semi-structured interviews with over 50 key policy experts and bureaucrats from all three countries. Respondents were selected depending on their expertise within the fields of labour market and welfare policies, if they held positions during the crisis, and we concentrated on public officials and policy advocates rather than politicians in order to investigate the actual relevance of worldviews and institutional legacy within administrations, not only on the political-programmatic level. The idea behind this is that bureaucrats, policy advisers,

advocates, and administrators form discursive communities and policy advocacy networks (Sabatier 1988; Bressers & O'Toole 1998) that resemble the ideational foundation of what we observe as path dependent policy reactions. By concentrating on government officials and advocates we complement studies focusing on the political sphere (e.g. Armingeon et al. 2015) and emphasize the diffusion of respective paradigms within policy networks.

Interviews were used both to put policy changes in their proper context, but also, crucially, to ascertain to what degree changes had been associated with the crisis and in which way. We do not aim to provide any generalizable picture of the process of crisis response, but offer a more contextually informed account of what prompted specific ways of responding to the crisis in these particular countries, well known for their stickiness of welfare institutions. Interviews with Swedish respondents are marked with SE and the respective interview number, for Germany we use DE and for the UK case UK.²

Sweden: a social democratic response to crisis?

Compared to many other European countries, the crisis had very moderate effects in Sweden. In its early stages, however there was a great deal of uncertainty in the Swedish government regarding how and to what extent the crisis would affect the Swedish economy. At this point government officials, in particular those responsible for finance, entertained a range of different scenarios, including ones of a complete financial and economic collapse. As one respondent stated in characterizing early perceptions of the crisis: *'Will the economy of this society work at all? What happens if the banks were to collapse? Real nightmare scenarios.'* (SE 2). These perceptions of uncertainty and the possibility of a more wide-ranging impact of the crisis, also fuelled by increasing unemployment rates, (see Figure 1), are important to understand the Swedish response to the crisis.

² A full list of respondents can be found in the appendix to this article.

While Sweden can still be characterized as a relatively comprehensive welfare state, in the 2000s and up to the Great Recession, Sweden engaged in reforms which formed a paradigmatic shift from the social democratic tradition of welfare generosity (Freeman et al. 2008). These reforms, particularly social insurance and labour market policies adopted in 2007 and onwards, were largely driven by the political agenda of the centre-right government first elected in 2006, and re-elected in 2010. Sickness benefits became regulated through strict time limits and there was a considerable increase in membership fees for unemployment insurance. Additionally, labour market programmes were re-focused on those farthest away from the labour market, that is, the long term-unemployed and newly arrived immigrants (Government of Sweden 2007; 2007a). The policy discourse of the coalition entering into office in 2006 constituted a reversal of the fundamental idea that welfare provisions are put in place to ensure inclusion in society on an equal a footing as possible. Instead, it was argued 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 (SE 1). Those receiving benefits were depicted as victims of the welfare state itself (they were not, as outlined in the UK section, cast as lazy or irresponsible). All persons not active in the labour market were identified as ‘excluded’ and everyone receiving different kinds of welfare benefits, such as disability pensions, unemployment benefits, and sickness benefits, were included in this category. This 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...* (SE 7).

The ideas for stricter rules and a move towards a more targeted model were present before 2007, but required a centre-right government to introduce new legislation that left the Social Insurance Agency much less room for interpretation (SE 9; SE 10; SE 11; SE 12; Swedish Social Insurance Agency 2014). In sum, before the crisis there was a significant shift from a 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.

However, with the onset of the crisis in Europe and in Sweden, the initiated reforms, were actually slowed down, and in a few instances reversed. 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.'* (SE 1). The government at this point appeared constrained by the well-institutionalised legacy of the comprehensive welfare state and turned to solve the problem of increasing exclusion of people from the labour market (cf. Chung & Thewissen, 2011). Measures of *'pumping money into the system'* (SE 2) were otherwise contrary to the centre-right government's characterisation of welfare programmes as contributing to exclusion. 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:

It was the way in which the crisis arose and the logic of how to deal with it that legitimized the shift in policy. Those measures were otherwise contrary to the general approach of the government. If the crisis would have been a more slow moving and long term recession that had led to people losing their jobs, perhaps the assessment would have been different, [but] this we do not know. (SE 1)

The crisis was thus not perceived by the government as a consequence of a lack of market adaptation to new circumstances by businesses. Neither was it interpreted as connected to flawed structures of the welfare state. Rather, the perception was that it had little to do with the Swedish system at all and that it should be pushed back by any means available. These perceptions conditioned the response which included a slight expansion of benefits, although marginal, rather than their reduction. Furthermore, it slowed down the implementation of the broad package of reforms planned by the centre-right government.

In the context of the crisis the scheduled reforms became politically more difficult and their projected positive results were eaten up by increasing levels of unemployment. As one respondent in the Employment Agency stated, ‘The government had maximum bad luck. They introduced the new rehab chain [the new restrictive rules] at the same time as the worst crisis in ages happened. If they had foreseen that they perhaps would have waited.’ (SE 8). Thus, the crisis led to a situation where the room for manoeuvre actually lessened. The fact that the administration of those labour market programmes was given more funds and that this funding was subsequently renewed during the crisis (Interview SE 7) points to how sticky the Swedish institutions are and how difficult it was to change the social democratic welfare system. Even 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 (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.

Removing 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. (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. 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 negotiate with 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, reforms in that direction were slowed down due to institutional pressure and the perception of the crisis as an external threat. The period after 2010 is, however, again characterised by the continuation of liberalization 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 and reduced the speed of an otherwise accelerating process of policy convergence towards a more liberal paradigm.

UK: a liberal response to crisis?

In many ways the economy in the UK did not decline any more severely than in Germany or Sweden, especially in terms of employment (UK 3; UK 4). However, the UK was particularly vulnerable in the longer term because of overexposure to the global financial system via the City of London, and a large housing market bubble sensitive to any restriction in credit availability. To contain the crisis the centre-left Labour government took an unprecedentedly interventionist approach to stabilise the threatened banking sector through nationalisation and recapitalisation of various banks. At their peak, these measures exposed the Treasury to liabilities of more than £1,000 billion (National Audit Office 2014, p. 13) and formed a large part of the increased government deficit shown in Figure 1. A policy advocate observed that,

‘When the credit crunch first came it was very much about debt and finances and not so much *about the wider, ‘real’, economy*’ (UK 3).

After initially supporting the bail-outs, the official opposition, the Conservative Party, began pushing a narrative of profligate spending by the Labour government, especially in the run up to the 2010 general election. To appear strong on the economy, Labour also took up the mantle that spending needed to be brought under control, with the Chancellor promising in the election campaign to make cuts to public spending ‘deeper and tougher’ than those made in the 1980s by Conservative prime minister Margaret Thatcher (Elliot, 2010). Consequently, the crisis came to be perceived as one of public spending, and the issue of the public deficit subsequently came to dominate policy responses to the crisis in terms of austerity and spending cuts (English et al 2016, Temple et al 2016). A government official noted how the ‘really brutal deficit figures’ gave the idea of spending cutbacks ‘a certain level of impetus’ further remarking that ‘*crisis has probably driven a large number of policies which intend to save money*’ (UK 10).

Importantly, the financial crisis hit the UK against a backdrop of years of ‘Third Way’ liberalisation, heightened emphasis on activation, and “creeping conditionality” (Dwyer, 2004) in the field of social security policy, in particular welfare-to-work provision (Whitworth & Carter 2014, p.106). This gives rise to two elements of path dependency observable in the UK responses after the crisis. Firstly, framed as a spending crisis, policy had to cutback on public spending and this was to be achieved through continuing and deepening the neoliberal reforms already underway in the UK. Secondly, the ‘stickiness’ of such a path is further suggested by the widespread perception across interviewees that such an approach would be pursued regardless of which party was in government, a particularly salient observation since the UK had a general election two years into the crisis, which removed the long-standing

Labour government, and was facing another election just a few months after our interviews took place.

When the centre-right Conservative-led coalition (2010-2015) ousted Labour, the new prime minister declared a ‘permanently leaner state’ to be his party’s end-goal. A member of the Social Security Advisory Committee (SSAC) argued there was an ‘overriding objective’ to contain the growth of social security spend and, when it came to the Conservative-led Coalition, there was ‘*a very clear kind of relationship between the perception of the crisis and the policy agenda that is being pursued*’ (UK 1). Another interviewee provided further detail:

...the narrative is to introduce austerity through reduction in government budgets...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.
(UK 2).

As a government official succinctly summarised: ‘*we’re not in the business of spending money*’ (UK 6).

But this welfare retrenchment and spending cuts response to the crisis has to be contextualised. In terms of deepening the existing approach, a policy advocate was clear: ‘They have introduced further activation measures, further conditionality rules and amplified the use of sanctions’ (UK 1, emphasis added). As one of our interviewees noted, such an approach followed an existing path of ‘welfare residualisation’, something hard to turn away from as further cuts and retrenchment act as ‘*feedback loops*’ (UK 2). Building on this notion of an ongoing development, an advocate noted that; ‘Whatever wrapper you put around the policies they are essentially adding greater conditionality into the system’ with ‘*The UK* [having] been at the forefront of driving down the level of direct public investment into this stuff’ (UK 8). Arguably the Conservative Party’s labour policy continued down the path introduced by New Labour before the crisis, but with increasing use of sanctions, stringent

activation measures and a more individualised approach to employment (Whitworth & Carter, 2014)

In terms of the broader social security narrative, as in Sweden the system was seen to breed ‘welfare dependency’. Yet this issue had been highlighted by the pre-crisis Freud Report, commissioned by the Labour government (Freud 2007). In comparison to Sweden however, the UK narrative came to develop a focus on individualised blame: ‘The government was very successful in portraying most of the welfare reforms and cuts as being directed on the workless or workshy – using the phrases almost interchangeably’ (UK 4). The Conservative Party built upon the narrative by diagnosing a ‘moral hazard’ in the system which incited laziness and eroded self-discipline (Wiggan 2012, p. 400), leading to a narrative of ‘the undeserving welfare claimant’ (Garthwaite 2011, Romano 2015).

Looking forward, it was clear across almost all interviews that this emphasis on cutting welfare expenditure was not only here to stay, but something accepted across the political spectrum (with the exception of the Green Party, who were generally seen as offering an alternative agenda, but having no access to power, and so limited influence on policy [UK3; UK10]). Regarding the then upcoming 2015 election, as one government official put it, *‘Well we have the election in May and likely some new ministers but we will still have the brutal facts; there is still a large deficit to cut so we will be scraping around trying to work out how to not spend money’* with the additional observation that *‘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’* (UK 10). Such a viewpoint from a government official is backed up by a policy advocate who noted that: *‘The broad consensus is the need to make cuts, and the difference concerning ‘where’ and ‘how’ is only on the fringes’* (UK 8). Other examples argued that after 2010 *‘Labour would have done the same, so it’s not a huge amount of difference on the party side’* (UK 5) and yet another noted that *‘I don’t sense that there’s a*

political movement in favour of significantly changing the direction of travel of our social security system (UK 1). Finally, a member of the Social Mobility and Child Poverty Commission (a non-departmental public body sponsored by Cabinet Office, Department for Work and Pensions, and Department of Education) argued this point particularly in relation to austerity:

The policy space is a little bit of treading water at the moment to see what happens with the election, but either way, the broad tenets of austerity are going to be there, *it's just a question of priorities and mix* (UK 4).

The evidence of path-dependency in the UK then suggests it is of a particularly sticky nature. In a way this is not surprising; since coming to power in 1997, the New Labour government had not attempted '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, pp. 106–107). And so a return to power of the Conservative government might be expected to lead to only limited changes. Even the all-important financial interventions, had to 'work through monetary channels...to revive the supply of credit' (Hodson and Mabbet (2009, p. 1053, emphasis added), arguably offering limited substantive change to the dominant policy paradigm (Berry 2016). Therefore, what can be seen is an embedded neoliberal deepening in the period following the crisis, especially with the long-term austerity approach of the Conservative-led coalition. Over a decade ago, Oliver & Pemberton (2004, p. 435) argued that, since the late 1980s, a generalised neoliberal paradigm has become entrenched in an 'iterative evolutionary cycle' in the UK, carried forward into the 21st century. Our analysis clearly suggested that the process has not slowed as a response to the Great Recession, indeed, it has arguably strengthened; the UK has since returned to a 'purer' path, within which the confines of policy are contained even more rigorously by the liberal paradigm.

Germany: the conservative response to crisis?

An important reference point of German welfare state development is the ‘Agenda 2010’ reforms initiated in 2003 by the green-social democratic coalition. These reforms intended to make the labour market more flexible and to reform the conservative, contribution-financed, welfare state. Similarly to Sweden, and in contrast to the UK, this path of neoliberal reform was not pressed further during the crisis although it is contested now whether the reforms made it easier or harder for the German labour market to cope with the crisis.

Again like Sweden and in contrast to the UK, Germany experienced limited long-term effects of the Great Recession. In comparison to both the other case studies, the unemployment rate, declining since 2005, continued to fall after 2009. Importantly, German public officials regarded the crisis as similar in character to previous downturns (DE 2), even though this one was acknowledged as being much more significant: *‘the big economic slump of 2009’* (DE 6). Regardless, it was interpreted first and foremost as a crisis of economic slowdown within a functioning model (Konjunkturkrise): the problems in the labour market were cyclical not structural (DE 1). In response, Germany undertook four potential Keynesian crisis measures – investing in/securing jobs, introducing tax measures, investments in the infrastructure, and tax relief – while Sweden took the first two and the UK took only one (investing in jobs) (Vis et al., 2011, p. 346). More concretely, the German government opted for short time work (STW), scrappage bonus and public investments in infrastructure (DE 3, DE 20). The growth packages were clearly targeted: ‘The investments in renovation of schools, kindergartens etc. were strongly needed, so it was not “digging a hole and filling it again”’ (DE 20). And, finally, the perception of the crisis was closely connected to the measures adopted: *‘It was clear early on that there was no alternative to short-time work*

because it was a cyclical drop in orders which was just enormous ... *this was almost unanimous*' (DE 4). The interpretation of the crisis as being 'cyclical' worked as a 'coalition magnet' (Béland & Cox 2016) meaning that it helped to build a political coalition in response of the crisis, including the social partners in what is now discussed as crisis corporatism (Urban 2012). Still, many interviewees were surprised by the success of these Keynesian measures (DE 20), which indeed were thoroughly against the neoliberal reform path chosen with the Agenda 2010 reforms and which are not disputed within the administration.

The German coordinated market economy (Hall & Soskice, 2001) profited during the crisis from the strongly interconnected system of industrial relations characterised by flex-time work records and co-management by works councils, a set-up which needs a lot of trust on both sides (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 (together with flex-time agreements at the firm-level). Whereas German unemployment benefits were not changed during the crisis, the maximum duration of STW was extended from 6 months to 18 months (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', that is a regime like Germany, the government 'had to do' something against unemployment (DE 4), and the German mentality of stable jobs, in contrast to the 'hiring and firing' in the United States, was perceived as an important part of the German political economy (DE 6). Again, the idea of 'social market economy' may have worked as a coalition magnet. Second, both coalition parties, the Social Democratic Party and the Christian Democratic Union (SPD and CDU, 2005–2009) aimed to get 'money into the markets' to support demand (DE 3) and, through the stabilisation of export-led industries, other industries were indirectly stabilised (DE 6). Since the crisis was not perceived as harmful in Germany as it was in the UK, and, as it was clearly interpreted from a different

perspective which fitted the conservative model (first and foremost: stable employment), 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 *'harsh in terms of social policy'* as the ones of the labour policy (Agenda 2010) reforms before the crisis (DE 14). One change during the crisis was the reduction of the health insurance rate paid by both the employer and the employee aimed at stabilizing the economy: *'This was a relief to the employers and employees. And this was an unusual anti-cyclical process'* (DE 14). However, this rate was restored after the crisis, with a cap on the employer's side which continues the reform path of the pre-crisis period.

Therefore the austerity package in 2010 was, overall and notwithstanding the pressure it put on social aid beneficiaries, small and it re-established the pre-crisis policy course. Yet it contributed to restoring trust in the government's ability to cope with the crisis. The austerity package was not only psychological but, also a message to the European partners: *'Even if our deficits were not so bad, you have to cut, so for us the whole package had to be the same direction so it was coherent from a European perspective'* (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 German law. A lower deviation from this minimum is illegal due to a Supreme Court ruling (09/02/2010), and even in the crisis a higher deviation to support domestic demand was not justifiable, following the conservative, technocratic paradigm (DE 16). This court-ruling offered a clear institutional hindrance for any significant change in social policies. The references to established rules are an important element of German bureaucrats' interpretation of the crisis and consequently for understanding the specific shape of policy responses.

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 and contradicted the neoliberal reform course of the pre-crisis years. Yet, based on the institutional setup of Germany, the tradition of the conservative welfare regime 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 – and this is not surprising giving the perception of the crisis as a temporary economic slump and the strong belief in the German welfare regime. Changes in welfare policies (e.g. health and care insurance schemes) continued the development of the pre-crisis period and therefore we do not observe a considerable shift in policies or paradigm in Germany, rather it stayed on the “conservative” path with a, after the crisis, continued focus on liberal reform.

Concluding discussion

We set out to look more closely at the crisis responses in three welfare states which, while faced with similar external pressures, answered in different ways resulting in differing crisis experience. 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 convergence and path dependency. In the literature we observe a cleavage between scholars who argue that path dependencies prevail (e.g. Chung & Thewissen, 2011; Lallement, 2011) and those who emphasize convergence (e.g. Pontusson & Raess, 2012; Shahidi, 2015) and pointing at the strengthening of neoliberal policy agendas across Europe (Hermann 2014). Our interview analysis showed how the Great Recessions triggered reactions in labour and social welfare policy which are highly path dependent, but sit within a broader framework of (neoliberal) convergence. In contrast to prior studies, we have not aimed to set path dependency and convergence against

each other, but demonstrate that by focusing on the explanations of bureaucrats and policy advocates we can better understand path dependency pressures in times of crisis.

The social and labour policy reforms in these three countries did not converge around a general crisis response policy as their membership in the EU might suggest. This is particularly interesting as, before the crisis, Sweden and Germany manifested clear indications of convergence with welfare reforms of a more liberal character. These pre-crisis reforms were subsequently 'softened' as a response to the crisis. Fear of crisis-induced unemployment lead path dependent pressures to shape responses such as the initiation of the STW-scheme in Germany and widening access to labour market benefits in Sweden. In the UK, on the other hand, the already highly liberal character of its welfare system was further hardened in the face of the recession. Since the UK model already largely aligned with the wider understanding of convergence, the path dependent reactions follow the same logic. The financial stimulus packages in the earlier stages of the crisis did not shift the UK onto a different crisis response path; the dominant discourse of the Conservative-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 have therefore become a central part of the UK's crisis response.

These differences, especially between the UK and Sweden, demonstrate well the dual process of path dependence and convergence. Before the crisis, the reforms in Sweden and Germany, were sometimes even motivated by similar arguments to those in the UK, especially as concerns the pervasive view that an overly generous welfare creates exclusion-effects. There was thus convergence towards a common logic of welfare reforms, especially

the notion that incomes on benefits should never supersede those of people in employment. Still, the framing of recipients of welfare benefits as lazy and work-shy, while prevalent in the UK, did not become a dominant paradigm in Sweden. Rather, typical to social democratic welfare regimes, the systems of benefits were largely seen as structural impediments for individuals in realising their full potential, which in this context was taken to mean being gainfully employed. In Germany, respectively, the main concern was the protection of the core work force. The crisis-related 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 policy makers towards well institutionalised policy measures and familiar narratives - demonstrating the importance of institutional legacies. These legacies are effective as policy paradigms and shared by bureaucrats and policy makers that hold and subsequently act according to respective worldviews (cf. Immergut & Anderson 2008; Schmidt 2003).

Theoretically the results of this study indicate that debates regarding to what extent European welfare states are converging around a common model or if they are following their own paths have not always been productive. Rather, this analysis of crisis response in Sweden, Germany and the UK offers a nuanced reflection on how path dependencies and convergence pressures interact to produce particular policy outcomes. This was an analysis also attuned to how conflicting pressures can exist simultaneously on different levels. A broader application of this approach in comparative welfare state research would likely be associated with significant gains, both empirically and theoretically.

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Appendix: List of respondents, interviewed in May-August 2014

Full list of respondents in Sweden

- SE 1: Government official, Ministry of Employment.
- SE 2: Government official, Ministry of Employment.
- SE 3: Government official, Ministry of Employment.
- SE 4: Government official, Ministry of Employment.
- SE 5: Government official, Labour Market Committee of the Swedish Parliament, non-politically appointed.
- SE 6: Government official, Labour Market Committee of the Swedish Parliament, non-politically appointed.
- SE 7: Government official, Swedish Employment Agency.
- SE 8: Government official, Swedish Employment Agency.
- SE 9: Government official, Ministry of Social Affairs.
- SE 10: Government official, Social Insurance Agency.
- SE 11: Government official, Social Insurance Agency.
- SE 12: Government official, Social Security Agency.
- SE 13: Government official, Parliament Committee for the Social Insurance.
- SE 14: Government official, Parliament Committee for the Social Insurance.
- SE 15: Government official, Parliament Committee for the Social Insurance.
- SE 16: Government official, Parliament Committee for the Social Insurance.
- SE 17: Government official, Parliament Committee on Taxes.
- SE 18: Government official, Parliament Committee on Taxes.
- SE 19: Government official, Parliament Committee on Social Affairs.

Full list of respondents in UK

- UK 1: Member of Social Security Advisory Committee.
- UK 2: Independent expert on social exclusion.
- UK 3: Manager, Poverty Team in the Policy and Research Department, Joseph Rowntree Foundation.
- UK 4: Member of Social Mobility and Child Poverty Commission.
- UK 5: Social and economic research fellow, centre-right thinktank.
- UK 6: Government official.
- UK 7: Head of research, centre-left thinktank.
- UK 8: Assistant director, National Housing Federation.
- UK 9: Director, democracy campaign organisation.
- UK 10: Government official, Department of Work and Pensions.
- UK 11: Government official, Department of Health.

Full list of respondents in Germany

- DE 1: Government official, Bundeskanzleramt
- DE 2: Government official, Federal Ministry of Labour and Social Affairs
- DE 3: Government official, Federal Ministry of Labour and Social Affairs
- DE 4: Government official, Federal Ministry of Labour and Social Affairs
- DE 5: Government official, Federal Ministry of Labour and Social Affairs
- DE 6: Government official, Federal Agency of Employment
- DE 7: Government official, Federal Agency of Employment
- DE 8: Government official, Federal Agency of Employment
- DE 9: Member of Parliament
- DE 10: Government official, Federal Ministry of Family, Social Affairs, Women and Youth

DE 11: Government official, Federal Ministry of Education and Research
DE 12: Government official, Federal Ministry of Education and Research
DE 13: Government official, Federal Ministry of Family, Elderly, Women and Youth
DE 14: Government official, Federal Ministry of Health
DE 15: Member of Parliament
DE 16: Government official, Federal Ministry of Labour and Social Affairs
DE 17: Government official, Federal Ministry of Finance
DE 18: Government official, Federal Ministries of Economy and Innovation and of Finance
DE 19: Government official, Federal Department of Finance
DE 20: Government official, Federal Ministry of Environment
DE 21: Government official, Federal Ministry of Environment, Construction and Reactor Safety
DE 22: Government official, Federal Ministry of Environment, Construction and Reactor Safety