1. ‘Social investment policy’ challenged in ‘the age of austerity’

This chapter examines the contemporary debate on developments in welfare policy, most notably the rise of the ‘social investment strategy’, which in an era of neoliberal retrenchment and reform has attracted increasing attention, but also the strategy of austerity that was rapidly adopted by national governments following the 2008 global economic and financial crisis. The chapter briefly discusses the three strategies that have influenced the development of the welfare state since the 1930s and in various ways contributed to the formation of the two competing paradigms that are prevalent today – the social investment strategy and the austerity reform agenda. In this regard, the connections between the social investment strategy and the early origins of social policy are discussed; and the ‘productive social policy’ concept, implemented mainly in Sweden but also partly in other Nordic countries, and which is influenced by the Keynesian approach to social policy, is highlighted in particular. In addition, the neoliberal era, which disrupted the dominance of the investment strategy in social policy, is also debated, not least because of the strategic impacts the neoliberal epoch has had on the social investment strategy of today.

The importance of the two strategies to the welfare state debate should be seen in the context of the growing economic uncertainty that working people in advanced economies are experiencing during the restructuring of their economies. This uncertainty, after decades of welfare state protection, has raised awareness of the need for policies that can reduce insecurity by protecting employees from the effects of losing their jobs and secure their incomes (Crouch, 2015). The received wisdom of advocates of the neoliberal order that economic insecurity is an inevitable consequence of economic flexibility and globalization – and that only through such instability, which causes large-scale unemployment for some and lower wages for others, will economies achieve success and innovate – is being increasingly questioned. In addition to the flexibility argument, another crucial claim is the ‘fiscal crisis of the state’ – which was said to have resulted from the ‘overprotective’ welfare state envisaged in the ‘golden age of welfare states’ – during which it was even suggested that post-war growth had come to an end. Thus, the overall strategy of the neoliberal
approach was to bring public sector debt under control, and consequently shrinking welfare arrangements became a major priority for achieving the financial functionality of advanced capitalism (Strange, 1998; Streeck, 2015).

While this approach dominated advanced economies, the launch of the social investment strategy as a process contradicted the dominant neoliberal paradigm (Streeck, 2015). At a time when indebtedness had increased in most of the advanced economies, mainly due to the expansion of welfare arrangements but also because the fiscal crisis of the state demanded a rebuilding of public institutions, the social investment strategy needed arguments to promote the welfare state not as an obstacle, but as a tool for economic growth (Hudson and Kühner, 2009). Since the start of the reform process in the mid-1970s, welfare institutions in almost all models had undergone more or less extensive reforms, first and foremost with the intention of promoting balance in the public finances. This process produced a state and public opinion ready to accept restricting social rights as a response to an increasingly competitive global economy (Esping-Andersen, 1996; Jessop, 2012).

WELFARE STATE INTERVENTION IN KNOWLEDGE-BASED ECONOMIES

The dominance of the reform discourse, as well as the extent of the changes expected in the coming decades, have caused far-reaching uncertainty about the long-term effects of the cuts, not least among those who depend on welfare benefits and services. In many cases, extended retrenchment efforts to address the structure of welfare systems were perceived as threats to the durability and the foundations of these systems. At the turn of the century, however, this trend of the uncertainty among the establishment about the function and position of welfare institutions was reversed (Jensen, 2012; Nikolai, 2012; Crouch, 2015; Farnsworth and Irving, 2018). The debate on welfare systems was no longer about their burden on the economy but their contribution to economic growth and social sustainability. Furthermore, the development of welfare states came predominantly to be about the adaptation of systems to new strategies for socio-economic development in the advanced economies. One of the most decisive factors that seems to have helped strengthen the position of welfare states in the public debate was the shift in the perception of welfare states from a ‘repairing’ institution to a ‘preparing’ actor (Rodrigues, 2003; Morel et al., 2012). From being a system that aimed to enable the implementation of citizen rights by protecting those groups outside the labour
market in the post-industrial era, advocates of the welfare state began to highlight to a greater extent than before the development-promoting characteristics of the systems. The new economic conditions were to be more knowledge based and more dependent on technological advancement in the industrial sectors. Future improvements in education would be crucial to achieving this, and they would have to come from upgrading the skills of the labour force (McGowan and Andrews, 2015; World Economic Forum, 2016). Therefore, greater demands have been placed in the past two decades on the ability of welfare states and their institutions to empower and reskill the labour force in order to increase employability in an ever-changing economy (Bonoli, 2012). To achieve this goal, social development policy became a major priority of welfare states. Social development refers to investment in policies that aim to contribute to the development of human capital, which mainly comprises education and lifelong learning for all citizens from childhood throughout their active years in the labour market. This new approach views social policy as productive measures that contribute to sustainable economic development, employment growth and greater social cohesion (Hemerijck, 2012; Morel et al., 2012). Therefore, the argument in this chapter is that the social investment perspective, as the trend that dominated the welfare state debate, has aimed to modernize the ‘traditional’ post-war welfare state and to make it compatible with the new challenges that confront the structure of contemporary societies (Morel et al., 2012). Even though this approach has some roots in earlier social policy traditions, the distinguishing feature of the debate is that it emerged from a questioning of the neoliberal view of social policy that had been dominant since the 1970s. In other words, it could be seen as the emergence of a new paradigm in the welfare state debate. By rejecting the neoliberal view of social policy as wasteful, and its cost-driving function as hindering economic and employment growth, the social investment approach has given new fuel to the debate on regenerating the welfare state. The strategic questions that the new paradigm was expected to manage in the advanced economies were growing social exclusion, decreasing job opportunities, mainly in the high-quality sectors, and strategies to meet the challenges that have disturbed the stability of advanced economies such as economic crisis, globalization, ageing and climate change.

The fact that the social investment strategy received prominent attention in the welfare state debate was no coincidence. Paradoxically, it was due to the strong roots it enjoyed in the historical development of welfare states. The founders of welfare institutions were dealing with similar issues when the early social policy framework was being designed. Social and economic crises such as social exclusion, marginalization and long-term unemployment are reminiscent of similar developments that
in the 1930s gave rise to the emergence of the modern welfare states in advanced economies. New imbalances have exposed advanced economies to a crisis situation that the market has had difficulties in resolving. Some problems could be permanent. Advanced economies have been experiencing turbulence that has been intensified by the momentum of the globalization process since the mid-1970s. The neoliberal narrative has depicted the market as a natural condition with a self-producing equilibrium, independent of state intervention (Streeck, 2015). In this ongoing uncertainty, the social investment paradigm advocated measures aimed at the inclusion of vulnerable social groups by empowering the redundant labour force through both a high level of benefits, which would secure living standards, and education and training to enhance employability (Crouch, 2015). The next section briefly outlines the main approaches to social policy that have been of strategic importance to the design of the social investment strategy.

THE SOCIAL INVESTMENT STRATEGY FROM A HISTORICAL PERSPECTIVE

The idea of social policy as an instrument for promoting the needs of fast-growing industrial societies or coping with the problems linked to insufficient demand and the tendency for capitalism to suffer cyclical fluctuations has long been debated in explanations of the origins of welfare states (Morel et al., 2012). The most obvious crisis in fast-growing industrial societies occurred in the late 1920s and early 1930s: the Great Depression and a related severe birth rate crisis. Rapid industrialization and fast urbanization were followed by a decline in the birth rate as urbanized social groups no longer found any need to have as many children. The need for extra labour resources that existed in systems based on agricultural production no longer dominated. Among urbanized social groups predominantly active in industry, children in overcrowded households were seen as an extra burden. This motivated families to consider cost implications as a determining factor in the planning of household size. This development towards a shrinkage in family size was based on a household-led efficiency strategy in calculating the cost aspects of individual family planning. This occurred at the expense of a gradual deterioration in the reproduction of the labour force, which in the long run would become a threat to the future supply of labour for industrial production.

Partly as a result of such processes, the Social Democrat social policy approach in Sweden captured a social policy concept launched by Alva and Gunnar Myrdal (1934), which proposed an ambitious social policy
strategy of generous provision of economic support to families in order to ensure a balance in rates of workforce reproduction. From their perception, the decline in fertility was explained by the economic hardships that urbanized social groups were experiencing. Therefore, economic support for families through the provision of benefits and cash transfers, but also reform of the labour market, were identified as a strategy to facilitate the entry of women into the labour market, which would, in turn, make it viable for society to move towards a dual breadwinner household model.

This kind of social policy engineering relied on active intervention by the state in making the necessary contributions not only to maintain individual security and redistribute resources, but also to ensure economic growth and increase productivity. This was among the first social policy initiatives based on an active social investment strategy. According to this strategy, the improvement of families’ conditions for having children did not just take account of the biological or so-called quantitative aspect of social policy efforts, or how many children were born. The qualitative was also stressed, meaning the conditions and the environment in which children were raised or received their education (Andersson, 2005). In other words, social policy would cover all aspects of the design and development of human capital in society which, in addition to the availability and quality of education including the day care and health care for children, also included the efforts made by the community to support the participation of women in the labour market.

The distinctive feature of the Myrdalian view of social policy that makes it interesting for today’s debate on social investment is that even at that time, a societal problem – the fertility crisis – was linked to an interest in achieving economic growth and increased productivity. The term ‘productive social policy’, which was coined by Gunnar Myrdal, referred to the productive effects of social policy, or the balance that could be provided in demographic conditions and the reproduction of society that in the longer term could provide the conditions for economic growth. By comparing the outcome of a social policy effort in economic terms with productive activities that had historically been solely incorporated into the economic sphere, Myrdal introduced a new approach to how social policy and economic growth should be perceived as complementary phenomena. Social policy can, through its function of contributing to the development of human capital, at all stages of citizens’ lives, both during childhood and in employees’ active years in the labour market, contribute to the supply of a trained, skilled and healthy labour force for the labour market.

In addition, systems of social insurance contribute through compensation for unemployment to labour force income security, which is decisive in making employees less reluctant to embrace restructuring measures in
industry and the labour market. Scholars such as Esping-Andersen (1992) and Morel et al. (2012) understand the Myrdalian approach to reconciling the dual goals of equality and efficiency as a guiding principle of Swedish social democracy in its effort to establish a social policy model based on a social investment strategy. In addition to the contributions to sound family policy, which were considered an investment in future human capital, and the equalization of resources for health and education, which would result in optimal labour productivity, this reconciliation strategy and the productive social policy approach were extended to other areas. Regarding macroeconomic performance, the reconciliation paved the way for promoting a more equal distribution of purchasing power because it would be a precondition for macroeconomic performance. By the same token, in the labour market and relations between employees and employers, the spirit of reconciliation resulted in both solidaristic wage policies and active manpower programmes because the lack of conflict between the parties would spur industrial modernization.

These policy outcomes, which were based on the concept of ‘productive social policy’, and for a long time avoided the tension between the security of citizens and the interests of economic efficiency, should be regarded as the origin of the social investment strategy. As noted above, this approach has been applied in the Nordic countries in particular. A similar approach that emerged at almost the same time and to a much larger extent across the developed world was the Keynesian understanding of economic growth and social policy (Hemerijck, 2012; Morel et al., 2012). The distinctive feature of Keynesian economic theory that makes it different from the productivist approach is its focus on countercyclical demand-side macroeconomic management. In other words, the deciding factor causing slow growth and rising unemployment is insufficient demand, which is a phenomenon that appears as a natural process due to cyclical fluctuations in the capitalist economy. In order to maintain stability and sustainable economic development, Keynes saw government intervention in the economy in order to adjust monetary and fiscal policy as a necessity. The aim of such interventions should be to stimulate the economy, particularly through an increase in public spending. For this reason, to recover the economy from recession, higher government spending to provide an injection of demand into the economy could even be financed by government borrowing. This kind of countercyclical spending, which was a central tenet of Keynesian economics, was mainly invested in welfare policies. In times of recession, demand is propped up by different measures such as spending on infrastructure and welfare services that can secure and maintain workers’ wages. In addition to countercyclical spending, Keynes also favoured an expansion of social rights to reduce income inequality.
and investing in areas of the welfare state that are labour-intensive, such as the education and health sectors (Hemerijck, 2012).

Despite their similarities in advocating an expansion of productive social policy, perceiving social policy as a contributor to economic growth and rejecting the conflict between equality and efficiency, the Myrdalian and Keynesian approaches differed in at least three decisive respects (Morel et al., 2012). The first difference is with regard to female labour market participation. In Myrdal’s design, labour market participation by women and gender equality were regarded as given, and social policy was designed for a family with both parents active in the labour market – and children were also assigned their own social rights. Keynes, however, had a traditional starting point for families in the male breadwinner model. For Keynes, male employment opportunities and social rights were central and the benefits of women and children were linked to the male breadwinners’ rights.

A second difference lies in their notions of time. Whereas Myrdal’s productive social policy approach believed that investment in social policy could in many cases have a long-term purpose, particularly when addressed to children’s education and health, but also investment to equip the labour force with skills and other resources (human capital), Keynesian policies mainly focused on the current needs of citizens (Jensen, 2012). The third difference is about the view on whether benefits should contribute to the activation of beneficiaries or merely protect their standard of living during the period provided for by the contributions (and thus ensure their consumption). A feature of Keynesian social policies is their ‘passive’ nature. Social policies were intended to be a countercyclical economic instrument particularly aimed at promoting and sustaining demand, so a major proportion of resources had to be used for cash-transfer programmes in the form of social insurances.

PARADIGMATIC SHIFT: THE NEOLIBERAL SUPREMACY

The era of the productive social policy approach, in either its Myrdalian or its Keynesian interpretation, came to an end in the mid-1970s when economic crisis mainly linked to the 1973 oil crisis hit the advanced economies with an increase in both unemployment and inflation (Jobert, 1994). Proponents of neoliberal macroeconomic theory rejected the notion that social expenditure would ensure economic growth and instead advocated budgetary rigour, wage restraint, monetarism and corporate competitiveness (Jobert, 1994 in Morel et al., 2012). As a consequence of
this paradigmatic shift, high levels of social expenditure linked to generous social policy initiatives would no longer be seen as a stimulator of economic growth or a promoter of social stability, but as a cost that caused market distortions. In the new era of neoliberal supremacy, the notion that social security and economic growth could exist without a trade-off between them was rejected, and likewise the trade-off between equality and efficiency (Schäfer and Streeck, 2013; Crouch, 2015). Social protection systems were systematically undermined and instead, an insidious convergence of neoliberal ideas was promoted that resulted in increasing financial and political constraints and the implementation of neoliberal structural adjustment in most welfare states (Jessop, 2012). This process meant increased privatization of the provision of welfare services, as well as the financing and governance of social protection. The process has also endangered the foundations of both the welfare state and the welfare society, as well as the fundamental ideals of shared responsibility and the common good (Hespanha and Portugal, 2015). Even then, however, the neoliberal reform process was not implemented everywhere, the strength and extent of the reform agenda differed and opposition in certain areas was considerable. Adjustments to policies to safeguard the main achievements of the welfare state were observed in almost all welfare states (Jessop, 2013). Nonetheless, even in the Nordic countries, the accumulation of reforms seems to have generated a decidedly neoliberal institutional framework for social welfare.

The obvious trend in the neoliberal era was that labour market rigidities had been highlighted as responsible for high unemployment and low growth. Instead of blaming the macroeconomic problem of insufficient demand as the reason for growing unemployment, the neoliberal narrative highlighted microeconomic problems such as strong job protection, high minimum wages and generous unemployment insurance, all invented during the golden age of welfare states, as explanatory factors (OECD, 1997; Morel et al., 2012). Even though social policies were not dismantled, the paradigmatic change meant a shift from a demand-side to supply-side approach. Provision of income security was toned down and, instead, activation measures to provide incentives for the unemployed to return to the labour market were applied on a larger scale than before. Furthermore, the primary aims in reforming welfare systems were downsizing and stimulating or even forcing labour market participation by the unemployed. For the neoliberal approach, cuts in public spending and restructuring the state into an agency that facilitates and protects unfettered capital accumulation became of great importance (Polychroniou, 2014). For this reason, following the transition to neoliberal supremacy, the key aspects that received particular attention revolved around the privatization of public goods and
services, and the deregulation of markets and finances. In terms of social policy priorities, alleviating poverty and inequality were almost forgotten.

Like Myrdal’s, the neoliberal perspective expressed concern for future generations’ well-being. It did so, however, not by investing in the younger generation’s health and education, but by reducing public expenditure and thereby reducing the public sector deficit, which in turn would save coming generations from inheriting debt costs that the current generation would have caused. The major concern from the neoliberal perspective was to provide the most appropriate conditions for the corporate sector to increase profit margins, mainly through policies that would reduce wage costs. Diminishing job protection and curbing wages were the kind of ‘investments’ that could secure the creation of jobs by the successful private sector in the future (Jensen, 2012).

THE RETURN OF THE SOCIAL INVESTMENT PERSPECTIVE

After almost two decades of neoliberal supremacy, the social investment strategy regained considerable currency in the 1990s due to the economic and social instability associated with rising unemployment, social exclusion, and increased poverty and inequality in the eurozone. A need to revive the productive potential of social policy to cope with the imbalances related to the neoliberal economic order began to emerge among policymakers and scholars (Perkins et al., 2004; Morel et al., 2012). The high incidence of long-term unemployment caused by the failure to create new jobs after the elimination of low-skilled jobs from their economies had become a major societal challenge for the EU member states. Since the intensification of globalization, long-term unemployment among low-skilled workers had become one of the most striking features of European labour markets (Crouch, 2015). In addition, other social risks such as the social and demographic transformations of families and societies were emerging and considered threats to the sustainability of European societies. The inability of most European welfare states to increase employment levels among women and to increase the birth rate, and thereby deal with the problem of an ageing population, had given rise to a critique of neoliberal passive social policy non-intervention (Schäfer and Streeck, 2013).

Given that a large proportion of European societies belong in the conservative welfare state model with limited intention to initiate social policy reform as a tool for changing the economic and social order, it might be expected that a social investment strategy would face major difficulties in being adopted on to the European policy agenda. At the same time,
however, the ever-increasing need for a highly skilled and educated labour force, with greater potential to be creative and innovative, demanded the abandonment of the traditional forms of ‘passive’ social policy interventions. In the new era of the ‘knowledge economy’, unemployment was strongly linked to the lack of adequate skills and education among most of the proportion of the labour force that had fallen out of the labour market. Since the 1990s, the prevailing consensus was that to stimulate future economic growth and employment creation, investment in adequate skills and education were indispensable (OECD, 1997). Responsibility for supplying the labour market with an educated workforce would mainly rest on the state’s shoulders. Therefore, fostering human capital development would be a priority for modern welfare states. Instead of only being engaged in ‘repairing’ the old social risks by providing protection against interruptions to income due to sickness, unemployment and retirement, but also against growing poverty and social exclusion, sustainable welfare systems should have a ‘preparation’ function by being productive in the sense of promoting efforts that contribute to employability and economic growth. In other words, new social risks had emerged in relation to the work–life balance and securing a position in a more flexible labour market (Taylor-Gooby, 2004). The aim of a sustainable welfare system should be to prepare the population for the most challenging social and economic risks that since the 1990s have mainly been associated with changing employment conditions, new family patterns and an intergenerational transfer of poverty.

As noted above, a major characteristic of the social investment strategy is that active social policies replace the passive compensatory benefits (Jensen, 2012; Morel et al., 2012). By redirecting social spending from passive benefits to activating measures and thereby imposing responsibility on individuals to adopt an effective job search strategy, the social investment perspective demonstrates greater harmony with the neoliberal job activation strategy. A dividing line, however, is the emphasis that the strategy puts on the job seeker’s endeavours to engage in jobs that correspond with their competences in the best possible way so that their qualifications and capacities are not wasted (Bonoli, 2012). In this way, the resources of the labour force can be utilized in the best possible way in so-called quality jobs rather than being employed as quickly as possible just to ease the burden on the social insurance system as incomes from jobs replace social benefits. In other words, from a social investment perspective, upskilling and learning are two processes that are crucial to the labour force and work to transform the workforce and help it to enrich itself with the qualifications and the skills that the labour market needs (Bonoli, 2012; Lundvall and Lorenz, 2012). This perspective differs from both the traditional
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Keynesian and even the neoliberal approaches because for both of them, the quantitative aspects of the employment issue are central. While the first approach has historically aimed to create demand through ensuring the expansion of job opportunities, the neoliberal perspective has sought to increase the supply of labour more generally.

Although the social investment strategy has some significance in the realm of the market economy and appreciates the system’s efficiency at organizing and ability to develop production and trade, it is critical of the market’s inability to satisfy the other necessary functions of society, most notably tackling social problems such as exclusion, long-term unemployment and income inequality. Therefore, it comes closer to Keynesianism when it advocates that state intervention is necessary to counter the social problems that arise in the market economy. In addition, it also provides services aimed at increasing labour market participation, supporting job training and job searches and, in short, moderating the boom and bust of economic activity.

A combination of concern about the economic benefits of social policy, mainly linked to investment in human capital, and concern about reducing the intergenerational transfer of poverty and inequality means that ‘the social investment perspective’ can easily be compared to the Myrdalian ‘productive social policy’. The difference is that the latter perspective was mainly dominant in the Nordic countries while the social investment perspective, with its core notion of promoting social policy as a productive factor and its explicit emphasis on economic growth and social investment, has emerged and been lauded across the European Union (EU). As Hemerijck (2018) states, the social investment perspective has been taken more seriously since the second half of the 1990s, not least at the EU level, where the idea of ‘social policy as a productive factor’ became a foundation of the EU strategy of advocating sustainable economic growth and greater social cohesion.

Despite this paradigm shift and the fact that the perspective is taken much more seriously now than at the beginning of the century, there have also been some criticisms (Morel et al., 2012). The most important criticisms are directed against the strategy’s concern about future returns and the negative effects of rechannelling benefits from those in need. Investing resources in family-oriented services, in educating the younger generation and retraining the workforce has meant a deterioration in living standards for groups that have ended up in poverty and social exclusion. In other words, rechannelling resources has meant that social efforts are spent on ensuring a high standard for the future workforce while today’s poor families live in poverty. Another critique is addressed to the implementation of the strategy. While, for example, at the EU level, investment in sustainable
economic growth and greater social cohesion has been portrayed as equally important, in practice the greatest attention is paid to achieving the growth goal and resources are therefore redistributed differently in these two areas, leading to the unpleasant outcome that the social cohesion aspect remains underdeveloped.

A third criticism posed from a feminist perspective questions the social investment strategy because of its mainly economic objectives and justifications for investment to increase the employment of women. Increased employment among women is motivated by its contribution to increasing GDP and the tax revenues of the state. From a gender equality perspective, increased employment among women should be combined with a parallel measure of how responsibility for work within the home is distributed. Instead of having this as a point of departure and gender equality as the central objective, efforts have been made to achieve a flexible form of employment for women. This strategy has resulted in an expansion of part-time employment among women which implicitly means that women must combine care work and paid work with responsibilities in the home. Adopting an economic rationale instead of a humanitarian rationale based on social citizenship rights as justification for a social investment strategy is not limited to the objectives around women’s employment. Economic objectives have come to play a prominent role when benefits and social policy are aimed at families and even children. Instead of treating children as citizens with indisputable citizenry rights, children’s social policy increasingly argues an economic approach linked to investment in ‘the future labour force’ (Deeming and Smyth, 2018).

When defending welfare arrangements, a shift can be observed in the arguments of advocates from stressing citizenship rights to highlighting economic objectives. This radical perspective change seems to have been a consequence of the prolonged dominance of neoliberal values and perspectives in advanced economies. Unlike previous epochs when active social policy efforts were defended with arguments about the need for welfare efforts to counteract the social harm and suffering caused by mismatches in economic development, the social investment perspective makes the argument that active social policy is needed because it contributes to economic development (Deeming and Smyth, 2018). Therefore, instead of confronting the neoliberal economic order, the social investment perspective calls for an integration of economic development efforts with the development of social policy arrangements. By using neoliberal concerns of promoting economic growth through activating measures, for instance, and preparing the labour force for the knowledge-based economy through investment in human capital, supporting labour market fluidity and through all these efforts increasing employability and employment levels,
the investment strategy has systematically sought to disarm the neoliberal attacks on welfare states. These attacks in recent decades have, through extensive austerity policies, seriously threatened the foundations of welfare systems. The next section focuses on the meaning of austerity policies, which reached their apogee during and in the years immediately after the 2008 economic and financial crisis.

THE MAKING OF A ‘SOCIAL INVESTMENT STRATEGY’ IN ‘THE AGE OF AUSTERITY’

The social investment strategy may have emerged as a new welfare policy paradigm designed for the productive knowledge-based economy, but this did not mean that implementation would be an easy task. Despite its success in attracting the interest of welfare state specialists and some policymakers as a strategy for combining two complex objectives – economic growth and equality – the strategy was challenged by the economic crisis caused by the 2008 financial crash, which revived the old debate about the need for austerity measures. After over a decade of intellectual advance, especially in neutralizing and partly pushing down the hegemonic ideas of neoliberalism, the financial crisis reawakened fears that the world had entered a ‘new age of austerity’ that would threaten the long-term sustainability of expensive welfare systems (Farnsworth and Irving, 2015).

What distinguishes the new age of austerity from previous cutbacks in welfare arrangements, often to counteract economic imbalances, is the fact that the deep economic crisis caused by the financial crisis has at least in some societies led to a questioning of the very foundations of welfare states. The fundamental functions and support mechanisms that welfare systems have created and which the public has perceived over the years to be self-evident were no longer secure. The austerity project targeted economic imbalances and claimed to have prevented economic collapse and ensured budgetary balance. These goals were pursued through extensive cuts in welfare expenditure and a systematic reduction in publicly funded social benefits and services, and by increasing the responsibility of citizens for reducing their dependence on welfare. The policy of austerity attacked basic arrangements that, according to Hay and Wincott (2012), have long been regarded as an institutional part of the capitalist growth strategy. These austerity measures, which targeted different parts of the welfare system, from public sector jobs and reductions in unemployment support to privatization and increased consumption taxes, together provided evidence of a fundamental shift in the understanding of the state-citizen contract.
This has led scholars such as Farnsworth and Irving (2015) to argue that austerity is not just spending cuts and deficit reduction, but a transformation process in which welfare states are experiencing a deterioration in service provision, retrenchment of welfare benefits and a tightening of eligibility requirements. This transformation is occurring due to the weaknesses of an economic system that is experiencing structural change but also widespread disagreement in the political establishment. The weaknesses of the economic system refer to a questioning of established economic orthodoxies, a significant disruption of global debt markets and the need to transform the system of regulation and supervision of banking activities. By the same token, even in the political sphere, the global crash reduced the means available to governments to limit the fallout from economic downturns. These two decisive processes have been suggested as the factors that explain why the room for manoeuvre has been narrowing in the advanced economies, which in turn made the need for extensive cuts in welfare spending inevitable (Starke et al., 2013).

Another factor that distinguishes the ongoing austerity measures from ordinary spending cuts is the absence of popular protest or major actions by political parties and movements to defend the welfare state and its arrangements in the ongoing economic and political crisis. This lack of a resistance strategy is, according to Farnsworth and Irving (2015), linked to the hegemonic ideas of neoliberalism that have infused the policy discourse since the 1980s, disseminated disillusionment and impoverished political and social forces that had previously been devoted supporters of the welfare state. The age of austerity has also revealed the structural weaknesses of contemporary capitalist economies, which appear more fragile than before, and led to an institutional weakening of governments that do not possess the legitimacy that nation states once had, and, in some respects, even now often suffer from ineffective governance (Farnsworth and Irving, 2015). On the social policy side, the main characteristic of the new era is that the welfare reforms of the past two decades have predominantly had regressive effects on the compatibility of social policy with the new conditions of post-crisis economies. In contrast to the strategy outlined in the social investment perspective, since the financial crisis of 2008 welfare states in advanced economies have either undergone a process of downsizing and restructuring or are planning wholesale restructuring, a process that is the total opposite of the direction that had been pursued since the late 1990s. Until the financial crisis and even shortly after, the dominant rhetoric convincingly promised that the recovery after the crisis would be both state-led and state-funded, with a comprehensive association of politics and economics. What were the circumstances that made it possible for the strategy of austerity to be launched and then adopted by national
governments, supranational entities such as the EU and the international financial organizations?

AUSTERITY MEASURES AS AN ANTIDOTE TO THE FINANCIAL CRISIS

Following the new wave of austerity measures initiated by the 2008 financial crisis, there was a consensus that the driving force behind the new age of austerity was the emergence of great imbalances in the global finances. As Bermeo and Pontusson (2012) stress, even though it was the weakness of the US financial institutions in handling the crisis in the US mortgage market that was the start of the whole crisis, its spread to the global market was the main reason behind the growing international concern and hence the interventions of national policymakers and their adoption of policy reforms. The impact of the financial crisis on the national banking systems of many EU member states left no choice for governments but to support the national financial system and the industries that were targeted by the crisis. Saving the banking system was not an option but the first priority for governments. The next priority for states was to use all the welfare resources they had available to protect the social rights of the groups affected by the crisis from reductions in income or even unemployment. The fiscal rules within the EU denied the member states the option of using macroeconomic tools to increase liquidity and boost credit or to strengthen the demand side. A rigorous budgetary policy that would affect the future financing of social economic activities was the strategy imposed on countries hit by the crisis (Farnsworth and Irving, 2015).

With these conditions in mind, it is possible to question whether policy measures imposed on governments that cut public expenditure in order to cope with a crisis can be considered a fundamental shift or transformation of the welfare state. The answer can be found in the two further characteristics of the post-crisis expenditure cuts: that they were deep and sustained. In this regard, Blyth (2013) argues that austerity is not just about cutting welfare expenditure. The central issue is whether the cuts reveal a strategy or agenda that involves the restoration of a certain economic equilibrium that has been disturbed by seismic economic events and if so, what are the characteristics of this endeavour? Blyth (2013) indicates that the nature of the post-crisis expenditure cuts was that they were deep and continued for an extended period without interruption. The extent and continuity of the cuts and the lack of organized social resistance imply a strategy of restructuring designed to be accomplished by
sacrifices that are to be made entirely by paid employees. In other words, in order to maintain competitiveness, the economic adjustments would predominantly be implemented through a reduction in wages, prices and public spending, and to a limited extent taxation. However, it should be noted that the implications of the adjustment policies on taxation have been modest compared with the other austerity measures. This is because austerity has basically been about a reduction of government borrowing through deep cuts to welfare expenditure in order to have a positive effect on rebalancing economies, and in that way promote growth and long-term prosperity (Fontana and Sawyer, 2011; Crouch, 2015; Farnsworth and Irving, 2015). This strategy is the direct opposite of the tax increases that dominated during the expansion of welfare states. Through this strategy not only budget deficits, but also social spending deficits would be controlled. In addition, in the public debate restoring economic growth would be identified as an outcome of the austerity measures. By pushing this notion, the economic and political establishment succeeded in persuading and, to a certain extent, convincing public opinion that austerity measures should be understood as a constructive strategy that should be welcomed instead of resisted.

This concept that sees austerity measures as a solution and even, among the political right, an antidote to crisis has powerful support, not least in regional and international economic management organizations such as the EU, the International Monetary Fund and the Organisation for Economic Co-operation and Development (Bermeo and Pontusson, 2012). At this level and among a large part of the political elite, at both the national and the international level, there is an institutionalized belief that through austerity measures a great deal of resources could be released by reform of the welfare state (Bermeo and Pontusson, 2012). Therefore, it is no coincidence that most of the reforms that have been implemented since the 2008 crisis have been initiated or proposed by the economic and financial elite. Post-crisis reforms have had capital-centric constructions all aimed at reducing the size and scope of the welfare state, often in the name of structural adjustment, fiscal correction or efficiency savings (Blyth, 2013). Another characteristic of the post-crisis welfare reforms that characterize austerity is that the reforms have only had a dampening effect aimed at shrinking social arrangements and positioning the market as the only promoter of economic prosperity and growth. A further characteristic of the past decade’s downsizing reforms of welfare states categorized under the austerity theme is their permanent nature. The reforms introduced are intended to stay in place for good because, in the social field, there are no organized social groups that are seriously putting reversal of the cuts on the political agenda (Schäfer and Streeck, 2013).
If the welfare expenditure cuts are initiated due to crisis or deteriorating economic conditions, then benefits and services should be reinstated as soon as conditions improve. If reforms are driven by changing political premises based on changing political power relations, then the enduring characteristics of the reforms will remain in place. The long duration of the recession combined with the excavation of the welfare state’s foundations, which is confirmed by the permanent nature of the widespread reform of welfare arrangements, reveals that there is an influential political will that sees austerity as a strategic and long-term response to prevailing economic conditions. According to Schäfer and Streeck (2013), this unwillingness to reverse the trend and move towards expansion can be explained by the shrinking room that governments have for manoeuvre. Rising interest payments and welfare state maturation have meant that government revenues in many welfare states have decreased and the resources available for welfare spending and social investment have reduced considerably as a result. Consequently, regardless of the political bloc in office, the options for adopting policies are limited by past decisions. The recent financial and fiscal crisis has only exacerbated the long-term deterioration in the operating space.

RESILIENT WELFARE STATES: THE ‘PATH DEPENDENCY APPROACH’

In contrast to the above approach, which refers to the prolonged period of deep cuts across most developed welfare states as austerity and draws the conclusion that the institutions of the welfare state and the social relations they support have been undermined, others (Starke et al., 2013; Van Kersbergen et al., 2014; Kiess et al., 2017) suggest that the extent and nature of the changes seen do not have the characteristics of austerity. Despite the obvious challenges, not least those caused by the financial crisis, some welfare states have expanded and seen positive measures of social investment. These authors agree that the chronic problems of the market economy have reduced the affordability of most welfare states and their ability to invest in the social arena as they did before the crisis. Nonetheless, fulfilling social rights is something that benefits both economic interests and voters, and governments will always strive to satisfy the interests of public opinion. This perspective has its origins in the notion that regards welfare states as resilient institutions that may have evolved or transformed in recent times but have had the capacity to continue to adhere largely to their models (Huber and Stephens, 2001; Pierson, 2001a). Through its emphasis on the resilience of welfare states in periods of economic turmoil...
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and structural change, this perspective is often linked to the institutionalist path dependency approach (see Hajighasemi, 2004: 34–7). The core notion stressed by advocates of path-dependent processes as the major dynamic of welfare state development is that welfare states are institutions that have been created as parts of historically generated configurations and therefore cannot be remade just because the preferences of political actors change or the balance of power shifts. In other words, the resources and incentives produced by policies over a long period of time generate structures and opportunities for social groups that are difficult to ignore. Every attempt to cut welfare benefits and services that have long been used to target the interests of certain social groups will therefore lead to social resistance. During the expansion of welfare states, social policy arrangements were created as citizen and social rights in such a way that the next and coming generations have regarded these as self-evident, and something that should under no circumstances be disturbed. Certainly, the extent of these rights are different in different welfare states, mainly due to historical power relations between dominant political actors, but the central point is that there are too many such ‘vested interests and economic incentives’ to allow large-scale or non-legitimate retrenchment, and that this should militate against path-departing processes (Castles, 2010).

Without a proper appreciation of the historical pathways according to which social policy arrangements have been demanded by organized groups and then been legislated for in democratic assemblies, it is difficult to understand the development of contemporary welfare states, or the prospects for the politics of social policy retrenchment. Thus, in order to understand welfare states as historically generated regimes, and as products of complex conjectural causation, greater importance should be attached to the forces of political development (Huber and Stephens, 2001; Pierson, 2001a). As noted above, the political course chosen by society is the major determinant of every welfare state regime. The central argument that is basic to the path dependency approach is that the courses initiated in a political process are difficult to reverse (Steinmo, 1993; Stephens et al., 1999; Pierson, 2000). The notion of the irreversibility of welfare states suggests that existing welfare arrangements are inherited from certain development processes in the past, and that political developments generate self-reinforcing processes that even affect the preferences of new actors. Dominant values, not least in the community, limit the scope for unpopular reform and radical system shifts. According to Kiess et al. (2017), who investigated policy responses to the global crisis in 2008 in Sweden, the United Kingdom and Germany, the responses of these advanced economies differed considerably. The strategies that each country chose followed the traditional paths of their institutional legacies. The way in which
these countries perceived the crisis and then responded in two specific policy areas – labour market reform and social welfare – demonstrated an obvious impact of the path-dependent ideational paradigm. Although the three countries faced similar external pressures caused by the crisis, they responded in different ways and the policies adopted have shown no clear tendency for the countries to converge around a general crisis response policy, as might have been expected due to their membership of the EU. Even Germany and Sweden, which before the crisis had indicated a convergence strategy in their welfare reforms towards a more liberal approach, adopted a ‘softened’ strategy more like the old system that has long been in use (Kiess et al., 2017).

WELFARE STATES CONTRIBUTE IN THEIR OWN WAY

This review of the most influential concepts of social policy, which have provided a strong framework for understanding welfare strategies since the early days of debates on the welfare state, shows that two major perspectives have arisen and dominated the field. The first, encapsulated by the term ‘productive social policy’, in almost the same spirit as Keynesian economic theory, saw state intervention through social policy as an instrument that can not only create social security, but also act as an effective contribution to economic efficiency and increased growth. The second, opposite, understanding simply regarded welfare arrangements as obstacles to economic growth that should be downsized because of the distortions of the market that they cause. These two competing conceptions of social policy, which each had a golden age in two consecutive periods in the post-war years, have since the turn of the century been reproduced under two new denominations through their advocacy of two different strategies – the ‘social investment strategy’ and the ‘austerity strategy’.

The main difference is that in the post-war era, when national states were strong and a strategy for long-term economic growth prevailed in the advanced economies, the productive social policy strategy and Keynesian demand-oriented policies were dominant. As long as economic growth continued, market forces accommodated the expansion of the welfare state. In the new era, however, the power balance between the advocates and opponents of welfare states has shifted. Global market forces such as transnational companies, global financial actors and supranational political entities have become much stronger in determining the conditions and the room for manoeuvre of the nation states, whereas the advocates of welfare systems have a more subordinate position.
Despite the weakness of the political system and of trades unions, which had traditionally been in favour of welfare benefits and services, the fact is that path-dependent systems managed to reproduce and survive, and welfare arrangements have been successful at adapting to the new circumstances. The large-scale public support for and dependence of extended social groups on different forms of welfare benefits and services have limited the scope for retrenchment of crucial welfare benefits. This leads to the conclusion that welfare states are continuing to make a contribution either because they have increasingly adopted the social investment strategies encouraged at the EU level or because they have stuck close to the institutionalized welfare strategies associated with their particular models of welfare. The core founding principles of the different welfare state models continue to be exhibited in contemporary welfare systems. Despite the fact that the survival of welfare states is predominantly linked to path dependency mechanisms, some elements of adaptation to the dominant globalization discourse is inevitable, thereby moving it somewhat closer to a neoliberal approach.

Having presented the current debate in the world of welfare states and social policy, and linked this to the development of ideas in the early discussions of the welfare debate, the next chapter moves on to examine the main challenges that welfare states have encountered in adapting to a competitive market economy.