The global economic crisis that began in 2008 has presented serious challenges to welfare states, shaking their financial, social and political foundations in what has become the worst economic fallout since the Great Depression. This book provides an in-depth analysis of the impact of the crisis on social policy and welfare state development in Europe and North America. The varied national experiences of the crisis are examined and put into a wider intellectual and historical context. The book poses such questions as the following: What has been the impact of the current crisis on social policy? Has the crisis heralded a new phase of entrenchment and austerity, or are there signs of opportunities opening up for progressive social reform?

The volume is a collection of 16 chapters by authors from different disciplines within the humanities and the social sciences. It contains both general surveys and country-specific studies dealing with a range of issues and provides a broad overview of the present crisis and its implications for the future development of the welfare state.
Retrenchment or renewal?
Welfare states in times of economic crisis

Edited by
Guðmundur Jónsson and Kolbeinn Stefánsson

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Helsinki 2013
The Nordic Centre of Excellence NordWel (The Nordic Welfare State – Historical Foundations and Future Challenges) is a multidisciplinary, cross-national research project and network of eight partner units in the Nordic universities. It is a part of NordForsk’s Nordic Centre of Excellence Programme on Welfare (2007–2012). NordWel is hosted by the Department of Political and Economic Studies at the University of Helsinki.

The mission of NordWel is to deepen our understanding of the development of the Nordic welfare state in order to foster the research-based discussion on Nordic societies and their future. This involves the establishment of a highly-integrated Nordic research platform within international welfare research.

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Preface

The aim of this book is to provide a better understanding of the impact of the economic crisis of 2008 on social policy and welfare state development in Europe and North America. We have sought to capture the varied national experiences of the crisis as well as relate the various welfare issues to their wider intellectual and historical context in order to get a better grasp the nature and scope of the crisis.

The book is a collection of 16 previously unpublished research chapters selected from papers presented at a conference titled “Crisis and Renewal: Welfare States, Democracy and Equality in Hard Times”, held in Reykjavik in June 2011. The conference was hosted by three Nordic centres of excellence, NordWel (The Nordic Welfare State—Historical Foundations and Future Challenges), EDDA, Center of Excellence, and REASSESS (Reassessing the Nordic Welfare Model). We are indebted to these centres for sponsoring the conference and the preparation of this book. We would also like to thank the conference-organising committee which included professor Pauli Kettunen (Helsinki University) and Klaus Petersen, director of the Centre for Welfare Research (University of Southern Denmark, Odense), on behalf of NordWel, and Irma Erlingsdóttir (University of Iceland) and Sigríður Porgeirsdóttir (University of Iceland) from EDDA. Special thanks goes to Sveinn Máni Jóhannesson, the coordinator of the conference, for his effective and diligent work. Two anonymous referees have critically reviewed the book and given constructive comments on its content. We are indebted to people who have given us invaluable assistance during the process of preparing the book, especially Heidi Haggrén, the coordinator of NordWel, and Neal O’Donoghue for his thorough language editing. Last but not least, we are grateful to the participants of the conference and in particular to those who have contributed to this volume.
CHAPTER 1

Introduction

From boom to crisis

Rarely in modern history has there been such a rapid shift in the world’s economic fortunes as during the first decade of the twenty-first century. From the early 1990s until 2007, industrial economies enjoyed an unusually long period of economic prosperity, with output growing faster than the population, international trade paving the way for increased productivity, and living standards generally on the rise. The general public enjoyed the biggest rise in disposable income and private consumption since 1945.

But the boom proved to be fragile and built on weak foundations. The oversized financial sector and high leverage of huge macroeconomic imbalances posed a major threat to stability. Cheap credit from East Asia fuelled ever-higher levels of private and corporate debt, creating a bubble economy that would burst in 2007–2008. The near collapse of the financial system triggered the biggest economic recession worldwide since the Great Depression of the 1930s, quickly developing into a major economic crisis as output and employment contracted.¹ This was no ordinary recession. Output in the OECD countries stagnated in 2008 and fell by 3.6 per cent in the following year.² Although growth resumed in many countries in 2010, economic recovery has been weak and uneven; some countries, especially in Southern Europe, have even fallen back into recession. The bank-fuelled financial crisis soon turned into a sovereign debt crisis as many states, particularly in the Eurozone, attempted to save their banking sectors and the economy. The Eurozone crisis has compounded the economic situation in Europe and remains one of the biggest problems of the world economy.

² OECD 2012b.
The events of 2008 were more than an economic crisis. They triggered a serious political crisis as the failure of the financial system created a deep distrust not only of the financial elite but of political institutions as well. In countries from Iceland to Greece, Hungary to Spain, it produced a major political turmoil involving power shifts and protests in which fundamental issues about legitimacy, governance, and responsibility in the political system were called into question. In many countries, demands for radical reforms were made, calling for changes in both the political and economic order.

It is difficult to generalize about the short-term costs and outcome of the crisis because national experiences vary greatly in terms of its economic, political and social impact. While the epicentre was the United States, the biggest economy in the world, the crisis hit countries worldwide. Some countries, especially those with a well-financed and well-regulated financial system like Norway, Canada, and Australia, suffered much less than the liberal market economies of the United Kingdom, the United States, and Denmark, whose financial sectors had expanded greatly in the preceding decades. Many of the newly emergent market economies in the Balkans and South-Eastern Europe were hard hit and even more so the four Eurozone nations of Southern Europe, Portugal, Italy, Greece and Spain, as a result of low growth and huge national debt. Two of the most serious casualties of the crisis, Ireland and Iceland, both of which are dealt with in this book, pursued expansionist monetary policies and had lax frameworks for their financial sectors, which became ‘too large’ compared to the size of the domestic economy, exposing the countries to the vagaries of the international economy. But their responses to the crisis were very different. In Ireland the state assumed full responsibility for bank losses and took the path to austerity with serious consequences for individual and social welfare, whereas in Iceland the government was unable to save the banks — they were simply too big to be saved — and embarked on the road to relatively quick recovery through huge depreciation of the national currency and a programme developed with the IMF which included a fiscal consolidation based on a mixture of expenditure reductions and revenue increases.
The hardship of millions of people in the wake of the crisis is reflected in the big rise in unemployment, which peaked at 8.3 per cent in OECD countries in 2010. Again, national experiences vary greatly; in Northern Europe the unemployment rates have varied between 5 and 10 per cent, while the high unemployment countries of Southern Europe, Ireland, Hungary, and Estonia have had rates well above 10 per cent. The United States was an early casualty of the crisis with unemployment rising fast from early 2008: figures would peak at 9.6 per cent in 2010 before subsiding relatively rapidly in the following years. In countries like the United States where many workers have to rely on employers’ provision for access to health insurance instead of government-funded health insurance, losing one’s job can mean losing health care coverage and other fringe benefits.

The severity of the crisis has forced governments to intervene in the financial system and the economy more generally on an exceptional scale. Governments have borne a large part of the costs of the crisis through various measures to support financial institutions and private firms. Support packages by means of capital injection, purchase of assets guarantees, and central bank support were implemented between 2008 and 2010, ranging from zero in several countries to 267 per cent of GDP in Ireland. UK and US support packages were valued at over 80 per cent of GDP. Shrinking public revenue and rising social costs as a result of increasing unemployment and economic hardship have put a further squeeze on the public sector, leading to huge fiscal imbalances and accumulation of public debt.

Social policy responses: retrenchment or renewal?
The economic crisis has posed a serious challenge to welfare states, shaking their financial, social and political foundations. This is certainly not the first crisis—material or ideological—of the welfare state, for there has been almost a permanent debate since the 1970s over the welfare state in crisis.

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3 OECD 2012c.
4 Farnsworth & Irving (eds) 2011, 15–21.
5 The average gross debt in the G7 countries in 2007 was 73 per cent of GDP, increasing to 99 per cent of GDP in 2009; cf. Farnsworth & Irving (eds) 2011, 17.
6 Hemerijck 2013.
The current crisis, however, stands out in the severity and global spread of the economic downturn, which makes the challenge ever more formidable. How have welfare states responded to the economic crisis in terms of social policy? Has the crisis heralded a new phase in the development of the welfare state, the age of austerity, with deep cuts in social spending and the rolling back of established entitlements? Or, are there signs of renewal in which the opportunities opened up by the extraordinary situation created by the crisis have been seized to reform social policy?7

The multifarious experiences and outcomes of the recent crisis conveyed in this book render bold generalizations hard to make. We know, at least, that the neoliberal version of market economy has been discredited and the spell of inevitability which it cast over the world’s economy has been broken by the dramatic events of the last five years. There was a strong tendency both in social theory and public debates to postulate the inevitability of neoliberal globalization by arguing that its innate logic would move nations to converge on laissez-faire capitalism. The European ‘social market economy’, with its generous welfare systems, was seen as an anachronism in the globalized economy.8 The course of events—and the empirical research—suggests that such propositions are exaggerated if not outright wrong. Rather than social change being directed by some irresistible social forces, the evidence suggests that different societies respond to similar challenges in a variety of ways and that these various responses are contingent on numerous factors.

Throughout much of the world the response of states has been ‘the return of political economy’ in which governments have expanded their activities and played a more active role in society. Not only have they provided massive guarantees for banks’ debts and assets and injected capital into ailing banks but they have also expanded their role as regulators of the financial sector, coordinators of institutions and actors on the market, and providers of social policies to reduce the costs of change. Regulation of the financial sector, nationalization, higher taxes, Keynesian economics—all are

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7 See discussion on the welfare state as a casualty of the financial crisis in Hemerijck 2013 and Farnsworth & Irving (eds) 2011.
8 See for example McGovern, Hill, Mills & White 2007; Rodrik 2011; Hemerijck 2013.
on the political agenda, although it remains to be seen whether they herald a long-term shift towards a more ‘coordinated capitalism’.9

The ‘stress test’ of welfare states has particularly focussed on their financial capability in the face of fiscal deficits and huge public debt incurred by the crisis.10 In response, many countries have implemented measures to tighten public finances by a combination of tax increases and savings. One path is fiscal prudence, cutting state expenditures and retrenching the welfare state in order to balance budgets and reduce public debt. There has been a clear move to austerity in Britain and Ireland as chapters five and seven in this book show. In Britain, prime minister Cameron framed ‘the need’ for austerity within the rhetoric of creating the ‘Big Society’, a concept that referred to the empowerment of civil society actors with charities and voluntary groups stepping in and fulfilling some of the tasks performed by the state.11 The government set out a radical agenda that included major changes to the funding of higher education, a controversial reorganization of the NHS, and a significant overhaul of the welfare system.

The other path is the social investment strategy and stimulation of the economy and applies countercyclical measures to boost the economy and compensate those that have been hurt economically by the crisis. Various stimulus packages have been put together for those purposes, most notably in the United States where the first two years of the Obama administration saw the adoption of potentially substantive change in US social policy. The American Recovery and Reinvestment Act, a wide-ranging economic stimulus package, was pushed through, including measures that eased the eligibility requirements for food stamps and unemployment benefits. Health care reforms were also enacted despite formidable opposition. Iceland is another example of a country that adopted this strategy, or what has been termed a heterodox mix of balanced budgets combined with a Keynesian emphasis on shifting the burden insofar as possible from the poor and onto the more affluent. These two different models suggest that while circum-

9 Stiglitz 2010; Wade 2009; Magnus 2011.
10 Atkinson 2009.
stances impose considerable constraints on the options available to governments, wholesale austerity is neither inevitable nor feasible.

Comprehensive welfare systems, which require large social expenditures that typically account for 20–30 per cent of GDP in the more advanced countries, have now been subject to cuts in various fields. Yet, social expenditure ratio has risen across the OECD countries from 19 per cent to 22 per cent between 2007 and 2009 and has remained high since. This is not only because of slow or declining GDP but also because of an increase in real social spending. Again, there are great variations between countries. The largest increase in real social spending was in Korea, Switzerland, and Norway, while hard hit countries like Italy, Portugal and Iceland had the smallest increase; in Hungary and Greece there was a substantial decline in social spending. The rise in social expenditure is largely a result of the social safety net acting as an automatic stabilizer by reducing the impact of the economic downturn through social benefits and social assistance. In the wake of the crisis the more comprehensive welfare states in Europe showed remarkable resilience in reducing the impact of deteriorating living standards and in ameliorating social hardship. Some, like the Nordic countries, were even able to increase social investment. The general picture is, of course, more complicated and as the unfolding sovereign debt crises in Europe coupled with low economic growth has put further pressure on public finances, many governments have increasingly resorted to social retrenchment.

The theme and structure of the book

The theme of this book is the impact of the recent economic crisis on welfare and social policy in Europe and North America. It seeks to address such fundamental questions as the following: What are the actual social policy changes resulting from the economic crisis? Has social policy been characterized by retrenchment policies that emphasize fiscal prudence or countercyclical measures designed to boost the economy and compensate

12 OECD 2012a, 1.
13 Andersen 2012.
14 Hemerijck 2013, chapter 9; Farnsworth & Irving (eds) 2011; Vis, van Kersbergen & Hylands 2012.
those people economically hurt by the crisis? Have budget cuts been used to reinforce neoliberal ideological agendas of reducing the role of the state in society? Has the crisis affected men and women in different ways, or people’s attitudes towards gender roles and the gendered division of labour, both within the home and between the home and the labour market? How sensitive are policy makers to the gender dimension in responses to economic crises and in strategies to promote employment and equality in the labour market? How has economic crisis affected the basic democratic institutions and political landscapes?

These different questions are addressed by the book’s 20 contributors, who come from different disciplines within the humanities and the social sciences, giving the book a distinctive interdisciplinary character as well as different perspectives on crises and social welfare. Because the book contains both general surveys and country-specific studies and touches on a wide range of issues, it provides a broad view of the present crisis, even as it places the crisis in a historical context. It has a considerable geographic spread, including Denmark, Finland, Hungary, Iceland, New Zealand, the United Kingdom, and the United States, with a strong representation of crisis-ridden countries such as Iceland and Ireland.

The book is divided into four sections. The first section seeks to put the relationship between welfare states and crises in a wider intellectual and historical context. Considering the development of the concept of welfare and its ideological environment in a long-term perspective, Michael Freeden, in chapter two, maintains that welfarism has always been difficult to classify within the standard ideological groupings and the indeterminacy of its conceptual apparatus can illuminate some of the reasons for the current crisis of the welfare state—a crisis of conviction as well as of material fact. In recent decades, Freeden argues, there have been attempts to redefine the ideological and conceptual framework of welfarism. Firstly, the central issue in theoretical debates is no longer the scope and scale of state intervention; with governance replacing government as the focus of attention, the emphasis has shifted to processes of policy delivery. Secondly, there has been a tendency to replace ‘the language of citizenship that underpinned much
twentieth-century welfarism with that of clientism’ in which individuals are increasingly seen as customers and recipients of services. Thirdly, compared to its optimal early twentieth-century meanings, the notion of human rights has undergone a narrowing at the beginning of the twenty-first century, evidenced by the attempts of contemporary discourse to recalibrate welfare rights as private, egoistic and even anti-social—claims that can damage social stability and undermine the so-called rationality of markets.

In chapter three, Christopher Lloyd explores the development of social democratic welfare capitalism (SDWC), which he sees as the ‘the hegemonic regime’ of the Western world since the 1940s. This regime is now under threat from the deteriorating fiscal capacity of states, the decline in power and legitimacy of its principal institutions such as unions and political parties, and the rise of societal forces that reject the authority of the liberal-capitalist state. Lloyd asks if SDWC will emerge intact from the current crisis or be transformed into something else and argues that there is a case to be made for a positive vision of SDWC’s future. The industrial maturation in the world economy will continue to produce social democratic demands as massive dislocations and rising standards of living around the world produce popular pressure for social reform. More controversial is Lloyd’s argument that there may be a sociobiological support for the viability of welfare society in light of new research which shows that impulses for fairness, egalitarianism, and democracy are deeply inherent in the human behaviour.

In chapter four, the last in the section, Diane Perrons locates the roots of the current recession in the rapid expansion of inequalities fostered by neoliberal global development. Grounding her analysis in both Keynesian economics and Polanyi’s theory of the double movement, she argues that it is necessary to re-establish social control over markets, which left to their own devices are insensitive to social needs. Perrons concludes the section on a positive note by offering constructive feminist proposals for transformative policies that redress gender and social inequalities by giving priority to reproduction over production.

The second section presents a variety of studies on the welfare consequences of the crisis in order to assess policy reactions and constraints.
While the United States and the United Kingdom both belong to a welfare state archetype frequently referred to as ‘liberal’ or ‘Anglo-Saxon’, their reactions to the recession differed substantially, with the former opting for a modest stimulus and the latter for all-out austerity. In chapter five, Daniel Béland and Alex Waddan provide an account of these different developments and trace them to institutional factors that shape both the agenda setting and policy outcomes in those two countries.

Iceland is something of a poster child for those that oppose austerity measures, as chapter six shows. Stefán Ólafsson reviews indicators of the level of living in Iceland following the collapse of the banks and relates the results to the policy emphasis of the Icelandic government, which emphasized sheltering the vulnerable insofar as possible and shifting the burden onto the more affluent while maintaining strict fiscal discipline. While the recession has indubitably imposed considerable hardship on large sections of Icelandic society, the evidence suggests that this emphasis mitigated the worst effects of the crisis and has been effective in promoting economic recovery.

Mairéad Considine and Fiona Dukelow compare the 1980s recession to the current crisis in Ireland, one of the most serious casualties of the current crisis. Chapter seven outlines how these crises manifested themselves in economic and social terms, and explores the policy responses and the manner in which they were framed. Although the economic and fiscal narratives were broadly similar, the different nature of the economic shock in the 1980s and the political and social conditions in which it played out resulted in more substantial instances of welfare resilience. The neoliberal influence on the economic and social architecture of the state weakened the social solidarity that underpins social welfare and explains the extensive welfare retrenchment in the current crisis.

In chapter eight, Guðmundur Jónsson and Magnús Sveinn Helgason offer an insight into the crisis in Iceland by focusing on one of the greatest consumer booms and declines of any developed country over the last two decades. Public discourse has assigned the consumer an important role in the advent and the unfolding of the economic crisis. Reckless spending
and excessive consumption are seen as a major contributory factor to the crisis. The authors present a quantitative analysis of the rapid rise and fall of private consumption between 1994 and 2010 that focuses on changes in consumption patterns and growing debt financing of consumption. From a different perspective, consumer experiences and their attitudes to consumption, debt, and economic well-being are explored by means of an interview study.

The increasing burden of pension systems has been one of the major challenges of welfare states in recent times. Matti Hannikainen examines this specific policy area in Finland in chapter nine, showing how economic crisis have paved the way for radical pension reforms. But the outcomes of these reforms cannot be described simply in terms of retrenchment nor can they be explained in terms of capital imposing its interests on society as such. It is rather a story of conflict and cooperation between different interests, with labour market organizations playing a central role in determining the outcomes.

The third section is concerned with gender perspectives of the economic crisis, gender equality, and gender roles. In chapter ten, Jyl Josephson looks at how the crisis has been construed in gender terms in the United States through the concept of ‘mancession’. While men suffered more job loss than women following the onset of the recession, the popular discourse of mancession suggested that women were in fact gaining from the recession rather than loosing somewhat less than men. The mancession story has proven to be a persistent myth, even as women are benefitting less from the recovery than men, which may in itself be the result of recession-related unemployment being framed as primarily affecting men.

In chapter eleven, Ivett Szalma and Judit Takács offer a sophisticated analysis of European survey data that measures attitudes towards gender roles. They find that the crisis does not affect gender roles in a straightforward manner. Its consequences pull in different directions, affecting the attitudes of different groups in different ways. They conclude that the crisis does not have a direct impact on gender role attitudes but that it operates on them indirectly through the myriad of circumstances that it affects.
In a case study of Iceland presented in chapter twelve, Ingólfur V. Gísla-son identifies three main developments during the recession in Iceland that pull in somewhat different directions. Firstly, the labour market position of men and women became increasingly similar on account of men losing more jobs than women and experiencing a larger reduction in working hours. Secondly, women increasingly moved into positions of decision making. These changes moved Iceland further towards gender equality. On the other hand he argues that reactions to the crisis at both state and municipal level may pull in the opposite direction, citing the partial retrenchment of paid parental leave in particular. His conclusions are cautiously optimistic. Insofar as such policy changes will be undone as the economy recovers, he sees little reason to expect that the crisis will have a negative impact on gender inequality in the long run.

Hanna-Kaisa Hoppania focuses on social care services in Finland in chapter thirteen. She challenges the discourse on population aging by placing it in a political context. Specifically, she points to the roots of the problem in the neoliberal concern with efficiency that has turned the care relationship into a customer/provider relationship. The issue of elder care tends to be presented in terms of procedural fairness but says nothing of the distributive patterns of care labour, formal or informal. Hoppania argues that we should instead construct elder care policy that requires not only new legal regulation but social change too.

The last section of the book examines the political responses to the crisis and the possibilities of long-term reform—from resurgent activism to radical constitutional reform. Despite evidence contradicting the inevitability of austerity and neoliberal convergence, it seems difficult to break the hold that neoliberalism has on the political imagination. There is ample reason for the opponents of neoliberalism to worry that the correct lessons from the current recession are not being learned. In chapter fourteen, Jane Kelsey provides a detailed account of the obstacles they face. Whereas it is conventional to see embedded capitalism and neoliberalism as opposites, Kelsey argues that neoliberalism itself has become embedded in institutional frameworks at both the national and the international level. Thus it is not simply
ideational sclerosis that stands in the way of reform but rather a Ulyssean commitment to staying the course however appealing the Siren-like alternatives may seem.

In chapter fifteen, Fiona Dukelow provides an account of the economic and political discourses prevailing in Ireland during the present crisis and, in particular, she explores the ideational conditions that facilitated ‘the rapid self-directed’ turn to austerity. She pays particular attention to taxation and public expenditure decisions and how they were linked to beliefs about global competitiveness that significantly narrowed the field of policy options.

Michael Kuur Sörensen tells a similar story about Denmark in chapter sixteen. He examines the discourses of the 1970s on both sides of the political spectrum and contrasts them with the discourses emerging in wake of the 2008 crisis. He argues that the earlier recession bolstered welfare state scepticism on the right, while the present recession has raised doubts in the welfare state’s social democratic heartland.

In the last chapter of the book, chapter seventeen, Vilhjálmur Árnason focuses on democracy in Iceland before and after the banking crisis. He identifies critical flaws in liberal democracy as practiced in Iceland in the years before the banking crisis. It may be claimed that Iceland has seen some democratization in the wake of the crisis, with national referendums playing a larger role than ever before. Árnason, however, is highly critical of these developments, putting them down to distorted republican reaction that exploits a weakness in Icelandic society. Rather than throwing the baby out with the bathwater, he makes a constructive proposal about how Icelandic democracy must be reformed.
References


Part I
WELFARE AND CRISES
For J. A. Hobson, who shares with Richard Titmuss the distinction of being Britain’s most innovative welfare theorist, welfare concerned the ‘relations between economic and ethical, or human, values’. It assumed ‘organic unity, the good life as a whole’ and it married the individual as a ‘psycho-physical organism’ to considerations of ‘social welfare, implying that societies generated their own standards of well-being’.1 His work was a milestone in what may be termed welfarism, arguably the most important body of political thinking to emerge on the domestic front of a number of European societies in the twentieth century. To be more specific, we should be talking about a cluster of welfare ideologies displaying Wittgensteinian family resemblances, while exhibiting some pronounced differences as well. Thus, the social democratic belief systems of Nordic states, with their advanced languages of social rights, overlap heavily with the left or new liberalism that emerged over a century ago in the UK, while continental Christian democratic principles share some communitarian features of unconditional social responsibility with non-conservative welfare thinking.

Ideologies always are combinations of concepts such as liberty, justice, power, or equality, but they order those concepts in different configurations, just as one could construct different rooms with the same modular units of furniture. Political concepts are essentially contestable; that is to say, each

1 Hobson 1929, 11–17.
concept contains more conceptions than can be expressed in any single utterance (among the conceptions of equality, for instance, we find identity, similarity, equality of need, of merit, or of outcome, but no meaningful sentence can combine them all). Ideologies serve to decontest such multiple and often conflicting conceptions of the concepts they harbour. Their aim is to compete over the control of public political language and consequently over public policy by insisting that the conceptual configurations they promote are the ‘correct’ ones. Of course, each ideology may tease out different meanings from the same concept. There are both logical and cultural constraints on the acceptable combinations that constitute an ideology, but it is important to recognize the flexibility and mutability of ideologies over time and across space when we assemble them in their loose families, and to abandon the view of ideologies as necessarily rigid, doctrinaire or unduly abstract. Doing so enables us to investigate the field more closely. The fact that we refer to the welfare state as a set of institutional structures and practices, yet have no name for the ideology that has both shaped and accompanied it, tells us something about the relative invisibility of that ideological stream. No less importantly, the rigidity and conventionalism of much ideological analysis has resulted in the difficulty of classifying welfarism within the standard groupings of liberalism or social democracy, particularly when the latter are caricatured as mutually exclusive rather than as possessing permeable and overlapping boundaries.

Such caricatures have often been politically motivated, as different ideational movements profess paternity over welfare thinking while dismissing out of hand competing claims for such paternity. As late as the 1970s, for instance, the British welfare state was presumed to be the product of Labour socialism. Such misperceptions of liberalism resonate even now under the rhetorical cloak of neoliberalism. But we currently possess a far more subtle understanding of the genealogy of the welfare state. The story of twentieth-century welfarism is related on the surface to the rise and partial decline of the left-liberal ideology that launched it in Northern and Western Europe a century and more ago, even though within left-liberalism itself some tendencies were hostile to a fully-fledged vision of welfare. Although crises of
welfare are usually related to economic constraints, to institutional shortcomings, to welfare expansion and growing demands on welfare services, and to a disconnect between policy intention and outcome, I want to suggest that the underlying conceptual contestations of welfarism contained from their inception the potential of disrupting an ideational concord. Appreciating such an underlying disorder sheds light on the potential fragility exhibited by ideological solutions to policy challenges when welfare systems come under pressure.

Welfarism was mooted as a solution to a series of problems that became salient towards the end of the nineteenth century, while at the same time it reflected extraordinary developments in thinking about human nature, social relationships, time, and predictability. Historically, the concept of welfare was crafted from a number of antecedent concepts that underwent mutation, both as part of an evolutionary process and because they crossed the paths of other concepts. Some of the reasons for the current crisis—a crisis of conviction as well as of material fact—can be located in the indeterminacy of the conceptual apparatus at the disposal of the welfare discourse coined a century and over ago—one that has undergone mutation as well as mutilation. Some conceptual meanings were appropriated by certain ideologies, others were dismissed because of their colonization by ideologies hostile to this or that conceptual interpretation—of organicism, work, welfare itself. The debris of those collisions between ideologies—as the features of one ideology became intertwined with, or conversely expelled, the features of another—reshaped clusters of meaning. Thus the linking of liberty and progress, for example, pushed conceptions of liberty that were neither purposive, nor beneficial to the agent, off the ideological agenda, and enhanced the notion that the concept of human (and social) progress was a form of personal growth that also contributed to the freeing of human capabilities.

The evolution of welfarism

During the formative period of welfarism, in a significant shift of expectations, states and governments began to focus not merely on power and aggrandizement, not even on wealth formation and accumulation as ends in
themselves, but on the individual satisfaction that social arrangements could deliver. Two movements of thought contributed to that shift in particular: the first was utilitarianism; the second, early nineteenth-century socialist utopianism. Benthamite utilitarianism introduced a vitally new perspective on the central disposition of human beings. In a return to a psychologism last seen in such powerful measure in Hobbes’s state of nature, but equipped with very different assumptions, individuals were defined as pleasure maximizers. Gone was the quasi-legal language of contract theory with its agency-oriented rationalism and its assumed voluntarism. Instead came the identification of a fundamental feature of human conduct that necessitated certain organized social arrangements that would assist in promoting the greatest happiness of the greatest number. A generation or so later, John Stuart Mill crucially transformed that appreciation of the individual as a seeker of self-expression from pleasure to happiness to well-being, creating an important base from which to interpret welfare as tantamount to human flourishing. The quantitative computation of the utilitarians was replaced by qualitative assessment, in contradistinction to many current assessments of the welfare state that are once again embedded in measurement.

Quite separately, continental protosocialists, as well as Marx himself, were recognizing an aspect of being human that was to obtain central, if controversial, significance in later welfarism. In the words of Saint-Simon, ‘we regard society as the ensemble and union of men engaged in useful work.’2 That opened up possibilities both for capitalism and for socialism, with Marx tipping the balance in favour, in his words, of work as ‘vital activity’3—a life-enhancing property of being human. The notion of industry was linked not, as is now the vernacular practice, to the large-scale technologies and factories involved in producing mass goods, but to the dedication and satisfaction that labour could elicit in individuals. A remarkable shift of emphasis took place, accentuating the producer-oriented act of production side by side with the consumer-oriented product. Work was released from its connotations of drudgery and rendered synonymous with self-realization, with tapping into

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2 Saint-Simon 1975, 158.
3 Marx 1977, 81.
the essence of being human. That is patently manifest in Hobson's writings. That is why the phrase ‘from welfare to work’—the dichotomizing mantra of American welfare policies—is alien to that early idea of welfare. Work was crucial to human well-being itself, and the implicit inclusiveness of the human condition resisted the morphological association of welfare with temporary assistance to marginalized social groups. In welfare legislation that comprehensive idea of work was expressed in measures to alleviate the dehumanizing condition of unemployment, while the right to work was frequently trumpeted by socialists—in both cases not merely as a means to assuage poverty. Utilitarianism and its qualitative offshoots converged on those early socialisms on three dimensions: in an adherence to the notion of a science of society, in an egalitarian view of the status of members of a society, and in regarding human self-fulfilment as the highest state of both individual and social life. Power, defence, wealth making, and individual freedoms retained their position as principal aims of government or civil society, but some important markers towards welfarism had been laid down.

The potentially radical feature—now in decline—of pinning welfare hopes on an active state was originally the outcome of three preceding intellectual developments: first, the increasing acknowledgement of social interdependence as a structural inevitability as well as an enriching human resource; second, the epistemological recognition of future time as involving risks and uncertainties and hence requiring planned anticipatory responses that aimed at partially controlling the future; and third, a belief that democracy was endowed with taming and mitigating attributes that could counterbalance the reductionist view of the state as an instrument of external and sectional power. These transformations breathed discursive persuasiveness into the ideational power of welfarism. That said, the germs of current tensions and crises may be found even in the most positive and optimistic initial visions of welfare, or perhaps precisely because such optimism tended to paper over discernible cracks. The ideals of welfarism always contained the possibility of serious contention in their very conceptual construction. The ideational solutions that were so grandly broadcast at the time were themselves also responsible for unforeseen complications at the ideological
level, fragmenting available and future policy options, and weakening the effects of welfarism.

The first ideational development was the dominance of a particular view of organicism that was pivotal in disseminating strong versions of welfarism. That dominance was of a specifically liberal kind. Rather than submerging individualism in a suffocating social container, the idea of human interdependence that socialists and left-liberals developed more or less independently of each other invoked a powerful sense of mutual sustenance, as is evident in Ernst Wigforss’s matching of liberty and community. As the liberal theorist L. T. Hobhouse crisply put it, ‘[m]utual aid is not less important than mutual forbearance, the theory of collective action no less fundamental than the theory of personal freedom.’ The specific twist of organicism in liberal welfarist thinking was, as Hobson, Hobhouse’s colleague, understood it, in its insistence that the flourishing of the individual—the part—was absolutely vital to the health of the whole; otherwise the social body would atrophy. That injection of liberalism into welfare state thinking cannot be overestimated. The conceptual fluidity of the notion of organicism was harnessed in a very different direction than that traced by its authoritarian and even totalitarian implications. Such flexibility is a typical feature of ideologies, seeking to retain existing terminology in order to create a semblance of continuity, while divesting concepts of some existing meanings and replacing those with new ones.

Regrettably for the visionaries of liberal welfare, however, the organic analogy turned out to be ill-equipped to protect welfare theory and practice, even though Titmuss would resurrect that idea in the mid-twentieth century. One problem with such welfarist thinking was that it assumed an implicit teleology in which a point would be reached beyond which substantive structural change was no longer required—as in much utopian thinking, to which it was a second cousin. That assumption posited an idealized

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5 Hobhouse 1911, 124.
6 Hobson 1909, 71–87; Hobson 1914, 304; Hobson 1906, 496.
7 Freeden 1978.
8 Titmuss 1963, 39.
and unrealistic trajectory virtually immune to disruption—hardly a formula for coping with the messiness of the real world. Organic harmony and unity could therefore be misinterpreted as entailing an ultimately static state, where order and stability are important side effects. No less significantly, those side effects were shunted into stage centre by reluctant conservative converts to welfarism. For conservatives, the crucial aspect of organicism was not as a metaphor of mutual dependence but as one of natural continuity—hardly an idea that would encourage radical thinking. In their hands it took the wind out of the sails of a vision of human regeneration. The attraction of organicism diminished sharply after World War 1, replaced by pluralist theories that extolled the significance of distinct groups, while the rise of the extreme organicism of totalitarian systems deterred further thinking on those lines, in a manner not dissimilar to the post-1980s disinclination of post-communist societies to consider social democracy as a separate ideology far removed from communism. The seeds of future crisis were contained in the tension between that tightly-knit view of society and its increasing rejection both as fact and as desideratum.

The second ideational development at the end of the nineteenth century saw another milestone in the emergence of welfarism, relating to a modified view of human nature. Once again, older conceptualizations were retained, but their relative weight was sharply reduced. The mid-nineteenth century view of human beings as active agents, aggressive entrepreneurs, and autonomous self-developers was not abandoned, but its unacceptable social costs became plainer to see as the century drew to an end. Alongside a more acute sense of social interdependence there arose a complementary conception of human nature that reacted against the assumption of internal individual strength and its corollary—the moral condemnation entailed by the inability to display such strength. It was becoming evident that human frailty was not a defect or suboptimal condition, but normal. Moreover, it was ubiquitous, affecting rich and poor alike. Irrespective of the curse of poverty, human beings often could not cope with existential contingencies such as

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disease, old age, unemployment, and ignorance. The world of insurance had of course focused heavily on selected risk, but life was now seen as inherently risky, and human fragility was recognized as ubiquitous and hence as a social concern, for reasons both linked to humanism and to sound economics. Hence the introduction for the first time of national budgets that incorporated financial planning for a number of years ahead; hence also the preoccupation with the future timeline of current members of society as old age threatened over the horizon, and with the future vitality of society at large in welfare legislation for children. Those were not merely humanitarian acts but forms of social investment—as was the Fabian ‘endowment of motherhood’ movement and the attraction of eugenics for the left.10

The introduction of uncertainty concerning human nature weakened teleological views of individual progress inherited from the Enlightenment. Instead, the belief in progress was shifted to a new certainty about the efficacy of organized social solutions. But to complicate matters further, while that welfarism raised expectations about the temporal trajectory of satisfying a broad range of human needs, those expectations became increasingly unattainable—both as quasi-utopian in principle and because growing financial constraints ensured that their delivery was unrealistic. Some see this as the welfare state being the victim of its own success, but the point is that ab initio the criteria of ‘success’ were elusive, vague and contestable. The seeds of future ideological crisis were contained in the dual uneasy fit between two competing conceptions of human nature—self-sufficient and monadic, or fragile and interdependent—and between two views of future need-satisfaction—determinate and finite, or indeterminate and infinite—which have battled it out in the arena of welfarism ever since, with diverse ideologies attaching differential weight to each. The two latter views may themselves be further divided. For some conservatives the determinate and limited nature of human needs allows welfare policies to be contained; for other conservatives the insatiability of human greed will lead to a drain on national resources that welfarism perniciously encourages. For progressives, to the contrary, human needs are

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10 Freeden 2005.
open-ended and reflect the capacity of the human race to self-evolve and self-direct rather than inducing anxiety about a bottomless pit of desires.

The third ideational development accompanied the rise of mass democracy, which fomented great hopes in the domain of welfarism accompanied by what turned out to be grand illusions. The gradual democratization of Western societies had held out the prospect of a benevolent state, answerable to its members and sensitive to their needs. The language of state activity began to soften: the earlier term ‘state interference’\(^\text{11}\), indicating dislocation of normal processes and practices, gradually made way for ‘state intervention’, which implied sorting out a problem, and the even later phrases state ‘regulation’ and ‘enablement’. That crescendo of warming to the state was predicated on democracy minimizing the gap between rulers and ruled, with the state becoming an organ of social self-government, drawing in civil society as a friendly co-partner. But the short-lived honeymoon with the state actually piled up future problems and false expectations, overestimating the convergence of a rational and ethical popular will, given the exciting fruits of state enablement. The same democratic participation that was essential to tailoring welfare requirements to actual needs also unleashed a diversity of social fantasies about welfare, positive and negative, that was to become increasingly problematic. The supposed insatiability of wants, for instance, led large sectors in democratic welfare states either to fear the financial burdens and the free-riding of some, or to pin their hopes on welfare expertise and continual improvement in such areas such as health and education as a civil right—both tendencies often translated into the languages of party politics. Paradoxically, the very democratization of societies that initially alerted them to the severe problems of social diswelfare also legitimated disagreement about social ends and encouraged the expression of conflicting demands and of the dissent that pluralism brought in its wake.

Welfarism was also inspired by another highly significant development in liberal thought epitomized among others by Mill: the division within liberalism between a horizontal and a vertical dimension. The horizontal spa-

\(^{11}\) See for example Ritchie 1891.
tial liberalism focused on creating areas that detached the public from the private, on constitutionalism, on the separation of powers, and on reducing the role of government in social affairs. But to that was now added a temporal liberalism of growth, aiming at civilizing individuals and encouraging them to work out their variable potentials. Welfare was thus endowed with the elements of an historical project, a dynamic that would be realized in the continuous extracting of human capacity as the ultimate end of a good society. It was not a condition but an indefinite process. Far from involving mere techniques of redistributing material goods, welfarism revolved around the socially aided emancipation of human capacity that enabled each individual to progress along her or his personal trajectory. The main institutional consequence was once again the recalibrating of the role of the state as both enabler and intervener. Liberalism reduced, without entirely abandoning, its commitment to keeping the state at bay and to permitting individuals to pursue their own desires irrespective of the needs of others.

Two democratic dilemmas
The early liberalism at the heart of welfare assumed a harmony that did not incorporate liberalism’s late twentieth-century sensitivity to dissent, pluralism, and multiculturalism. Those nibbled away at any shared vision of human flourishing by challenging such joint standards, particularly in the area of cultural expression and group choices. That pluralism would have disturbed the founders of the welfare state, because it deviated from the generally unitary conception of the social good they had entertained. Notions of the common good optimistically suggested a singular view of social betterment, from which all social groups would benefit equally—because of the assumed identity of their needs in a macro sense, independently of the cultural reformulations of such needs. But the mitigating of liberal universalism through multicultural agenda—regarded by welfare thinkers as the next desirable stage of liberal inclusiveness—was also accompanied by anxieties about the kind of egalitarianism that was emerging, anxieties that of course

12 Freeden 2008.
did not emanate solely, or even mainly, from the welfarist camp. The liberal, not Marxist, vision of a 'classless society' and an undifferentiated nation had eliminated many social distinctions with which people felt comfortable, while generating a feeling of financial burden cultivated by social egoisms. Already at the outset of the twentieth century the 'bitter cry of the middle classes' became an issue with which welfare providers had to contend as redistribution began to bite.

The upshot was the emergence of two democratic dilemmas. The first was potentially self-destructive. Put bluntly, if welfarism was an ideology of the centre-left, there was no reason to expect that a legitimate democratic system, with a normal spread of ideological positions that waxed and waned with the vicissitudes of political fortune, would invariably maintain allegiance to welfare ideals. Only a forced conception of welfare that permanently ranked it at the apex of social priorities, endowing it with the capacity to trump other social values aspiring to political dominance, could have survived the unavoidable precariousness of political contingencies. That naiveté was indeed evident among the early welfare visionaries but was incompatible with another supreme twentieth-century value from which welfarism itself arose—respect for the indeterminacy of the democratic process. The seeds of future crisis were contained in a clash between the rosy belief in the rational singular integrity of social visions and policy, and a fundamental misconstrual of the incipient heterogeneity and disruptiveness of democracy, with its periodical rejections of altruism and inclusiveness.

The second democratic dilemma—a perennial one, but at the heart of some welfare policies, notably those pertaining to health provision—was the need to maintain expertise, a problem mirrored for instance in current environmental policy. Who knows? Who advises? Who decides? What constitutes a repository of knowledge? Regularly, liberal paternalist undertones crept into the debates, and the democratic gap persisted. Early welfare thinkers recognized that 'the present movement for social reform springs from

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13 A campaign by the journalist G. R. Sims in the Tribune newspaper during 1906. See also ‘The bitter cry of the middle classes’, Speaker, 11 August 1906.
above rather than below."\textsuperscript{14} The British social reformer C. F. G. Masterman referred to the settlement movement in which university graduates worked for a while in poor urban areas as—and I write this with some personal embarrassment—‘designed to place the culture and intellect of Oxford and Cambridge at the service of the poor and ignorant.’\textsuperscript{15} Liberals were hardly immune from mild forms of paternalism drawing their ideology away from egalitarianism; indeed, no welfare project can avoid that to some degree.

The second dilemma illustrates one liberal weakness, underestimating the role of power in delivering welfare goods—power being an inherently \textit{unequal} feature of the political—both through appeals to extra-democratic expertise and through overestimating the capacity of the state to deliver policies against resistance of whatever kind, or alternatively to fail in the delivery of such power acts. That problem has bequeathed its own categories of crisis, split neatly between the fear of an overbearing state and the disdain for an incompetent one. Yet the archetypal liberal unease with power and the ostensible liberal preference for rational consensus were never unequivocally borne out in actual liberal discourse. Note a telling sentence in a UK Liberal party pamphlet on national insurance in 1914: ‘Compulsion means simply a larger freedom.’\textsuperscript{16} Rousseau would have concurred. Welfare as a voluntary ideal required far too much starry-eyed hope, while lacking coordination and efficiency. But welfare policies, like all policies, require power in the form of decisions, co-ordination, the ranking of priorities, and the mobilization of support. None of these comes naturally.

The microanalysis of welfarism reveals from the outset a multifarious set of competing ideas, often sheltering under the same labels and employing similar language. However, the ideological splits in determining the relative positioning of welfare within a basket of social values became evermore evident—and I refer here only to those who broadly \textit{supported} the welfare state. Sometimes an attempt is made to obfuscate differences; at other times a struggle over colonizing and owning a central concept is unmistakable.

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14 Atherley-Jones 1893, 629.
15 Masterman 1901, 3.
16 ‘Why the Insurance Act was made compulsory and why it should remain compulsory.’
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For, as noted earlier, ideologies—welfarism is no exception—are always sites of competition over the control of public language. The mere presence of the same master concepts in more than one ideology tells us nothing about the work they do in each ideology, about their relative weight, or about the selected conceptual components that are packed into the concept. Welfare itself is such a concept, indeterminate enough to host contradictory, let alone divergent, meanings. Thus, conservatives attached welfare to providing increased industrial efficiency and promoting social order; social democrats and liberals linked it with nourishing social solidarity and human growth; and some socialists reluctantly tolerated it as a stage on the road to common ownership and distribution. Nationalist and populist undertones also abounded, as with the notion of Folkhemmet. Even among the high priests of welfarism there were inevitable squabbles about priorities and conceptual clusters.

Conceptual recalibrations and resurrected contestations
More recently, the competing debates surrounding welfarism have been subject to some crucial ideological and conceptual attempts at redefining the linguistic and rhetorical frameworks through which welfare policies and the welfare state have been approached. To some extent, thinking about welfare has gone full circle in recent decades, with arguments relating to a very thin understanding of welfare seemingly echoing nineteenth-century positions that only a generation ago appeared to have been discarded, if not buried. Yet this is not a question of simple historical replication. Three issues are of particular interest. First, within the profession of welfare theorists, policy analysts, and political scientists, the role and very presence of the state has come under increased questioning. The issue is no longer whether the state is too interventionist, too neutering of individual initiative or, conversely, insufficiently endowed with distributive powers. Rather, the theory of the welfare state has become a victim of the decline of theories of the state. With governance replacing government as the focus of attention, the emphasis has shifted to processes of policy delivery. On the one hand, welfare policies are deemed successful if they meet criteria of accountability, audit,
and transparency.¹⁷ As one Swedish commentator has put it, the change is one from ‘doing the right thing’ to ‘doing the thing right’.¹⁸ On the other hand, they are deemed successful if what is known as ‘evidence-based’ social policy can demonstrate statistically that certain mass outcomes have been produced. What was assumed a century ago now has to be proved, as more sophisticated understandings of the path from policy inception to policy delivery have moved centre stage. The immediate impact of that is to highlight the so-called ‘technicalities’ of welfare policy. They are taken as given and uncontroversial, whereas in effect they mask the ideological implications of those policies and sideline the macro-visions of welfare necessary to mobilize democratic support for welfarism—once again expertise replacing ethical public engagement. More recently, notions of performance accountability identify the legitimacy of a policy with achieving targets or with consumer satisfaction.¹⁹ In the latter case the old quantitative utilitarianism re-emerges in a new form, while collective and communitarian underpinnings of welfarism are bypassed.

Second, there has been an attempt—especially notable in public jargon—to replace the language of citizenship that underpinned much twentieth-century welfarism with that of clientism. That marketization of social relationships, so that individuals become customers and recipients of services, is much more conspicuous than it was when welfarism emerged as a partial antidote a century ago. The use of ‘customer’ to replace ‘passenger’, ‘patient’, or even ‘citizen’ introduces a monolithic, dehumanizing categorization instead of the multifarious subtlety of past welfare languages that identified diverse social ills. Furthermore, although economic and financial activity were valued as major forms of social contribution, what is different now is the absence of mitigating rules of social comportment or ostensible morality that took the edge out of blatant consumerism. What is nowadays referred to as the re-emergence of civil society often masks a shrinkage of civility and of the salience of citizenship.²⁰ This rawer, and more pervasive,
type of marketization, with its disengagement from social planning and distributive justice, implies a passive and non-participatory status in which redress for wrongs can be gained mainly through complaints to service providers rather than through the public and parliamentary discourse on which the welfare state pinned its hopes. That break-up and individuation have weakened the hold of welfare visions on the public imagination. The idea of citizenship at the heart of twentieth-century welfarism was predicated on a significant mixture of components that included a threefold set of categories: recognition of the worth of an individual as a full legal member of a society and as a bundle of needs (rather than wants) whose satisfaction was essential to human functioning and flourishing; participation in the goods a society had to offer; and the giving of full expression to the communal and interdependent features of human existence. Since the late twentieth century that complex conceptualization of citizenship has been partly eroded.

What is now popularly known as neoliberalism has endeavoured—with moderate success only—to colonize the ideological space that a social liberalism inhabited during the heyday of welfarism. This crisis is less one of welfarism itself and more about the ideological contestation between a liberalism necessary for welfarism to flourish and a market-inspired pseudo-liberalism. That neoliberalism has aggressively expanded the concept of liberty to occupy almost all the space within liberal ideologies, a space usually shared also with notions of individual development and mutual support. That emaciation of liberalism cannot sustain the thick ideology of the welfare state and can only retain a conception of welfare by resorting to its minimum humanitarian role as handouts to those unsuccessful in free competition. If the nineteenth-century social stigma of degenerate pauperism has been mitigated, the economic stigma of failure and the ethical stigma of individual irresponsibility are still not far beneath the surface, while the deregulatory frameworks for treating those have become procedural rather than substantial. The mood of resentment evident against welfare state re-

21 King & Ross 2010, 48.
distributions a century ago has been revitalized. That is not to suggest that neoliberalism has been victorious. It is a virulent and damaging form of attack on welfarism, and it exploits very efficiently some of the earlier critiques that lurked beneath its surface, but it has not been fatal.

Third, the notion of human rights has undergone shrinkage in relation to its optimal early twentieth-century meanings. A right is always a capsule that protects and prioritizes something considered to be socially and humanly valuable; it is always a right to the important value enshrined in its grammatical structure. But there has been an awkward shift in the directional flow of rights. The ‘discovery’ of welfarism was that rights had social origins and were intended to promote social needs alongside individual ones; that rights were a gift from society to enable its members to flourish and obtain all that was truly valuable in social life. Rights thus constituted part of the language of recognition and inclusion, and they were campaigned for by those already benefiting from society—social reformers, educationalists, radical politicians—to endow the have-nots. All that was beautifully encapsulated in Titmuss’s phrase ‘the right to give’ in which altruism was considered a privilege granted to members of a society. That altruism was deemed to enhance the character of human interdependence.24 Contemporary discourse has disparagingly attempted to reverse that flow by discursively recalibrating welfare rights in particular as private, egoistic and potentially anti-social claims that can damage social stability and undermine the so-called rationality of markets. Instead, it focuses on the older libertarian rights to non-interference, and on the traditional view of many individual rights as conditional upon the discharge of social responsibilities.25 And the multiculturalism discovered by a humane liberalism has ignited populist fears about immigration that place welfare rights on the defensive. As was the case a century ago, the moral strengths of liberalism are accompanied by its Achilles’ heels.

Welfarism has encompassed many significant elements. It has linked older notions of individual development with an ethos of mutual coopera-

tion. It has emphasized the role of the state as a promoter of regenerative social visions. It offers a gentler view of human nature, allowing the handling of individual fallibility without stigma. It has united liberal and social democratic languages in a powerful combination. It has espoused a universality of regard and treatment, while remaining alert to different claims in and across societies. It has also been too naively optimistic, has raised social expectations and fear in almost equal measure, has subscribed implicitly to forms of paternalism, and has underestimated the democratization of politics that spawned it and concurrently facilitated its (partial) erosion. And it has proved vulnerable, though not fatally so, to other ideologies that have raised their profile once again since the last quarter of the twentieth century and that have undermined the fullness of the notion of citizenship that welfarism embraces.

At any point in time and location in space, various conceptual combinations will create dominant and recessive versions of welfarism, when major components of one strand appear as minor components of the other. That does not necessitate ideological crises but it requires ideological generosity, political patience, and the longer view—qualities that governments and democratic electors do not possess in abundance. For some, that may be a good reason to remove the fluctuations of welfare policy from exaggerated subservience to the democratic process when that process is counterproductive to welfare visions. For others, it may require the wresting of power away from bureaucracies, or at least the retrieval of popular ideological accountability instead of performance accountability. Alternatively, we may need slightly to lower our expectations of what welfare and the welfare state can provide, while still regarding welfarism as the greatest ideological achievement of the twentieth century.
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Four main tendencies or transformations, running to some extent counter to each other, have been evident throughout the crisis of Western capitalism since 2008 and which have roots from well before the crash. Do they together point to something fundamental about the trajectory of the world political economy today and into the future, with profound consequences for Western welfare states? More particularly, has the Western welfare/developmental state model been wounded fatally by the crisis and by the deeper instabilities that the crisis revealed? The answer depends on the nature of the crisis and on the deeper tendencies within the West and within capitalism as a wider world of structural tendencies.

The first tendency, actually a transformation, has been the severe loss of fiscal capacity and the consequent ideological and practical reassertion of austerity in parts of the advanced regions of Europe and in the United States. Depression in economic and social senses and retrenchment have been the outcomes of the bursting of the boom phase. The contradiction of the attempted maintenance of the advanced welfare state while privatization, marketization, and financialization grew apace has become intolerable in many places. That is, the contradiction between market and state lies at the heart of the crisis. A private, bank-fuelled, speculative crisis turned into a state debt crisis as many states, having negligently failed to prevent financialization and the bubble, attempted to save their banking sectors and their economies—and therefore their fragile and limited political control—through bailouts using public debt to be repaid by tax payers.
The second tendency has been a bifurcation within the OECD zone. Some countries, notably the Nordic countries, Canada, Japan, and the countries of Australasia, have not had a sovereign debt crisis as such yet (despite high levels of public debt in some countries), have not experienced depression, and have not instituted austerity measures. Their state sectors have remained more or less as before and public debt has grown only slightly.

The third tendency, uninterrupted for decades in some places, has been the rapid growth and development, despite the Western crisis, of the newly emergent Asian economies, notably China, India, South Korea, Malaysia, more recently Indonesia, and now joined in high growth by some other countries, notably in Latin America. While there has been some economic slowdown, these countries and the Asian region generally have continued to industrialize rapidly but from a low base.

The fourth tendency, gathering strength since the early years of the first decade of the twenty-first decade, has been a revival and/or continuation of the commodities boom in those regions with well-established primary export sectors (the Middle East, Russia, Australasia, Canada) and the spread of the new commodities bonanza to new areas in Central Asia, Africa, and Latin America.

Together these tendencies have been taken to point to both the seeming exhaustion of the Western model and the switch of the centre of world developmental dynamism to Asia and its commodity satellites in Australasia, Latin America, and Africa. But things are not so simple. For example, the impact of the crisis on welfare provision has been uneven. Severe public austerity in some places has occurred with maintenance of the status quo in others. As the cases of the Nordic countries, Germany, the Low Countries, the countries of Australasia, and Canada show, the Western model has not been much eroded yet in those places despite limited degrees of budget austerity implemented in 2012 after the ending of the countercyclical stimulus policies begun in 2009. In other places, especially in southern Europe, Ireland, and the UK, it has. The election of Francois Hollande in France on a social democratic platform is an indicator of the anti-austerity countermovement, although the translation of ideology to action is yet to happen there.
In order to grasp the nature of the crisis of the Western Model and its prospects of survival or destruction, we have to identify its main underlying features and how it got to be in such a crisis state, a process that began in the 1970s.

Social democratic welfare capitalism since the 1970s: reformed but not transformed

Social democratic welfare capitalism (SDWC) grew out of the post–World War II historic settlement that had roots as far back as the advent of social democratic ideological and political movements in the late nineteenth century. This development was in turn produced by industrialization and proletarianization. Sidetracked and yet enlivened by the Great Depression and the war against Fascism, SDWC came into maturity from the mid-1940s and grew in power and spread throughout subsequent decades. By the late 1960s and early 1970s, SDWC had become a hegemonic regime throughout the Western advanced world and its offshoots. The system was centred on developmental, regulatory, and welfare states and the maintenance of programmes of competitive national capitalism. But when the Western boom ran out of steam in the mid-1970s the consequent rise of neoliberal ideology seemed to push the Western system in a new anti-state direction.

It is clear, however, that the Western state model was not overthrown in the 1970s–1980s by neoliberal retrenchment. The social democratic hegemony that all mainstream political parties had converged upon proved very resilient. The model was reformed, not transformed, in two phases. In the first, from early 1980s until early 1990s, there was indeed a reduction of the centricity of the state and its welfare system. The so-called ‘deregulation’ phase did partially ‘wind back the state’ in terms of the institutional and ideological balance between state and market. Secondly, from the early 1990s came the rise of ‘regulatory capitalism’ during which the distinctions between state, market, and capital became more blurred as states privatized some of their productive capacity and so erstwhile state enterprises ceased

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1 Levi-Faur 2005; Braithwaite 2008.
to be both market dominators and substantive market regulators. Many markets, crucially the capital and labour markets, were ‘freed’ to varying degrees from direct state controls but not actually deregulated as neoliberal ideologists wished. New formal regulatory institutions to ensure ‘market efficiency and fairness’ were created en masse. But so-called market efficiency did not solve the problem of unemployment and underemployment that persisted since the 1970s.

Thus the state’s place in the overall political economy, while reformed since the early 1980s, was not very significantly changed in the macroeconomic sense by neoliberalism. The system of state welfare and redistribution plus most public infrastructure remained in place alongside the new regulocracy. A significant change would have seen taxation as a proportion of GDP decline significantly from the levels of the 1950s–1970s and the privatization of most state assets and services but this did not happen. The revenue continued to be spent on state welfare, public health, public transport, public education, public broadcasting, and so on, despite some privatizations. The redistributionist SDWC model continued to be supported even though the capital market had been freed to a large extent and the labour market was ‘freer’ than hitherto in some countries. The degree of privatization that occurred did not represent a transformation of SDWC in a macro sense but just a change within the regulatory system, one with, however, profound later consequences because of the failure of that regulatory system.

The other great changes in the world political economy since the early 1990s were the collapse of communism and the efflorescence of capitalism outside the Western heartland. This efflorescence is crucial for understanding both where the West is today and what could happen next. The world economy has become globalized. It is only about 20 years since the Internet began to take off, 20 years since the collapse of communism in Russia, and 20 years since Deng Xiaoping’s ‘southern tour’ consolidated the capitalist road in China. The pace of change has been enormous. The new technical-economic mode of accumulation, based on IT, the Internet, mobile tele-

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2 This is Braithwaite’s collective term to describe the greatly increased role of ‘independent regulators’ within regulatory capitalism.
phony, investment banking, currency speculation, and revolutionized air transport, created 16 years of unprecedented growth in trade and development. Capitalism spread to almost every village and individual in the world.

**Deep structure of the Western crisis**

The capitalist efflorescence in the East has thrown into sharp relief the particular nature of the advanced Western model and its history, particularly the path dependent nature of the social democratic accommodation between state and market, on one hand, and the contradictions and instabilities the success of this model have engendered by the twenty-first century, on the other. The capacity of the model to respond to the crisis is in doubt because of the extent to which it has evolved in recent decades. Destabilizing developments have included:

(i) *De-industrialization and financialization*

The significant shift since the early 1990s within the accumulation structure in the West from industrial to finance capital has highlighted the original connection of social democratic states with industrialization. The maturation of industrialization, achieved by the 1960s in most Western states, the resulting accumulation crisis of the 1970s–1980s, and then the shift to post-Fordist de-industrialization and the rise of the knowledge industries of the quaternary sector began to make redundant the developmental state industrial and employment strategy. Economic and technological transformation has shifted the ground from under a significant element of the SDWC regime, politically based as it was on the organized industrial working class. Without supporting a technological determinist thesis, perhaps we can add to Marx’s rhetorical comment about the hand mill giving a society with a feudal lord and the steam mill giving a society with an industrial capitalist that the Internet and the mobile phone have given us a society with a merchant banker and a hedge fund speculator. The figure of the entrepreneurial industrialist was emblematic until the 1980s, or even until the 1990s in the form of the software developer, but has been replaced by the financial wizard of the merchant bank and hedge fund since the 1990s.
As the social structure of capitalist accumulation in the advanced societies has now moved well beyond the industrial, Fordist imperatives of organizational management, so the connections between workplace, labour, knowledge, home life, and civil society are no longer centred on labour as such. Knowledge and information production require a quite different, more individualized mode of organization of work and social life. The political economy of knowledge has a regime of regulation based, in part, on small workplaces and even the dissipation of workplaces, and emphasizes individual and small group creativity at one level or deskilled service activity at another level. The growing individuation and precariousness of work has now reached more than 30 per cent of the workforce in some countries. Furthermore, the decline of the social embeddedness of work becomes more salient in the individualized world of knowledge production and low-skilled services.

The Western financialization was stimulated by the capital requirements and speculative opportunities of the newly industrializing regions and lacked effective state regulation once the globalization era began. The major shock from 2008 has not undermined the trend. This looks like a permanent shift. The place of financial institutions and finance capital seems set to remain dominant in the West. The problem of recycling the massive surpluses of the newly industrializing regions (especially China) and of the newly rich resource exporters (such as Norway, Australia, Brazil, Russia, and the Gulf States) riding on their backs will only grow. While the Western institutions are still the globally dominant players, the biggest sources of funds are now elsewhere.

(ii) Declining state capacity
Within this financialization context, the crisis has caused a severe erosion of fiscal capacity of some Western states to support their high levels of social welfare and public infrastructure with the corresponding decline of social

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3 See Standing 2011.
4 A radically individualized, dystopic future world of cybernetics and knowledge is described in the pages of cyber-punk science fiction, the leading exponent being William Gibson; see especially All Tomorrow's Parties, Pattern Recognition, and Spook Country.
stability and consensus. Furthermore, the economic competition from the East is eroding the comparative economic and therefore fiscal strength of the West.

(iii) Aging population
The demographic transition to a more upwardly skewed aging population is presenting a great financial challenge of upward rather than downward intergenerational transfers, adding to the fiscal crisis.

(iv) Ultramodernist erosion of state legitimacy
The fiscal crisis is exacerbating the existing erosion of legitimacy and support of the Western state model among significant sections of the populace on the grounds of the increasing failure of the system to deliver desired social, political, cultural, and environmental outcomes. Disadvantaged and marginal social groups have declining faith in a redistributive and protective state to deliver social improvements in a crisis context. Liberal social and environmental activists are losing faith in what has always been a compromised capitalist state. The power of elite social networks and their isolation from civil society has increased as the marketization process and inequality have grown since the 1980s. And the trend towards ultramodernist individual subjectivity leaves the political process open to populist politics of right and left. Within the increasingly pervasive mediascape, populist politics are able to grow where there is little authoritative corrective (from unions, churches, the state) to mass expressions and transmissions of fear and prejudice.

(v) Selfish, bad-faith, opportunistic politics
The contradictory success of liberal social democracy as a modernizing and wealth-producing programme that has led to greater individual freedom, more consumerism, and ultramodernist culture, within the confines of the state, was bound to lead to resistance to state pressure for conformity. Many leaders have done little to oppose xenophobic nationalist attacks on the ethnic diversity that has directly resulted from Western capitalism’s need for
cheaper labour supplies in earlier decades, as well as from the failure of post-colonial development and post-imperial dislocations in the poorest nations.

Egalitarian democracy, full employment, and social welfare do ameliorate discontent, but ethnic diversity adds a new pressure. Bad-faith and hollowed-out politics has little to offer in the current context of economic recession, financial greed, unemployment, ethnic resentments, individualization, and growing inequality. The hollowing out of the political institutions and the rise of extremist scapegoating leaves a political vacuum. But could this (probably inevitable) phase be a passing one? There is some reason to think so as discussed below.

So, have we come to the point where the long-run attempt by social democracy to reform capitalism in such a way that it is at once economically dynamic and also socially stable and politically legitimated through delivering full employment and equality and security via a fiscally capacious state has run its course? It was always an impossible task to maintain the regime indefinitely in its fully developed form. In fact the high point of social democratic management lasted only a couple of decades. Forms of capitalism are always more or less unstable with inherent contradictions and it is remarkable that SDWC has lasted so long.

Three visions of the SDWC future
This severe crisis has prompted three visions of the SDWC future, all of which see it being transformed into a different mode of capitalism. Two of them may be regarded as pessimistic and the third optimistic, but all of them see the role of the state being greatly reduced and inequality worsening.

_Regulatory capitalism and the non-state trajectory_
First is the view that the centrality of the state in the production/market nexus will be further eroded due to economic stagnation and the fiscal incapacity of the state. The state’s directly interventionist role will decline due to loss of fiscal capacity and ideological opposition, leading to further privatization and individualization, with consequential growing inequality and
social segmentation. But this also means there has to be more and improved formal regulation of the regulatory capitalist kind. That is, the state’s role shifts from being a central economic actor to being the ultimate regulator of private activity. In this vision of a more fully marketized society, social relations are mediated by rationally regulated market relations rather than by collectivism organized through the publicly interested state and its embeddedness in local social capital. One’s individual consumer/financial power will determine one’s life course and standard of living.

Second, and related to the first vision, is the continuing de-legitimation and decay of the central institutions that have underpinned the Western model, leading to a cascade downwards of agency from state to local and/or issue-specific coalitions and groups acting more or less spontaneously. Some of these groups, such as El Quaeda and criminal syndicates, have dark, sometimes very violent, agendas. Some, such as NGOs and protest movements, are aimed at restoring the balance of the public interest at a local level against state and capital (for example, Syriza in Greece).

We can call this broad phenomenon the ‘non-state trajectory’, the logic of which could (but may not) lead eventually to a semi-disorganized, even multitudinous society without overarching institutions of regulation, control, and authority. The strong bourgeois state will supposedly wither away to be replaced, it is expected by some such as Hardt and Negri\(^5\), by strong local agency and cooperative communities.

\textit{A reinvigoration of social democracy? A contingent possibility?} Against these pessimistic visions of the SDWC future is the third, optimistic vision of a possible reinvigoration of SDWC and the adoption of the model’s regulatory and social regime by other regions. The foundation for this vision is an understanding of the deeper causes of social democracy’s emergence and strength in the late nineteenth and early twentieth centuries, which perhaps can be replicated elsewhere. Could those conditions be reproduced elsewhere in a general sense such that social democratic solutions would

\(^5\) Hardt & Negri 2000 and 2004
come to the fore again in the history of capitalism? And, furthermore, ac-
cording to this scenario, social democracy could be reactivated in the West-
ern postindustrial context as a consequence of the current crisis, a crisis that
will not be overcome by the wholesale erosion of the Western state’s role
in social and economic management. But the regulatory capitalism trend
is likely to be experienced for some time yet as the Western financial and
political elites attempt to grapple with the crisis through a marketization
process. All crisis moments are pregnant with contingency.

While the concepts of ‘regulatory capitalism’, with its analysis of the
marketized state as at least compliant with capital or perhaps dissolved into
capitalism, and of the ‘delegitimised state’, with its corresponding collapse
of agency to local non-state coalitions, do have significant overlapping em-
pirical merit, they do not tell the whole story of what has happened in re-
cent decades. As mentioned earlier, the state has remained significant in the
Western world and, despite the rise of the regulocracy and of the non-state
actors, the structure of social provision and welfare via the state or state-
mandated contributions has remained more or less intact and in some areas
even been strengthened. Moreover, the regulocracy of finance capitalism
clearly failed in the latter part of the first decade of the twenty-first century
and quasi-Keynesian direct state intervention was required, at least to begin
with. Regulatory capitalism as a coherent system that was supposed to make
markets operate efficiently and produce optimal outcomes in investment,
production, and consumption, failed to prevent old-fashioned speculative
greed from severely damaging the quality of life and life chances of mil-
lions of people. Indeed, we should not have expected otherwise, as Wolfgang
Streeck has cogently argued⁶, for capitalism is essentially constructed on
the rewards to greed. And, furthermore, despite 16 uninterrupted years of
economic expansion after 1992 in many countries, the problem of unem-
ployment persisted in all OECD countries at the peak of the boom. The
capitalist system in its various regulatory modes, however we conceptualize
it, has not worked in the interests of all the people of Western countries.

⁶ Streeck 2009 and 2010.
Thus despite the rise of the regulocracy, it is clear that the state and its public agencies and services have actually not yet been extensively incorporated into the private market system. Large-scale, non-profit, non-marketized public services (in health, education, welfare, transport, and other areas) still persist throughout the developed Western world, especially in Northern Europe, and in some places such public sectors require taxation levels of half of GDP, as Amartya Sen recently pointed out in a powerful critique of market failure. The political support for public provision and redistribution via the state still seems to be strong. At least, until now.

The social democratic state is still strong but the tipping point could be close

We do now seem to be at a possible tipping point away from the social democratic state. The contradictions between, on the one hand, the surviving elements of the social democratic state and the public support for public services, and, on the other, the shift to regulocracy, privatization, the economic disaster of the failed financialization strategy, the fiscal deficiency, and the rising xenophobia have together produced this crisis moment. The current round of severe retrenchments and privatizations that is just beginning in some places is going to open the contradictory divisions further. But there is already a political backlash against retrenchment and unemployment, as evidenced by elections and social movements in several European countries. Nevertheless, the potential for collapse of the Western model in response to endogenous and exogenous pressures is increasingly real. Democracy itself, the very core of the social democratic tradition, is under pressure in some places as xenophobic and illiberal responses to crisis resurrect old extremisms in Europe.

The reinvigoration vision of SDWC’s future

On the other hand, there is still the positive vision about the social democratic future to be considered. This is based on a longer and deeper view of the historical and evolutionary foundations of SDWC as a regime of capi-

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7 Sen 2009.
alist regulation with a particular connection to, firstly, the way in which capitalism evolves as an integrated system of political, economic, and social development and, secondly, to the deep, largely subconscious, sociobiological nature of humanity.

The roots of SDWC lay in nineteenth-century industrial capitalism, which was based on massive rural-urban social dislocations, mass proletarianization, and mass class exploitation, all of which made it highly unstable and prone to revolutionary destruction. Capitalism increasingly required educated workers and education helped produce mass political and social consciousness. Political, economic and social demands were bound together in the movements and organizational coalescences of working classes for redress in the second half of the nineteenth century and early twentieth century. Socialism was a class response in pursuit of equality, social stability, social and employment security, and social inclusion. By 1900, democratic socialism or social democracy (SD) ceased to be revolutionary and was opposed to communism, as well as to fascism and militarism, all of which aimed to greatly circumscribe or completely destroy capitalism and liberalism. And then a crucial, contingent economic condition for the flourishing of SD was the upswing of economic fortunes in the post-1945 decades, thanks, reflexively, in part, to social democracy itself both domestically and globally via the Bretton Woods system. All of these conditions for SD’s original emergence still exist today in many parts of the world, most notably in China, India, and SE Asia.

Furthermore, we have to ask about the origins of the human sociobiological impulses towards and expressions of equality, fairness, social empathy, and social justice that underlay this movement from within early industrial society for democracy, cooperation, and social redress, and why they remain so powerful today.

Given these foundations, then, the argument here for a positive vision of SDWC’s future is in three parts.
(i) Industrial maturation produces social democratic demands
All forms of capitalism, once they develop economically towards industrial maturity, give rise to demands not just for constitutional and workplace reform but for social fairness and security as well. The assertion here is that these demands are an inherent evolving tendency of all capitalism. Of course there is a big assumption here—namely, that all forms of capitalism will eventually produce mature industrial economies with high average standards of material living with the corresponding growth in the fiscal capacity of states and that their politics will also be liberalized by popular pressure from below in such a developmental process. This has not always happened in the past.8

Over recent decades we have seen development in the direction of SDWC in some maturing, prosperous East Asian countries, notably Singapore, South Korea, and Taiwan, just as Japan had done earlier. Pressures from below are growing in Hong Kong, Thailand, China, and South East Asia. The massive dislocations as well as rising standards of living of earlier epochs are occurring again. The various forms of authoritarian state capitalism that now exist in China, Russia, MENA, and parts of Latin America and Africa are undergoing a rapid evolution in their economic and political structures. We have seen democratic uprisings in many countries in recent times. The Arab Spring is one large manifestation of this. Old demands for civil and workplace rights have become new again. The people of China, MENA, South East Asia, and elsewhere are no different in their social and political expectations than those of Europe in earlier times.

(ii) Sociobiological impulses for fairness, equality, and empathy
The second part of the argument concerns the motivations and social interactions of humans as sociobiological beings. There is growing evidence from sociobiological research that socially egalitarian, cooperative and democratic impulses are deeply inherent in the human behavioural domain.

8 The so-called ‘middle-income trap’ has meant that in some places capitalism has failed to become dynamic and transformative in this Western manner, notably in Latin America, the Middle East, and parts of Asia.
A desire for fairness and reciprocity seems to be the most powerful impulse (but not the only one) in human interaction and social agency in all societies at whatever level of economic development. The new research shows that the structuring process of social reproduction that unites agency and structure has a strong tendency towards cooperation and equality at various levels of hierarchically organized societies. Of course fairness and reciprocity are constrained and organized institutionally by power structures and rules. The rise of powerful and undemocratic elites and classes and the process of industrialization have together everywhere produced greater inequality but also rising affluence. Pressures from popular movements for reform in the direction of greater democracy, equality of power and wealth, and accountability of governments have so far had many successes and there is every reason to think they will continue to be powerful forces.

However, will the deep impulses for fairness, egalitarianism, and democracy lead to the maintenance of social democratic structures in the postindustrial, ultramodernist, more individualized world? This question prompts two others: Is cooperation and egalitarianism always humanely progressive and inclusive, or does it also have a dark side of xenophobia and exclusion? And does social democratic capitalism have to be essentially the same as hitherto, that is, centred on the liberal state? These are now key questions, for it is the liberal, inclusive and progressive social democratic state that is in crisis, financially, culturally and politically.

(iii) The possibility of a social democratic renewal in a multi-ethnic, knowledge-based society
Thus the third part of this argument concerns postindustrial and multi-ethnic societies. If social democracy was and continues to be a product of industrial maturation and social development, what happens when the manufacturing sector declines to be only a relatively insignificant proportion of economies that have become knowledge-based, de-unionized, individualized, and multi-ethnic? Will the sociopolitical imperatives of the

newly dynamic and now dominant knowledge and financial sectors have any vestige of the social democratic agenda centred on the collective public provision of welfare and services via an interventionist state? And will the chief supporters and beneficiaries of the state welfare system be happy to extend their ‘entitlements’ to newly arrived ethnic groups? Here the argument comes back in part to sociobiology and also to a new conception of cooperative society and politics that owes something to the non-state vision.

Towards a wider vision of agential micro-macro interactions and democracy: beyond state and market centrisim

A new discourse about postindustrial information society is now coalescing around biopolitical theory (Foucault), communitarian and egalitarian communication (Esposito), localized mutualist democracy (Glasman), and sociobiological insights about human sociality, equality, empathy, and capacities. This rethinking is also drawing on an older stream of theory coming from Marx, Weber, and especially Polanyi, about the structural interconnections of economy, society, and culture, which supersedes reductive materialist explanations of social structuring. Perhaps these can provide a way for understanding how the essence of social democracy, understood broadly as the institutionalization of a stabilizing regime of political economy through welfare and equality, a regime centred on egalitarian cooperative arrangements, could be recovered by a certain structure of communication and social interaction at a more micro level of agency. Such cooperative arrangements can include but are wider than the state. This view is based on the understanding that the old, delegitimated social democratic agency exercised collectively only via the increasingly discredited top-down state and other centrally focused institutions, such as unions, cannot be resuscitated due to their erosion by the ultramodernist development of individuation, ultra-subjectivity, and democratization in recent decades.

While Hardt and Negri’s argument about how the central agential institutions of the Western world are collapsing into a multitudinous flatland of

micro-interactions is a confronting one, it ignores the inherent possibility of community and communitarian politics (including association and participatory democracy) arising from the cooperative instincts of humanity. Indeed, structure and local agency and their interpenetration seem always to re-emerge even if the state is weakened or non-functional. The myopic focus on the state has become a weakness of much of the theorizing about welfare and democracy within the ultramodernist era. Esposito’s ‘revitalisation of politics’, like Sen’s and Nussbaum’s emphasis on capabilities, and Glasman’s emphasis on mutualism, gives greater ground for hope than Hardt and Negri’s neo-Hobbesian vision of disorder or the aridity of regulocracy and marketization. Streeck’s analysis of the capitalism-democracy connection as a set of ‘border crossings’ and advocacy of the democratization of capital is now showing the way to a new emphasis on the necessity for politics.

Indeed, a fundamental concern and dilemma for advocates of SDWC has always been of how the interrelationship between individual, society, and economy, which fundamentally are in tension or even contradictory, are best administered within a democratic but capitalist political economy. The regulatory capitalism vision does not help here for it replaces democracy with supposedly enlightened administration in the interests of efficiency, assuming it can be made to work. The non-state trajectory does contain an idea of democratic governance, but the status of capitalism is unresolved. Can capitalism, with its essential greed, inequality, and periodic catastrophes, ever be tamed and really stabilized by voluntary coalitions? This is the central political question now facing many countries. Can there be a new conception of the democratic society at both national and global levels that goes beyond social democracy?

The innate nature of capitalism as a system that promotes greed, competition, inequality, and contested exchange, is no different in essence in its knowledge-based form. Social solidarity always has to be nurtured and protected against its enemies. In the dissipated knowledge economy, the locating of politics at a more micro level of cooperation and then applying

political power to the macro economy and society, is of fundamental importance to the future of social democracy. But an active and democratic state is also necessary to provide essential forces of peace, security, and stability, as well as welfare, none of which can be provided adequately by local, non-state agencies. Weak and dysfunctional states that cede powers to non-state forces usually lead to catastrophes, many examples of which we have seen recently. Authoritarian states are of course just as dangerous.

Thus the democratic control and use of state power is a crucial issue more than ever in the ultramodern society with its individualism and social, cultural and ethnic diversity. The new kind of state has to be one of radical responsiveness to both democratic processes and real world problems. State actors that do not respond actively risk being removed very quickly through political pressure from below. Solving problems of the social embeddedness of markets and environments, rather than carving out self-interested terrains, has to be the aim of state action. Overcoming problems of ethnic integration, for example, is an urgent issue. The role of progressive non-state groups as well as progressive state-level politicians is essential in this process of confronting xenophobic forces.

That the current global crises of finance capital, global migration, poverty, and the natural environment, are testing and breaking the limits of social democracy (let alone revealing the abject failure of neoliberalism and marketization) shows the necessity of a new/old approach to politics and policy. Advanced capitalism has become increasingly influenced by agential-political processes and in the twenty-first century the power of ideology, culture, and politics to mould economies and societies makes the future less path-dependent and more open to collective agency.
References

The contemporary economic crisis that started in late 2007 in the United States and the United Kingdom was sparked by mismanagement of capital markets in the financial centres of the Western world, but underlying causes are deeply rooted in the neoliberal model of global development in general and in the increase in inequality with which it is associated in particular. As the processes generating current inequalities are so profound and so embedded within neoliberalism, it is necessary both to challenge rather than intensify the current neoliberal orthodoxy and to consider alternative analyses of and resolutions to the crisis. More specifically, it is important to recognize connections between economic and social processes and between growth and welfare, and by doing so to potentially identify more economically sustainable and socially just ways to organize societies. The central problem is how to establish a relationship between the economy and society such that the economy serves society rather than the reverse. To address this question, I draw on the work of contemporary feminist and heterodox economists who highlight the connections between inequality and the crisis, who are critical of existing state responses, and who instead, and in different ways, advocate forms of Keynesianism. In addition, I refer to Karl Polanyi\(^1\), who analysed the tension between states and markets and between those pressing for self-regulating markets and those pressing for greater social control during the nineteenth and early twentieth centuries, and to the work of fem-

\(^{1}\) Polanyi 1957.
inists, including Nancy Fraser\textsuperscript{2}, who argue that neither Keynesianism nor Polanyian resolutions go far enough and that more transformative policies are required to secure more equitable and inclusive development, especially with respect to gender.

The intensity of the ‘global’ financial crisis varied, being most severe first of all in the United States, the United Kingdom, Iceland and Ireland, and subsequently in the smaller European States in the Eurozone, but many countries throughout the world were affected. Following this crisis there has been a prolonged period of slow or negative economic growth, termed an austerity crisis in these same countries. While the first crisis can be attributed to the intensification of market processes, in particular labour market and financial deregulation, the second is more directly related to government responses and it is more accurate to describe it is a North Atlantic crisis\textsuperscript{3}, as elsewhere, particularly in the emerging economies, economic growth continues, albeit at a lower rate. Nonetheless, both crises can be linked to the pursuit of neoliberalism. As many aspects of the financial crisis were global, I begin the chapter by outlining the association between neoliberalism and rising inequality at a fairly abstract and theoretical level and identify the role of inequality in generating the crisis. I then discuss different analyses of the crises and responses by focusing on differential understandings of the appropriate relationship between the economy and society. As the depth of the crisis and the subsequent policy response varies between these countries, the final section of the chapter then turns more specifically to the United Kingdom.

Despite its failure to secure economic recovery in the two years since its introduction in 2010, the UK coalition government persists with the oxymoronic policy of ‘expansionary fiscal contraction’: a policy which attempts to generate growth through austerity. Unemployment remains high, and many people, especially those on low earnings, disproportionately women, are experiencing declining welfare as social benefits are cut. Yet earnings of the top decile continue to rise. If there is any validity in the argument

\textsuperscript{2} Fraser 2011.

\textsuperscript{3} Krugman 2012.
that inequality was a cause of the current crisis, then austerity policies of this kind cannot provide a resolution. In this respect, rather than society reigning in the economy as would be expected in a Polanyian double movement of capitalism, the UK government instead intensified neoliberalism\(^4\), making the self-regulating market the organizing principle of society.\(^5\) This strategy is not only divisive, but is also unlikely to secure its stated objectives of restoring economic growth, so it is crucial to think of alternative models of development as well as why neoliberalism remains so resilient.

Neoliberal globalization, growth and inequality

The era of neoliberalism has been associated with economic growth and rising affluence and in many ways it is correct to state that society as a whole has never been more opulent.\(^6\) Since the mid-1970s, world income has doubled, and for unprecedented numbers of people what Keynes\(^7\) termed ‘the economic problem’, namely, the provision of basic survival needs including food, shelter, and clothing, has been resolved. Whether this association is causal is more questionable, as both China and India have deviated from neoliberalism yet fared significantly better than those in postsocialist Soviet countries and Latin America\(^8\) that implemented radical neoliberal reforms. These contrasting experiences led to a growing recognition that neoliberal growth policies recommended, even enforced, by supranational institutions from the 1980s until the early twenty-first century were not reflected in superior economic performances. In parallel, the economic crisis has been deepest in those countries most exposed to free markets, so Mexico, the Baltic States, the United Kingdom and the United States fared much worse than China, Brazil, or the Nordic countries (with the exception of Iceland).\(^9\) At the same time inequality has increased within and between countries. In the last thirty years labour’s share of value added has fallen in a wide range of

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\(^{4}\) Grimshaw & Rubery 2012.
\(^{5}\) Polanyi 1957.
\(^{6}\) Sen 1999.
\(^{7}\) Keynes 1931.
\(^{8}\) See Dunford & Yeung 2011; Quah 2011; Martinez, Molyneux & Sánchez-Ancochea 2009.
\(^{9}\) See Perrons 2011.
countries and inequality is approaching levels not seen since the 1920s in the United States and the United Kingdom. The extent of earnings inequality and the degree of subsequent redistribution varies considerably between countries but is a widespread and enduring feature of neoliberalism and, as a number of feminist and heterodox economists have argued, was one of the underlying causes of the ‘global’ financial crisis. The foundation for this argument is set out below.

Just as the Great Depression of the 1930s was preceded by high levels of inequality, so too was the crisis of 2007. But what are the analytical connections between inequality and crisis? What processes led to rising inequality, and how are these processes related to the growing significance of the finance sector? Finally, in what ways are these processes and effects gendered?

The overall increase in inequality is associated with labour’s declining share of value added and how this has impacted most on low-paid workers, reflected in the polarization of earnings during the last three decades. In the United Kingdom, the earnings gap between the 90th and 10th decile of the income distribution increased from nearly 3 to 3.6 times and in the United States from 3.8 to nearly 5 times as much. A variety of interrelated processes have contributed to this outcome including: increased global competitiveness; the diminishing power of organized labour to protect the wage share; and the legitimation of shareholder value, through which returns to shareholders are regarded as a cost of production, rather than a post-production distribution of profit. These processes in turn can be linked to the way that states have been able to secure support for neoliberal market val-

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10 This fall in labour’s share of income was not confined to the United States. The International Labour Organization (ILO) found this pattern in 51 of 73 countries for which data was available between the early 1990s and 2007. The International Monetary Fund (IMF) World economic outlook also identifies this trend and finds that labour’s share of value added fell most in sectors where qualification requirements were low. INEQ, Europe’s inequality challenge, found that earnings rose more slowly than productivity for 61 per cent of EU workforce between 2003–2006. See also Perrons & Plomien 2011.

11 Atkinson, Piketty & Saez 2011.

12 Stiglitz 2012a & 2012b; Seguino 2010.

13 Stiglitz 2012b.

14 OECD 2011.

15 INEQ 2009; Perrons & Plomien 2012.

16 Froud, Leaver & Williams 2007.
ues, in particular privatization and deregulation, to their ability to portray the market as an efficient, effective and just means of allocating resources, and through the manner in which individual returns come to be regarded as a reflection of individual endeavour. In this way neoliberalism constitutes an entire ‘political rationality that … reaches beyond the market’ and liberal hegemony is secured by presenting ‘as a moral exigency what is really a political decision’.

From the perspective of ensuring overall economic and social reproduction, such gains to capital and increases in inequality can, as history shows, be counterproductive; wage suppression depresses overall aggregate effective demand and limits profitable investment opportunities as higher wage earners have a lower marginal propensity to consume compared to low earners. The only way for working people to try to maintain their standard of living and for the state to try to maintain effective demand is therefore through expanding debt. This expansion of debt, together with the difficulties of securing profit through more traditional product markets, led to the development of ever more complex and allegedly risk-free financial products as investors searched for new profitable opportunities. The connections between these financial products and the real economy became increasingly tenuous. With respect to the United States and the United Kingdom, the financial products were in effect recycling the debt that had financed consumption, including mortgages, among low and middle income groups, as they tried to sustain the socially accepted standard of living in the context of falling incomes. The decline in real incomes in turn made the repayment of debt difficult. The outcome was the subprime crisis in the United States, shortly followed by a similar crisis in the United Kingdom, with the crisis cascading into the wider financial crisis among Western economies at the end of the first decade of the twenty-first century.

This analysis suggests that rather than focusing only on the banks and financial markets, attention also needs to be given to more fundamental changes in the economy. It was these deep-seated changes, particularly

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17 Brown 2003, 5.
18 Mouffe 2000. For a fuller discussion of these mechanisms, see Dunford & Perrons forthcoming.
those associated with rising inequalities, that led to finance becoming such an important economic activity, and that led people to incur increasing amounts of debt that they were unable to repay.\textsuperscript{19} Crucial, then, is an analysis of the profound economic restructuring that took place in the context of neoliberal globalization in the decades preceding the financial crisis. Here I focus only on changes in the labour market that are associated with widening inequality.

**Inequality and gender inequality in the labour market**

Understanding the underlying processes that generate increasing earnings inequalities is clearly a prerequisite for redressing rising earnings and enduring gender inequalities. Orthodox explanations for rising wage inequality in OECD countries emphasize globalization, migration, and trade on the one hand and skill-biased technological change on the other.\textsuperscript{20} Debates between these perspectives continue, but in essence, both relate to a polarization in employment composition, with increases in well-paid professional and managerial jobs and lower-paid work in personal services and security occurring whilst middle-level manufacturing work is off-shored. Paul Krugman argues that while there is merit in each of these approaches, neither can provide a convincing explanation for the dramatic widening of earnings inequalities in the United States, especially in the top decile, and suggests in addition that social norms have become more tolerant of greater inequality.\textsuperscript{21} Clearly, if wages are determined by social norms rather than any notion of marginal productivity, then it becomes possible to question the current earnings profile and the current high levels of inequality. Moving beyond Krugman, it is important to unpack these social norms and consider how they have been generated. Do they, for example, reflect social values and preferences, or do they reflect uneven power relations? It would seem that these social norms are gendered, insofar as they privilege traditionally ‘male’ aspects of employment linked with managing the economy and money over

\textsuperscript{19} Stiglitz 2012b.  
\textsuperscript{20} OECD 2011.  
\textsuperscript{21} Krugman 2002.
those aspects of waged and unwaged labour linked with society and social reproduction, a set of circumstances not conducive to equitable or socially sustainable well-being.

Even in the twenty-first century, and across the globe, women continue to be overrepresented in the five C’s: cleaning, catering, caring, clerking, and cashiering, whilst men are overrepresented in the four M’s: management, money, materials, and machinery. These jobs are associated with different spheres of human activity, different economic properties, and different rates of pay. In general terms, women’s jobs are much more likely to be relational and concerned with caring and provisioning and as a consequence, are highly labour intensive with limited potential for productivity increases without changing the character of the work. These properties not only make it difficult to measure output but also mean that the relative costs will tend to rise over time. What is less clear is why work in these sectors is not regarded as being more skilled, and why the social value of this form of work is not recognized and rewarded more handsomely, especially as good quality care work creates positive social externalities in terms of more educated and rounded social citizens. Recognizing these market imperfections and the social externalities arising from care work undermines market or marginal product valuations and provides an economically rational argument for the workers employed in this sector to receive a larger share of social output. Arguably, the social value is far higher than that arising from the work of highly paid workers in finance, where, in the United Kingdom, overall annual and hourly average earnings are approximately twice those of all other employees. While the precise scale of this difference varies between locations, the existence of this gendered difference does not. The fact that an executive from a failed United Kingdom bank was retained to advise on its

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22 As these properties are rarely acknowledged in social policy, rising costs are often attributed to an assumed inefficiency of the public sector and as a consequence, social care has largely been privatized. The private producers often struggle to make profit and many do so by restricting their services to an elite or subsidized clientele and by employing people with labour market disadvantage on low wages, especially women and migrants. For a fuller discussion of the contrasting economic properties of different kinds of work and care work in particular, see Folbre & Nelson 2000.

23 Elson 1998.

24 Metcalfe & Rolfe 2009.
restructuring at a monthly salary equivalent to three-and-a-half times the annual salary of a childcare worker with twenty years’ experience provides a telling illustration of comparative values, but whether the scale of the difference would be widely supported if known is more questionable.25 Joseph Stiglitz26 also highlights the lack of public knowledge about comparative wage differences and the disconnection between wages and marginal productivity. He contrasts financiers, who receive much larger private rewards than innovators, who in his analysis make a far higher contribution to social value. This differential again raises questions about how elites, such as these financiers, are able to press and legitimize their claims. More generally, questions surround the formation of a neoliberal mode of governmentality27, in which market outcomes are widely believed to be rational and deserved while market imperfections are forgotten. Market imperfections can account for the comparatively low value of work disproportionately carried out by women, but more work needs to be done in terms of explaining the processes through which work becomes gendered.

These comparative differences in pay also reflect the long-standing dualism between production and reproduction, and the relative priority given to the economy, understood as productive, over society or social issues, which are seen to be associated with reproduction and redistribution. Narrowing the differences in social rewards through distributional changes would reduce inequality without necessarily affecting the overall level of economic activity. Indeed, it might even have a positive impact on the latter, owing to the higher marginal propensity to consume among low income earners compared to those on higher pay. This dualism between production and reproduction lies at the heart of long-standing feminist concerns regarding both the value of different forms of work and the construction of knowledge, and perpetuates the separation of the economy and society. Feminist scholars advocate a broader understanding of the role of the economy as one

25 The information regarding the bankers’ salary is from Treanor 2009; the figure for the childcare worker’s pay is from Payscale 2009.
26 Stiglitz 2012a.
of provisioning for social welfare\textsuperscript{28} and in this respect there are some parallels with the work of Karl Polanyi\textsuperscript{29}, who highlighted the need to challenge market priorities and re-embed the economy in society in order to prevent social disintegration, issues discussed further below.

**Economy and society—changing the priorities**

From the outset the European Union has aimed to achieve economic and social cohesion, but economic and social issues have always been treated separately in EU policy, with economic issues dominating the policy agenda and subject to stronger monitoring and enforcement. By contrast, social policies are largely aspirational and much less onerous in terms of compliance requirements. This differential treatment rests on the assumption that the economy and economic policies are wealth creating or productive while social policies are unproductive, concerned with redistributing rather than creating wealth. The ideas that economic growth itself can be redistributive or that social policy can be economically productive are rarely, if ever, contemplated.

These understandings of the relationship between the economy and society are shared by many states, but the extent to which economies are regulated varies and changes over time. It was precisely this relation between the economy and society that Polanyi analysed in the *Great Transformation*, and, in the context of the current crisis of neoliberalism, his analysis has renewed significance. Polanyi’s key arguments are that self-regulating markets—that is, markets or economies that are free from the political sphere—are not natural phenomena but rather are consciously created and yet inherently unstable. Without political control, self-regulating markets would create a ‘stark utopia’ and ‘could not exist for any length of time without annihilating the human and natural substance of society.’ As a consequence, society will ‘inevitably take measures to protect itself.’\textsuperscript{30} Polanyi argues that the movement to establish a self-regulating economy by disembedding the

\textsuperscript{28} Elson 1998; Folbre & Nelson 2000.  
\textsuperscript{29} Polanyi 1957, 3.  
\textsuperscript{30} Polanyi 1957, 3.
market from political control is met therefore by counter movements that seek to re-establish political control and re/embed the market into society. Polanyi called this tension or movement back and forth between economic freedom and social control the double movement of capitalism.\textsuperscript{31} Looking back to the crisis conditions of the 1920s when economic liberalism reigned supreme, Polanyi comments that

the repayment of foreign loans and the return of stable currencies were recognised as the touchstone of rationality in politics; and no private suffering, no restriction of sovereignty was deemed too great a sacrifice for the recovery of monetary integrity. The privations of the unemployed made jobless by deflation; the destitution of public servants dismissed without a pittance; even the relinquishment of national rights and the loss of constitutional liberties were judged a fair price to pay for the fulfilment of the requirement of sound budgets and sound currencies, these a priori of economic liberalism.\textsuperscript{32}

These comments have resonance with contemporary politicians’ statements advocating austerity. David Cameron, the UK prime minister, continued to reiterate his faith in the need for market discipline even after two years of austerity policies and low or zero growth, and similarly justified a series of public expenditure cuts and further liberalization of the economy:

Getting our debt under control is necessary for growth. But it’s not sufficient. Our responsible fiscal policy is being matched by active monetary policy. … Fiscal responsibility and monetary activism is the right macroeconomic mix for our over-indebted economy. But the additional ingredient that government will deliver and needs to do even more of is a radical programme of microeconomic reform

\textsuperscript{31} Polanyi 1957, 130.
\textsuperscript{32} Polanyi 1957, 148.
to make our economy more competitive—including competitive tax rates, planning reform and deregulation.\textsuperscript{33}

These values and beliefs stressing the efficacy of liberalization, self-regulating markets, and balanced budgets were questioned in the 1930s and have been questioned by contemporary critics who advocate a return to the Keynesian policies that were first introduced in the mid-1930s. At that time states began to manage their currencies and pursue more widespread regulation through economic management, in response to the Great Depression, before further expansion with the development of the welfare state after 1945. This turnaround led Polanyi to remark that ‘[u]ndoubtedly, our age will be credited with having seen the end of the self-regulating market.’\textsuperscript{34} These remarks are paralleled in 2008 by Eric Hobsbawm, who remarked on a BBC current affairs programme that

[i]t’s the end of this particular era. No question about it. There will be more talk about Keynes and less talk about Friedman and Hayek … We now know that the era has ended. [But] we don’t know what’s going to come.\textsuperscript{35}

When the economy seemed on the point collapse in 2008, official attention turned to alternatives, and Keynes was once more on the agenda, albeit briefly. There are several reasons for supporting this perspective. First, international evidence shows that countries that least adhered to the neoliberal model have experienced higher levels of economic growth in the past three decades and a less serious economic crisis.\textsuperscript{36} Second, while inequality is increasing everywhere in Europe (pre- and post-tax), states with more direct control over their economies and that engaged in stronger redistribution, such as the Nordic states, are in general performing better than the United Kingdom, where austerity policies have been pursued with enthusiasm even

\textsuperscript{33} Cameron 2010.
\textsuperscript{34} Polanyi 1957, 148.
\textsuperscript{35} Hobsbawm 2008.
\textsuperscript{36} See Dunford & Yeung 2011; Martínez, Molyneux & Sánchez-Ancochea 2009; Quah 2011.
though the scale of the sovereign debt is low compared to Spain, Greece, or Ireland. Third, as Paul Krugman shows theoretically and empirically, the policy of expansionary fiscal contraction is unlikely to lead to economic recovery.\textsuperscript{37} He demonstrates how pursuit of austerity in a time of low growth is unlikely to restore growth or reduce the public sector deficit owing to reduced tax income and increased necessary expenditure on the unemployed, both of which prevent deficit reduction. Indeed he maintains that ‘the austerity programs that were supposed to restore confidence not only aborted any kind of recovery but produced renewed slumps and soaring unemployment.’\textsuperscript{38} In addition he points out how the high level of inequality is a major reason why the economy is still so depressed and unemployment so high on account of insufficient effective demand. Krugman’s forecasts were realized in UK government statistics for the summer of 2012, which showed negative growth and increased public sector borrowing.\textsuperscript{39}

Krugman’s remedy for this situation is essentially Keynesian. In effect, he advocates any kind of government expenditure to boost demand and restore economic growth, though in passing suggests that in the United States the re-employment of teachers dismissed with the cuts would offer a significant boost to the economy. Robert Skidelsky is more explicit, suggesting that while any expenditure that maintains aggregate demand would work, ‘capital investment is better, because it creates identifiable future assets that promise to fund themselves and improve growth potential.’\textsuperscript{40} Neither Skidelsky nor Krugman take gender issues or the role of social reproduction into account, tending instead to assume that social welfare expenditure is less productive. From a feminist perspective, therefore, these leading heterodox economists’ resolutions represent a missed opportunity.

\textsuperscript{37} Krugman 2012.  
\textsuperscript{38} Krugman 2012.  
\textsuperscript{39} ONS 2012a & 2012b.  
\textsuperscript{40} Skidelsky 2011.
Feminist alternatives

Feminist writers argue that the Keynesian approach does not go far enough and more transformative policies are required in order to take account of gender and social inequalities and to redress the mistaken priority given to production over reproduction.

Nancy Fraser offers a critique, not of Keynes, but of Polanyi, and argues that while a Polanyian approach calls for greater activity of the state to protect society from the free market outcomes, this call is for the state and society in their existing hierarchical and gendered forms. So while Polanyi saw a tension or double movement between market freedom and social control, Fraser seeks to transform the state to overcome existing unequal and hierarchical relations within society and the state, so leading to a triple movement. Polanyi highlighted the existence of limits to the applicability of the market mechanism, especially with respect to land, labour, and capital, which he termed fictitious commodities. He points out that labour, for example, consists of human beings who require a living wage and could die if unable to find work or if dependent on market rates, but he did not challenge the concept of wage labour or its hierarchical character. Similarly to Keynes and many contemporary economists, he paid no attention to gender issues or to the unpaid work or caring aspects of social reproduction. In contrast Fraser advocates transformative policies that redress these inequalities and offers a more cohesive and egalitarian form of development. In this regard she looks towards some of the contemporary protest groups outside of orthodox political parties, focusing, for instance, on the policies advocated by feminists and by movements such as Occupy, the Indignados, or the 99 Percenters. Fraser acknowledges that it is unclear where transformative politics might lead, and that there is a risk that these can lead into regressive as well as progressive directions.

Recognising the anarchic character of these movements and how it is easier to gain widespread support for single-issue campaigns than to secure sustained support for a broader range of policies, the ideas of feminist econ-

41 Fraser 2011.
42 Fraser 2011.
omists, including, for example, the UK Women’s Budget Group (WBG), potentially provide a more promising way forward, as they offer a critique of current government policies and suggest alternative policies that aim to significantly modify rather than completely overthrow the existing order. Their ‘alternative F’ plan argues for public investment in social as well as physical infrastructure and increased expenditure on education, health, social care, public transport, and green energy. This increased spending would boost consumption, provide the necessary increase in demand, and generate tax revenues that would in turn finance the government spending. In addition, such expenditure is likely to create employment amongst relatively low income people and especially amongst women, which would not only redress some of the adverse consequences and uneven impact of the pursuit of austerity policies to date, but also have a more than proportionate impact on expenditure given the higher marginal propensity to consume among lower income earners. This approach would seek to establish a ‘virtuous circle of expansion rather than viscous circle of decline.’ The underlying rationale here is pure Keynes—that ‘expenditure creates its own income … look after unemployment and the budget will look after itself.’ This solution is more complicated in a global economy, as increasing the wage share and being attentive to the requirements of reproductive work could reduce competitiveness. However, this argument is premised on the acceptance of a profit-led model of growth. As Stephanie Seguino and Caren Grown have pointed out, the economy could equally be viewed as a ‘closed wage-led economic system’. Working out what this means in practice, combined with specifying more precisely and getting political support for the feminist alternative F plan for development, is a task that requires urgent attention.

43 WBG 2012.
44 Keynes 1983.
Conclusion
The present time, 2012, is one of extreme uncertainty. The political debate moves back and forth between those advocating more deregulation and those advocating more social control. Just as in the 1930s, not all commentators accept the Polanyian or Keynesian view that self-regulating markets are unsustainable. Instead they take the contrary view that it was purely ‘the incomplete application of its principles that was the reason for every and any difficulty laid to its charge’ and as a consequence call for more deregulation and austerity.46 What is certain is that Polanyi was wrong when he claimed that his age had seen the end of self-regulating markets. Hobsbawn, too, underestimated the resilience of neoliberalism.47 At the time of writing—summer 2012—the UK government still upholds the idea that self-regulating markets represent the ideal economic model, despite two years of expansionary fiscal contraction, mounting criticism not only from heterodox and feminist economists but also from the IMF48, evidence that shows all the hallmarks of a depression with either very low or zero growth, a clear lack of effective demand, and, in complete contrast to their intentions and predictions, increases in government borrowing owing to falling tax revenues yet fixed welfare expenditure, linked to unemployment even though (or even because) public sector investment has fallen. Explaining the rigid adherence to these policies and why the ideas of feminist and heterodox economists are overlooked is clearly important but lies beyond the purview of this chapter.49

46 Polanyi 1957, 148.
47 Hobsbawn 2008.
48 IMF 2012.
49 See Dunford & Perrons forthcoming for a provisional attempt to do so.
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Part II
IMPACT – RESPONSES
CHAPTER 5

The new politics of austerity in the United Kingdom and the United States

DANIEL BÉLAND AND ALEX WADDA

Much of the literature on the development of social policy, and particularly the work that has elaborated typologies of welfare states, has tended to group the United States and the United Kingdom together. Perhaps most influentially, Esping-Andersen categorized the United States and the United Kingdom as ‘liberal’ regime types with regard to their social policy structures.¹ In addition, the ‘varieties of capitalism’ literature also tends to see both countries as occupying a similar space in terms of their political economy.² On the other hand, another literature has drawn attention to the institutional differences between the two countries, contrasting the fragmented, multi-tiered US government structures, where power can be divided between competing institutions, which may in turn be controlled by different parties, with the more concentrated UK parliamentary system, where a majority government, relying on strong party discipline, is better able to enact its legislative agenda.³

Taking into account these similarities and differences, this chapter examines how these two countries reacted to the fiscal and economic crisis that came to dominate the socioeconomic landscape by the end of 2008. Was social policy adapted in an expansionary manner designed to compensate those people economically hurt by the crisis? Or, was the focus on retrenchment policies, with the emphasis on the need to maintain ‘budget

¹ Esping-Andersen 1991.
responsibility’ in the light of the fiscal crisis brought on by the collapse of the financial sector and the decision, in both countries, to bail out ailing banks? Furthermore, the chapter investigates the extent to which the institutional context helped or hindered political actors in their efforts to successfully enact their preferred social policy proposals.

The economic and political impact of the crisis

Few industrialized countries escaped the effects of the economic and financial crisis that became apparent through late 2008. Initially at least, the Unites States and the United Kingdom found themselves in the eye of the storm. These two countries were particularly vulnerable to the impact of the crisis in the financial sector as they had economies that had become increasingly, and disproportionately, reliant on activity in that sector since the mid-1980s. Through the 1990s and the new century’s first decade ‘high finance’ had seemed a driver of economic activity and only ‘when the crisis struck did it become clear that the growth of Wall Street and the City actually exposed their home nations to special risks’ And by late 2008, it was evident that both the United States and the United Kingdom were being hit hard by a major financial and economic crisis, which was in turn inevitably going to impact social policy programmes in both countries.

In the United Kingdom, real GDP shrank by 0.1 per cent in 2008 and then contracted by 4.9 per cent through 2009. In the quarter running from August to October of 2008, the unemployment rate stood at 6.0 per cent, which was an increase from 5.6 per cent in the previous quarter. A year later that figure had risen again to 7.9 per cent. By the quarter November 2011 to February 2012, unemployment had increased to 8.4 per cent. And particularly hard hit were the young, with 20.8 per cent of persons aged 16–24, who were not in full-time education, unemployed at that time.

4 Gamble 2009.
5 Krugman & Wells 2009.
6 OECD 2012.
9 Office for National Statistics 2012.
In the United States, the immediate effects were perhaps even starker. By late September 2008, it became obvious that the United States was being hit hard by a major financial and economic crisis.\footnote{Béland & Waddan 2011.} In fact, during the third quarter of 2008, the country’s GDP measured in constant US dollars contracted by 2.7 per cent. The economic situation became even worse during the following quarter, as the GDP contracted by a dramatic 5.4 per cent.\footnote{US Bureau of Economic Analysis 2010a.} As for the unemployment rate, it increased from 5.1 per cent in March 2008 to a peak level of 10.1 per cent in October 2009.\footnote{US Department of Labor 2010.} After staying above 9 per cent throughout 2010 and most of 2011, the unemployment rate had declined to 8.6 per cent in November 2011\footnote{Wiseman 2011.}, but this remained much higher than average by US standards. The most alarming aspect of this situation was the high number of unemployed who had been out of work for long periods of time. The recession also hit ethnic and racial minorities especially hard, as Hispanics and African-Americans suffered from significantly higher than average unemployment rates.\footnote{Adler 2010.} As for the working population, the economic context forced many people to reduce their hours or take a part-time job, which increased underemployment. Finally, the mortgage crisis dramatically increased the number of foreclosures, pushing a growing number of people out of their homes. In 2009, for example, ‘[a] record 2.8 million properties with a mortgage got a foreclosure notice . . . , jumping 21 percent from 2008 and 120 percent from 2007’.\footnote{US Bureau of Economic Analysis 2010a.} These brief remarks suggest that unemployment rates do not tell the whole story of the economic suffering witnessed in the United States in the aftermath of the Great Recession.

Furthermore, although economic insecurity associated with income instability and limited health insurance coverage in the United States already affected large segments of the population before the Great Recession\footnote{Hacker 2006.}, the crisis exacerbated economic and social anxiety, even among citizens who
remained fully employed. One important difference between the welfare states of the United Kingdom and the United States is that in the former, access to health care is guaranteed for all the country’s residents through the government-funded National Health Service (NHS), while in the latter access to health insurance for many workers is very often provided by an employer. This means that losing one’s job in the US frequently means losing health care coverage and other fringe benefits, which makes the spectre of unemployment particularly frightening in a country where government-granted social protection remains limited in scope.\textsuperscript{17}

Despite the similar economic trajectories, the initial partisan consequences in the two countries diverged. In the United Kingdom, the Labour government, headed by Prime Minister Gordon Brown, which was in power when the crisis manifested itself, delayed calling an election until as late as possible. In the election in May 2010 the voters rejected the government, with the Conservatives becoming the largest single party. In contrast, in the United States, the political pendulum swung to the left in November 2008, as the Democratic candidate Barack Obama won the presidency and the Democrats achieved significant majorities in both chambers of Congress. But in both countries the partisan picture was complex. In the United Kingdom, the Conservatives did not gain enough parliamentary seats to form a majority government. After some days of discussion, the uncertainty was resolved by the formation of a coalition government with the Liberal Democrats joining the Conservatives. This was the first formal coalition in the United Kingdom since the Second World War, and the unusual nature of this arrangement meant that the normal authority of a UK government, based on the support of highly disciplined single majority party, was potentially compromised. In the United States, even though the Democrats held significant majorities in both chambers of Congress and even though that party was more ideologically coherent than in much of its recent history\textsuperscript{18}, the Obama administration and the party’s Congressional leaders, due to the absence of UK-style party discipline, could not rely on those majorities to

\textsuperscript{17} Béland 2010.
\textsuperscript{18} Cook 2009.
deliver unconditional support for their legislative program. In any case, that Democratic domination of the elected federal institutions was short-lived. In the November 2010 mid-term elections, the Republicans made sweeping gains. That party took control of the House of Representatives with the biggest gains in a single election since 1938. In addition they gained several Senate seats, importantly meaning that the Democrats no longer had the 60 votes needed to overcome a filibuster. This represented a major turnaround in political fortunes and meant that the institutions of government in Washington, DC, were divided between the two parties, making decisive legislative action highly unlikely. In contrast, in the UK, despite the inconclusive result of the 2010 general election, some institutional stability was restored when the Conservative-led coalition government committed itself to serving a full five-year term in office.

The move to austerity in the United Kingdom

As the 2010 general election approached, the three major parties in the United Kingdom all agreed that ‘hard times’ were ahead, but there were some differences about how quickly that austerity should bite. Brown’s government had in fact responded to the crisis with some efforts at stimulus such as a temporary reduction in VAT from 17.5 per cent to 15 per cent and a Car Scrappage Scheme. But in the 2010 campaign, Labour, along with the Liberal Democrats, acknowledged that deficit reduction was necessary and promised significant fiscal tightening. The Conservatives said that they would deliver deficit reduction more promptly. This was in the context of the sharp rise in public deficits. In 2007/2008 the UK government’s public sector net borrowing (PSNB) requirement equalled 2.38 per cent of GDP. By 2009/2010 that figure had jumped to 10.37 per cent.19

In fact six months before the general election, in October 2009, at the Conservative Party annual conference, then shadow chancellor George Osborne emphasized that an incoming Conservative government would need to make significant spending cuts in order to tackle ‘the largest deficit in

our modern history’.20 At this point, anxious to avoid accusations that pain would be inflicted on the least well-off, Osborne said that he would not reverse the decision taken by Labour to introduce a new top rate of income tax of 50 per cent for people earning over £150,000. In a further effort to diminish the notion that they were the party of the rich, the Conservative leadership proclaimed, ‘we’re all in it together’.21 Also, wary of the party’s traditional political vulnerability with regard to guardianship of the NHS, Conservative leader David Cameron talked of his own gratitude to the NHS and the party’s manifesto promised to ring-fence health care spending, thus implying that the NHS would be protected against the forthcoming budgetary squeeze. Given this commitment, which was not explicitly matched by Labour, it might seem that the Conservatives were anxious not to be seen as threatening the central features of the welfare state. Yet at the same time, contradicting that impression, the Conservative plans for deficit reduction relied much more heavily on spending cuts than tax increases, by a ratio of four to one, than Labour who promised a ratio of two to one, with the Liberal Democrats calling for a ratio of two and a half to one.22 All three parties were vague about where they would cut, preferring to emphasize projected efficiency savings rather than too explicitly laying out where future pain would come. Overall, therefore, the 2010 general election campaign ‘was based on big similarities and big differences’ among the three main political parties.23

More generally, in an effort to reconcile the potentially contrary messages coming from the Conservative side, Cameron framed the language about ‘the need’ for austerity within the rhetoric of creating the ‘Big Society’, a concept that referred to the empowerment of civil society actors. This suggested that charities and voluntary groups could step in and fulfil some of the social functions being performed by the state. Echoing the conservative critique that too much government intervention in economic affairs crowded out private sector economic activity, as expounded by Cameron, the concept

20 Wintour 2009.
21 Wintour 2009.
22 Chote, Crawford, Emerson & Tetlow 2010.
23 Smith 2010, 830.
of the Big Society implied that too much government involvement in social policy had effectively crowded out non-state socially responsible activity. The Conservative Party election manifesto opened by extolling the idea: ‘It is a change from one political philosophy to another. … In a simple phrase, the change we offer is from big government to Big Society’. In one speech Cameron described the Big Society as ‘a guiding philosophy—a society where the leading force for progress is social responsibility, not state control. It includes a whole set of unifying approaches—breaking state monopolies, allowing charities, social enterprises and companies to provide public services, devolving power down to neighbourhoods, making government more accountable.’

One aspect of the Big Society rhetoric is that it did seem to distinguish Cameronism from Thatcherism and the latter’s, somewhat misquoted, assertion that there was no such thing as society. But critics alleged that this apparent difference was misleading and that the Cameron-led Conservatives were just as committed to downsizing the welfare state as Thatcher had been in the 1980s, and particularly those elements of state support that helped the least well-off. Importantly, however, the idea provided some grounds for reconciling Conservatives and Liberal Democrats, as they formed the post-election coalition government. For example, when setting out plans for public sector reform in December 2010 Liberal Democrat leader and Deputy Prime Minister Nick Clegg explained: ‘The prime minister has coined the phrase Big Society while the Liberal Democrats tend to talk about community politics or just liberalism. But whatever the words we use, we are clear and united in our ambition to decentralize and disperse power in our society and that shared ambition is one of the of the bonds that will keep our coalition strong.’ Further to this, the mantra ‘we’re all in this together’ chimed with the Liberal Democrat emphasis on ‘fairness’. All this language suggested that the pain of austerity was to be shared, but it did not speak directly to the level of austerity that was to be introduced, nor did it

26 Beresford 2011.
27 Wintour & Curtis 2010.
explicitly address the question of how the public sector was to be reduced.

What quickly emerged was that the coalition government was to pursue a radical agenda in that fiscal retrenchment included spending cuts that were ‘very large, precipitate and intended to set the United Kingdom on a different spending trajectory’.28 Given that the Conservatives were the dominant partner in the coalition, it was unsurprising that the speed and direction of deficit reduction reflected Conservative priorities more than Liberal Democrat preferences, but the scale of the proposed cuts meant that this alliance between the two parties, which was not one that had been readily talked about before the election, would likely come under considerable pressure. Those figures in the Liberal Democrat camp, such as Vince Cable, who became the Secretary of State for Business, Innovation and Skills in the new government, were perceived as being on the left of that party were unlikely accomplices to some of the planned cuts in social security spending.29 On the other side of the equation, the more right-wing forces on the Conservative backbenches, disappointed that their party had not won an outright parliamentary majority, would not want to see the speed of change significantly slowed by the junior party in the coalition. For both party leaderships the problem of controlling their potentially restive MPs was exacerbated by the need to maintain party discipline in the House of Lords where the pressure to acquiesce to the party leadership is less compelling than in the Commons. When the House of Lords votes on legislation passed in the House of Commons it cannot veto that legislation, but if a bill is defeated in the Lords it causes delay and can embarrass the government into making alterations to the original bill. Together, these features suggested the possibility of an unusual institutional dynamic in UK politics with a greater degree of uncertainty about whether the government would be able to impose its will on parliament with as much authority as normal.

Two years after its formation there were considerable signs of strain in the coalition and the continuing harsh economic climate meant that the

28 Taylor-Gooby & Stoker 2011, 4
29 It is very important to distinguish between what is meant by ‘social security’ in the United Kingdom where the term refers to a variety of benefits and in the United States where Social Security is the public pension scheme.
original timescale for achieving deficit reduction had been extended beyond the five-year parliamentary term. At times clashes about which Liberal Democrat ideas would be included in the coalition’s programme were very public, but, critically, there had not been any significant retreat from the goal of deficit reduction. Furthermore, the language of austerity was supplemented with a discourse about the need for welfare system reform. And, while some Liberal Democrat backbenchers voted against the government, there was sufficient parliamentary discipline for the coalition government to be able to set out a radical agenda in a series of budget measures and spending reviews in its first two years in office. This agenda included major changes to the funding of higher education, a highly controversial reorganization of the NHS, and a significant overhaul of the welfare system.

To various degrees these measures were all justified by the austerity agenda. When justifying the need for NHS reform Prime Minister Cameron maintained that ‘the NHS faces enormous financial pressures in the years ahead’ and that ‘[i]f we want to deliver better results for patients, we need modernisation.’ On the other hand, the nature of some of the reforms suggests an agenda that goes beyond simply saving money to deal with the immediate fact of the deficit. For example, encouraging private sector providers to compete with NHS providers and increasing the financial autonomy of NHS hospitals led critics to accuse the Government of opening the door to the partial privatization of the NHS. Furthermore, the scale of the cuts to welfare and importantly the accompanying emphasis on moving people from welfare to work, which included controversial new tests to check whether people on long-term disability benefits were really unable to work, indicated an ideological pattern reminiscent of that which had prevailed in the United States in 1996, when a major federal welfare reform centred on workfare was adopted. On the other hand, unlike in the United States, where Republicans refused to countenance any tax rises as part of measures to reduce the deficit, Conservatives in the United Kingdom did

30 Cameron 2011.
31 Toynbee 2011.
32 See Joyce 2012.
33 Weaver 2000.
agree to some revenue-raising instruments as part of the deficit reduction package. These instruments mostly came in the form of indirect taxation, such as increasing the rate of VAT to 20 per cent. Interestingly, however, in the spring 2012 budget, the top rate of income tax, which had only just been increased from 40 per cent to 50 per cent, was lowered to 45 per cent. In any case, the tax changes were secondary in their aggregate impact to the proposed spending cuts. And these plans amounted to ‘an austerity package greater than any retrenchment since the end of the Second World War and a restructuring of Beveridgean proportions’.  

Responding to the crisis in the United States

Considering the economic problems facing the United States at the time, it is easy to understand why Barack Obama’s discourse about change and enhanced social protection resonated with so many voters during the last weeks of the 2008 presidential race, at a time when the country’s economy began to collapse. In 2009, once in the White House, the new Democratic president benefited from the fact that, as a consequence of the 2008 federal elections, Democrats now controlled both chambers of Congress, a situation that traditionally facilitates reform, despite the lack of strict party discipline. This majority did enable the passage of the American Recovery and Reinvestment Act (ARRA). A wide-ranging economic stimulus package that surpassed anything attempted in the United Kingdom, the ARRA included emergency social policy measures that eased the eligibility requirements for Food Stamps and unemployment benefits. Yet beyond the adoption of these emergency measures, key reform efforts did not move as quickly as the White House had hoped. This was especially the case with regard to the ambitious health care initiative launched by the White House not long after the beginning of the Obama presidency. Comprehensive health care reform had been a long-term goal of many Democrats and one that had been consistently thwarted, most recently in 1993–1994 during the presidency of Bill Clinton.

34 Taylor-Gooby 2012, 62
35 Ashbee 2011.
36 Béland & Waddan 2011.
President Clinton had taken a top down approach to the legislative process but, adopting a different strategic method, the Obama administration allowed both House and Senate leaders to design their own health proposals. This was designed to give Congress a greater sense of ownership of reform but it also meant that the legislative process dragged on, giving plenty of opportunity to Republicans and their new Tea Party allies to attack what became known on the political right as ‘Obamacare’. Although the United States spent more than any other country on health care while leaving more than 45 million citizens without health care coverage, it proved hard for Democrats to sell the reform to the public.37 This was the case because of the complexity of the measures proposed and because Republicans rejected reform while exacerbating the anxieties of people who already had insurance coverage and feared that efforts to both expand coverage and control costs would reduce the quality of the care available to them.

In the end, after much political drama and the signing of special agreements with key segments of the health sector, the president signed a major health care legislation in March 2010. Reflecting the institutional compromises that are almost inevitable in the US context, this was not as ambitious as some liberals had expected. In particular, the so-called ‘public option’, which would have further increased the role of the federal government in health care markets and was part of the bill passed by the House of Representatives, was not enacted by the Senate and was not part of the final law. Nevertheless, the Patient Protection and Affordable Care Act (PPACA) should transform the US health care system in a gradual manner, as some of key provisions like the expansion of Medicaid and the introduction of state-run health insurance exchanges, along with the controversial insurance mandates, will take place in 2014 and beyond. In June 2012, the Supreme Court upheld the PPACA, including the mandates, thus removing a prominent judicial threat to the legislation and the re-election of President Obama in November 2012 ended the Republican hopes of repealing the legislation.

37 Jacobs & Skocpol 2011.
The first two years of the Obama administration did, therefore, see the adoption of potentially substantive change in US social policy. Whatever the accusations made by its opponents, the PPACA will not turn the US health care arrangements into a UK-style NHS or a Canadian single payer system, but in expanding insurance coverage to many millions of Americans it will, if fully implemented, constitute a social policy reform with significant redistributational consequences.\textsuperscript{38} But any expectations that this heralded a new New Deal were dealt a severe blow in the November 2010 midterm elections. At this point the long and bitter debate over health care and, especially, the enduringly negative economic situation, helped Republicans retake control of the House of Representatives, which they had lost to Democrats back in 2006. Many of the new Republican Representatives elected in 2010 came to Washington with the explicit backing of the Tea Party movement, which both advocated massive cutbacks in government spending and reinforced the Republican taboo concerning tax increases, believed to be bad for the economy, even when they only affect the wealthy. This Republican tax creed clashed with President Obama’s proposal to phase out tax cuts for the wealthy adopted during the Bush years. At a more general level, the issue of how to tackle growing federal deficits and the so-called ‘debt crisis’ became a central issue in 2011 in US political debate just as it was in the UK. Although Democrats and Republicans could not agree on how to tackle this problem, all major political actors had recognized the sheer size of the fiscal challenge with the White House expecting the annual federal deficit to reach 1.65 trillion dollars in that year. Because this amounted to nearly 11 per cent of GDP, the United States faced ‘the largest deficit as a share of the economy since World War II’.\textsuperscript{39} While the return to large federal deficits had begun during the Bush years as a consequence of massive federal tax cuts and the wars in Afghanistan and Iraq, the Great Recession reduced federal revenues and increasing economic and social spending all at once, which led to larger and larger deficits.\textsuperscript{40}

\textsuperscript{38} Jacobs 2011.
\textsuperscript{39} Paletta & Boles 2011.
\textsuperscript{40} Béland & Waddan 2012.
Although both Democrats and Republicans agree that something must be done to tackle this problem, there is no consensus at all about how to achieve this task. Beyond the above-mentioned clash over the acceptability of tax increases affecting the wealthy, other issues oppose Democrats and Republicans. For instance, there is no agreement on the scope and the nature of the cuts in federal spending necessary to balance the budget. More important from a social policy standpoint, the two largest federal social programmes, Medicare and Social Security, have been brought to the centre of this new fiscal austerity debate. For instance, Republicans talked openly about a most controversial idea: moving Medicare away from the social insurance logic that has characterized the popular health programme for the elderly and the disabled since its inception in 1965. The so-called 2011 ‘Ryan Budget,’ named after Tea Party supporter and Chairman of the House Committee on the Budget Paul Ryan (Wisconsin), proposed the effective transformation of Medicare into a voucher system that would not do more than help recipients purchase private health insurance coverage. For left-leaning commentators like Paul Krugman 41 who strongly opposed this change, as does President Obama, the implementation of the Ryan plan would lead to the end of Medicare as a social insurance program.

The example of Medicare suggests that the advent of larger federal deficits in the aftermath of the Great Recession has created a political opportunity for conservative Republicans to aggressively push for market-friendly social policies and the radical downsizing of the federal welfare state they had previously accepted as an established part of the policy landscape. From their perspective, large federal deficits are as much a political opportunity to advance their long-held pro-market and ‘small government’ creed as they are a genuine fiscal challenge. This convergence between the federal fiscal crisis and long-term conservative Republican goals has exacerbated the return to the politics of austerity in the United States. In addition to these remarks about federal politics we must stress the deep fiscal troubles facing many states like California. The fiscal crisis in these states has exacerbated the turn to austerity in the United States. 42

41 Krugman 2011.
42 Béland & Waddan 2012.
Because Democrats remained in control of both the White House and the Senate throughout 2011 and 2012, this pro-market, smaller-government agenda remained primarily an oppositional discourse rather than a set of actual policies, as both President Obama and the Democratic majority in the Senate had no problem vetoing conservative legislative proposals like the above-discussed ‘Ryan Budget.’ Because of the growing ideological divide between Democrats and Republicans as well as this institutional situation related to what is known in the United States as ‘divided government’, stalemate and bitter disagreement became the dominant trend in federal politics. The debate that took place during the summer of 2011 over the increase of the federal ‘debt ceiling’ illustrated this partisan and institutional logic, as Republicans pushed the White House to support major budget cuts and reject any tax hikes in exchange for the necessary increase in the federal ‘debt ceiling’, which had been a routine decision in the past but one that Republicans now decided to use in order to advance their austerity agenda. In late July, the debt ceiling agreement approved after weeks of bickering included over two trillion dollars in spending cuts over ten years. While 900 billion dollars in deficit reduction were specified in the agreement, a newly created bipartisan congressional commission was tasked with the challenging mission of finding an extra 1.2 trillion dollars in spending cuts. 43 In the late autumn, partly because of the extreme partisanship prevailing in Washington, the commission proved unsuccessful in reaching a deficit reduction agreement. 44 After this failed cooperation, and as the 2012 elections drew closer, the prospects of meaningful progress in terms of either deficit reduction or social policy reform grew bleaker.

Yet, reflecting the high-stakes debate, this lack of legislative action did not diminish the volume of the debate. By the autumn of 2012, a clear choice had emerged between the presidential candidates. President Obama advocated the introduction of a so-called ‘Buffett Rule’, which meant that the very wealthiest Americans would pay minimum levels of taxation 45, while

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43 Hulse & Cooper 2011.
44 Cowan & Ferraro 2011.
45 Calmes 2012.
Mitt Romney, the Republican presidential nominee, publicly embraced Paul Ryan’s controversial plans by naming Congressman Paul Ryan as his Vice Presidential nominee, thus publicly embracing Ryan’s controversial plans.

Discussion
The discussion in this chapter about the United Kingdom and the United States suggests that, although the two countries have much in common as far as welfare regimes, economic regulation, and historical ties are concerned, major institutional differences between the two countries help explain key differences in the way they have dealt with the economic crisis, from a fiscal and a social policy standpoint. These institutional differences impact policy outcomes when combined with specific partisan realities that reflect the changing electoral fortunes of the main political parties operating in each country. On one hand, in the United Kingdom, party discipline, even in a context of a coalition government, helped Prime Minister Cameron and his colleagues implement a bold austerity agenda tempered only by relatively modest concessions to Liberal Democrat junior coalition partners. On the other hand, in the United States, despite being in power since early 2009, President Obama faced major obstacles to reform related to the absence of strict party discipline within his own party and, after the November 2010 election, opposition from Republicans then in control of the House of Representatives. In the last two years of Obama’s first mandate, ‘divided government’ frustrated both parties, further complicating the universally tricky politics of austerity, as it had done for President Reagan in the 1980s. After November 2010, ‘divided government’ in a time of extreme partisan and ideological polarization paralysed federal law-making.

In terms of policy outcomes, in the United States, despite these institutional obstacles characteristic of its politics, the presence of a Democrat in the White House favoured the enactment of one major social policy initiative in the field of health care reform. And yet this reform was more modest than liberals had hoped, in large part because of the concessions on issues

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46 Cushman 2012.
like abortion necessary to get conservative Democrats on board in the absence of strict party discipline.\textsuperscript{48} In the United Kingdom, the Conservative domination of the coalition government explains why fiscal austerity measures were rapidly implemented after the May 2010 election. Importantly, in the highly unusual and potentially uncertain context of coalition politics, the Liberal Democrats, who have suffered severe stress as they have retreated from pre-election policy positions, have largely remained loyal to that austerity agenda. By contrast, no coherent austerity policy has emerged in the context of ‘divided government’ in the United States. The 2012 elections reinforced the pattern of divided government, which means that the argument over the merits of a programme of austerity as against a more progressive approach to fiscal and social policy in difficult economic times is likely to continue. On the other hand, while neither party leadership is in a position to exercise clear authority, President Obama’s position has been strengthened by his re-election with the result that any future fiscal negotiations will include discussion about raising extra revenues from higher-income Americans, as well as cutting social policy spending. In addition, Romney and congressional Republicans were committed to repeal the health care reform enacted in 2010. Obama’s re-election, therefore, was critical to the implementation of that reform. These remarks indicate that electoral outcomes do matter, as political actors from different parties favour alternative policy solutions. For example, the Labour party in the United Kingdom and Democrats in the United States are more likely to see virtue in raising taxes on the wealthy as a means of balancing budgets than their Conservative and Republican counterparts. On the other hand, in both countries the capacity to implement preferred solutions is constrained by the wider institutional environment, though much more so in the United States than in the United Kingdom.

\textsuperscript{48} Jacobs & Skocpol 2011.
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CHAPTER 6

Crisis and recovery in Iceland

STEFÁN ÓLAFSSON

From bubble economy to financial collapse

Before the 2008 financial crisis, Iceland was often described as one of the economic miracles of the postwar period in Europe. A great leap forward had occurred during the Second World War, with the period between 1960 and 1980s showing the highest growth rates. By 1980 Iceland had become a regular member of the group of 10–15 most affluent nations within the OECD. The UN’s Human Development Index of 1980–1985 ranked Iceland amongst the top ten countries.¹ By 1990 various levels of living indicators were comparable to those of the Scandinavian nations.²

From the late 1990s this already successful society became the subject of an unusual neoliberal experiment that produced an excessive bubble economy between 2003 and 2008. Neoliberalism had started to gain ground in politics and the economy from the early 1980s, as in many other advanced nations. This involved a growing belief in the benevolence of unfettered markets, privatization, tax favours to firms and investors, and a laissez-faire attitude towards the role of government in finance and the economy in general.

Iceland’s entry into the European Economic Area Zone (EEA) in 1995 introduced the four freedoms of the European Union into the Icelandic political economy, with full freedom for the flow of capital across borders being the most novel and consequential aspect. The privatization of the main state banks, starting in 1998, proved to be a major turning point. When

¹ Ólafsson 2008.
² Ólafsson 1990.
the banks were fully privatized at the beginning of 2003, their new owners turned them overnight into aggressive investment banks. They greatly increased their participation in leveraged mergers and acquisitions, first within Iceland and then to a greater extent in neighbouring countries.

External debt escalated and excessive risk behaviour became predominant in the Icelandic financial and business environment, driven by the quest for accumulation of assets, profits, and bonuses.\(^3\) With the easy flow of borrowed foreign capital at low interest rates, the economy had ample resources for rapid growth, which soon turned into an excessive speculation bubble.\(^4\) Already by end of 2004, Iceland had become the world’s most heavily indebted economy, measured as gross external debt in per cent of GDP. Before the collapse of the banks in October 2008, the foreign debt had grown to about eight times the size of the country’s GDP, a high-risk situation and totally unsustainable once growth slowed down.\(^5\)

IMF and others have claimed that Iceland’s financial crisis is the most costly in history in relation to GDP.\(^6\) So this was an excessive affair by all accounts. The collapse of the Icelandic financial system that followed in October of 2008 was also an extreme event, with the three main banks falling within a period of ten days. The financial system as a whole came almost to a standstill.

The collapse was multi-dimensional. It started as a fall in the stock market that gathered momentum from the autumn of 2007, and as a depreciation of the national currency (Icelandic krona) that started in the last two months of 2007, gathering speed towards the spring of 2008. Then the currency stabilized during the summer. When the banks fell in October the currency took another large dive; altogether it fell by close to 50 per cent from peak to trough.

So the bursting of this asset and speculation bubble involved a stock market crash, a currency crash, and a banking collapse, and in their wake came an economic and political crisis, along with a profound loss of confi-

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\(^3\) Aliber & Zoega 2011; Ólafsson 2011.
\(^6\) IMF 2009.
dence in institutions and politics amongst the general public. On the whole one can say that the collapse and the crisis that followed were events of historic proportions for Icelandic society, events that caught the attention of the international media, giving them a star role at the beginning of the global financial crisis. Iceland was the canary bird in the coal mine of neoliberal financialization.

The internal consequences were large. The gross domestic product contracted by some 10 per cent in two years (2009 and 2010), unemployment went up from about one to 2 per cent in 2007–2008 to about 9 per cent in 2009. Real earnings were lowered drastically, private consumption contracted by some 24 per cent from 2007 to 2009, and debts of households, firms, and the government escalated. The biggest crisis to hit Iceland since the Second World War was an irrefragable fact.

In what follows I will give an account of how Iceland coped with this large-scale crisis. Iceland had to apply to the IMF and neighbouring countries for emergency assistance, loans, and guidance. Now, in 2012, about three and a half years after the collapse, we can see that in many ways Iceland put together a policy strategy that seems to have been rather unique for a country in the custody of the IMF. Iceland’s strategy was for example very different to that of Ireland, which also went deeply into financial crisis. The banks in Iceland were too big in relation to the national economy for them to be saved, unlike in Ireland, United Kingdom, Denmark, and many other Western countries. But what will interest us here is primarily how the burden of the crisis was shared in Iceland and how government strategy facilitated the path through the crisis towards resurrection.

From a neoliberal regime to a social democratic regime
The government that came to power after the banking collapse was a social democratic government that pledged itself to rule by the principles of a ‘Nordic welfare government’. This pledge was seen as involving a primary emphasis on sheltering the lower- and middle-income households against

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7 Ólafsson & Kristjánsson 2012a.
8 Ólafsson & Kristjánsson 2012a; Thorhallsson & Kirby 2011; see also chapters 8 and 17 in this volume.
the vagaries of the crisis. The government also aimed to increase equality in the distribution of levels of living, to soften the blow to the living standards of the nation, to reduce unemployment, and to soften the worst debt burden of households, as far as governmental finances allowed. The new government’s goal was in effect to turn Icelandic society around, away from the model of unrestrained finance and more in the direction of the Nordic welfare state model. Prior to the crisis, by contrast, the Chamber of Commerce and politicians on the right had preached that Iceland should stop looking to the other Nordic nations for a model.

On the eve of the collapse Iceland had some distinctly neoliberal characteristics in its regime. Finance had come to dominate the economy and polity; speculation with borrowed money prevailed in many industries, including the fishing sector; a laissez-faire attitude towards regulation and restraint prevailed within the public administration; privatization and deregulation were championed; the tax rate on business profits had been lowered from about 45 per cent to 15 per cent; taxation on financial earnings was at 10 per cent, one of the very lowest such rates within the OECD; the tax burden on lower income groups had increased due to a reduction of the personal tax allowance; social security benefits lagged behind wages in the labour market; and income inequality was increasing at an unprecedented rate.

The association of neoliberalism with inequality is well established. In welfare research it has been repeatedly documented that the English-speaking nations that generally pursue market-leaning policies and maintain less egalitarian welfare states have higher levels of inequality in income and living standards distribution than the Nordic welfare states as well as many of the north-western countries on the European continent.9 After neoliberal policies came to greater prominence from the late 1970s and early 1980s onwards, specifically promoted by the governments of Margret Thatcher in the United Kingdom and Ronald Reagan in the USA, inequality levels started climbing. This was a major reversal of developments after decades of slowly increasing equality from the end of the Second World War.10

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As can be seen from Figure 6.1, income inequality increased drastically in Iceland from around 1995 to 2007. In fact the increase seems to have been more rapid than was evident in any other Western nation during the postwar period.\(^\text{11}\)

The increases in the Gini coefficients up to 2007 were large indeed by any standard. For all disposable earnings (black columns), the increase in the Gini during the ten-year period from 1998 to 2007 was 79 per cent. If we look at disposable earnings excluding capital gains, the increase in the period is 30 per cent. The OECD considers an increase in the Gini inequality coefficient of 12 per cent or more in a period of ten years to be a ‘large increase’ (OECD 2008 and 2011). On both accounts the increase in Iceland is way beyond the OECD reference.

The increase in income inequality from 1995 was primarily due to increased financial earnings and redistribution effects of the tax and benefits system. The effects of the tax and benefits system were more decisive in the

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\(^{11}\) Ólafsson & Kristjánsson 2012b; Kristjánsson & Ólafsson 2009.
earlier part of the period, while financialization effects were more predominant from 2003–2007.

The line in Figure 6.1 shows the difference in the amounts of the two Gini series. It shows the effect of the capital gains factor of financial earnings on the level of inequality. Since capital gains largely stem from activities on the financial market (the buying and selling of stock market shares and securities, and the selling of other assets), it is a good indicator of the speculation or bubble effect on inequality. On the whole the increase of financial earnings account for about two thirds of the increased inequality from 1995 to 2007. They run disproportionately to the highest income groups and are also taxed at lower rates than other incomes. Hence the large inequality effect. Reduced equalization effects of the income tax and benefits system explain the biggest part of the remaining third. 12

The change towards more equality from 2008 to 2010 is also large indeed. This shift is a result both of diminished financial earnings and the increased equalization effect of the tax and benefits system. The swing towards more equality can thus be partly linked to the social democratic policy effect, promoted by the present government.

Another way to more directly assess the effects of policy during the crisis is to look at how the inevitable burdens of the crisis were shouldered by different income groups. Figure 6.2 does this by comparing how real disposable earnings changed in ten income groups (deciles) in Iceland and Ireland.

The columns in the figure show accumulated changes in real disposable earnings in the respective income groups. Thus the lowest 10 per cent of households in Iceland lost 9 per cent as did the next decile, while the lowest decile in Ireland lost 26 per cent of their purchasing power from 2008 to 2009, in the first part of the crisis. The Icelandic figures cover the whole of the contraction period (2008–2010). As can be seen in the figure, the cut in real earnings gradually increased in Iceland as one moves up the income ladder: the middle groups lost 14 per cent, while the top decile group lost by far the most at 38 per cent. The opposite is the case in Ireland, where the

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12 Ólafsson & Kristjánsson 2012b.
burden falling on the higher groups gradually lowered until we come to the highest income decile, which actually increased its real disposable earnings by 8 per cent while the lower groups shouldered the crisis. Since 2009 Ireland has gone through repeated austerity packages that have levied further burdens on lower and middle income groups.

In Iceland in 2009 minimum pensions were increased by 20 per cent and minimum wages were raised marginally, as were welfare benefits, which also became more targeted at the lowest income groups. The changes in the taxation system in effect lowered the real tax burden on lower income groups and increased the tax burden on the higher groups. The increased tax burden primarily fell on the top 40 per cent of households. Hence redistribution was a prominent feature of the Icelandic crisis strategy. By comparison, the Irish policy had opposing features to those just outlined for Iceland (e.g., minimum wages, pensions, and benefits were cut).

13 Ólafsson & Kristjánsson 2012.

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Iceland’s way through the crisis

In 2012, three-and-a-half years after the spectacular collapse of the Icelandic financial system, we are in a position to assess how Iceland tackled the crisis in terms of social and economic policy. What we find is that Iceland’s approach appears to have been quite successful to date.\textsuperscript{14} We also find that Iceland has partly designed its own policy approach, in cooperation with the IMF, exemplifying its own special strategies. I explain here the main characteristics of this approach and how it has worked in practice.

The main characteristic of the approach is an emphasis on redistribution, through the tax system and the social protection system, along with debt relief measures that were disproportionally aimed at the middle and lower income groups. Redistribution meant that the need for classic austerity measures in the form of public expenditure cuts, was not as great as otherwise would have been. Various efforts to alleviate unemployment were also implemented. While the Icelandic krona had exaggerated the bubble economy effect prior to the crisis, its depreciation (which started at the beginning of 2008, well before the collapse of the banks) helped export industries to maintain their operations after the collapse. The cost of that depreciation, however, fell squarely and severely on households, which suffered a big cut in real earnings (through price inflation and lagging incomes) along with an increased debt burden. That cut in living standards fell disproportionally on higher income households, partly due to the policy of redistribution.\textsuperscript{15}

The overriding concern of the government had, of course, to be to resurrect the financial system, including the Central Bank, which literally became bankrupt. The public deficit was -14.5 per cent at the beginning of the crisis and its reduction and levelling became the prime goal of the IMF programme, as well as the goal of paying back the emergency loans obtained from the IMF and the other Nordic nations. In addition, a large part of the business sector went deep into debt problems and many firms and households went bankrupt. The task of maintaining continued operation of society and economy became a major concern for both the government and households, something that in a normal year is taken for granted.

\textsuperscript{14} Ólafsson & Kristjánsson 2012; Ólafsson, Kristjánsson & Stefánsson 2012; IMF 2012.

\textsuperscript{15} Ólafsson & Kristjánsson 2012.
The leader of the IMF delegation described Iceland’s experience as a ‘near-death experience’. The major aim of the IMF programme was to prevent further depreciation of the currency, ensure fiscal sustainability, and restructure the financial sector. In order to give the government breathing space, the automatic stabilizers were allowed to work fully in the first crisis year and capital controls were introduced to create fiscal space and facilitate currency stabilization. The programme had dated goals for financial recovery and economic progress, but it was up to the government to choose the tools and strategies, such as finding the right balance between expenditure cuts and tax increases.

With the public finances in ruins, the task of sheltering households from the vagaries of the crisis was a challenging task indeed. Still, one of the aims of the government was to use the social protection system to obtain such goals. The strategy of redistribution was a major vehicle of this policy approach and combined an increase of some welfare expenditures with cuts in others, even as remaining expenditures became in many cases more directed at the vulnerable groups in society.

On the whole social protection expenditures increased by 4.2 per cent in real value kronur from 2007 to 2010, with an increase of 11.6 per cent for transfers to households, while expenditures on services were cut by nearly 3 per cent in the same period. Expenditures on pension benefits were increased by a generous raising of the minimum pension, which however benefited disability pensioners more than old-age pensioners. Family benefits expenditures did not register real increases, but here, as with O–A pensions, more targeting meant that the lowest earners saw some increases (thus birth leave expenditures for example were cut significantly but child benefits increased slightly).

Of course expenditures on unemployment benefits increased massively (by some 600 per cent) and expenditure on labour market measures increased by 60 per cent in real terms. The same applies to interest cost rebates for housing loans, which were increased by some 60 per cent in real value.

16 Thomsen 2011.
17 See the IMF yearly staff reports on Iceland from 2008 through April 2012.
18 Statistics Iceland; Ólafsson, Kristjánsson & Stefánsson 2012
Figure 6.3. Real change in GDP by quarters (diagram A) and unemployment in some crisis-ridden countries (diagram B), 2007–2011

**Sources:** Statistics Iceland and Eurostat.
In many ways the welfare strategy had the characteristics of being strategic in application, seeking cuts where possible (mainly in service provisions, higher pay levels, occupational benefits in the public sector, and administrative costs) and increasing expenditure where it was deemed of the utmost importance to reach the goals of sheltering the more vulnerable.

So how successful were these strategies in resurrecting Icelandic society from the ashes of the collapse?

**Touching bottom and rising again**

When we survey the quarterly economic growth record through the crisis, we see that the economy was slowing down already by the second quarter in 2008 and by the third quarter it was already negative by 0.4 per cent (see Figure 6.3.A). So the contraction had started already before the collapse of the banks. The major contraction then came in 2009, the average being registered at 6.8 per cent for the year. This stretched into 2010 but already by the third quarter of that year there were signs of a turnaround with reduced contraction; by the fourth quarter it stood at -0.4 per cent. The year of 2011 then showed strong growth in all quarters and the first quarters of 2012 display a similar growth record.

The prognosis of the Central Bank for 2012 is a growth of 2.5–3 per cent, which is good by international standards. For comparison, the 2012 prognosis for the EU is 0 per cent and for Ireland it is 0.5 per cent. Some of the crisis-ridden countries will continue to contract this year (2012).

Looking at unemployment development (Figure 6.3.B) in some of the countries that went deep into crisis, Iceland compares quite well. Iceland's unemployment went from less than two per cent before the crisis to just over nine per cent when it topped (in second quarter of 2009). Apart from that quarter, Iceland's unemployment rate remained below the EU average. After topping, it has come down very slowly until the present year, when it seems set to reach its lowest level after the onset of the crisis. The prognosis of the Directorate of Labour is that the unemployment level will be around five per cent during the summer of 2012.
Latvia, another country that went deep into the financial crisis, went much higher on unemployment than Iceland, peaking at close to 20 per cent in the first quarter of 2010 and coming down to about 14 per cent by end of 2011. All the other countries in the diagram continue to show high unemployment levels, and some of them, such as Greece, Spain, and Portugal, are still experiencing an increase in their levels.

So on the whole, one can say that Iceland touched bottom rather soon after the collapse and has been firmly on the upswing from 2011. Compared to the other European countries that went deep into crisis, Iceland seems to be recovering rather well.

Real wage development and private consumption through the crisis period tell a similar story (Figure 6.4).
Real wages came down by about 12 per cent altogether between 2008 and 2010. There was a collective bargaining round in the spring of 2010 that led to some increase in real wages during the summer of 2010 but that came down again (due to rising inflation) in early 2011. Then the spring of 2011 saw another bargaining round that put the rise in real wages on a firmer footing. In 2011 real wages increased by 2.2 per cent (February 2010 to February 2011), while the 12 months increase from 2011 to 2012 was about 4.6 per cent. That increase was in effect larger than any yearly real wage increase in Iceland since 1998. It was in fact the highest yearly rise in 13 years. These figures clearly indicate the strength of the recovery.

It is also interesting to survey the development of private consumption through the crisis years. Consumption went down by some four per cent on average in EU countries in 2009 and then recovered the following year. But countries hard hit by the crisis, such as the Baltic States, Ireland, and Iceland, experienced a significantly larger cut in consumption, especially Iceland and Latvia, whose figures went down by some 20 per cent already in 2009.

Greece only experienced a consumption cut in 2011, but given the prospect there at the time of writing (May 2012), its figures seem set to go much further down in 2012 and most likely the next year as well. Ireland’s consumption figures came down slower than Iceland’s and Latvia’s to begin with but have continued contracting longer, that is, every year from 2009 through 2011.

Iceland, however, took a deep dive at the start in 2009 but then saw significant increases in consumption levels both in 2010 and 2011. These increases indicate that there is a close relationship between private consumption and real wages. Intersecting with rising wages from spring of 2010, private consumption already showed some increase in the latter part of that year and then more firmly in 2011. In terms of overall volume, Iceland’s consumption level may equal or rise above the level of 2008 in 2012.

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19 Note that real household earnings came down more, since lower work volumes and reduced benefits added to the cut in real wages. A changed tax burden also affected that outcome.
20 Ólafsson & Kristjánsson 2012a; Eurostat.
Due to higher price levels Icelanders are of course getting less for their consumption money in 2012 than before the crisis. But the consumption level of 2007–2008, at the height of the bubble economy, was unsustainable given the overrated currency value at that time and the role of borrowed money as a source of consumption in some cases. However, the development of both wages and private consumption does support the analysis above on the country’s path through the crisis. The Icelandic economy reached bottom in the latter part of 2010, when its climb up from the ashes started, to be then firmly consolidated from 2011 onwards.
Debt relief issues

Debt accumulation is the most deadly feature of a bubble economy. On the eve of the collapse, Iceland’s foreign debt amounted to almost eight times the country’s GDP.\(^{21}\) Most harmful in the case of Iceland was the debt accumulation of the financiers and business speculators who were responsible for the big majority of foreign debts. But the household sector also increased its debt level, particularly rapidly after the private banks entered the housing loans market in 2004, offering new loans, refinancing of older mortgages, and greater use of increased asset prices as collateral for higher loans. The loans offered were also increasingly awarded for up to 40 years, which made possible more stability in the debt burden of servicing the higher debt levels. While Iceland had a housing bubble from 2004 onwards, this was only a minor part of the overall bubble. The business speculation constituted the bubble’s main feature and its most harmful aspect.

Figure 6.5.A shows how the debt level of households increased up until the crisis and how it has come down again in the period 2009–2011.

The housing debts had almost doubled from 2000 to when they topped in 2008, but other loans (e.g., car loans and other consumer loans) actually increased somewhat faster. So the debt burden had already materialized before the collapse. Since the onset of the crisis, the average debts have come down again. In 2011 both the housing and consumer debts were at a similar level as their 2006 levels in real krona values.\(^{22}\)

The IMF has recently estimated that between 15 and 20 per cent of household debts were already strategically written off by early 2012 (IMF April 2012, chapter 3). On the other hand most housing loans are indexed to prices, so for most homeowners the principals on their loans have actually increased with rising inflation. Even though debt levels have come down on average, and more so for the lower- and middle-income households, it is the reduction in disposable earnings that has made the debt burden (interest cost as a per cent of real disposable earnings) relatively higher than before the crisis.

\footnotesize{\(^{21}\) Ólafsson 2011; Aliber & Zoega 2011.\(^{22}\) Central Bank of Iceland 2012; Ólafsson, Kristjánsson & Stefánsson 2012.}
So the government policy for debt relief and court actions against foreign currency nominations of consumer loans has significantly eased the burden of housing loan repayment. In addition the governmental subsidies for interest cost on housing loans were greatly increased. This increase is also shown in Figure 6.5.B, in which the subsidies as a percentage of the interest cost on housing loans are presented. On average the government paid 30.9 per cent of the interest cost on housing loans for households in 2010, representing an increase from 15.6 per cent in 2007. In fact the subsidy was higher in 2010 than it has ever before been.

So as of 2010 the government is paying on average close to a third of the interest cost of housing loans, which most likely is a very high level by international standards.
Another feature of the housing loans subsidy that is also of importance for assessing the Icelandic approach to crisis management is the fact that it was targeted more at lower- and middle-income households, thus also generating a redistribution effect, as shown in Figure 6.6.

Here the subsidy is shown as a proportion of the interest cost on housing loans for three income groups: the lowest decile, the median decile, and the top decile. The subsidy is greatest for the lowest income group, accounting for almost 45 per cent of the interest cost on their housing loans in 2010. This level is similar to that which had prevailed in 1995, before it was gradually eroded towards 2005. In 2010, the median decile groups were receiving a subsidy of 35 per cent of their interest cost from the government, a high figure never before seen for that group in Iceland. The highest decile group (the top 10 per cent of households) had seen its subsidy go down from 10 per cent in 1993 to zero in 2006. They did, however, receive a subsidy of almost 10 per cent of their cost again in 2010, due to the relatively flat-rate part of the subsidy.

And so, as the above figures testify, the redistribution effect was clearly at work in the government measures for debt easing and debt relief.

Conclusions

Iceland’s extreme bubble economy was a fairly typical speculation boom, fed by debt accumulation and a laissez-faire attitude towards regulation. A combination of historical accidents in an environment of growing neoliberalism paved the way for the world’s biggest bubble economy and the biggest financial collapse when it finally burst in 2008. The by now all-too-familiar global setback in finance and economy, as well as in politics, ensued.

However, Iceland touched bottom relatively soon after the collapse and has been on a firm upward swing from late 2010 or the beginning of 2011. In this chapter I have focused on the governmental strategy of sheltering the lower- and middle-income groups against the vagaries of the crisis. It emerges that Iceland developed its own approach towards crisis resolution, which involved a great emphasis on redistribution.

23 Minsky 2008; Reinhart & Rogoff 2009.
Redistribution was firstly aimed at welfare expenditures (cuts in some areas, increases in other areas, and increased targeting of expenditures on lower income groups with cuts directed at higher income groups). Secondly, the redistributive effect of the income taxation system was also significantly increased. Hence the reduction of real disposable earnings of lower income groups was softened, while heavier burdens were levied on the highest income groups, particularly on the top 40 per cent of households. The strategy of redistribution in effect reduced the need for classical austerity measures, which are likely to dampen economic activity and increase unemployment.

These distributive strategies were joined with stimulus-oriented measures in the labour market, from special measures for activation, education, and retraining, as well as for more direct job creation. Money from the unemployment benefits fund helped finance some such activation projects and pension funds investments facilitated the restructuring of some companies and the financing of job-creating projects, such as those in infrastructure.

The overall strategy, along with the programme of the IMF, seems to have succeeded in many ways. Iceland is now firmly placed on the path of sustainable growth and has already graduated from the IMF programme by starting to pay back the emergency loans it received from IMF, other Nordic nations, and Poland, in fact before such time as stipulated in the loan agreements.

Levels of living are also gradually improving and the income distribution has moved sizably towards greater equality. Iceland is now again more in line with the Nordic welfare society model than it was in the decade leading up to the collapse.
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INTRODUCTION

This chapter examines the impact of the two most recent severe economic crises on the Irish welfare state. It focuses on the constellation of political, social and economic ‘problem pressures’, the manner in which these were brought to bear on debate about austerity and retrenchment, and their influence on the trajectory of the welfare state during both periods, namely the 1980s and the present. Documentary evidence of the nature and complexity of the various pressures is necessarily brief; the main focus lies in an examination of the relative importance and influence of socioeconomic problem pressures, the delivery of policy solutions, the nature of social welfare reforms, and the manner in which these are framed during the respective crisis periods. This chapter explores these issues in order to elucidate the extent to which the ‘severity of economic pressures’1 may act alongside wider political and social factors as enablers of welfare retrenchment and/or as simultaneously contributing to a degree of welfare resilience, also influenced by these same pressures. Taking these two periods in tandem for the purpose of analysing the impact of economic crises on the Irish welfare state, we explore the possibility of ‘multicausal explanation’2 in understanding

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2 Starke 2005, 32.
the conditions in which welfare resilience may be weakened, thereby making way for more systematic welfare retrenchment over time. It could be argued that there is limited merit in examining these two economic crises. Their origins are largely, but not altogether, different. The economic and fiscal conditions that preceded them are markedly different in terms of GDP and relative standard of living, and there are issues around timeframe(s), the impact of greater European integration, and Ireland’s position vis-à-vis economic globalization. There is undoubtedly validity to these points, but the question of why the Irish economic crisis of the 1980s was frequently used as a reference ‘event’ about the manner in which current policy responses should be considered still remains open. This may be viewed as a largely domestic political question, but it has wider application too; the idea of social and political learning³ has been identified as a factor in the politics of welfare retrenchment, even if the narrative surrounding it often fails to underscore the distinct dynamics at play in each crisis period.

Irish economic crises of the 1980s and the first decade of the new century in context

Ireland was an outlier in not following the broader European trajectory of welfare state development in the post–World War II period. Due to the dominance of Catholic conservatism, a dependence on agriculture and an economic policy of protectionism, and the relative success of conservative and populist politics over the political left, it was not until the 1960s that policies promulgating ideas around ‘a just society’ began to gain traction in mainstream Irish political discourse. As a consequence, core elements of the welfare state (e.g., the health system) were only established on a statutory basis during the 1970s, while the social welfare system had just entered its first real expansionary phase. The Irish economy was a ‘late developer’ and the 1960s and 1970s essentially marked the first decades of Irish industrial development, although the standard of living remained well below the European average, and poverty and unemployment were serious social problems.⁴

⁴ Considine & Dukelow 2009.
Ireland’s economic crisis of the 1980s had its origins in the 1970s, although it follows a somewhat different path to that of other countries. Despite unfavourable international economic conditions after the first oil crisis, Ireland recovered quickly owing to a strong performance in international trade and the shift from the long-standing policy of balancing current expenditure with current revenue provided leeway for policymakers; however, keeping this in check was to prove increasingly difficult. Subsequent years saw some expansion of the welfare state and efforts were made to broaden the tax base. However, the Fianna Fáil government returned in 1977, reversed many of the tax initiatives, preferring a more expansionary and pro-cyclical approach involving capital spending and growth in public sector employment. Inflation had become a serious problem and by the time the second oil price shock hit, Ireland was less able to counter its effects. Economic stagnation became a significant difficulty from the early 1980s, with sluggish growth rates for several years and minor dips into negative growth. In this respect, the economic trajectory of the 1980s crisis is markedly different to the present crisis. Table 7.1 provides an outline of key economic data for both periods.

The unprecedented economic growth of the late 1990s and early years of the new century’s first decade came to an abrupt end when the property bubble burst just as the impact of the global financial crisis was being felt. A domestic boom in property and consumption during the new century’s first decade was facilitated by the ready availability of credit, low interest rates, and a poorly regulated banking sector. Impressive economic growth rates (average GDP growth 5.5 per cent 2001–2007) masked the growing instability of the tax base which had become increasingly reliant on transactional taxes, allowing the low-tax economic model to be pursued and go largely unchecked. Ireland entered recession in September 2008 and the economy contracted severely; real GDP declined by 12.4 per cent between 2007 and 2010. While government revenue fell by one-third in three years, it was

5 Dukelow 2011.
6 Department of Finance 2012.
7 Department of Finance 2012.
the depth of the Irish banking crisis and the policy response to it (namely the Bank Guarantee Scheme) that resulted in the most intractable difficulties surrounding the fiscal crisis. Direct support for the banking system reached €63 billion by 2011, representing 38 per cent of GDP, making Ireland’s response to the banking crisis the most expensive to date.

The economic trajectory of the 1980s was one in which the policies attempting to counter severe inflation and economic stagnation took several years to bear results and all the while the national debt grew, threatening economic sovereignty. Inflation ran at 21 per cent in 1982 and was reduced to 3 per cent in 1986, while the.exchequer borrowing requirement averaged 13 per cent between 1979 and 1987, by which time the debt to GDP ratio was 117 per cent, up from 87 per cent in 1982. This fiscal situation

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8 Dáil Éireann 2011.  
9 IMF 2011.  
10 FitzGerald 1992.  
11 Hardiman 2000.  
marks a point of contrast with the present where the national debt was not a problem in the pre-crisis period, as the debt arising from the 1980s was paid down by successive governments, and its scale diminished by rapid economic growth. The debt-to-GDP ratio increased much more sharply on this occasion, from 32 per cent in 2007 to 97 per cent in 2010.\(^\text{13}\) Largely the result of the massive cost of the bank bailout, and compounded by the sharp decline in government revenue, the challenges attached to dealing with the national debt remain immense.

Warning signs existed before both crises came to a head. In the case of the 1980s, the Taoiseach (Prime Minister of Ireland), Charles Haughey, addressed the nation about the need for prudence as early as 1980, although economists in particular highlighted what they saw as the mismatch between ‘converting the unanimity that exists among commentators on the need for retrenchment into a realistic programme for achieving it’.\(^\text{14}\) This idea of acting swiftly to manage the risks associated with aspects of economic/fiscal policy emerged as a feature of the ‘political learning’\(^\text{15}\) surrounding the current crisis. The export-led ‘Celtic tiger’ economy of the mid-to-late 1990s had effectively ceased post-2001, but was augmented by the domestic economy, fed by the property boom and the easy availability of credit. Warnings\(^\text{16}\) about the dangers of an overheated property market, for example, were largely dismissed, with key policy actors arguing that Ireland was headed for ‘a soft landing’. By mid-2008 it became clear that this was not the case, and the coalescence of the bursting of Ireland’s property bubble with the global financial crisis brought with it a severe shock to the economy with implications for the welfare state.

Economic, social and political pressure points

As the crisis of the 1980s continued to deepen, there were significant economic and social problem pressures to which there were no easy solutions. Unemployment rose sharply (from 6 per cent in 1980 to 18 per cent in

\(^{13}\) Kinsella 2012.
\(^{14}\) McCarthy & Walsh 1980.
\(^{15}\) Pierson 2001, 453.
\(^{16}\) Ahearne 2005; Kelly 2007.
1986), while emigration returned to levels not seen since the 1950s, with over 200,000 people leaving the country over the decade. Poverty was a serious issue, with Ireland having one of the highest rates of poverty (Greece, Portugal, and Spain were the others) in the EU15 in 1985. Ireland’s demographic profile was also amongst the youngest in Europe, with all of the corresponding demands that this brought in terms of the health, education and social welfare systems. GNP per capita remained well below the EU15 average, at 61 per cent in 1987, the same as was recorded in 1973. In contrast, by the middle of the first decade of the twenty-first century there had been a rapid upturn in the standard of living: Ireland’s gross national income per capita reached the EU15 average by 2002, and exceeded it by 14 per cent in 2007. This fell to 8 per cent below the EU15 average by 2010, representing a return to Ireland’s position in 1998.

The remarkable economic turnabout by the late 1990s was accompanied by greater investment in social services. Such investment was required to address the many infrastructural deficits that remained from their historical underdevelopment and to cater for the needs of a fast-growing population. The investment may have appeared to be setting the Irish welfare state on a different course but needs to be seen in parallel with growing commodification in housing and healthcare, which effectively embedded a two-tier approach to provision in these areas. In terms of social protection, initiatives to tackle poverty were developed and some progress was made, although these were largely undertaken in isolation from wider debates about inequality and not sufficiently broad to alter the nature of redistribution in any substantive way. Ultimately the opportunity to reform and make the welfare state more robust was missed.

The social welfare system has seen a sharp increase in demand as the social impact of the current crisis unfolded. Department of Social Protection expenditure rose sharply (from 8.2 per cent of GDP in 2007 to 13.5 per cent in 2010), reflecting in particular the rapid rise in unemployment (from

17 European Economy in Barry 2003.
18 NESC 2011.
19 Murphy 2010.
20 Department of Social Protection 2011a.
less than 5 per cent in 2007 to over 14 per cent in 2011). Relative income poverty rates fell initially, falling incomes reduced the relative poverty line, and the rate fell from 16.5 per cent in 2007 to 14.1 per cent in 2009, but has since risen (15.8 per cent in 2010). Deprivation has increased sharply, from 11.8 per cent in 2007 to 22.5 per cent in 2010. Children remain the age group at highest risk of poverty (19.5 per cent) and they also experience the highest rate of deprivation of all age groups (30.2 per cent in 2010). Income inequality, having fallen initially (Gini coefficient 31.7 per cent in 2007 and 29.3 per cent in 2009\textsuperscript{21}), has also risen (33.9 per cent in 2010), highlighting the need for the social impact of sustained austerity to be the subject of more extensive debate. However, as the Department of Social Protection itself notes, 'the policy agenda for social protection has been to see it as exclusively an instrument to reduce government expenditure rather than to cushion the economic downturn'.\textsuperscript{22}

Turning briefly to political pressures, it would seem that both periods were affected by uncertainty but in different ways. Three general elections were held within two years in the early 1980s, reflecting the political instability of that time, particularly around budgetary matters that ultimately led to the collapse of all three governments elected. This contrasts with the present period in which the previous Fianna Fáil/Green Government (2007–2011) did not dissolve until Budget 2011 was passed, despite the severe electoral consequences. In office since 1997, the re-election of Fianna Fáil in 2007 might be taken to imply a high degree of political stability in the pre-crisis period. This stability was not sustained, however, as the government struggled to come to terms with the unfolding crisis. Ireland signed up to its Programme of Financial Support with the EU/IMF amid a high degree of uncertainty and confusion regarding these events. The Green Party ultimately withdrew support for their coalition with Fianna Fáil in late 2010, although not before implementing a fourth austerity budget. A general election followed in 2011, the fallout from which is discussed later.

\textsuperscript{21} CSO 2011.
\textsuperscript{22} Department of Social Protection 2011b.
Revisiting some of the policy ‘turns’ in Irish economic crises

The manner in which the crises unfolded appears to have an impact on the sequence and extent of the overall policy responses put forward. The economic crisis of the 1980s might be characterized as something of a ‘slow burner’, building up steadily over a number of years with economic stagnation, a fiscal debt crisis, and ultimately a public debt crisis. The general thrust of government (1982–1987) policy was directed at curbing inflation, limiting public spending, and increasing taxation to reduce the deficit and improve macroeconomic conditions. Long-standing inequities in taxation, which precipitated public discontent demonstrated in the tax marches of the late 1970s and early 1980s and in the fact that ‘higher taxation was never a deliberate policy of the Irish state’ 23, provided the backdrop to the taxation strategy of the 1980s. Higher rates of taxation were severe in their impact on ordinary workers. By 1985, taxes on personal income and goods and services accounted for 75 per cent of the total tax take, while the proportion of revenue raised from property and company profits had fallen sharply. 24 Reducing the personal income tax burden became a key plank of fiscal policy in subsequent years, an issue which returned to prominence in the latter half of the new century’s first decade, although with key differences in the approach to taxation.

Resources were undoubtedly severely stretched in terms of the delivery of social services during the 1980s; however, a Keynesian bent is evident in the political rhetoric of the time with a mix of expansion and retrenchment delivered in policy related to the welfare state. Owing in large part to the unemployment crisis, social welfare expenditure rose substantially from 16.8 per cent of GDP in 1980 to 21.8 per cent in 1985. 25 The more austere policy objectives were also tempered by the social democratic orientation of some of the senior politicians of this administration:

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23 O’Connor 2010.
24 O’Connor 2010.
The difference for us … is not in whether the country’s debt should be controlled; it is in how that should be done. In attempting to reduce expenditure, we have to reject cuts whose only attraction is that they are administratively convenient. … We must also reject cuts which promote inequity. … Abuse must be rooted out wherever it exists, but that must be done in the interests of promoting justice and not at the cost of social justice. 26

In the re-call of the 1980s crisis, it is the Fianna Fáil–led government, elected in 1987, that is frequently credited for ‘turning the country around’. Their strategy was, on the surface, ‘expansionary fiscal contraction’, an approach based on the belief that public spending cuts encourage private expenditure and capital investment, and a stronger political narrative around ‘a disciplined economy where sectional interests do not prevail’. 27 This approach was consolidated by a new phase of social partnership initiated in 1987. Those on the union side viewed it as a way of avoiding the worst excesses of the more neoliberal wave of retrenchment elsewhere. The Programme for National Recovery 28 marked the emergence of two decades of social partnership, during which time its policy focus broadened substantially. Much has been written about its impact on the nature and quality of policy making as it evolved. 29 The ‘conflicted experiences’ 30 of the community and voluntary sector in the process, as well as the role of social partnership in the facilitation of neoliberal economic policies more generally, has also come in for critical comment. 31 Others consider that acceding to this process and the demands therein contributed to the excesses of the boom years. 32 In much of the mainstream political narrative, social partnership moved from being regarded as an integral part of the solution in the 1980s, to being quickly constructed as part of the problem in the latter part of the

26 Spring in Dáil Éireann 1986.
30 Meade 2005.
31 Allen 2000.
32 Gurdgiev 2012.
new century’s first decade. Apart from the public sector pay and reform agreement drawn up in 2010\(^{33}\), social partnership has all but collapsed.

Returning to 1987, the new government took on the crisis with more direct policies aimed at cutting expenditure and imposing sharper corrective action. It was aided by the emergence of a political ‘consensus’ of sorts when the leader of the main opposition party (Fine Gael) committed to support the government in the actions it took. Against this backdrop it is noteworthy that the social welfare system was largely protected (see Table 7.2), although the cutbacks imposed were significant in their impact on other areas of the welfare state. Over 6000 public hospital beds were closed, public housing output declined sharply, and a freeze in public sector recruitment was imposed. Cuts to health and social housing were additionally significant in their longer-term legacy of contributing to the subsequent ‘deepening dualism’\(^{34}\) in key aspects of the Irish welfare state.

By 1990, the budget deficit was reduced considerably, from 11.4 per cent in 1987 to 2.2 per cent.\(^{35}\) Capital expenditure was reduced as a percentage of GDP, current expenditure remained largely unchanged\(^{36}\), and ‘the actual expenditure reduction was the outcome of exogenous events as well as government policy’.\(^{37}\) On the government spending side, the upturn in the UK economy facilitated emigration, which in turn reduced social welfare demand, and the fall in interest rates lowered the premium to be paid on the government debt\(^{38}\). External factors coalesced to provide more favourable conditions overall; an upturn in the global economy, the widening of the EU single market, and an earlier currency devaluation improved conditions with Ireland’s main trading partners in the UK. On the domestic front, the fiscal situation was strengthened by the impact of EU structural funds, and a tax amnesty in 1988 returned a larger than expected revenue return. Furthermore, the average industrial wage grew by over 14 per cent

\(^{33}\) Croke Park Agreement.
\(^{34}\) NESC 2005.
\(^{35}\) Kinsella 2012.
\(^{36}\) Kinsella 2012.
\(^{37}\) Barry 2003, 11.
\(^{38}\) Barry 2003, 11.
between 1986 and 1989, improving domestic consumption and contributing to government revenue.\textsuperscript{39} Taken in these terms, Stephen Kinsella asserts that ‘rather than being a role model of expansionary fiscal contraction, the 1986–1990 period looks more like a proto-Keynesian story, where a laggard country converges rapidly to OECD averages of per capita consumption, output and (real) growth’.\textsuperscript{40}

From a social policy perspective, a more complex picture emerges with retrenchment in key social services, which was a forerunner to a more substantive shift in policy emphasis during the 1990s and early part of the new century’s first decade. Social insurance benefits were expanded to cover a wider range of contingencies (e.g., carer’s benefit) and payment rates improved, while contribution rates were simultaneously reduced. In fact the Social Insurance Fund did not require any exchequer contribution between 1997 and 2009\textsuperscript{41}, perhaps supporting the notion that contribution rates did not need to be high, in the short-term at least. The consequences of comparatively modest social insurance rates are now being felt as the fund surplus was depleted in 2010 and exchequer subvention and higher contribution rates appear necessary to sustain the system over the longer-term. Outside of the social protection system, supplementary private provision became increasingly ‘normalized’ in healthcare, and home ownership retained its dominant tenure status. Underpinning these developments was an increasingly neoliberal approach to tax policy and to redistribution more generally, paving the way for the dualist liberal model of welfare.

Turning to the rapid emergence of the crisis in the latter part of the new century’s first decade, this was met with substantial and decisive, if not uncontroversial, policy reaction. Beginning with the Bank Guarantee Scheme in 2008, the government embarked on a swift course of unprecedented action to protect the banks, at enormous cost to the citizens, whilst simultaneously developing its strategy of austerity for fiscal and social policy. Five subsequent Budgets have since been framed in this way, with ‘fiscal con-

\textsuperscript{39}  Kinsella 2012.
\textsuperscript{40}  Kinsella 2012, 234.
\textsuperscript{41}  Department of Social Protection 2011b.
solidation’ highlighted as the primary objective to restore the Irish economy to health. The budgetary strategy of ‘adjustment’ has been steadfast with emphasis placed on the need to do more expenditure cutting than revenue raising. This policy has delivered a fiscal adjustment of €25 billion, or 16 per cent of 2012 GDP since 2008, and expenditure cutbacks account for almost two-thirds of the total ‘adjustment’ to date. On the tax side, personal income tax bands have been reduced, new taxes have been introduced (e.g., Universal Social Charge), and more are planned (e.g., property tax), although personal income tax rates have not been increased and there remains a policy preference for indirect taxes/charges (e.g., VAT increase, Household charge) to generate extra revenue. This is connected too with the wider economic thrust of the policy response, which has been to restore Ireland’s competitiveness and reputation as a business-friendly and efficient place to do business in. Underpinning this approach is a central concern with Ireland’s position in the global marketplace and the imperative to restore that place via massive fiscal consolidation to return the public finances to order. The ‘communicative discourse’ around the absolute necessity for a rapid course of ‘corrective action’ was evident in the political sphere from an early stage, and the ‘lessons of the 1980s’ also formed part of the broader political narrative:

In the mid-1980s … we almost went under and Ireland was described on the cover of The Economist as “the basket case of Europe” … We must, however, acknowledge and learn from our mistakes.”

“We cannot afford to repeat the mistakes made in the 1980s when Governments of all hues … failed to tackle budget deficits. The story of the 1980s was this failure to take timely action, and it cost an entire generation of Irish people dearly.

42 Department of Finance 2012.
43 Department of the Taoiseach 2008.
44 Schmidt 2008.
45 Harney in Dáil Éireann 2009a.
46 Gormley in Dáil Éireann 2009b.
Perhaps unsurprisingly, the general election of February 2011 delivered an unprecedented defeat of the government parties; Fianna Fáil lost 57 of their previous 77 Dáil seats, while the Green Party lost all six of theirs. Fine Gael and the Labour Party were returned to form a coalition government, although their electoral success has not altered the overarching policy response to any significant extent to date; it would seem that the ‘mainstream’ policy repertoire around the crisis is largely shared with its predecessors. While there is some acknowledgement of the need for incentives/investment to encourage economic growth, this is heavily circumscribed by the core policy priority of reaching the deficit reduction targets, which is often re-enforced by plain speaking reminders that ‘this country is now in receivership’ and reliant on ‘lenders of last resort’. While not culpable for government decisions in the years preceding the crisis, or those taken in its immediate aftermath, including the Bank Guarantee and entering a Programme of Financial Support, the current government are, as they frequently argue, left to clean up the mess and hamstrung by the commitments contained in the EU/IMF loan agreement. It is possible that, in the short term at least, ‘the blame sharing opportunities offered by the institutional context’ has affected the current government responses to ‘increased fiscal austerity’. The degree to which this argument will hold, however, is a far more open question, as the impact of prolonged austerity is increasingly felt.

Apart from the significance of fiscal constraints attached to being in a programme of financial assistance and of the country’s membership of a monetary union facing unprecedented crisis, the role of international policy actors is also of major significance. Policy responses to this crisis and the progress of their implementation are effectively monitored by the EU, ECB, and IMF, but over the medium to long term Ireland’s position depends crucially on the stance adopted at a European level. One key problem has been that ‘the role of the banking sector in Ireland’s problems has been under-

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47 Irish Parliament.
48 Quinn 2011.
49 Howlin 2011.
50 Jensen & Mortensen forthcoming, 23.
51 Jensen & Mortensen forthcoming, 23.
played, with European policymakers continuing to insist that the euro area’s problems are the result of excessive public sector spending’. Furthermore, uncertainty remains about Ireland’s capacity to self-fund at the end of the programme of financial support, particularly in the wider context of the ongoing Eurozone debt crisis. Dellepiane and Hardiman’s examination of the European context of Ireland’s economic crisis concludes that ‘Ireland has made many policy mistakes and is paying a high price for correcting them … But the real dynamic for floating the Irish economy off the rocks of recession lies outside of its control. The future for Irish growth prospects remains deeply tied into the terms of European debate’. How this debate plays out will be of major significance to Ireland’s economic and social recovery prospects.

Resilience and retrenchment in the Irish welfare state?
Returning to the question of welfare state resilience, this section briefly considers the course of social welfare reform initiated during both crises (see Table 7.2). The social welfare reform agenda of the 1980s took place against the backdrop of the first comprehensive review of the Irish social welfare system by the Commission on Social Welfare, reporting in 1986. While not acted on at the time, it informed political comment and highlighted the extent to which the social welfare system required reform to improve minimum payment levels, expand existing coverage, and achieve an adequate system overall. In addition, commitments given in the 1987 social partnership agreement to maintain social welfare payments were met in subsequent budgets, and the incomes of those in the lowest quintile were protected. The latter part of the new century’s first decade, in contrast, saw a more rapid turn to retrenchment. This took place against a backdrop of relatively low, but stable, spending on social welfare (6.7 per cent of GDP in 2001 and 8.2 per cent in 2007), which subsequently rose sharply; as need increased, so too did the level of expenditure required, although this was not

52 Walshe & O’Leary 2012, 166.
53 Dellepiane & Hardiman 2011, 496.
54 NESC 2005.
55 Department of Social Protection 2011a.
frequently acknowledged in welfare debates. Policy was initially targeted at scaling back universal entitlements (e.g., medical cards for the over 70s). Subsequent retrenchment implemented between 2009 and 2012 has been broad-ranging in its scope with welfare payment rate cuts, increased conditionality, raised eligibility requirements, greater focus on obligation around jobseekers supports, and the introduction of far-reaching systemic reform in respect of state pension entitlements and those of one-parent families. The latter reforms come with a comparatively short lead in time, the potentially serious longer-term consequences of which remain under debated as the economic/fiscal fallout from the crisis continues to take precedence.

Reliance on social welfare reached unprecedented levels during the 1980s owing to the unemployment crisis and the age profile of the population. Reliance does not equal resilience, however, and aspects of the system could be argued to be relatively less embedded than elsewhere at that time. The crisis of the 1980s was nevertheless met with a mixture of welfare expansion and retrenchment but it would seem that certain ideological, political and notable social pressures around the extent of poverty and unemployment may have acted as partial obstacles to more sustained social welfare retrenchment.56

As for the current crisis, it was clear from an early stage that the policy preference was for spending cuts over revenue raising. Ministers noted that welfare spending had increased sharply in the decade prior to the economic crisis, and this was acceptable only in so far as the resources were available. The increase in social spending was frequently cited as having become unsustainable, feeding the argument that the social welfare system in particular was a core contributor to the fiscal crisis. This perspective was not, broadly speaking, the subject of much contestation in political and public discourse. Whilst alliances of civil society groups and some political independents sought to challenge this view, this has proven a difficult task given the weakness of the political left and related actors, and the prominence accorded to technical economic discourse in public debate.57

56 Murphy 2012; Ó Cinnéide & Ryan 2004.
57 Considine & Dukelow 2012; see also chapter 15 in this volume.
Table 7.2. Key social welfare reforms

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<td><strong>Payment rates</strong></td>
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<td>Social insurance and social assistance (Weekly Rates)</td>
<td>Rate increases</td>
<td>Rate increases (ahead of inflation) Higher rate increases on lowest payments (1988–1989)</td>
<td>10% reduction on average (except state pensions)</td>
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<td>Eligibility criteria</td>
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<td>Unemployment/Jobseeker supports</td>
<td>Waiting period extended to benefit applications (1980–1984)</td>
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<td>Reduced payments for failure to take up training/activation (2011) Age-related (2010) payments introduced (significantly reduced rates for under 25s)</td>
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<td>Universal entitlement</td>
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<tr>
<td>Maternity Grant</td>
<td>Abolished (1983)</td>
<td>N/A</td>
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<td>Early Childcare Supplement</td>
<td>N/A</td>
<td>N/A</td>
<td>Abolished (2009) replaced with free pre-school year</td>
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<td>Child Benefit</td>
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<td>Reduction in rates Qualification age reduced to 18 (2010)</td>
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<td>Free Travel</td>
<td>Extended to blind pensioners (1984)</td>
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<td>Systemic reforms</td>
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<td>One Parent Families</td>
<td>Reform of existing schemes and introduction of the Lone Parent Allowance (1989)</td>
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<td>Qualification age reduction (based on age of youngest child – previously 18 to 7 years old post-2014/5)</td>
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Against this backdrop, as Pierson notes, ‘[i]f government policies increase public preferences for private provision, growing hostility towards public social programs could be expected to facilitate retrenchment’.\textsuperscript{58} In short, a growing proportion of the population considered that their affinity with the welfare state was circumscribed given the additional protection they purchased for themselves, state subsidy for such benefits notwithstanding. The conceptualization of the welfare state in such terms has in a sense weakened support for it, and reminds us that welfare retrenchment is not always unpopular.\textsuperscript{59}

Conclusion

The idea that ‘intense disequilibria have a major impact on reform dynamics’\textsuperscript{60} appears to hold some weight in the current context with the sharp shock to the Irish economy and fast-precipitating nature of the crisis. The rapid turn to austerity was made possible post-2008 when policy actors moved to adopt a position of ‘a new reality’, which Ferrera identified as believing ‘there is no status quo’ and therefore ‘existing arrangements simply cannot be sustained’.\textsuperscript{61} Critically, however, this idea was applied in contradictory ways, providing a rationale for cuts in spending while simultaneously justifying the need for unprecedented state support for the banking sector. The chapter finds that the conditions in which it has been possible to implement more rapid retrenchment may not have been simply economic; the more liberal features of the Irish welfare state became embedded during the pre-crisis period, providing more enabling conditions for retrenchment. By contrast the different nature of the economic shock in the 1980s and the political and social conditions in which it played out resulted in some more substantial instances of welfare resilience, particularly in respect of social welfare. In the meantime the wider neoliberal influence on the economic and social architecture of the state has, it would seem, weakened the social solidarity that underpins welfare effort, and mainstream politi-

\textsuperscript{58} Pierson 1994, 16.
\textsuperscript{59} Giger & Nelson 2010.
\textsuperscript{60} Pierson 2011, 456.
\textsuperscript{61} Ferrera, cited in Pierson 2011, 452–453.
cal discourse has done little to counter this. This particular feature of Irish polity has emerged as a significant enabler of welfare retrenchment in the current context, with potentially lasting implications for the Irish welfare state. Counter-perspectives exist, however, which generally speaking seek to broaden the frames of reference applied to the examination of the responses to the current crisis and raise wider questions regarding Ireland’s overall economic and social trajectory\textsuperscript{62}, offering some prospect that the future of the Irish welfare state, and the redistributive values that underpin it, might become the subject of more robust debate.

References


\textsuperscript{62} Kirby & Murphy 2011.


CHAPTER 8

Icelandic consumers in boom and crisis

GÚDMUNDUR JÓNSSON AND MAGNÚS SVEINN HELGASON

Introduction

Analysing the recent economic crisis and the years leading up to it from the perspective of consumption and consumer behaviour allows us to see how the material circumstances of ordinary people and their households changed as a consequence of the changing fortunes of the economy. Consumption is one of the most important indicators of material well-being and constitutes a more direct way of measuring how individuals and groups in society fare economically than gross domestic product. The dimension of consumption therefore gives us a good idea of the welfare impact of booms and crises, how individuals and households respond to changes in the economic environment, and adjust their spending levels and consumption patterns to fluctuations in their economic circumstances.

Europeans experienced an almost uninterrupted economic growth from the early 1990s until the economic crisis hit in 2008. Private consumption expenditure was a major source of the growth, rising on average by nearly two per cent a year in Western Europe between 1995 and 2007. The rise in consumption was, however, very uneven between countries, with Germany, Belgium, Italy, and Austria well below the average and Ireland, Finland, Iceland, and Norway experiencing the fastest growth, well above three per cent.¹ A total reversal occurred during the recent economic crises when consumer spending contracted in most countries, in some by more than 20 per cent.

¹ Eurostat (n.d.).
The aim of this chapter is to acquire a better understanding of the consumption boom and crash in Iceland during these extraordinary years. Iceland is an interesting case in point, for it experienced a bigger consumption boom than most countries in the first decade of this century, only then to become the first and one of the most serious casualties of the economic collapse in 2008. Largely driven by credit, the consumption boom became a major contributing factor to the growing household debt that has played a prominent part in the political debate since 2008. Understanding the consumption boom is therefore of great interest both to social scientists who study Icelandic society and economy and to scholars of consumption more generally.

We use two different approaches in our analysis. On the one hand, a quantitative analysis is carried out of the trends in private consumption by looking in some detail at the main components of this consumption from boom to crisis. But the aim is also to explore ordinary people’s perceptions of the social and economic impact of the boom and crisis on their ev
day lives with particular attention given to consumption behaviour. For this purpose we make use of various qualitative data, primarily interviews with over 80 people from all walks of life collected during the deepest phase of the recession from 2008 to 2010. Although not a strictly representative sample, it loosely reflects the composition of the population with regard to occupation, age, gender, and place of residence. By analysing how people think about their consumption choices, past and present, and how the economic crisis affected their consumption decisions, we hope to shed light on the nature and causes of the consumer boom.

The consumption boom in Iceland and its sources

For a long time Icelanders have lived in a highly unstable and uncertain economic environment in which standards of living have frequently been subject to great fluctuations. No country in OECD Europe has had greater real output volatility during the postwar period. Figure 8.1 shows the development of output (GDP) and consumption since 1945, depicting periods of upswing and downswing in the economy. As the chart indicates, consumption has had a tendency to fluctuate much more than GDP. Since 1945 Iceland has experienced four major recessions with concomitant fluctuations in private consumption, which constitutes a key part of Gross Domestic Product (GDP). International comparison of GDP and consumption shows that four out of ten ‘consumption disasters’, defined as a contraction of consumption by more than 10 per cent, between 1945 and 2006 occurred in Iceland. The recession of 2008–2010 is Iceland’s fifth and biggest consumption disaster in the postwar period.

After a long recession the Icelandic economy started to recover in the mid-1990s, marking the beginning of the longest period of economic growth since the end of the Second World War. Between 1995 and 2007,
output grew on average by 3.4 per cent annually and private consumption even faster at 3.7 per cent. One can even speak of a consumption explosion between 2003 and 2005 when the annual increase was nearly 8 per cent. The accumulated increase in per capita consumption in real terms for the whole period 1995–2007 was no less than 60 per cent. These are remarkably high figures in the European context, as only Ireland, at 4.5 per cent, experienced a faster growth of private consumption within the European Economic Zone during that period (Figure 8.2). At the peak of the boom in 2007, Iceland took fifth place over countries with the highest private consumption per capita in Europe, after Luxembourg, United Kingdom, Austria, and Norway.\(^5\)

\(^5\) Eurostat (n.d.).
From a strictly economic perspective, the major drivers of rising private consumption expenditure were threefold. First, real incomes rose steadily as a result of high economic growth. Between 1995 and 2007, GDP per capita increased by 49 per cent and household disposable income by no less than 76 per cent. Iceland was one of the fastest growing economies of Europe and became one of the richest countries in the world with per capita GDP exceeding that of Germany, the United Kingdom, and the Nordic countries (with the exception of Norway).

The second source of consumption growth was household borrowing. One of the most remarkable features of the consumption boom was the simultaneous rise in income and debt as households’ consumption rose well above income, no longer limited by family earnings but by how much it could borrow. Research shows that consumption in Europe and America was increasingly influenced by expected incomes from rising prices of asset wealth, especially real estate, as the increasing value of collateral available to households relaxed borrowing constraints. This wealth effect was clearly seen in the asset bubble in the first years of this century as consumption was stimulated by greatly increased collateral.

In a longer term perspective, growth in borrowing in Iceland is associated with better access to credit and the deregulation of the financial market in the 1980s and 1990s. Already in the 1980s, household debt was on the increase, partly as a result of easier credit, rising from 17 per cent to 46 per cent of GDP from 1980 to 1990. Households increased their debt exposure dramatically in the 1990s, and after the turn of the century, but especially from 2003 onwards, the newly privatized banks were busy channeling funds from the international wholesale market, awash with low-interest credit, into the economy. A borrowing explosion ensued as households and firms took advantage of abundant and cheap credit. The household debt/GDP ratio reached an all-time high in 2007 at 118 per cent, while savings declined from 15.5 per cent of GDP on average in the 1990s to 12.0 per cent on average from 2004 to 2007. The debt explosion is well captured in

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6 Case, Quigley & Shiller 2005; Sousa 2009.
7 Central Bank of Iceland (n.d.); see also Jetzek 1998, 101–120.
the debt-to-income ratio, which rose from just under 150 per cent in the mid-1990s to 230 per cent in 2008. By then, the ratio in Iceland was on a par with that of the Netherlands and, among other European countries, was only exceeded by that of Denmark (Figure 8.3).

An additional boost to consumption growth was given by the high exchange rate of the Icelandic krona, especially from 2003 to 2007, pushed up successively by the inflow of credit that was chasing high domestic interest rates. Icelandic consumers took advantage of the relatively cheap imported goods and services encouraged by the high-value krona and went on the biggest spending spree on record. The strong krona during those years also encouraged spending abroad. Consumer expenditure on travels abroad shot up and shopping trips to Copenhagen, Glasgow, Dublin, and later US cities became popular. In Britain in 2005, no foreign visitors spent as much money per visit as Icelanders did. Icelandic visitors also broke records in
Figure 8.4. Changes in private consumption per capita, 1995–2007

By division, average annual change (%) of volume indices

- Communication
- Tourist expenditure abroad
- Transport
- Clothing and footwear
- Miscellaneous goods and services
- Furnishing and household equipments
- Restaurants and hotels
- Recreation and culture
- Health
- Education
- Food and beverages
- Alcoholic beverages and tobacco
- Housing, water, electr. and other fuel

Source: Statistics Iceland.

Denmark in November and December of 2006, spending in absolute terms more than any other non-EU nation on ‘tax-free’ goods. The current account was showing the largest deficits in history but did not prompt any special measures by the government because loan capital and investment continued to flow into the country.

How did the consumption patterns change during the boom years? By looking at the components of private consumption using the standard classification scheme COICOP, we can see how the composition of consumption changes over time. Figure 8.4 shows changes in each COICOP division (main category) of per capita consumption from 1995 to 2007, measured as annual average changes. Surprisingly, by far the biggest increase occurred in communications, rising in real terms by more than 13.5 per cent on average.

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8 Office for National Statistics, UK 2010; Fréttablaðið 2006.
each year. The reason for this extraordinary increase can be explained by greater spending on mobile phones and, more importantly, on telephone services for transmission of data and Internet connections. Tourist expenditure abroad came second with an increase of over 9 per cent. Transport was in third place with an increase of 6.5 per cent, primarily due to car purchases. Icelanders were not only buying more cars but more expensive ones, ranging from the popular 4x4 vehicles to luxurious Lexus, Mercedes Benz, Audi, and Volvo. These changes clearly show a shift towards a marked increase in the consumption of ‘luxurious’ goods, with significantly less of an increase in the consumption of more basic consumer goods and services, housing, water and electricity, and food and beverages.

Breaking the consumption expenditure data further down even more, dramatic changes emerge. Figure 8.5 shows the fastest-growing subdivisions over the period 1995–2007. The first horizontal bar represents the category of major durables for recreation and culture (caravans, trailers, small aeroplanes, boats, and musical instruments), rising on average by just over 20 per cent per year. As mentioned before, expenditure on telephone services rose rapidly and takes second place with an increase of 18 per cent a year. Other categories such as audio-visual instruments (mainly television sets),
financial services, and car purchases grew considerably less but still showed quite a substantial increase.

These findings correspond well with common perceptions in Iceland of the changing nature of consumption during the boom years when extravagant spending became more pronounced: expensive 4x4 vehicles, caravans, and plasma flat screen televisions became symbols of the hyperconsumption of those years. The official statistics tell only part of the story of the extravagant consumption that took place in Iceland during the boom years. Extravagant consumption flourished as the fast expanding group of the newly wealthy was affirming its status or just consuming for its own pleasure. More Bang & Olufsen stereos, Range Rovers and Toyota Land Cruisers were sold in Iceland than in many of the more populous countries in Europe. Caravans and yachts became increasingly popular by the moderately affluent middle class, while private jets, ski resorts, and soccer teams were strictly confined to the superrich.

The collapse of consumption during the economic crisis

The economic boom ended suddenly and dramatically in the autumn of 2008. The Icelandic banking system collapsed in the first week of October when three of the largest banks went bankrupt. The Icelandic krona also collapsed, loosing almost 50 per cent of its value over the year. House owners felt an enormous squeeze as asset prices plunged and mortgages rose steeply because most loans were either linked to the consumer price index or, even worse, foreign currencies. Thousands of families found themselves in dire straits when savings vanished, income shrank, and property value took a dive. Iceland entered the biggest downturn in the economy since the early 1920s with record unemployment peaking at nine per cent in the early months of 2010. The share of indebted households in acute distress is estimated to have shot up to nearly 28 per cent in the autumn of 2009.9 Since 2011 there has been a slow recovery as economic growth has resumed, but although the debt situation has somewhat ameliorated, the financial situation

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of households, many crippled with debt and dwindling income, is still critical and one of the most serious and protracted problems of Icelandic society.

Iceland experienced one of the largest downturns in private consumption in Europe during the recession. Consumer spending had already been on the wane in the second quarter of 2008, indicating uncertainty and problems in the economy as the krona depreciated.\(^{10}\) Private consumption reached the bottom in the first quarter of 2009, down by no less than 24 per cent on 2007. By the last quarter of 2009, household spending levels had, for the most part, stopped falling, and in 2010 overall consumption remained stagnant, although individual categories changed significantly. The fall in consumption occurred with extraordinary speed over a period of around 18 months. The 2008–2010 recession is one of the biggest ‘consumption disasters’ in Iceland’s postwar history, placing second only to the recession of 1948–1952 in terms of severity.

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\(^{10}\) Hagtiðindi 2010:3.
The enormous contraction of consumption was accompanied with substantial changes in consumption patterns. Figure 8.6 shows changes in individual categories (divisions) of private consumption between 2007 and 2010. The biggest decrease was in tourist expenditure abroad, falling annually on average by more than a quarter, or by 60 per cent over the period 2007–2010 as a whole. Consumer contraction was also big in the following categories: transport by 40 per cent; furnishing and household equipment by 33 per cent; and clothing and footwear by 27 per cent. Big as these changes were, an even greater contraction occurred in some subdivisions. Car purchases for example fell by an astonishing 89 per cent over the period 2007–2010, and furniture and furnishing and major durables (caravans, trailers, etc.) by 56 per cent. Interestingly, expenditure in three categories increased slightly: housing, water, and fuel by 2 per cent; education by 3 per cent; and health by 6 per cent. Such marginal increases were mainly caused by higher import prices (e.g., on medicine) as a result of the currency collapse.

The public mood has significantly changed since the collapse of 2008, leading to changes in consumer spending and behaviour which the official statistics do not always convey. The economic crisis heralded new times of austerity, bringing shifts in psychology and behaviour in which the virtues of prudence, frugality, and self-sufficiency were extolled. More socially and environmentally conscious attitudes towards consumption can be discerned. Families moved increasingly to homemade produce as manifested in vegetable growing, baking, and knitting, all of which became almost national sports in the wake of the crisis. Even making traditional blood pudding became popular again. There was a revival of the slogan from the 1930s Depression ‘choose Icelandic’, whose essential message was that buying Icelandic goods was not only patriotic but also considered the best way out of the crisis. Icelandic knitwear and design, seeking inspiration in the island’s ‘cultural heritage’, became fashionable. Holidays at home instead of abroad were the proper thing to do. Interest in recycling started to grow, and envi-

11 This account is mainly based on newspapers and other media. See for example Fréttablaðið 6 December 2008, 42, 16 April 2009 (Markaðurinn), and 29 May 2009, 8; Morgunblaðið 8 March 2009, 4. See also Árbók verslunarinnar 2012.
ronmentally friendly goods were increasingly well received. Luxuries were out; patriotic knitwear was in. Now, as the economy is emerging from the crisis, this tendency towards self-sufficiency is on the wane.

Inequalities in consumption

The boom years 1995–2007 were not only a time of increasing prosperity but also of rapidly growing income inequality in Iceland. The Gini coefficient of income distribution for Iceland rose from 0.26 in 1994 to 0.44 at the height of the boom in 2007. This meant that the share of lower income earners was rapidly decreasing, while the share of higher income groups was relatively rising. The share of the top 1 per cent of income earners rose from 4 per cent in 1992 to an astonishing 20 per cent in 2007.

Although real incomes of lower income groups rose significantly during the period, allowing them to consume more, an increasing number of low-income families were having difficulties in making ends meet towards the end of the period. Surveys and research showed that some groups were left out in the boom, in particular low-income and unskilled workers, pensioners, the disabled, and single parents. Already in early 2008 a growing number of families were in arrears on mortgage or rent payments and even unable to sustain themselves. During the crisis the number of families in serious financial difficulties shot up, and by 2010 a Statistics Iceland survey reported that 10.1 per cent of households were in arrears on mortgage or rent payments in the previous 12 months and 13.3 per cent of households were in arrears on other loans during the same period. The figures on mortgage arrears were much higher, or 17 per cent in the age group of 30–39 years. In 2010 almost 50 per cent of households found it difficult to make ends meet.

In many low- and middle-income families consumption expenditure exceeded disposable income. As Figure 8.7 shows, in the period 2006–2008 income in the two higher income quartiles was higher than expenditure, by 5 per cent for the third income quartile and no less than 46 per cent for

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12 All incomes included. See Ólafsson & Kristjánsson 2010; Ólafsson 2008.
13 See for example Rauði kross Íslands 2000; Njáls 2003.
the fourth income quartile, while expenditure exceeded income in the two lower income quartiles by 15 per cent for the first income quartile and 4 per cent for the second quartile. Economic growth, initially based on a revival of foreign markets, improvements in terms of trade, and diversification of the economy, was increasingly fuelled by abundant cheap credit to finance investment and consumption.

Not surprisingly, when the economic crisis hit Iceland the poorer sections of society took the greatest brunt of the consumption squeeze. Comparing the periods 2006–2008 and 2007–2009, the biggest relative fall in consumption expenditure was in the lowest income groups, a fall of no less than 35 per cent in the first income quartile, 25 per cent in the second, 16 per cent in the third, and only 1 per cent in the fourth quartile. Poverty was on the rise as not only the unemployed, the disabled, and low-wage single parents were struggling to make ends meet but also formerly rea-

15 Hagtíðindi 2010:3.
reasonably well-off families. Thousands of people in the hardest hit areas—the capital and Reykjaness area—had to rely on food and clothing handouts from charities, a situation that had hardly been seen in Iceland since the Great Depression.

Experiences of the crisis
Quantitative sources give only a limited picture of the underlying dynamics of consumption; we need to understand how consumers themselves viewed their decisions and their participation in the broader consumer culture. We therefore turn to the aforementioned research project *Narrating crisis* in which over 80 people were interviewed about their experiences of the crisis and, in particular, their attitudes to consumption, debt, and economic well-being. We focus on two sets of questions. On the one hand, how do people describe and understand the Icelandic consumption boom prior to the crash of 2008, what do they believe motivated people to consume, and how do they define ‘excessive consumption’. On the other hand, how do people understand their own consumption choices and their own participation in the consumption boom, and how did their consumption change following the financial crash in the autumn of 2008.

The interviewees were in agreement that there was indeed a consumption boom in the years leading up to 2008, many of them describing it as a ‘consumption orgy’ with ‘everyone’ taking part. One interviewee who had returned to Iceland in autumn of 2007 after several years abroad spoke of how baffled he was with the atmosphere in Iceland. In general, the interviewees identified the atmosphere as ‘crazy’, citing ‘constant purchasing’ and a preoccupation with ‘buying things’ and what these things cost as the chief characteristics of the consumer boom. Asked if there had been striking changes in the lifestyles of friends or those closest to her, one interviewee answered:

Well, not only among my friends, you know. I felt people were speaking a lot about how there was a great boom, and somehow everyone was travelling abroad, everyone was building, everyone was buying
the nicest and fanciest things, everyone was driving these huge bulky 4x4 cars, and you know, this was somehow, there was something that was just not right.

There is of course no shortage of similar views among commentators in the popular press. Since 2008 there has been unanimity in the press and wider society that there was indeed a very serious excess of consumption during the years leading up to the 2008 crash, and that ‘everyone’ participated.16

Considering the magnitude of the Icelandic consumer boom, it is remarkable how few explanations are offered for its emergence in the public debate. The single most popular explanation—and the one most frequently encountered not only in the popular media but also in financial analyses—is that Icelanders are simply unusual spendthrifts and big consumers.17 According to this explanation, the consumption boom was caused then by the spending- or consumption-happiness of Icelanders. Interestingly enough, the genealogy of this strong consumption urge was, and still never really is, given any coherent explanation—it appears to be some kind of national characteristic, an expression of Icelanders’ innate nature.18

We encounter similar explanations in the rare cases where the interviewees offer explanations for the consumption boom. One interviewee who lived in the countryside talked about how Icelandic farmers had always engaged in the pastime of bragging and comparing their livestock or sheepdogs, and how the competitive, conspicuous consumption of today was simply a modern expression of this old national trait. Others spoke of the consumption boom as an addiction or pathology of some sort: People had somehow gone ‘crazy’, or become ‘addicted’ to shopping. This view of the consumption boom as a pathological condition has also been common in the press following the crash, where it appears almost as a ritualistic cleansing act.

The lack of critical discussion about the origins of the consumption

16 For a critical view of this consensus, see Fréttablaðið, 7 December 2008, 56.
boom and the emphasis on national characteristics as its cause seem to reflect the view that the boom was indeed a natural state of affairs; during the boom people felt there was nothing really worthy of a deeper explanation. The sudden reversal after the crash and a consensus that the consumption boom was unnatural or caused by pathology similarly diverts attention from larger social or cultural forces, instead focusing on a collective moral failure of Icelanders. Here again, the explanation for the consumption boom is to be found in the character of the nation, its people, not the social, economic or cultural structures.

The elusive concept of national character is hard to work with as an explanatory factor of social phenomena, let alone of historical change. We can, however, speculate about pervasive cultural habits that help explain why the ‘consumption craze’ had such a strong hold on Icelanders. One explanation is that consumption decisions are determined more by current conditions than future expectations. Historically, the economic environment in Iceland has been extremely uncertain, a fact reflected in fluctuating incomes and high inflation, both of which have fostered short-term views on household financial decisions that are best summed up in the motto ‘better spend the money before inflation eats it up’. The household saving rate in Iceland has been falling since at least the early 1980s and is very low in international comparison.19

The shifts in consumption did, indeed, catch the media’s attention, especially the rising luxury fever at the top of the bubble approached in 2006 and 2007.20 But the media also covered stories on a few groups that voluntarily ‘opted out’ of consumer society by making ‘buy nothing’ pledges and whose existence provides ample evidence for seeing a strong anti-consumerist undertone in the ‘krútt’ youth culture of the time.21 During the bubble, Iceland also witnessed its first radical anti-consumerist movement since the 1970s in the form of the anarchist and radical environmentalist movement that

20 See for example Fréttablaðið (Markaðurinn), 9 January 2008, 22.
21 The ‘krútt generation’ (or the ‘cuddly generation’) is often associated with environmentalism and anti-materialism. See for example Fréttablaðið, 23 September 2008, 24; Margunblaðið (Lesbók), 25 October 2008, 11.
formed around protests against the hydroelectrical projects in the government’s industrial policy. These impulses were, however, normally met with indifference or scorn. Commentators ridiculed the environmentalists as deluded and spoilt middle-class children who were attempting to sabotage job creation projects of ‘real’ Icelanders.22

When the bubble burst, the mood of the nation changed rapidly, as critical discussion flared up on how society had become saturated with excessive consumption and wasteful spending on unnecessary things. Already in 2007, articles appeared in the popular press pointing toward the positive effects an economic downturn may bring: An old fashioned recession would probably be the only thing that could ‘cure’ the luxury fever and bring the Icelandic nation out of its collective madness.23

As the debate on the causes and nature of the economic crisis intensified, the view that ‘everyone’ had participated in the madness became popular. Icelanders as a whole had gone overboard before the crash and consequently everyone bore his or her burden of responsibility for the state the country was in. The interviews confirm that this view was widespread. The problem is, even if everyone is supposed to have participated in the great consumption boom, it is surprisingly difficult to find people who admit to having participated. According to a poll in May 2009, only 17 per cent admitted to having participated in any excessive consumption or spending.24

Interestingly, this disavowal of participation was also the most striking finding of the interviews. While a few of our interviewees admitted that their consumption habits were affected by the atmosphere of the boom, there was only a handful who admitted that they had themselves participated in the ‘consumption boom’. Even people who admitted that they had splurged on luxuries would stress that they did not, in fact, ‘go overboard’ as others had done. They themselves had abstained from the consumption boom and had never bought a flat screen TV, travel trailer, or other consumer goods associated with the boom. Many of the interviewees talked about having ‘al-

22 Fréttablaðið, 13 August 2007, 18.
23 See for example Fréttablaðið 29 June 2008, 8; 1 November 2008, 28; 22 November 2007, 72.
allowed themselves a little more’ without having ‘lost themselves’. Even people who admitted to having been quite intense shoppers talked about ‘not really having gone all in’ and ‘not having lost their footing’, only to then revert to talking about how they had become ‘irresponsible’ about their finances and how they had spent their income.

This striking paradox—namely, that people believe that everyone else participated in the consumer boom except themselves—is difficult to explain. At the heart of the problem may be how people define excessive consumption and how people understand ‘going overboard’. The interviews indicate that individuals did not see their own consumption at the time as ‘excessive’ because they felt that they did not consume beyond their means, especially if they could point out that they had also saved money and put away a part of their pay check each month. Some of the interviewees found their debt-financed consumption unproblematic because they had perfectly reasonable and realistic plans to pay back their debt and because they had made allowances for ‘reasonable’ increases in payments. In effect, these admissions point towards a distinction between excessive consumption associated with reckless spending and reasonable consumption associated with sensible financial planning. Our interviewees invariably saw their own consumption falling into the second category.

A second explanation of the paradoxical belief in participation has to do with the distinction between tangible and intangible consumption. Our interviewees frequently associated the negative character of the consumption boom with the buying of things and with the tendency of people around them to ‘pile things up’, as one respondent described it. They framed their own consumption as having been centred on experiences rather than things: foreign travel, dining out, and spending on luxury food (‘fine’ or ‘good’ food). Participants frequently framed this kind of intangible consumption as something positive and even as something different than consumption—as acts of ‘enjoying life’.

But even if people generally appear to have enjoyed life during the boom,

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the great majority of our interviewees expressed relief that it had come to an end. The only exceptions were those interviewees who found themselves in really dire straits, but even they expressed a feeling that the crash was ultimately good for society. Even those who lost out very significantly and had to lower their living standards dramatically spoke of being ‘relieved’ and of society having lacked ‘humanity’ during the boom. Others spoke of being happier now than prior to the collapse, although it is not always clear whether this increase in happiness has been caused by a scaling down in their consumption, or because the reality of the post-crash economic recession reduced stress levels that had been caused either by the high flying times of the boom or the uncertainty of the crash. Several interviewees talked about how the crash and the recession had brought back ‘older and better’ values. People had lost sight of what ‘really matters’—namely, friends and family, and perhaps frugality as well. In this sense the recession was viewed as a ‘return to normalcy’. A very common refrain was that ‘all things considered, I think we needed this’.

When asked about how their consumption habits have changed in response to the crash, interviewees most commonly pointed to how they shopped. Virtually everyone spoke about how the simple task of going to the grocery store had become a far more serious project, one involving planning and comparison shopping. Participants planned their purchases so that they could do them at the low-priced supermarket rather than at more expensive outlets, and they looked at the prices in the shelves and planned their shopping in advance rather than ‘simply grabbing something’ or getting a takeaway. Many of our interviewees said that they had regularly made impulse purchases at the grocery store, buying new and exotic items they had not seen before, and not planning ahead when it came to daily expenditures. Now they paid much more attention to prices or compared the relative value of different brands or package sizes.

The interviewees seem to view their own consumption during the boom as having been thoughtless—they did not really pay much attention to their own spending habits. This may offer a further explanation why people fail to recognize that they participated in the consumption boom: They either
simply did not notice that they were participating, or alternatively, the consumption boom happened because people were not paying attention to what they were spending.

Conclusion
Iceland experienced one of the greatest consumer booms and declines of any developed country in the late 1990s and this century’s first decade. The almost continuous rise in consumption expenditure from 1995 to 2007 represents the longest and biggest consumer boom in Iceland’s history, with private consumption per capita rising in real terms by no less than 60 per cent. Only Ireland experienced a faster growth in Western Europe.

This rapid expansion of consumption raises a host of questions about its role in the economic crisis of 2008 and the dire situation of the heavily indebted consumers and their households, an indebtedness which became a major concern as the economic crises deepened. In political discourse, consumption has been assigned an important role in the advent and unfolding of the economic crisis with consumers being portrayed as both perpetrators and victims. For many, excessive consumption is seen as a major contributory factor to the crisis, a theme that has been played again and again over the last four years with many variations. From many corners it is claimed that consumers must accept responsibility for their part in the financial crisis—that is, their reckless spending, their excessive consumption behaviour, and their irresponsible debt financing.

Households are, of course, responsible for their financial decisions, but they are also greatly influenced by the political and economic environment. Although many Icelanders were gripped by a ‘consumption craze’, the general consumer lived in a highly imbalanced society, marred by high inflation, index-linked loans and, highly unstable currency, all of which made the future insecure and unpredictable. Instead of making moral judgements about consumers, we have focused on the material factors that shaped Icelanders’ consumption decisions—the rapid rise in disposable income, the access to cheap credit, and the strong position of the Icelandic currency—but also on ordinary people’s explanations, referring to common madness and traits in
The rise in private consumption manifested itself most visibly in unprecedented accumulation of material wealth and consumer durables such as cars, mobile phones, caravans, trailers, and boats, but of the main categories in the official statistics of private consumption, the biggest increase was in communications, including telephones and telephone services, followed by travel expenditure abroad. The ‘turbo consumption’ affected society in many different ways. In interviews with over 80 people, participants describe the boom years as a ‘consumption orgy’ in which everyone participated. Interviewees tended to explain the consumption boom in terms of personal vices, either as an addiction or as something whose origin lies in the national character of Icelanders.

The fall in consumer spending during the economic crisis was even more drastic. In response to rapidly contracting incomes and deteriorating finances, households’ consumption expenditure contracted by nearly a quarter between 2007 and 2009, remaining stagnant throughout 2010. Consumer goods and services that took the deepest cuts were typically related to leisure activities such as television sets, caravans, and travel abroad, but consumers also significantly reduced spending on cars and household equipment.

The crisis may have rung in new times of austerity, but it has also brought about a change in the mood of consumers in which a nostalgia for the past and a yearning for more ‘traditional’ values such as prudence, frugality, and self-sufficiency have a high premium. It is difficult to say how deep-seated this change of mood is, but trends working against the rapid rise of consumer spending, higher debt levels, lower house prices, and stagnant incomes, indicate that it will take a long time for households to regain balance in their finances.
References


Introduction

The financial crisis of 2008–2009 and the current debt problem in Europe continue to create uncertain prospects for economic growth and political stability. Moreover, longer life expectancy and an ageing population have an effect on the preconditions for maintaining the welfare state institutions. In almost all Western and in many Asian countries the number of people older than 65 has substantially increased in recent decades. Their proportion of the population is expected to exceed 25 per cent in 2040.1 This means that a smaller group of employees will have to support a larger group of inactive people. Furthermore, an ageing population will almost inevitably increase pensions and health care costs.

The interconnection of economic crisis and an ageing population came to the fore in Finland already in the early 1990s when the economy plunged into the deepest peacetime recession in the twentieth century. The financial basis of the welfare state was being rapidly eroded. It forced the government and the labour market organizations to renew pension schemes and other welfare state institutions. After the recession, reforms continued, and they were justified and supported increasingly by the fact that the population

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1 OECD 2011; Bonoli & Shinkawa 2005a, 1–5.
would be getting older in the next few decades. As a result of these reforms, the financial sustainability of the pension schemes improved, which has made it easier to adapt to slower economic growth and an ageing population.

In the welfare literature there has been a great deal of discussion about changes in welfare state institutions during the past two decades, independent of whether there has been radical ‘retrenchment’ or not. These studies are often linked to the institutional approach that has become popular in economic history and the social sciences.² For instance, it has been underlined that trade unions, or ‘insiders’, have succeeded in preventing many changes suggested by governments. However, concentrating mainly on changes in institutional frameworks, or on the different typologies of institutional change, can lead to overemphasizing stability and path dependence. Especially with regards to pension schemes, it is often difficult to evaluate and measure incremental and cumulative changes that take effect over a longer time span, even many decades.³

This chapter deals with the pension reforms in Finland in the 1990s and the first decade of the twenty-first century. The analysis focuses on the role of labour market organizations, which have played an especially active role in pension schemes. During the 1990s recession the trade unions succeeded in preventing and delaying many radical changes suggested by the non-socialist government and employers. However, the following analysis highlights that labour market organizations’ strong and long-lasting position, an important component of Finnish corporatism, can be explained by the success of these organizations in reforming an earnings-related pension scheme.

The chapter is organized as follows: The first section presents the essential features of Finnish pension schemes and their connection to corporatism. This is followed by an analysis of the recession and the pension reforms of the early 1990s. The chapter closes with a discussion on the ageing population and the pension reforms in the late 1990s and early years of the new century’s first decade.

Pension schemes in coordinated capitalism

Like many other latecomers, Finland experienced a rapid catch-up growth in the decades following the Second World War, resulting in higher growth than in leading countries. In the process of labour re-allocation, factors of production moved into the industries with higher productivity.4

During the catch-up period Finnish society underwent a radical economic change. The number of workers in primary production fell, as more and more people were employed in the manufacturing industry or in public and private services. In 2000, the share of primary production in the economically active population was only five per cent. Fifty years earlier, almost half of the population was employed in agriculture, forestry, and fishing. Because of ‘belated’ structural change, the culmination of employment in secondary production (i.e., in manufacturing and construction) occurred relatively late, in the middle of the 1970s. The proportion of secondary production in total employment never reached as high a level as in Sweden, for example, and the share of services grew at the same time as secondary production grew.5

Scandinavian-style social contracts between employers and employees were an important feature in the growth period. The trade unions’ improved status in society was visible in the labour market but also manifested in other areas, especially in social policy. In fact, economic development, structural change, nationwide collective bargaining, and the formation of the welfare state were all closely intertwined. Wage regulation was in force almost non-stop from 1945 until 1956 and was followed by nationwide collective agreements negotiated in industries across the economy. As a consequence, the position of the trade unions strengthened from the 1960s onwards.

The first incomes policy agreement between labour market organizations and the government was signed in 1968. This agreement ‘bundled wages, prices, unemployment benefits, pensions, agricultural subsidies and numerous other decisions on matters of social policy together into one tight package’, as Tapio Bergholm has pointed out. The main aim of this kind of

extensive cooperation was to slow down inflation, stabilize the economy after a currency devaluation, and integrate labour market organizations with governmental decision-making.\(^6\)

Incomes policy agreements were relatively successful in limiting increases in wages and directing resources to investment. As Barry Eichengreen interprets this ‘neocorporatist bargain’ in the European context of the 1950s and 1960s, trade unions were provided with ‘assurances that labour would share fully in the eventual increase in incomes’.\(^7\) ‘Coordinated capitalism’, as Eichengreen labels it, worked well in many European countries during the Golden Age from the early 1950s until the first oil crisis in the middle of the 1970s. Simultaneously with the rise of coordinated capitalism, economic growth became rapid and the welfare of citizens improved.

Extensive social policy reforms became an important part of the process towards Finland’s modern wage-work society and the welfare state. Structural change increased the need for social security, and ideological and political changes such as social equality and the widening of democracy after the Second World War increased willingness to carry out social reforms. Moreover, economic growth increased resources for the expansion of the welfare state. The greater portion of the fruits of economic growth was directed to welfare-increasing policy interventions and targeted especially poorer and older people, with the result that poverty decreased.

An essential part of welfare state reforms was the creation of pension schemes.\(^8\) The Finnish statutory pension schemes consist of two basic components: a national pension and an earnings-related pension. The national pension scheme has been in force since 1939, and was radically reformed in 1957 when a flat-rate system with an earnings-related element was introduced. The financing of national pensions was arranged mainly on the basis of the PAYGO scheme in which insurance contributions are collected each year roughly to the amount needed for the pension payments and administrative costs of the year in question.

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6 Bergholm 2003, 62.
7 Eichengreen 2007, 32.
The earnings-related pension schemes in the private sector came into force in July 1962. In these schemes, accrued (earned) pension rights are maintained when an employment contract ends. Employment-based pensions are initially financed by employers and administered by private pension providers (companies and funds). The employee contribution share has been in place since 1993. Although in private sector schemes partial funding is used, the majority of pensions paid are financed according to the PAYGO scheme.

Civil servants, municipal employees, and seafarers have their own earnings-related schemes, and in 1970 earnings-related pensions were extended to farmers and self-employed persons. For a long time, the public-sector earnings-related pension acts were based on the PAYGO scheme, but due to the projections concerning the growth of future pension expenditure, funding was introduced as of the late 1980s. Nevertheless, pensions are mainly financed according to the PAYGO scheme.

All of these pension schemes include old age and disability pensions. Obligatory survivors’ pensions were incorporated into the pension schemes in the late 1960s. And in the 1970s and 1980s the earnings-related pensions were raised, the national pension was reformed, and new possibilities for early retirement were introduced. The earnings-related pension gradually developed into the most important pension scheme. The national pension guarantees a minimum pension level for those with no or only very small earnings-related employment pensions.

The pension schemes became an important component of Finnish corporatism. The earnings-related pension scheme in the private sector was founded at the beginning of the 1960s as a compromise between employees and employers. Afterwards, the labour market organizations explained and justified their strong position by regarding pensions as ‘a postponing wage’. These factors explained the central role that the labour market organizations have later played in pension reforms.
From growth to adaptation
The Finnish economy experienced a deep economic crisis in the early 1990s. The economy had been booming in the late 1980s and undergoing radical changes because of liberalization and deregulation of national and international financial systems. Real assets and share prices rose, and runaway risk-taking increased. Because of an upswing of international business cycles and a fall in energy prices, the terms of trade (the ratio of export to import prices) improved. When the preconditions for a boom existed, the economy overheated as a consequence of insufficient restrictiveness in economic policy to counteract the boom.⁹

The deep recession was visible in many ways. Real GDP decreased by 10 per cent between 1991 and 1993. With falling demand for labour, the problem of unemployment rose to unprecedented heights in Finnish history, peaking at 17 per cent in 1994. One significant aspect of unemployment was that in addition to large-scale blue-collar job losses, tens of thousands of white-collar workers also suffered unemployment. White-collar unemployment reflected structural and technological change and, arguably, a too rapid growth in services, especially in the banking industry. Because of the high unemployment, decreasing tax revenues, and public support to the banking system, the budget deficit rose rapidly, as did public debt. The consequences of the recession, then, were a dramatic decline in asset prices, numerous bankruptcies, and a severe banking crisis.

What is more, the recession eroded the financial basis of the welfare state institutions and also changed the relative strength of different interest groups in society. When demand for labour diminished, the bargaining power of trade unions also decreased. Moreover, the Social Democrats lost the parliamentary election in 1991. The Centre Party won, leading to the formation of a non-socialist government.

Together with employers this new government began setting an agenda for major revision of the welfare system. Both actors wanted to reduce the production cost of companies and demanded severe cost reduction. Their

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goal was to cut wages, social security and public expenditures as tax revenues decreased and unemployment increased.

The result was a confrontation between the government and the trade unions in a way not seen in many decades. The trade unions were reluctant to accept cuts in social insurance, especially unemployment benefits and earnings-related pensions. On the trade union side, the government’s action was seen as an attack on employees’ rights and the welfare state. The conflict proved that there were still old tensions in society, especially between the Centre Party and the trade unions. It was also a reminder of ‘the pertinent polarity in Finnish society’, as two sociologists, Antti Eskola and Erik Allardt, defined the tension between rural areas and towns in the 1960s.

The trade unions succeeded in preventing or delaying many reforms suggested by the government and employers. However, some significant reforms were realized, such as the major pension reforms to public sector pensions through the alignment of their benefits with those of the private-sector pension. As in private-sector pensions, the pension accrual rate was set at 1.5 per cent, the pension target level at 60 per cent, and the old-age retirement age at 65 years. The public sector pension reform was decided by the government without trade union support, and was approved in the parliament where non-socialist parties had the majority.

The government and employers wanted to reduce early retirement benefits. Based on the labour market central organizations’ agreement from 1992, the individual early retirement age was raised from 55 to 58 years in 1994. The individual early pension, which came into force in 1986, was a disability pension to which lighter medical criteria were applied and social conditions were also taken into account when pension entitlements were assessed.

Moreover, the conditions for receiving an unemployment pension were tightened, but because of high unemployment figures during the recession, the growth in number of unemployment pensions continued to rise. Unemployment pensions, introduced in 1971, were originally planned to alleviate effects on rapid structural change. They assisted in the streamlining of re-

11 Eskola 1963; Allardt 1964.
gressive industries and companies, but from the 1980s onwards the growth in the number of unemployment pensions gave rise to criticism. There were two dimensions to the issue. Firstly, some companies used the scheme to their advantage since it became a cheaper alternative to disability pensions. Especially large companies could decrease pension costs if they succeeded to diminish the number of disability pensions, whereas in unemployment pensions this kind of mechanism was introduced as late as the end of 1980s. Secondly, due to the unemployment pension, the elderly in particular were made redundant since they often stood a smaller chance of finding new employment. For many, redundancy and unemployment meant a permanent transition from working life at a considerably younger age than the age for old-age retirement.

The trade unions’ action in Finland during the recession can be interpreted as a good example of the capability of ‘insider power’ to prevent wage-cutting and welfare state reforms, especially concerning social insurance. Real wages only modestly declined despite the huge increase in unemployment. However, taking the changes in the pension schemes into account, wages in a broader sense were not as sticky during the recession as is often described in the literature.

One of the most important phases in the reform process of the pension schemes was already seen in the first year of the recession. In the incomes policy agreements in the autumn 1991 it was agreed that the employee contribution share of earnings-related pension would be 3 per cent of the salary in 1993. The earnings-related pension scheme had, from the start, been funded by employers alone. It was also agreed that the bill for future contribution increases would be footed equally by employers and employees.

One important reason for the introduction of the employee contribution share was that the government decided in the spring of 1991, six months before the labour market organizations’ agreement, to decrease employers’ pension contributions. The government tried in this way to increase the competitiveness of companies. When the trade unions were not willing to
cut nominal wages, the pension contribution was seen as a tool to decrease production costs.

It seems clear that the employee contribution share would not have been actualized in the early 1990s without the recession. During the previous decades, experts had discussed it occasionally, but the deep recession and high unemployment forced the trade unions to accept this change. The goal was to ensure the financial basis of earnings-related pensions, because the employee contribution maintained and even increased the total pension contributions. The focus shifted gradually from pension benefits to their financing.

In a longer time perspective, the employee contribution share was useful for maintaining sufficient pension finances, but it also clarified the bargaining process in pension policy. It allowed the trade unions to justify, more vigorously than ever, their participation in the preparation and decision making concerning the earnings-related pension scheme. At the same time, employees gained a higher cost awareness of the earnings-related pension scheme as the new benefits and the low effective retirement ages became

Figure 9.1. Pension contribution in Finland, 1962–2011 (% of wages)

Source: The Finnish Centre for Pensions.
visible in higher pension contributions.

Ageing population and sustainable pension schemes

Population growth and an advantageous age structure were important features in the formation of a wage-work society and the welfare state. Approximately two-thirds of the population belonged to the working-age population (15–64) from the 1960s until the 1990s. After the Second World War the labour reserve increased in rural areas as a result of population growth—otherwise known as ‘the baby-boom’—and technological change in agriculture and forestry, and both population growth and technological change made it possible to reallocate labour to growing industries and maintain a high total employment (in person years).

As in other Western countries, the ageing population and a decrease in age dependency ratio were predicted in Finland already in the 1980s. However, the challenges posed by the ageing population received wider and increasing attention until the economic situation changed dramatically in the early 1990s. The situation gave rise to a discussion about extending working life by various means. The aim was to meet the increasing longevity by promoting longer working careers. Extending working careers by two or three years has been one of the central targets of pension reforms since the 1990s.

The interplay between pensions and the demographic transition is reasonable. If people live far longer than before and far longer than expected, employees should stay in their jobs longer, too. Furthermore, another demographic argument supports the higher retirement age—namely, that the share of the working age population will inevitably decrease because of longer lifespans and declining fertility rates. In other words, as the older age groups get bigger, the younger age groups get smaller and the concomitant decrease in labour input means that generating economic growth becomes more demanding. And slower economic growth in turn makes it more difficult to finance increasing pension costs and other welfare state institutions.

The Finnish economy started to recover in the middle of the 1990s, but

14 The first thorough analysis in Finland was ‘STAT committee’ (1980); Kohli & Rein 1991, 1–35.
long-term unemployment still remained high. In addition to the severe economic recession and high unemployment, the future prognosis of demographic changes through the ageing population forced the cutting of pension benefits and the renewal and simplification of the pension scheme. Without reforms, pension contributions would have to have risen significantly in the future.

After four years of confrontation between the non-socialist government and the trade unions, a new phase of cooperation started in 1995. After the parliamentary election that year, a broad coalition government led by the Social Democrats promised to respect the cooperative tradition with the labour market organizations, but by the same token it decided to cut social expenditures in order to balance public finances and increase economic growth. Reforms in the pension schemes were an essential part of the government’s agenda.16

The fundamental goal set by the government and the labour market

Figure 9.2. Age structure in Finland, 1865–2010 (in %)

Source: Statistics Finland.

organizations was to improve the financial sustainability of the pension scheme and to extend working careers. The new pension agreement was introduced only one month after the government came to power. This reform, which came into force in 1996, included the most significant reforms in terms of economic impact: pension indexation was weakened, future disability and unemployment pensions were cut, and the calculation of the pensionable earnings began to include earnings from 10 years rather than four years prior to retirement.

The work distribution between the pension schemes, pending for decades, was completed when the national pension gradually became fully pension-tested as of 1996. This meant that in the future, as the earnings-related pensions increased, more people would receive only an earnings-related pension and no national pension at all. Both the weakening of the pension index and the abolition of the basic amount of national pension provoked criticism of the weakening of ‘promised’ pension benefits, criticism which has gone on for years.

The big pension reform that covered nearly all sections of the pension scheme came into force in 2005, after years of preparation. The major features of the pension reform were:

- The actual annual earnings form the basis of the pensionable wage (instead of the last working years).
- The employee may choose to retire anywhere between the ages of 63 and 68. This meant that the old-age retirement age of 65, legislated originally in the national pension, was replaced in the earnings-related pension schemes by a flexible old-age retirement age of 63–68 years. In the national pension scheme, the old-age retirement age remained 65 years.
- The pension accrual was raised to 4.5 per cent between the ages of 63 and 68, and was 1.9 per cent for those between the ages of 53 and 62. For those under 53 it was 1.5 per cent.
- Pensions accrue from the age of 18 instead of 23 and during periods of

17 Hannikainen 2012a, 287–347.
study and childcare.

- The individual early retirement pension was abolished.
- Entitlement to an unemployment pension (at age 60) expired for those who were born after 1949, but they were still entitled to an additional daily allowance under unemployment insurance schemes until old-age retirement at age 63.
- The life expectancy coefficient came into effect for the first time in 2010 with the result that future pensions will be automatically cut as expected life expectancy increases, unless working careers are prolonged at the same time.

All reforms followed the principle that the pensions currently being paid, as well as benefits already accrued, did not weaken, which made it easier for the trade unions to accept the reforms. As in earlier decades, the labour market organizations actively participated in the reform process. The advisory and negotiating group of the central labour market organizations negotiated all the private sector pension reforms in the 1990s and in the first decade of the twenty-first century. When agreement was reached in the negotiating group, the necessary legislation was prepared in cooperation with the Ministry and the Finnish Centre for Pensions. The government accepted the pension agreement and parliament approved the reforms without any significant changes or additions.

In contrast to the pension reform in the 1960s and 1970s, the white-collar trade unions actively took part in the negotiation process, reflecting fundamental changes in the labour force. However, blue-collar workers together with the employer association still maintained a central position in the reforming process. It was difficult for the white-collar trade unions to accept the changes to the calculation rules for pensionable wages; that is, the actual annual earnings formed the basis of the pensionable wage. They argued that this reform was unfair for employees with higher education and in careers that offer upward mobility. This dispute prolonged the reforms and finally threatened the labour market organizations’ mutual cooperation. In the end, it was decided that pensions would be calculated on the basis of
earnings from the entire working career, combined with a higher pension accrual rate during the final years of a given career.

In addition to pension benefits, the reforms concerned pension finance. Since pension expenditure during the first few decades of the earnings-related pension scheme remained relatively small, pension providers collected more assets than they needed to pay running pensions. Against securities, employers had an automatic right to borrow back the part of earnings-related contributions that was not needed for running pensions and administrative costs.

A liberation of the money and exchange markets in the 1980s gradually led to changes. The automatic premium lending directed at companies, for example, lost its significance. As the state became increasingly indebted during the recession in the early 1990s, earnings-related pension assets were in demand. An increasingly larger share of new investments by earnings-related pension insurance companies was in Finnish government bonds. Compared to other investment objects, they had a competitive interest rate, and because they were low-risk investments, they were appropriate investment objects for earnings-related pension assets.

A change in the financing environment required extensive reforms to the investment operations of earnings-related insurance companies, which were carried out in 1997 and 2007. The aim of the reforms was to engage in more versatile and riskier investment activities by investing an increasing share of pension insurance companies’ assets in shares and foreign investments. The pressure to increase earnings-related pension contributions due to an ageing population and the subsequent fading economic growth was fought by cutting benefits, prolonging working careers, and increasing fund returns.

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18 Hannikainen 2012c, 391–447.
Conclusion

The deep economic crisis in the early 1990s paved the way for the scaling down of pension schemes as well as other social benefits in Finland. During the recession, major pension reforms were made to public-sector pensions as their benefits were aligned with private-sector pension benefits. Moreover, employee contribution share was introduced to the earnings-related pension schemes and early retirement schemes were weakened. As a result of the recession and the reforms, the development of the pension schemes moved to a new phase—from growth to adaptation.

The reforms continued after the recession when the question of an ageing population in the next few decades played an increasingly important role in political discourse. The reforms mostly meant decimations of benefits and a slowing down of future pension expenditure growth. The previous old-age retirement age of 65 was replaced in the earnings-related pension schemes by a flexible old-age retirement age of 63–68 years. At the same time, the basics of the scheme were simplified and standardized between different population groups, and coverage improved. After years of preparation, a large pension reform came into force in 2005.

The need for reforms led to continuous pension bargaining between the labour market organizations. All pension reforms in the private sector were negotiated and agreed by those organizations. The reforms were mainly justified by the economic goals: improving the financial sustainability of the pension schemes, expanding working careers, and increasing the competitiveness of firms and society. For the coalition government led by the Social Democrats it was easy to execute the reforms because the labour market organizations had negotiated and accepted them. When the labour market organizations were successful in reforming the pension schemes, corporatist features became even more prominent in pension policy.

Relating these pension reforms to the current European debt crisis, interesting prospects emerge. Firstly, it seems evident that, without any reforms, the financial basis of the Finnish pension schemes and the whole economy would be more unsustainable and unpredictable. Secondly, it is difficult to see how the strong negotiating power of the labour market orga-
nizations would have continued to play a significant role in the formation of pension policy. Had substantial reforms not been effected, a permanent confrontation between the trade union and the government would probably have been inevitable.

Welfare state reforms are still needed in terms of pushing for longer working careers. Because the population is ageing, it will become more challenging to maintain both economic growth and welfare state institutions. But the persistent slack in the labour market has made it more difficult to convince the trade unions and the Finnish people of the need for a higher retirement age. In the current environment of intense competition, big industrial companies utilize ‘exit-options’\(^\text{19}\) in the global market, which makes it more difficult, especially for older people, to find a job. Moreover, many in Finland consider that the welfare state institutions have already been reformed, even eroded, too radically.

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\(^{19}\) Hirschman 1970.


Part III
GENDER EFFECTS OF THE CRISIS
The ‘manceession’ story

Financial crises create identity crises, at least in advanced capitalist states.\(^1\) In times of crisis, many voices are heard as each tries to make sense of what has happened. As the crisis and the discussions about the crisis continue, some explanations become more visible than others. The narratives that emerge to explain these difficult transitions are particularly revealing of many aspects of national identity and self-understanding. In the wake of the financial crisis and economic downturn in the United States, one such narrative that emerged in 2009 was the ‘manceession’ story. The term ‘manceession’, coined by a conservative economist and used widely by the media, provided an explanation for the purportedly novel nature of the financial crisis and resulting recession, and came to dominate popular understandings of who was harmed by the recession.

I want to suggest that the story of this term and its representations in popular media illustrates continuing anxieties about gender and work, and about the role of men and women in both the workplace and household in the twenty-first century. Specifically, over the summer and fall of 2009 as the coverage depicted the job losses of the economic crisis as a ‘manceession’,
many of the stories in the mainstream press began to focus on gender and especially on how the recession was harming men in particular. The focus of these stories also changed, becoming not just about men’s economic losses but also about the psychological and social losses that men suffered as a result of losing their jobs. As Williams and Tait put it, ‘the larger victim was a particular vision of male identity, related to the idealized notion of the good provider’. In some versions, as I note below, the story was also about women’s supposed gains as the result of men’s job losses, but the primary focus was on how the recession was harming men.

In this chapter, I offer a genealogy of the ‘mancession’ story in the popular press, primarily in the United States. I am particularly interested in the gender anxieties evident in this story as they are expressed in popular press stories speculating on the meaning and consequences of the ‘mancession’. And I am interested in how, and whether, several years into the economic recovery, the changes that have occurred in unemployment and the economy along gendered lines since the idea of the ‘mancession’ emerged have altered the story told about the recession and its consequences.

The origins of the ‘mancession’ story

Popular and scholarly sources covering unemployment in the wake of the financial crisis in the United States noted the different rates of unemployment for men and women in the first part of the recession. Because in the early part of the recession more jobs were lost in sectors dominated by men—such as construction and finance—men did constitute a larger number of workers laid off in that period. Given the depth of the recession, obviously women also suffered significant job losses, but the press coverage showed a clear focus on the loss of men’s jobs.

This coverage was shaped by the interventions of several entrepreneurial commentators, who coined terms to describe the higher rates of unemployment among men than among women. The economist Mark Perry is widely attributed with coining the term ‘mancession’, which first appeared in the
print record in June of 2009. David Zinczenko, editor of *Men’s Health* magazine, penned an opinion piece for *USA Today* published in May 2009 in which he used the term ‘he-cession’. Conservative columnist Reihan Salam used this same term in his article, ‘The Death of Macho’. One image that accompanies the piece—the male symbol with a drooping member—communicates the fundamental message of all these stories: men are being emasculated in the great recession economy. These two terms—‘mancession’ and ‘he-cession’—have been the most enduring and the most popular in press coverage of the recession since 2009. ‘Mancession’ even made the *New York Times* list of buzzwords for 2009. Proving that the term had at least some cultural staying power, in 2012, ABC launched a short-lived and widely criticized situation comedy called ‘Work It’ with a plot involving two men who can’t get jobs as men, and thus disguise themselves as women to get sales jobs. My contention here is that these terms and the context in which they are used illustrate the persistence of gender stereotypes and reveal a set of anxieties about men, women, work, and gender in the United States.

To trace popular press usages of these concepts in coverage of gender and unemployment, I searched several English language news databases for the following terms: mancession, hecession, he-cession, shecession, momcession and blackcession. While in each database I found hundreds of articles with the term ‘mancession’ and ‘he-cession’ from the period from May 2009 to March 2012, there were less than ten articles for the same period for each of the other terms, including just one article for the term ‘momcession,’ and none for the terms ‘blackcession’ or ‘black-cession.’ I chose to use print media rather than blogs and Internet-only sources to trace the enduring influence of the terms. Notably, in the summer of 2009, Nancy Cook’s simple Google search of ‘mancession’ led to 13,500 hits; by August 2012 a similar search yielded more than 111,000 hits.

There is a great deal of print coverage of the global financial crisis and the resulting recession that does not make mention of these terms. In the US

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3 Liebovich & Barrett 2009.
4 Garnick 2011.
5 The databases were Factiva, Newsbank/Access World News, and Westlaw.
6 Cook 2009.
press, the term ‘Great Recession’ has been used by much of the print media to refer to the economic downturn, which has been the worst in the United States since the Great Depression of the 1930s. A search of Access World News, again with the same time parameter and limited to print sources, found more than 50,000 articles. So the terms of art that I am discussing here do not constitute the majority of press coverage of the economic downturn. My point is not that these terms have become the only way of understanding the financial crisis and great recession. It is rather that the particular way in which these terms emerged and the discourses in which they were deployed revealed a certain kind of gender anxiety about men, women, and work in the twenty-first century in the United States.

As noted, Mark Perry, at the time a visiting scholar at the (conservative) American Enterprise Institute, is most closely associated with the term ‘mancession.’ In the first press use of the term in June of 2009, the London Times cited Perry as the source of the term.7 Through his blog, he has also continued to promote the idea of the ‘mancession,’ and in testimony before Congress in 2010 he developed this argument further. Noting frequently that the differences in unemployment rates between men and women were ‘historically unprecedented,’ Perry concluded that the recession ‘had a significantly disproportionate negative effect on men compared to women.’8 Although Perry notes at the end of the testimony that the picture was actually better for men in 2010 than it was in 2009, he has continued to argue in other articles and in blog posts that the recession has disproportionately hurt men and that public policies to address women’s employment are inappropriate.9 In all of his postings and papers about the recession, Perry poses the issue as a zero sum game of women versus men, in which men are the losers. This framing has been influential, as the idea of men versus women has been a feature of much of the coverage that uses the terminology of ‘mancession.’ And the term was also used to criticize economic policies such as the Obama Administration’s stimulus plan for being too helpful to women and for purportedly leaving ‘burly men’ out.10

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7 Baxter 2009
8 Perry 2010a, 1.
9 Perry 2010b.
10 Sommers 2009.
The press coverage that used the terms ‘mancession’ or ‘he-cession’ featured much speculation on the potential consequences for the future of men’s and women’s employment and for the future of the division of household labour. Journalists and columnists speculated about a possible sudden and dramatic reversal in gender roles in US households, and of an economy where women are triumphant and men are left behind. This kind of coverage, although it peaked in mid-2009, became the dominant narrative about the nature of the recession, despite some contemporaneous scepticism such as journalist Nancy Cook’s piece in Newsweek about the use of the term. 11

The coverage corresponded with what turned out to be a statistical blip in employment data: for a brief period in the summer of 2009, and for the first time in the history of employment data collection, there were more women than men in the US workforce. Despite steady increases in women’s employment participation from the 1950s onward, this was the first time that the sheer number of women in the US workforce exceeded the number of men. This fact was of course worthy of note and was indeed covered by the press. Of course, the reason for this change was because of the large number of jobs lost by men, not a surge of new women’s jobs, and by the autumn of 2009 women’s job losses led to a shift back to men as a majority of US workers.

But the press coverage, far from seeing this as a brief statistical anomaly, saw it rather as indicative of the gendered political and social meaning of the recession. The stories that used the term ‘mancession’ focused on the idea that men were losing their identities, not just their jobs. This discourse of vulnerable men reflects the theme of what psychologists call ‘gender threat’, where the threat is of loss of the male breadwinner role and the social status that goes with it. If masculinity is viewed as a social achievement, whereas femininity is seen as more ‘natural’, the threat of status loss may be shaping some of this discourse about vulnerable men and the economy. 12 As feminist economist Heidi Hartmann put it, ‘[i]t becomes a problem when white men start to suffer’. 13

11 Cook 2009.
13 Cited in Cook 2009.
Just when it seemed that the ‘mancession’ story had faded, it surfaced again in 2010 with the publication of an article in the *Atlantic Monthly* by Hannah Rosin entitled ‘The End of Men’. One interesting point is raised in the abstract of the article—namely, “[w]hat if modern, postindustrial society is simply better suited to women?”\(^{14}\) Rosin assumes that there are natural differences between men’s and women’s skills and abilities, and that men will lose out, and women will therefore gain, because men’s ‘size and strength’ is no longer an advantage for the jobs now being created.\(^{15}\) ‘It may be happening slowly and unevenly, but it’s unmistakably happening: the modern economy is becoming a place where women hold the cards.’\(^{16}\) The women in Rosin’s article, even the single mothers working multiple jobs, attending community college, who are ‘about to fall asleep in the elevator’\(^{17}\), and who are clearly marked as women of colour, explicitly and implicitly, are depicted by Rosin as triumphant because they are in charge of their families. The (Black and Latino) men are enraged and bewildered by the way that their masculinity has been left behind, but they are also ineffectual—unable to change their situation. Part of the coded racial message here is the same as that of the Moynihan Report, or any book by Charles Murray: the white middle class should beware; this dangerous gender reversal is coming to your community. And despite the hyperbole of the title, Rosin really does seem to mean that there are no more (white) men, and that the alpha female—whether cougar or single mom—is the winner in the recession economy.

As women have lost and men have gained ground in the slow job gains in the US economy since 2009, there has been some coverage of the ‘he-recovery’, particularly in response to reports produced by feminist and progressive organizations. But this phenomenon has not been covered at anywhere near the scale of the mancession trope, which continues to dominate explanations of the recession. Putting this coverage into some perspective is the task I would like to focus on next.

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14 Rosin 2010, 1. The abstract goes on to describe the article as “[a] report on the unprecedented role reversal now under way—and its vast cultural consequences.”
15 Rosin 2010, 5.
16 Rosin 2010, 7.
17 Rosin 2010, 11.
US unemployment data

The focus of the ‘mancession’ stories was not at all about the role of hyper-masculinity in the processes that caused the financial crisis, although clearly there was something to this point. Rather, the story focused primarily on the fact that more men than women had lost jobs in the early part of the recession. In May of 2009 when these stories began surfacing, the overall unemployment rate was 9.4 per cent, and it was still rising; unemployment in the United States peaked at 10 per cent in October of 2009. Part of the explanation given for the higher rate of unemployment among men was a sectoral explanation: because of continuing gender inequality in employment in certain sectors of the economy—a fact often not discussed but simply assumed in the coverage—and because more jobs were lost in sectors dominated by men—such as construction and finance—men constituted a larger number of workers laid off. Depending upon when one measures the total job losses, the number of men who lost jobs outnumbered women by at least two to one.

This was a partial truth about the nature of unemployment during the recession, but it was more true of the early part of the recession than the latter part. But this picture was also too simple, given that sectoral segregation in employment in the United States is intersectional; that is, shaped not just by gender but by race, ethnicity, education, age, and class as well. For example, unemployment among African-American men is generally, even in periods of economic growth, twice the rate of that of white men, and this remained true as unemployment rates for both groups doubled during the recession. But this has not led to the coinage of any catchy phrases that have been picked up by the popular press to describe the economic situation of Black men in the United States. Indeed, even a search of ‘Great Recession’ and ‘Black men’ in the Access World News database yielded only 115 articles, out of the more than 50,000 that contained the term ‘Great Recession’. Thus, although this story was not completely ignored, it did not receive as

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18 For a discussion in English of the role of masculinity in Iceland’s financial crisis, see Sigurðardóttir 2010, in which she discusses the report prepared by Þorgerður Einarsdóttir and Gyða Margrét Pétursdóttir. See also Loftsárdóttir 2010.
much coverage or discussion as did ‘mancession’. And at certain points during the recession, single women were more than twice as likely to be out of work as their married counterparts, but again, no general catchy phrase caught on to describe this phenomenon.

The point here is not whether men or women suffered more in the recession of 2007 to 2009; framing the question this way is precisely the problem. But it is important to sort out how much of this coverage was based on the available economic information. We will take a look here briefly at the data on the recession, primarily as reported through official statistics and as analysed by economists.

Recessions are identified by economists in retrospect and the recession in question here was defined by the National Bureau of Economic Research (NBER) as beginning in December of 2007 and ending in June of 2009. This made it the longest recession in the US economy since World War II. Economic growth since June of 2009 has been slow, and while job creation always lags behind economic growth, this has been a particularly slow recovery in terms of job creation.

Actual unemployment data over the course of the recession shows a more complicated picture than the simple ‘mancession’ story. Men did suffer significantly higher rates of job loss in the early years of the recession, mainly because, as noted above, these losses were concentrated in industries where men are overrepresented such as in finance, construction, and manufacturing. It is true that the gap between men’s and women’s unemployment rates, which peaked at 2.7 per cent in August of 2009, was the largest gap in the postwar era—a statement found in almost all of the coverage of the mancession, whatever the perspective of the author. But what this leaves out is that in all recessions in the United States prior to the 1980s, those gender employment gaps were in favour of men, sometimes by as much as 2.2 per cent. Nevertheless, those recessions were not termed ‘womancessions’.

Much of the coverage also emphasized that women workers were con-

19 Grown & Tas 2010, 10, Figure 4.
concentrated in industries that were described as recession proof, or as growing sectors of the economy, such as education and health care. As many feminist commentators noted, the coverage rarely mentioned that many of these jobs were much lower paying than the men's jobs that were lost, and were also less likely to provide health benefits. Further, downturns in state and local government budgets follow downturns in the business cycle, and so the cuts to women's jobs in education in particular occurred later in the downturn cycle. The depiction of women as somehow the ‘winners’ in the economy for being employed in these sectors was thus rather misleading.

Nevertheless, there is truth in the sectoral explanation for the gender differences in unemployment during the official duration of the recession from 2007 to 2009. But there have also been gender differences in the recovery. Men began to gain jobs again in the first quarter of 2010, and over the course of 2010, men gained jobs while women actually lost jobs, according to a recent report by the National Women’s Law Center. Men's unemployment rate has dropped over the course of the recovery, while women's unemployment rate has continued to grow. From January 2010 through April 2011, according to the NWLC, men gained 1.436 million jobs, while women only gained 311,000. Of course, since men had greater job losses, it could be expected that they would also experience greater gains. But men have gained proportionately more jobs than their proportional losses.

To see the complete picture with respect to employment and unemployment, it is also important to look at the course of the recovery period and at underemployment as well as the official unemployment figures. For, while women workers in health and education were less affected during the economic downturn, they have been seriously affected during the period of the recovery. In particular, since women workers are overrepresented in state and local government jobs, the austerity measures that continue to be implemented by state and local governments as a result of budget problems caused by the recession are having a significant impact on women workers.

22 Sahin, Song & Hobijn 2009.
23 National Women’s Law Center 2011.
24 See for example Grown & Tas 2010.
Thus, though women only constituted 57 per cent of the public workforce in June of 2009, women lost 74 per cent of the public jobs that were cut between July of 2009 and April of 2011. As state and local governments continue to cut budgets until revenues recover, these losses are likely to continue. Thus, in the gender-stratified job market of the US economy, the austerity measures being promoted in response to budget shortfalls end up targeting women and women’s jobs.

Some of the press did pick up this story, particularly when the Pew Research Center issued a report in the summer of 2011 that showed that men were gaining jobs much more quickly than women. This theme also showed up in some print media coverage in the autumn of 2011 when the Institute for Women’s Policy Research issued a report that showed that women had lost jobs during the recovery while men had gained jobs. These stories all mentioned the ‘mancession’ as a description of the early period of the economic downturn, and primarily focused on public sector job losses as an explanation for the gender difference in the recovery.

Thus, the ‘mancession’ theme captured one aspect of the recession and unemployment, but it certainly was used in misleading ways. It is not surprising that mainstream press and public discussions would reflect a simplification and distortion of actual data. What is interesting is the particular ways that the term ‘mancession’ was used to put forward a set of arguments about the crisis and recession, gender, and the economy. It is to this set of distortions and their meanings that I now turn.

Crisis and gender threat

In the midst of the most extensive recession in the US economy since the Great Depression of the 1930s, when millions of people were losing their jobs and homes, the story that came to dominate much of the coverage was one of harms to men and gains for women. This kind of framing of the meaning of the financial crisis and its aftermath had the effect of channelling and narrowing the focus of concern to a kind of gender threat to men, es-

25 National Women’s Law Center 2011, 1.
especially middle-class white men. Rather than focusing on the origins of the crisis in banking deregulation and neoliberal economic policies, the focus could be turned to how recession-created ‘gender equality’ threatened men’s economic well-being, or more directly, how women’s employment threatened men’s social, economic, and political position in American life.

Of greatest interest here are the larger themes of this discourse and what is served up as truth in putting this argument forward. Clearly, as noted above, some conservative commentators put forward the terms ‘mance-sion’ and ‘he-cession’ as a way of framing the meaning of the recession in gendered terms. I am not claiming that there was a design on the part of any entity, such as the press or political leaders, to make this ‘the’ story of the recession. Rather, what I am suggesting is that the very popularity of this story is evidence of how the US public and the US political system respond to a crisis.

One major theme of the mancession mantra was that women were depicted as the economic winners in the recession economy and men as the economic losers. Unemployment was still rising among both women and men, but the implication was that women were doing just fine. An example is the London *Times* headline: ‘Women are the victors in “mancession”’. The implication was that women’s employment opportunities were better and more secure than were men’s. Significantly, this was usually attributed to some natural attributes of women as more adaptable to new economic realities and to service sector jobs. This argument was often paired with an argument about women’s increased educational attainment. In these stories, it was often noted that in many undergraduate schools in the United States women constitute 60 per cent of the student body, a fact attributed (tautologically) to women’s greater adaptability to changes in the economy and the need for higher education, and to the failure of primary and secondary education to address the needs of boys. In other words, in these narratives, natural differences between men and women (or boys and girls) also cause differences in educational attainment. Thus, men were depicted as economi-

27 Baxter 2009.
cally vulnerable workers, and women as workers with job security, in each case due to some natural, sex- and gender-based characteristics.

Another ‘mancession’ theme was that changes in employment patterns would mean changes in gender roles in the household. In particular, a number of stories included anecdotes about unemployed husbands performing more household tasks. This occurred even in stories that noted that these men were an exception, not the rule. This coverage highlighted the ‘Mr Mom’ theme—namely, that men were doing unfamiliar tasks in the home, like laundry and cooking. Overarching all these stories was this question: what will it mean for men, women, and gender, if ‘burly men’ are no longer breadwinners, but have become househusbands?

Central to these first two themes was the continued naturalization and biologization of gender difference. Many articles depicted phenomena such as women’s attending and succeeding in college in higher numbers, men’s job and income losses in the manufacturing and construction sectors, and lower rates of marriage during the recession as artefacts of natural gender differences that purportedly advantage women in the current economy and therefore endanger men. As Alice O’Connor puts it, ‘the myth of the “mancession” ... links up to a larger narrative that, in its starker expressions, presents a story of female ascendancy and male decline.’

A third theme of the mancession discourse is the implication that men are losing out and continuing to lose out, and that this is somehow the fault of women, not of the structure of the US economy. This is comprised of a complex web of laments, including the by now quite familiar ‘masculinity crisis meme’, as Ann Friedman puts it in her critique of Rosin’s piece. Rosin seems to be lamenting the end of macho men, even as she mentions that she supports equality gains by women. Rosin’s overall argument makes it clear that if men are upset about the loss of their jobs, they should blame women.

28 O’Connor 2010.
29 Friedman 2010.
A fourth theme, present in all of the discourse but rarely treated critically, is that of explaining the initial disproportionality of men’s job losses by invoking occupational segregation, just as the disproportionality of women’s losses are now accounted for by reference to the same segregation. Thus, occupational segregation also gets naturalized in these stories. If women had made more inroads in construction, finance, and manufacturing, they would have lost those jobs as well. If men had gone in large numbers into education and health care, a smaller percentage of men would have lost their jobs in the downturn that followed the crisis. This structural factor was generally assumed as a natural artefact of the US economy, rather than a gendered one.

A final theme worth mentioning here comes in the form of a desideratum: the lack of attention given to the negative consequences for other family members, many of whom are women or girls, of men’s job losses and the negative consequences for other family members, many of whom are boys or men, of women’s job losses. Such lack of attention is all the more conspicuous given the prevalence and extent of changes in family structure and family life as a consequence of job loss, independent of whether the job lost was occupied by a man or a woman. So the zero-sum game framing of the mancession discourse is misleading in many ways in terms of the effects of the recession on families and households. Since many households need two or more incomes to survive, the mancession discourse seems to call up a breadwinner model of family economics that is long outdated.

However, it is encouraging that the press coverage was not completely one-sided, particularly in response to women’s job losses in the recovery. Moreover, the coverage of men as stay-at-home fathers—though always depicted as a result of job loss, not by choice—still augurs some evidence of changing ideas about gender roles and families.

This discussion reveals not just gender threat, but also the possibility that in some quarters, at any rate, there is recognition that men, and perhaps gender stereotypes about men and masculinity, women, and work need to change. Families have been changing rapidly in the United States for several decades, and US employment and social policy have not kept pace with
those changes. Given the growing percentage of married women and single mothers who are breadwinners—a growth which is part of long-term demographic trends in the United States—our ideas about gender, families, and work require major restructuring.

Conclusion

Just as the story of education in the United States has now become a story about vulnerable boys, the story of the recession has become a story about vulnerable men. The identity crisis caused by the financial crisis has been answered in part by a story about how men were losing out, masculinity was threatened, and women were victorious. Aside from its misleading nature regarding the actual facts of unemployment, this story has become a convenient and perhaps comforting frame to turn attention away from deep long-term structural problems in the US economy—problems that threaten men and women of all races and classes—and focus attention on the threat of gender equality. Further, it deflects attention from the causes of the financial crisis in deregulation and hubris, and focuses attention on the ‘problem’ of women workers.

In such a time of crisis, a focus on structural factors would likely be too threatening to US identity. Among other things, it would call attention to the discrimination that creates male-dominated and female-dominated industries. It would require recognition of the fact that the fiscal austerity that conservatives are now demanding, and the resulting severe cutbacks in federal, state, and local budgets for education and health and social services, disproportionately target women’s jobs. It would call attention to the flaws of unregulated markets, to their role in producing the crisis, and to the need for fundamental economic reforms.
References


CHAPTER 11

Should men have more rights…?
Gender-role-related attitudes before and during the 2008 crisis

IVETT SZALMA AND JUDIT TAKÁCS

Introduction
In different types of European welfare states there are great differences regarding women’s labour market position, their fertility-related behaviour, and the division of housework.¹ In the Nordic social democratic welfare states, gender equality is the most developed in comparison to the rest of Europe: labour force participation rates of women and men are nearly the same, and the difference between time devoted to housework by women and men is the smallest. According to previous research findings in present day Europe, gender inequalities regarding labour market participation and domestic division of labour are most widespread in the postsocialist countries.² For example, in Hungary, Slovakia and the Check Republic mothers having children under 3 have the lowest maternal employment rates in the EU (OECD 2012). Our starting point is the assumption that European countries are characterized by different gender role attitudes and that these attitudes are developed not only at the individual level but also at the level of society.

The aim of this chapter is to focus on the changes in gender role attitudes over a given period of time which partly coincides with the recent global

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¹ Esping-Andersen 1990.
² Hobson & Oláh 2006; Puur, Oláh, Tazi-Preve & Dorbritz 2008; Takács 2008; Hobson & Fahlén 2009.
economic crisis. The present crisis may be affecting gender role attitudes due to several reasons. First of all, the unemployment rate has increased sharply since the first quarter of 2008 as a result of the economic crisis. According to American scholars, the recession that began in 2007 has affected male workers disproportionately; however, they also emphasize that the ‘mancession’ is not a new phenomenon, as all recessions tend to follow this pattern. When jobs are scarce men’s employment tends to become a priority at the expense of women’s employment, reflecting the dominance of traditional gender role attitudes. On the other hand, female labour market participation may become more important from the family’s point of view, as it can help in decreasing the risks—including reduction of salaries and increased unemployment—exacerbated by the crisis, thus stimulating less traditional gender role attitudes.

The current crisis followed the mancession pattern at the beginning: in many European countries the most affected sectors were those dominated by men such as the construction and automotive industries. The government reaction to the crisis was to cut the public budgets and public sector employment, thus having more negative impact on female employment rates. Besides the direct effects of the crisis, increasing unemployment rates, decreasing income levels, the indirect effects must also be taken into consideration. Among the indirect effects was a rise in fixed-term and part-time employment at the expense of permanent and full-time employment and a stronger sense of insecurity of jobs, while the competition among employees has exacerbated.

Two-earner families are more stable than single breadwinner families but the numbers of one-parent families are increasing, due to the high divorce rates and the spread of less stable partnership forms. Consequently,

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3 Kiiver & Hijman 2010.
4 Elsby, Hobijn & Şahin; Şahin, Song & Hobijn 2010.
5 Cha & Thébaud 2009; Australian and American scholars also emphasized the key role women’s dependence on men can play in the formation of less egalitarian gender attitudes (Baxter & Kane 1995).
6 Pongrácz & Molnár 2011.
7 Verick 2009.
8 Ruggieri 2012.
women are more motivated to be employed to decrease their dependence on their partners so they are less likely to support traditional gender role attitudes in the context of a very competitive labour market.

The aim of this chapter is to reveal whether any significant changes have occurred in gender role attitudes among men and women between 2005 and 2010 as a consequence of the crisis. The chapter is structured into three sections: the first section describes the applied data, variables, and methods; the second presents our main hypotheses; and the third discusses the main results.

Data and methods

In this chapter we analyse data of the second and the fifth rounds of the European Social Survey (ESS), conducted in 2004–2005 and in 2010 respectively. The ESS is a large-scale, cross-national longitudinal survey initiated by the European Science Foundation in order to study changing social attitudes and values in Europe. Since ESS is a repeat cross-sectional survey, in each round of data collection, following each other every two years, a core module and two rotating modules are used. Rotating modules focus on specific academic and policy concerns, being repeated not in every ESS round, but only at certain intervals. The empirical base of our analyses is a rotating module which focuses on work-life balance issues and which has been included in two ESS rounds, the second and the fifth, since the first round of ESS data collection was completed in 2002. During the second ESS round conducted in 2004–2005, data was collected in 25 European countries. During the fifth ESS round in 2010, the rotating module on work-life balance issues was repeated. Thus, we are able to examine the temporal changes concerning gender-role-related attitudes as measured by the variables included in the repeated module between 2004–2005 and 2010. We examine data of only those countries, which participated in both the second and the fifth ESS rounds. These included twenty-one countries: Belgium, Czech Repub-

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9 In the original questionnaire a score of one meant strong agreement and a score of five meant strong disagreement, but in the interest of clearer understanding we have recoded the responses. The analyses were conducted with ESS fifth round data, which was made accessible by ESS in September 2011.
lic, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, the
Netherlands, Norway, Poland, Portugal, Slovenia, Slovakia Spain, Sweden,
Switzerland, the United Kingdom, and Ukraine. Within each country we
focused only on those respondents who were aged between 20 and 55, had
paid work, and lived in couple relationships. These restrictions were made to
yield a homogenous sample in the countries. This sample makes it possible
to focus on those who are mainly affected by the crisis on the labour market.
In 2004–2005 the total sample was 11,774 (6124 men and 5650 women); in
2010 the total sample was 10,911 (5556 men and 5355 women).

Our dependent variable measured the agreement level with the state-
ments that men should have more right to a job than women when jobs are
scarce on a one-to-five scale, where a score of one meant strong agreement,
signalling a high level of traditional gender role attitudes, while a score of
five meant strong disagreement, signalling the rejection of traditional gen-
der role attitudes.10 Figures 11.1 and 11.2 provide illustrations of the mean
values of the dependent variable in 21 European societies in 2004–2005 and
2010. They clearly show that between 2005 and 2010 in most countries the
level of agreement with the statements that a woman should be prepared to
cut down on her paid work for the sake of the family and that men should have
more right to a job than women when jobs are scarce decreased, except in
Greece11, where people agreed more with the first statement in 2010, and in
Ukraine, where the level of agreement with the second statement increased
by 2010. It is noteworthy that by 2010 the level of agreement with the second
statement decreased significantly in Poland12, one of the countries least af-
fected by the crisis.13

10 In the second ESS round the following five variables measured gender role attitudes: A woman
should be prepared to cut down on her paid work for the sake of her family (G6); Men should take
as much responsibility as women for the home and children (G7); When jobs are scarce, men should
have more right to a job than women (G8); When there are children in the home, parents should stay
together even if they don’t get along (G9); and A person’s family ought to be his or her main priority
in life (G10). In the fifth round of the EES, however, there were only two such variables included:
A woman should be prepared to cut down on her paid work for the sake of her family (G4), and When
jobs are scarce, men should have more right to a job than women (G5).
11 Greece is one of the countries that was gravely affected by the crisis (Chritie, Lupu, Milea & Ailinca
2011): the unemployment rate was 12.5 per cent in 2010, while the average unemployment rate in
the EU-27 was 9.7 per cent in 2010 (Eurostat 2012).
12 In Poland the unemployment rate fell by 8.1 percentage points to 9.6 per cent.
13 Chritie, Lupu, Milea & Ailinca 2011.
For analysing our datasets, multiple methods were applied. First, we constructed explanatory models by applying multilevel mixed-effects linear regression. Our regression analyses were conducted by the STATA 11.1 statistical programme.

The statistical argument for using multilevel or hierarchical linear regression models is that citizens of a given country won’t necessarily form views independently from each other according to the dimension of the dependent variable. For example, if the level of gender inequality is low in a country, it is possible that a citizen of this country will be more likely to reject traditional gender role attitudes than if he or she were living in another country that is characterized by a high level of gender inequality. In this case it cannot be guaranteed that the independence of observations, be-

\[\text{Note: } 1=\text{strong agreement}; 5=\text{strong disagreement.}\]
Figure 11.2. Agreement level with the statement ‘Men should have more right to a job than women when jobs are scarce’ in 21 European countries 2005 and 2010

Note: 1=strong agreement; 5= strong disagreement.

Women and men were examined in separate models as we assumed that certain factors can affect the attitudes of women and men in different ways.
and we wanted to be able to track these differences. Two explanatory models were constructed by applying multilevel mixed-effects linear regression. We called the first one the labour market model and included the following outcome variables: actual work hours measured according to the full-time work norm of the given country (whether one works less or more than the full-time work norm that is 40 hours per week in all the examined countries except in Denmark\(^\text{14}\)); desired work hours\(^\text{15}\) (whether one wants to work less or more and accordingly earn less or more); partner’s work hours\(^\text{16}\); experience of long-term unemployment\(^\text{17}\); subjective evaluation of financial situation\(^\text{18}\); employment security\(^\text{19}\); work autonomy and flexibility index\(^\text{20}\); and, finally, the partner’s actual work hours. Additionally, we introduced a new variable into the 2010 data set to see whether the crisis affected the respondents’ work conditions. The crisis was measured by a Crisis Index that was constructed from four further variables in turn.\(^\text{21}\)

\(^{14}\) In Denmark the full-time work norm is 36 hours, which we applied in the case of Denmark in order to calculate whether one wants to work less or more than the norm.

\(^{15}\) Desired work hours were measured by the following variable: How many hours a week, if any, would you choose to work, bearing in mind that your earnings would go up or down according to how many hours you work? (G116 in second-round questionnaire).

\(^{16}\) Partner’s work hours was measured by the following variable: How many hours does he/she normally work a week (in his/her main job)? Please include any paid or unpaid overtime (F48 in second-round questionnaire of ESS and F57 in fifth-round questionnaire).

\(^{17}\) Measured by the following variable: Have any of these [unemployment] periods lasted for 12 months or more? (F28 in second-round questionnaire and F37 in fifth-round questionnaire).

\(^{18}\) Measured by the following variable: Which of the descriptions on this card comes closest to how you feel about your household’s income nowadays? 1=Living comfortably on present income; 2=Coping on present income; 3=Finding it difficult on present income; 4=Finding it very difficult on present income (F33 in second-round questionnaire and F42 in fifth-round questionnaire).

\(^{19}\) Measured by the following variable: My job is secure: 1=Not at all true; 4=Very true (G66 in second-round questionnaire and G32 in fifth-round questionnaire).

\(^{20}\) Measured by the following two variables: How much the management at your work allows you to decide how your own daily work is organized? 0=I have no influence; 10=I have complete control (F18 in second-round questionnaire and F27 in fifth-round questionnaire); How much the management at your work allows you to choose or change your pace of work? 0=I have no influence; 10=I have complete control (F19a in second-round questionnaire and F28a in fifth-round questionnaire). The work autonomy and flexibility index was constructed in the following way: we summed the values of both variables. The maximum value of the new variable was 20, which meant employees could have complete control on their work environment, and the minimum value was 0, which meant that employees did not have any control on their work environment. The work autonomy and flexibility index was inserted into our model as a continuous variable.

\(^{21}\) Measured by the following four variables: Have you had to do less interesting work? (G58 in fifth-round questionnaire); Have you had to take a reduction in pay (G59 in fifth-round questionnaire of EES); Have you had to work shorter hours? (G60 in fifth-round questionnaire); Have you had less security in your job? (G61 in fifth-round questionnaire). The index was constructed in the following way: we counted all the positive answers, and if one respondent indicated at least one positive answer from the four variables, we regarded the respondent as being affected by the crisis.
The second explanatory model we called the *sociocultural model* as it focused on the following outcome variables that are all closely connected to socialization outcomes: political views\(^{22}\), self-assessed religiosity and attendance at religious services\(^{23}\), and whether the mother of the respondent worked when the respondent was 14 years old.

Additionally, both models included a country-level outcome variable and four control variables: age, place of living, education level, and having (young) children were used as control variables in all of the models. As a country-level outcome variable, the Female Employment Rate\(^{24}\) was applied in the *labour market model*. The unemployment rate of the country seems to be very relevant, but it does not reflect the situation of the labour market in gendered aspects.\(^{25}\) For example, a low unemployment rate can mean that most men and women are employed, but it can also mean that female activity rate is very low because women are regarded as second-rate employees. In this case, women will not appear in the unemployment statistics because they are out of the labour market as a result of the functioning of traditional gender roles (raising children, nursing elderly relatives, etc.).

The Gender Inequality Index (GII)\(^{26}\) was applied in the *sociocultural model*. This index measures those differences between men and women that imply inequality between the genders.

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\(^{22}\) Political views were measured by the following variable: *In politics people sometimes talk of ‘left’ and ‘right’. Using this card, where would you place yourself on this scale, where 0 means the left and 10 means the right?* (B23 in second-round questionnaire).

\(^{23}\) Self-assessed religiosity and attendance at religious services were measured by the following variables: *Regardless of whether you belong to a particular religion, how religious would you say you are? 0= not at all religious; 10=very religious. Apart from special occasions such as weddings and funerals, about how often do you attend religious services nowadays? 1=Every day; 2=More than once a week; 3=Once a week; 4=At least once a month; 5=Only on special holy days; 6=Less often; 7=never.* (C13 and C14 in second-round questionnaire).

\(^{24}\) OECD 2012. Statistics were calculated using the employment rate of women as a percentage of the female population (15–64).

\(^{25}\) Another consideration against using the unemployment rate as a country-level variable is that the unemployment statistic varies considerably from country to country.

\(^{26}\) Gender inequality was measured by GII values in 2005 and in 2010, respectively. GII values reflect women’s disadvantage in three dimensions: reproductive health, empowerment, and the labour market. For more details see Human Development Reports. Gender Inequality Index (GII). Online. Available HTTP: http://hdr.undp.org/en/statistics/gii/ (Last accessed: 2 August 2012).
Hypotheses

We constructed three sets of hypotheses according to our explanatory models: the first hypotheses set concentrates on issues related to labour market participation; the second set focuses on religious and political socialization outcomes as reflected in people’s self-definitions, and in the effects of having (young) children; and the third set focuses on country-level effects measured by the Female Employment Rate and the values of the Gender Inequality Index.

H1. Hypotheses related to labour market participation

According to the first set of hypotheses, we assumed that the labour market position has a significant effect on attitudes regarding gender roles. Labour market position can play an especially important role among women: if they are employed full-time, they have to face work-life balance conflicts, but if they work part-time, they may feel that they are a second-rate earner within the family. Thus we formulated a labour market position hypothesis as follows:

H1.1. Labour market position will have an effect mainly on the attitudes of women, as they are usually the ones whose work careers are interrupted to stay at home with young children. Thus those women who work more or would like to work more are more likely to reject traditional gender role attitudes than others.

The involvement level of the partner in paid work can also influence the attitudes. Accordingly, we formulated the partner’s involvement in paid work hypothesis as follows:

H1.2. In the case of male respondents, the actual work hours of the partners can become a determining factor. Thus men with a partner who spends more time at work than the work time norm for women in the given society will be more likely to disagree with the statement on traditional gender norm attitudes.

Besides the female labour market involvement in paid work, other ‘soft factors’, such as how much the employees feel that their jobs are secure and whether they have influence over their work, can affect the gender role attitudes regarding female employment behaviour. We formulated two hypotheses regarding the subjective evaluation of one’s job:
H1.3.1. Insecure employment will increase the agreement level with traditional gender role attitudes in the case of women as well as men. Putting more emphasis on family, motherhood, household duties, and staying at home with children in a social environment characterized by insecure employment possibilities can then be interpreted as a rational solution for women in a structurally constrained situation. For example, in the early 1990s, after the political system changed in many former state socialist countries, female employment rates decreased, while traditional gender role attitudes became stronger.27 In the case of men, there are two contradicting scenarios. On the one hand, it is advantageous for them if society is characterized by traditional gender role attitudes because then they do not have to compete (so much) with women in the labour market as women's duties are primarily household duties and childrearing to be done at home and not in the labour market. On the other hand, in a social environment characterized by insecure employment possibilities, it can be also seen as a rational solution if not only men but also their partners are active in the labour market. When employment is insecure couples can ease the negative effects of unexpected hardship caused by unemployment or illness by one of them staying on the labour market.28

H1.3.2. Besides evaluation of the job security other characteristics of employment such as work autonomy and flexibility can also influence traditional gender role attitudes towards employment. Both factors can help in reconciling work and family. By providing a practical framework for achieving a better work-life balance, work autonomy and flexibility can increase the disagreement level with traditional gender role attitudes.

H2. Hypotheses related to religious and political socialization
Attitudes are also determined by values and norms. Most major European religions prescribe norms for men and women separately, which coincide with traditional gender related attitudes. Political views can also influence attitudes—for example, right-wing political ideologies tend to prefer male

28 Oppenheimer 1997.
breadwinner families. We formulated two hypotheses on religiosity and political views:

H2.1. People who define themselves as religious and those who attend religious services relatively often tend to agree with traditional gender role attitudes more than others;
H2.2. People who place themselves on the political right are more likely to agree with traditional gender role attitudes than people who place themselves on the political left.

H3. Hypotheses focusing on country-level effects
Besides the objective situation and value orientations of individuals, the cultural and economic situation of the country can also have impacts on attitudes. Thus we constructed the following two country-level hypotheses.

H3.1. In countries characterized by higher levels of gender equality, respondents will have a lower level of agreement with traditional gender role attitudes. A lower value of the Gender Inequality Index (GII) signals that there are no significant differences between the two genders in the following three dimensions: reproductive health (based on maternal mortality and adolescent fertility), empowerment (calculated on the basis of parliamentary representation and educational attainment), and labour market participation.29 Between 2005 and 2011 in most of the 21 European societies examined, GII values decreased, the only two exceptions being Hungary and Ireland.30 Thus we assume that in countries with low GII values, traditional attitudes will be rejected more than in other places.

H3.2. If the female employment rate is high in a society, then the dual-earner family model will become widespread, and respondents will have a lower level of agreement with traditional attitudes emphasizing the main breadwinning role for men. Thus our expectation is that in countries having a higher level of female employment, traditional attitudes will be rejected more than in other places.

Empirical results: international comparison

Applying multilevel regression enabled us to examine the effects of different level outcome variables within a model. After running our empty model in order to check whether the between-country variance level is sufficient for examining the effects of country-level outcome variables at all\(^ {31}\), we found that about 14–24 per cent of the total variation in the dependent variable derives from between-country variance. If we focus on the regression models including data of female respondents only, the between-country difference is responsible for 14 per cent of the total variance in 2005 and 17 per cent in 2010. If we focus on the regression models including data of male respondents only, the between-country difference is responsible for 19 per cent of the total variance in 2005 and 24 per cent in 2010. Thus it seems that the influence of country-level variables, such as Gender Inequality Index and Female Employment Rate, became stronger between 2005 and 2010 in the case of both genders, while the attitudes of men were shown to be affected more by country-level variables than the attitudes of women. Tables 11.1–11.4 provide overviews of the findings deriving from the application of the different regression models.

Labour market model

Within the labour market model, the country-level variable effects highlighted that if the female employment rate is high in a country, then both men and women are more likely to disagree with the statement that men should have more right to a job than women when jobs are scarce. The female employment rate had significant effects on the views of both genders in both examined years. Thus our expectations about the country-level effects of female employment rates seemed to be supported by our results.

The examination of the labour market position of our respondents revealed that in the case of men, neither actual work hours nor desired work hours had significant effects, while in the case of women those who desired to work less than the norm tended to agree more with traditional gender

\(^ {31}\) Bickel 2007.
role attitudes in 2004–2005. In 2010 both women and men tended to agree with more traditional attitudes if they preferred to work less than the work time norm in the given country; in the case of men, it also had a significantly negative effect if they wanted to spend more time at work than the work time norm for men in the given country. Additionally, the experience of long-term unemployment had different effects on both genders. Women who had experience in being unemployed for a long period (at least 12 months) in 2004–2005 were more likely to disagree with the traditional attitudes than others. Among men this experience had the opposite effect in 2010.

Subjective evaluation of their financial situation had significant effects for both women and men in both 2005 and 2010: those who perceived their financial situation as being worse tended to agree more with the traditional attitudes related to female employment.

In accordance with our assumptions on the potential effects of the partners’ involvement in paid work on men, perhaps not very surprisingly the partner’s working time arrangement had a significant effect on traditional views of gender roles only in the case of men. In both 2004–2005 and 2010, those men whose partners worked less than the average work time norm of the given country were more likely to express traditional gender role attitudes than others.

Focusing on work autonomy and flexibility, in 2004–2005 for both women and men ‘soft factors’, such as employment (in)security and the feeling that they can influence their work, had significant effects: those who felt that their employment was insecure tended to agree more with traditional gender role attitudes, and those who felt that they could influence their work were more likely to disagree with traditional gender role attitudes. By 2010 the significant effect of work autonomy disappeared in the case of women, which can indicate that women felt more defenceless than men during the crisis.

Regarding our four control variables, in 2004–2005 and 2010, age, place of living, and educational level had significant effects on the views of both men and women: older people, those with a maximum of lower secondary level education, and those living in villages were more likely to express
traditional views on gender roles than others. In the case of women, having (young) children did not have significant effects either in 2004–2005 or in 2010. However, in the case of men this variable gained a significant effect by 2010: men who had children younger than 13 manifested more traditional attitudes than men not having children younger than 13.

The Crisis Index had a significant effect only in the case of women: those women who were affected by the crisis through their work situation tended to agree less with traditional attitudes. This result is comprehensible because the traditional attitudes towards gender roles can have a negative impact on female employment. In such a period of unemployment growth and rising job insecurity, those women who are already affected by the crisis are more likely to reject traditional attitudes, while those men who are affected by the crisis are less motivated to reject the attitudes which may be of advantage to them.

Sociocultural model

Within the sociocultural model, the country-level variable of gender inequality had significant effects for both genders in both years examined.

Religiosity and attendance in religious services were shown to influence the attitudes of women as well as men towards the traditional direction. Regarding political views in 2004–2005 for both genders, (not too extreme) left-wing orientation had a negative effect on manifesting traditional gender attitudes, while right-wing orientation had no effect at all. However, in 2010 we no longer found any significant effects of political views.

Regarding the control variables, in 2004–2005, age, place of living, and educational level had significant effects on the views of both men and women: older people, those with a maximum of lower secondary education, and living in smaller settlements were more likely to express traditional views on

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32 Political orientation was measured by the following variable: In politics people sometimes talk of ‘left’ and ‘right’—where would you place yourself on this scale, where 0 means the left and 10 means the right? (B23). We recoded this variable into five categories (0–2 left; 3–4 rather left; 5 neutral; 6–7 rather right; 8–10 right) and those who did not answer this question (11 per cent of the respondents; women were overrepresented) were also included as the sixth category (1–left; 2–rather left; 3 – neutral; 4 – rather right; 5–right; 6–not answering). We call ‘not too extreme left wing’ those respondents who belong to the rather left category.
gender roles than others. By 2010 most of these effects remained in the case of women, while in the case of men who had young children (younger than six) the variables also became significant.

As for mothers’ employment, we found significant effects on both genders in 2004–2005: those respondents whose mother worked when they were 14 years old were less likely to support traditional attitudes. The effects of this variable disappeared by 2010 in the case of both genders. This may indicate that effects related to family patterns are losing importance, especially in the context of the recent considerable changes affecting the European labour markets.
## Table 11.1. Women 2005

<table>
<thead>
<tr>
<th>Variables</th>
<th>Empty model</th>
<th>Labour market model</th>
<th>Socio-cultural model</th>
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## Part III: Gender Effects of the Crisis

### Table 11.2. Men 2005

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Conclusion

In the context of European (post)welfare states most international research has focused on division of household labour and participation in paid work in a comparative perspective. However, less attention has been paid to attitudes related to these arrangements, and yet on the basis of previous research, it can be assumed that there is a close connection between attitudes and the actual division of household labour.

Attitudes usually change slowly. However, during more significant social transformations—and the current global economic crisis can be considered as such an event—changes in attitudes, value-orientations, and norms can accelerate. In our present research on the basis of ESS data from 2004–2005 and 2010, we wanted to explore whether any such changes in gender-role-related attitudes could be registered before and during the crisis in the 21 European societies examined.

Our findings show certain changes from both a labour market and a sociocultural perspective: by 2010 those women and men whose work environment allows them to make decisions on the organization and pace of their daily work are much more likely to reject traditional gender roles. While in 2005 three control variables out of four, including age, place of living, education level, and having (young) children, had significant effects on women’s attitudes, in 2010 all of the variables remained significant and having (young) children became significant for men too. Within our sociocultural model between 2005 and 2010, the significant effect of political orientation on gender attitudes disappeared, while that of religiosity and attendance at religious services remained. Within our labour market model, the desired work hour effect remained significant in the examined period. This result seems to be in agreement with Leon Festinger’s theory on cognitive dissonance (1957), stating that people tend to adjust their attitudes to conform to the realities of their everyday lives.

35 If the respondents preferred to work less than the work time norm in the given country; or only in the case of men: if they wanted to spend more time at work than the work time norm for men in the given country.
In the case of men within both models, only a few significant effects persisted between 2005 and 2010. These include the effects of religiosity and attendance at religious services within the sociocultural model, and the effect of partners’ actual work hours within the labour market model.

As for the Crisis Index, we found a significant effect only for women: those women who were affected by the crisis in the last three years through their work situation—by experiencing shortened working time, decreased wages, jobs becoming more insecure, changes in work tasks—agreed less with traditional attitudes stating that men should have priority in the labour market, when jobs are scarce. However, this did not apply to men.

The crisis has had direct effects on the labour market by decreasing the number of available jobs and increasing the unemployment level. However, the crisis has also had important indirect effects: increasing employment uncertainties (when jobs are not as secure as they used to be) and employees have less control over their work than before the crisis. These indirect effects are important because such ‘soft factors’ can also influence the gender role attitudes among men and women. Those who feel that their jobs are not secure are more likely to accept traditional gender role attitudes, regardless of the gender of the respondent. Such a likelihood seems to be a paradox in the case of women, but it may be due to the fact that secure jobs tend to be more important for women than for men36: if they feel that they can lose their jobs at any time, women prefer not to (re)enter the labour market but to exploit other options—for example, remaining at home to raise their (small) children or to nurse their elderly relatives. Similarly, when men feel that their jobs are insecure, they may be more accepting of traditional attitudes in their efforts to decrease the severe competition for jobs.

This study may point to some significant changes in gender related attitudes in the 20 examined European countries between 2004–2005 and 2010, but most of these changes may be seen as being more indirect than direct consequences of the recent economic crisis. For more refined analyses, we would most probably need more refined data, including more reliable crisis indicators.

36 Szalma 2011.
However, a very clear finding of the present research is that gender inequalities play a very important role in shaping gender role attitudes, even during a time of crisis. In both the labour market approach and the socio-cultural perspective that we applied, it was true for 2004–2005 as well as for 2010 that the more pronounced gender inequalities are in society, the more traditional are gender role attitudes of men and women.

References


The financial crisis that began in Iceland in October 2008 has had many and far-reaching social effects. One of these is the impact on gender equality and the social roles of men and women. The aim of this chapter is to give a tentative picture of some of these changes and to try to dissect what can be expected to be more permanent changes in gender situations and what is likely to be reversed when the Icelandic economy recovers. Generally speaking, I believe that one of the changes is a certain polarization among women so that some will move up the social ladder while others will be pushed down.

I see the changes as having three main characteristics. One is that the labour market position of men and women has become increasingly similar in terms of salary and working hours, for example. The second is that women have increasingly moved to positions of decision making—that is, women that were in reality already on the brink of reaching the top, both in politics and on the labour market, have been helped to take that final step in the aftermath of the financial crisis. And thirdly, the crisis and the reactions of the state and the municipalities may have led to a partial backlash regarding the roles of men and women within families. This third effect does not, however, have to be more than a temporary setback, while the other two are likely to have come to stay.

Many classical theories regarding women and economic crisis seem no longer applicable in societies where the labour market participation of both men and women is regarded as the norm, where the sharing of domestic work and the care taking of children among couples has been steadily in-
creasing, and where women have in some ways a stronger foothold in the labour market than men due to their educational superiority. Fréttablaðið, one of Iceland’s two leading newspapers, had two items in the February 4th 2011 issue that illustrate these changes. On the one hand there was an advertisement from one of the banks, Landsbankinn, proclaiming its dedication to social responsibility and listing what it intended to do to be a positive actor in Icelandic society. One of the items on that list was the bank’s intention to have an equal number of men and women on its executive board as well as the boards of its auxiliary firms.¹ So they regarded it as one of the socially positive things they could do in Icelandic society to promote the advancement of women on the labour market or, more specifically, see to it that women are well represented in high-powered jobs where important decisions are taken.

The second news item in Fréttablaðið was a short notice to the effect that one of the municipalities in Iceland was thinking about raising the fees for children in kindergartens and raising the age at which they can be admitted.²

**The labour market**

Two significant gender-related changes have occurred in the labour market during the economic crisis. First, men have been far harder hit than women in terms of employment. In the beginning, the crisis mainly hit the financial sector and the construction and building sector, both dominated by men. Consequently, the unemployment figures for men have been far higher than for women from the start of the crisis right up to the present (2012), as can be seen in Figure 12.1.

It has often been predicted that this would change when the public sector would be forced to lay off employees due to cuts in welfare funding.³ Many more women than men work in the public sector (around 2/3 are women), so cuts would hit women harder than men. So far this prediction has not materialized even though figures show that the great majority of

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² Fréttablaðið 4 February 2011, 2.
³ See for example Ólafsdóttir 2010.
jobs lost within the public sector are women's jobs: 470 out of 540 jobs lost from 2009 to 2011. Still the numbers are very low (about four per cent of the unemployed) and do not change the overall picture. And as the greatest cuts have probably already been made, there seems to be no reason to expect any real change in this field. According to the prime minister’s adviser on gender issues, Hildur Jónsdóttir, the government has explicitly tried to protect women-dominated sectors by, for example, reversing decisions on cuts in the health sector when it was shown that such cuts would lead to job losses for 634 women. Cuts were made instead in public construction work, a sphere dominated by men.

The second important change is that men’s earnings have fallen while no significant reduction in women’s earnings has been registered; consequently, we have seen an unparalleled diminishing in the gender pay gap, which can be seen in Figure 12.2.

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4 Smugan 2011.
5 Jónsdóttir 2011.
In 2008 men’s labour market earnings increased from the year previous by 3.83 per cent, while women’s earnings increased in the same year by a wholesome 7.95 per cent. In 2009 men lost 5.73 per cent of their earnings, whereas women increased their earnings by 0.26 per cent. This is probably due to three reasons: increasing unemployment, shorter working hours for men, and cuts in salaries, particularly among those at the higher end of the income scale, mainly men. This closing of the gender pay gap was somewhat reversed in 2010 but the figures for 2011 are still not available. It appears likely that the gap will widen again but hardly reach the pre-crisis level.

Here it is interesting to see that the gap closed most rapidly in the age bracket 21–40, or by 3.9 per cent, from 2007 to 2010, and a good 3 per cent in the age bracket 41–45 in the same period. These are the age brackets that mainly should be experiencing the impact of the educational revolution among women as well as the effects of the changes in parental leave from 2000. From 2007 to 2008, women increased their labour market earnings in all age brackets more than men did and in some cases dramatically so. For
example, men in the age bracket 31–35 increased their earnings by 2.65 per cent, while women in the same age bracket increased their earnings by 7.86 per cent. And while men in all age brackets up to 65 experienced reduced earnings from 2008 to 2009, only women up to 35 experienced such reductions in the same period—and then only far less than men.

The change is much more pronounced in the capital area than outside it. The gap closed by 0.6 per cent outside the capital from 2007 to 2010, while it closed by 4.6 per cent in the capital area.

So the labour market earnings of men and women have become more similar after the crisis. A similar and closely connected development can be observed regarding other aspects of the labour market. In terms of working hours, men have reduced their hours from 46.3 hours a week in 2003 to 44.1 in 2011, while women have slightly increased their hours from 35.1 to 35.4 hours a week in the same period. In 2003 there was a 7.6 per cent difference in labour market participation in men’s favour. In 2011 this was down to 6.7 per cent. Finally there has been an increase in the number of men working part-time since the crisis began, while the long-term trend in reduction in the number of women working part-time has continued. In 2003, 11.6 per cent of men on the labour market were working part-time compared to 40.6 per cent of women. The figures in 2011 were 13.2 per cent and 35.7 per cent respectively.

The unemployment figures and the figures for the gender pay gap certainly confirm the strong position of women in the labour market. This firm foothold of women is probably based to a certain extent on the vast improvement in women’s education over the last decades. Women constitute the majority of those who have received a university degree since the 1990s; in 2008–2009, they made up 66 per cent of those receiving tertiary degrees. Among Icelanders up to the age of 74, 28.8 per cent of women hold a university degree compared to 21.7 per cent of men. This is much more pronounced among younger people, with over 41 per cent of women aged 25–29 holding a university degree and less than 23 per cent of men of the same age.6

As was to be expected, the gender pay gap has widened somewhat again as the economy has started to recover, but it seems highly unlikely that it will reach the level it was before the crisis. After all, there was a basic trend for a pay gap decrease even though change was slow in the early years of this century’s first decade. And it should be noted that even though the boom was primarily in spheres dominated by men (i.e., in the construction and the finance sectors), it was characterized by stagnation in the area of gender pay gap rather than increase as might have been expected.

In addition, it is unlikely that the gender pay gap will reach proportions similar to those before the crisis because the number of women in (well-paid) positions has increased, a movement that is likely to continue. And changes regarding the situation of families, discussed below, could both increase the pay gap and reduce it. Let us begin with the high-powered jobs.

Positions of power
The crisis changed the political landscape in Iceland. In January 2009, the government was forced to resign after a protest movement of unparalleled proportions in Icelandic history had demonstrated outside the national parliament, Alþingi, for several weeks. The outgoing government was a coalition of the centre-right Independence Party and the Social Democratic Party. An interim minority government of the Left Green Party and the Social Democratic Party took over and elections were held in April. The Independence Party suffered the greatest loss in its eighty-year history, losing a third of its support and receiving only 23.7 per cent of the popular vote. The Social Democrats polled 29.8 per cent and the Left Greens 21.7 per cent, giving the parties enough support to form a majority government. The number of women on Alþingi rose to an all-time high of 42.9 per cent. The interim government was the first ever in Iceland to have an equal number of men and women as ministers and for the first time in Iceland too a woman was prime minister. This set the stage for a number of reforms in a feminist spirit.

The execution of these reforms reflected long-standing demands of ‘radical’ feminists and included such measures as banning the buying of sexual services in 2009 and commercial strip tease in 2010. More importantly, a
law was passed in 2010 to the effect that the percentage of either sex on the
boards of publicly owned companies and on the boards of privately owned
companies with more than 50 employees should be no less than 40 per cent.
For private companies, this is to take effect from 1 September 2013 and will
result in an increase in the number of women in positions of power both in
public administration and on the private labour market.

In 2011 it was estimated that 308 companies were subject to the law.
Of them, 133, or 43 per cent, already fulfilled the requirements, while 175
needed to change the composition of their boards, calling for 217 women
and one man to receive a seat on the boards. The great majority of these
companies (134) only have to add one woman to their board.7 The real
change will therefore perhaps not be all that great, though the symbolic ef-
fect is considerable.

Another indicator that the law on quota in company boards mainly sped
up development already underway is that when KPMG, an advisory com-
pany, surveyed the gender composition of boards in 2011, 75 per cent were
men and 25 per cent women. However, when only those who had been on a
board for one or two years were taken into account, the ratio was 62 per cent
men and 38 per cent women, which may indicate that the number of women
had been increasing as the boards were renewed.8

Even outside the realm of these laws, the number of women in influen-
tial positions has continued to rise. For example, the municipality elections
in 2010 saw the number of women in elected municipal office rise from 35.9
per cent to 39.8 per cent, the highest number so far. Cabinet secretaries are
now shared 50/50 between men and women (up from 30/70 in 2008) and, as
stated in the beginning, one of the banks has promoting the advancement of
women within the bank on its social agenda.

But the changes that have taken place so far, and the changes that will
come once the laws on gender equality in board rooms take effect, should
also be supported by the general tainting of masculinities—and (young)
men—following the economic collapse. The face of the financial bubble was

7 KPMG 2011.
8 KPMG 2011.
mainly that of a male embryo in an Armani suit. After the financial collapse the gendered nature of the debacle has often been pointed out, and Alþingi even commissioned a special ‘gendered reading’ of the investigative report about the causes of the collapse. The report pointed out that the driving actors behind the bubble that led to the collapse had mainly been young, smug and arrogant males spurred on by a neoliberal ideology. So maybe there is a tendency in the population at large to be wary of young (arrogant) business males, though this cannot be proven.

The changes in gendered power relations can also be seen in the board composition of different organizations of employers. In March 2011, The Federation of Trade & Services, the second largest federation within the Confederation of Icelandic Employers (SA), elected a new board with a majority of women and the chairman is a woman. Moreover, in March 2012 The Federation of Icelandic Industries elected a woman as its chairman for the first time in its history. The third of the eight federations within SA with a woman as chairman of the board is The Icelandic Financial Services Association.

The Confederation of Icelandic Employers appoints board members in a number of Icelandic Pension Funds who are major players in Icelandic economy, holding capital close to 140 per cent of the size of the Icelandic economy. The Confederation’s policy has been gender balance on the boards of these funds and now (2013) 46 per cent of those appointed by the Confederation are women.

As for the bank, Landsbankinn, that advertised its commitment to social responsibility, its board is now composed of three men and two women, the executive board has four men and four women, and its affiliated companies have all in all 19 board members, 10 women and nine men.

Thus, resourceful women have been occupying high-powered positions in the economic and political sphere in the aftermath of the crisis, partly

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9 Einarsdóttir & Pétursdóttir 2010.
10 Samtök verslunar og þjónustu 2011.
11 Visir 2012.
12 Samtök atvinnulífsins 2013.
13 Information from the bank’s press secretary 28 February 2012.
helped by the political establishment which has enacted laws on gender quotas on the boards of companies. What about the social situation of other women?

Families

As most other European countries in last decades, Iceland has experienced a general movement towards an increased gender sharing of the joys and burdens of family life. This can mainly be seen in increased sharing of child care both within a partnership and after divorce. So, for example, the number of parents choosing shared custody over their children following a divorce rose sharply once that possibility was introduced into Icelandic family law in 1992 (see Figure 12.3).

As of 2012, almost 90 per cent of divorced parents choose shared custody. In addition, recent studies have shown that in about 25 per cent of divorces, the child or the children live with both their parents on a 50/50
basis. Both these aspects of gender sharing are similar to the development in the other Nordic countries.

The new laws on parental leave from 2000 were a milestone as regards the promotion of the ideal of the father and the mother sharing in the care-taking of their child or children. Parental leave was extended in steps from six to nine months and divided into three equally long parts, one for the father, one for the mother, and one that parents can share as they like. The periods for the father and mother were strictly non-transferable except if either parent died before he or she had used the time allotted. Economic compensation was related to wages so that those who had been on the labour market were entitled to 80 per cent of their salary during parental leave. The law was an immediate success in Iceland with a take-up rate of up to 90 per cent by fathers using on average around 100 days. It can safely be stated that never before in Iceland’s history have so many fathers been so active in taking care of their infants.

But dark clouds began to gather immediately following the economic collapse. As mentioned above, the original laws gave parents on leave 80 per cent of their salary without any ceiling. This was changed in 2004 with the introduction of a very high ceiling, originally affecting 2.6 per cent of fathers and 0.4 per cent of mothers but rising to 8.3 per cent and 1.9 per cent respectively in 2008. Since the onset of the economic downturn, the ceiling has been lowered twice, so that it now affects 45.7 per cent of fathers and 19 per cent of mothers. In addition, payments are now based on 80 per cent of earnings lower than 200,000 ISK and 75 per cent of earnings over 200,000 ISK. However, these changes were accompanied by promises that the cuts were temporary and that once state finances improved the compensation would be brought back to former levels. In December 2012 Alþingi began that restoration by raising the ceiling and deciding to gradually extending the leave so that it would be 12 months in 2016 and divided so that fathers

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15 Gíslason & Eydal 2011.
16 Eydal & Gíslason 2008.
17 Vinnumálastofnun 2010, 33.
18 Stjórnartidindi, law no. 120/2009.
have 5 months, mothers 5 and then they can share 2 months as they like.\textsuperscript{19} Another change in the laws on parental leave in 2008 was the extension of the period within which parents can take the leave, from 18 to 36 months. Because of this we will not know until the end of 2012 how many fathers made use of their rights in 2009. However, there are indications that the number has decreased and that fathers are using fewer days.\textsuperscript{20} And even if the end result would be that their use has not decreased all that much, it seems fair to say that they are to a lesser degree using it in the way that it was supposed to be used—that is, to take care of their infants. Paternity leave taken when the child is 30 months old is quite different from leave taken during the child’s first year with regard to the emotional bonds between the father and the child as well as to the experience of being the baby’s main caretaker. It is not the same to take a day off here and there to help out during a family crisis or just to play, as it is to take several weeks or months off from salaried work to be the main caretaker. It is different from the point of view of family responsibilities and it is also very different as regards the signals it sends to the child and to the labour market.

Moreover, it is difficult to say whether the declining share of men is due mainly to cuts in economic compensation or to a more precarious situation on the labour market as people are now probably more reluctant to do anything that might jeopardize their situation than they were prior to the crisis. Still, it should be noted that surveys before the crisis revealed a somewhat surprisingly positive attitude among employers to parental leave by both mothers and fathers. A Gallup poll in March 2003 showed that even though employers were certainly the social group that was most negative to the laws, 73.7 per cent were still positive.\textsuperscript{21} An extensive study in 2006 found that 80.8 per cent of employers had a positive attitude to the laws, but it also found that more fathers than mothers felt that their job security had been threatened by their taking parental leave.\textsuperscript{22} A study carried out by Auður Arna Arnardóttir in 2008 yielded similar results, with 10.9 per cent

\textsuperscript{19} Eydal & Gíslason 2013.  
\textsuperscript{20} Vinnumálastofnun 2010.  
\textsuperscript{21} Gallup 2003.  
\textsuperscript{22} Jónsdóttir & Aðalsteinsson 2008, 73–74.
of fathers experiencing negative attitudes from their employers and 3.1 per cent of mothers.\(^\text{23}\) When it came to job security, around 15 per cent of the respondents in Arnardóttir’s study thought that they had placed their jobs in jeopardy, but here there was no statistically significant difference between the fathers and the mothers.

Studies done prior to the crisis revealed that parental leave seemed to have had a positive impact on gender equality, so that the sharing of paid and unpaid labour was more equal among first-time parents in 2003 than it had been in 1997.\(^\text{24}\) On the other hand Arnardóttir’s study showed that there had been no change in the division of domestic labour before and after parental leave. However, since studies from other countries have shown that the birth of the first child usually leads to a more traditional division of labour in families\(^\text{25}\), it can be regarded as a plus that this division stayed

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23 Arnardóttir 2008.
24 Eydal 2008.
25 See for example Deding 2010.
the same. Arnardóttir’s study also revealed a general belief among parents that paternity leave had led to a closer bond between father and child, that it had increased the father’s understanding for how much work is involved in taking care of a baby, and that the fathers were happy with the time that they had had with the child.

A strong element in the changes in the gender structure in the Nordic countries in the last decades has been the collectivization of child care. Iceland is no exception, though it has been a laggard in the Nordic family in this respect. But the last few years have seen a change in that respect. Figure 12.4 shows the percentage of children enrolled in kindergartens in Iceland, one of the main aspects of the collectivization of child care.

As we can see, there has been a significant reduction in the proportion of one-year-old children in kindergartens since the beginning of the crisis. This may be due to raised age limits in some municipalities, to increased fees, or simply to a shortage of available places. The last possibility is supported by the fact that between 2009 and 2010 the reduction in the propor-
tion of one-year-old children in kindergartens is exactly matched by an increase in the number taken care of by private child minders (two per cent). But whatever the reason, the reduction means a more precarious situation for the parents, who either have to pay more or simply have to take care of their child themselves, a task usually devolved upon the mother.

But of course kindergarten attendance is one thing and the amount of time a child spends there is another. Here we see an interesting development.

As can be seen in Figure 12.5, there was a steady increase in the number of children enrolled for more than eight hours a day in the period until 2009. From 2009 to 2011 this development came to a halt and was eventually reversed. At least two explanations seem possible. On the one hand, parents made unemployed in the wake of the crisis could pick up their children earlier than before. On the other, and what seems more likely, the changes that many municipalities made in the kindergarten fees meant that kindergartens were less affordable for cash-strapped families.

Prior to 2009, every hour in kindergarten was charged the same. But, as part of their attempts to curb expenses, many municipalities, among them the largest, raised the fee for having children longer than eight hours a day in kindergarten. It is in all probability the effects of this rise in fee which we are seeing in the statistics. Other municipalities simply reduced the hours available and all raised the general fees, some considerably.26

I will completely leave aside the issue of whether it is good or bad for a child to spend so much time in kindergarten and concentrate on the effects this change may be expected to have on gender relations.

If both parents work eight hours and start their working day at the same time, then they need to have their child or children for more than eight hours in kindergarten. They could manage it if they start work at different hours but unfortunately that calls for two cars in most instances and that is somewhat of a luxury after the devaluation of the Icelandic currency (krona) and the steep rise in petrol prises. So it would come down to calculating

26 ASÍ 2011.
if it is worth having the child for such a long time in kindergarten. And if the result is that it is hardly worth it in economic terms, then one of the parents will have to reduce her or his working hours. As Iceland still has the gender pay gap as well as the fact that more women work in the public domain with better employment security than is usual on the private labour market, then it seems a fair guess that it will be the women who shorten their working day or, if they are already working part-time, will not go up to a full working day. This change in labour market affiliation would then mainly affect lower-earning couples.

It is possible that this change might lead to a partial reversal of the trends over the last years—namely, the increased shared responsibility of fathers and mothers for providing financially for the family and caring for their child or children. It is also likely to hit single mothers hard, a group that is already economically very vulnerable in Icelandic society. They rarely have the opportunity to reduce their working hours and so will generally be forced to have their child or children in kindergarten for more than eight hours a day.

So, to sum up, there are indications that some of the responses to the financial crisis, reduction in economic compensation during parental leave and the raising of kindergarten fees, could lead to a reversal of the recent trends towards increased gender equality in the domestic realm. Such responses can also lead to a worsening of the situation of single mothers and therefore a certain polarization among women so that while the better off women move further up the social ladder those in a more precarious position head in the opposite direction.

**Summing up**

What seems to emerge from this discussion is that the crisis has had, and can still have, very mixed effects on gender equality in Iceland. The relatively strong position of women on the labour market is acknowledged. They are far less likely to lose their jobs and while the earnings of men have plummeted, the earnings of women have risen and, consequently, the gender wage gap is at an all time low. This is in part due to political decisions resulting in
few lay-offs in the public sector, but it is probably also due to the educational revolution among women and to changes in the laws on parental leave from 2000, which have had the effect that an increasing number of fathers have been leaving the labour force for a few months following the birth of their child. This last item is highly speculative however.

This is indicative of far-reaching changes in the social situation of men and women. Their labour market situation for example has become increasingly similar and women are in no way a reserve labour army. There seems to be little reason why capitalism should discriminate against women in general (though it has clearly done so), or why it should not be able to cope with gender equality, which certainly does not automatically imply general equality.

In a similar way the financial crash has had a positive effect on the power position of women. Elections after 2008 have brought more women to Alþingi and the municipalities. Women have also increased their share of work positions in the major offices of public administration, as witnessed for example by cabinet secretaries. Politics will also increase the power position of women in economic life as laws guarantee their presence in boards both on the private and the public labour markets. There are also examples of firms that are making a point of increasing the presence of women in positions of power as a way to be seen as socially responsible actors in Iceland.

On the other hand, there are indications that the gains of the last decades in terms of increasing the sharing of domestic tasks between men and women—and particularly the task of caring for young children—may be reversed for a part of the population—namely for those who are financially worse off. Such a reversal would come about because cuts in economic compensation during parental leave seriously affect the way that fathers make use of the leave. But it would also come about because higher costs of having children in kindergartens may lead to mothers cutting down on their working hours or at least not extending them. This last item could also lead to an increased risk of poverty for single mothers.

Taken together, the effects of the crisis can be seen as strengthening the position of those women who were already relatively strong, while cement-
ing traditional gender roles in some families and pushing women in a weak position further down that road. The first effect is likely to be here to stay, while the second may be reversed if the economic compensation during parental leave is returned to pre-crisis level, the planned extension of the leave to 12 months carried out, and a place in kindergarten guaranteed when the leave is over. Then we would see a strong continuation of the movement towards increased sharing of child care and domestic work, which certainly is a prerequisite for continued development towards gender equality.

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CHAPTER 13

Elder care policy in Finland:
Remedies for crisis?

HANNA-KAISA HOPPANIA

Introduction

In 2009 the then Minister of Health and Social Services Paula Risikko described the situation of eldercare services as the biggest challenge facing Finnish society.\(^1\) After the general election in April 2011 the majority of the new MPs agreed that the law should guarantee the elderly a subjective right to care. Subjective right in the Finnish context refers to a strong, unconditional legal entitlement to the service in question. The municipalities are obligated to provide these services.\(^2\) This suggests that there is a strong support for the Draft for an Act to Ensure the Right of Older Persons to Care According to Their Needs (hereinafter the Elder Care Bill\(^3\)) that the Ministry of Social Affairs and Health has prepared.\(^4\)

In the autumn of 2009 the government started to prepare the Elder Care Bill. The work was initiated after the opposition filed an interpellation on securing the rights and care of the elderly, and amid a media scandal about the poor level and quality of care in many care institutions. The scandal erupted when the Parliamentary Ombudsman received reports by the County Administrative Board which revealed that deficiencies in care institutions are rife. The reports described commonplace occurrences of inadequate nutrition and diaper changing, few opportunities for outdoor activities, over-

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\(^{1}\) PTK 84/2009.
\(^{2}\) Hämäläinen & Rokka 2011.
\(^{3}\) ‘Elder Care Bill’ is used in this paper as shorthand for the draft Act; it is not an official title of the bill.
\(^{4}\) STM 2011:68.
medicalization, unjustified use of physical restraints, and shortage of staff, among other things. The reports also gave an account of the insufficient supervision structures of care services. While many of the issues had been a recurrent theme in, for example, newspapers’ letters-to-the-editor pages, elder care services were now officially recognized as lacking in quality and resources. The Ombudsman pointed out that while this was not the case everywhere and many care facilities provided good care, overall the reports remain insufficient and many deficiencies might have been left uncovered.\(^5\)

Generally, the lack of staff and resources is seen as the main cause of inadequate care services. Also, poor administration and ‘technical’ problems of organization and governance—for example lack of expertise concerning the fairly new Public Procurement Act in the context of growing marketization of care—are seen as factors contributing to the problem. In turn, economic constraints and demographic structure cause a lack of resources, particularly as unprecedented ageing in the near future in Finland is putting the Nordic model of the welfare state under considerable pressure. My contention is that the Finnish context offers a fruitful critical case study of some of the trends in social care policies that are common internationally over the past few decades.

In this chapter I investigate the situation of elder care in Finland on the level of political analysis, seeing the recent emergence of elder care provision as a problem of national governance. I search for the subtext and roots for such a scandal in a ‘welfare state’ and examine what is at issue politically when remedies for this situation are sought. What exactly do the MPs support when they espouse a ‘care guarantee’, as the leading national newspaper dubbed it? What is lacking as regards the elder care services in Finland that requires new extensive legislation? And will the Elder Care Bill solve the problems of elder care, or is something else required as well? The nature of the challenges of care is here understood as a question of social justice.

Care has been studied widely in the context of the welfare state, in gerontology, social work, and policy analysis.\(^6\) This literature offers a rich and

\(^6\) See for example Anttonen & Häikiö 2011; Daly & Lewis 2000; Vega 2008; and Dahl, Keränen & Kovalainen 2011.
detailed account of different aspects of care. On a more ideological and theoretical level, care has been developed as an attitude and ethical practice, whereby the vulnerability and codependence of people is acknowledged and responded to. Moreover, feminist research has tackled the gendered structures of (re)production and the public-private distinction that shape the challenges of care. The historical roots of these structures have been examined and critical care ethics have been developed in relation to international relations.

However, more general political analysis of the empirical challenges of elder care seems to be somewhat scarce. The literature on elder care is fragmented, with different dimensions studied separately. Often, for example, the issues of resource distribution on the societal level are disconnected from analysis of the practices of care. Likewise, the national administration of elder care policy in Finland is divided into sections dealing with the ‘contents’ of care services separately from the questions of governance of resources. I argue that these aspects should be looked at together. Research-wise I believe it is worthwhile to attempt to combine the insights of feminist theories of care that have paid attention to both the material and the ideological processes which shape gendered care relations with more mainstream policy analysis.

This chapter proceeds by a short review of previous care research, and then discusses the main trends and challenges of demography and elder care in Finland since the early 1990s. Next, by utilizing a theoretical framework drawn from Nancy Fraser, it analyses the aspects of recognition (sociocultural dimensions), redistribution (socioeconomic dimensions), and representation (political dimensions) of the politics of elder care. Hence, my aim in this essay is to bring together those dimensions of elder care that I deem most relevant politically and which require attention in the context of unprecedented ageing and continuing financial crisis. The Fraserian multidi-
dimensional framework supplies me with the analytical tools to execute this plan. First, however, I present the relevant background information about the demographic structure and elder care policy of Finland. Finally I will argue that certain elements are not properly recognized as factors contributing to or affecting the care crisis, and that these elements require more attention both on the level of research and of policy development. These factors pertain to gender relations, the character and valorization of care (work), the limits of marketization, and the organization of work more widely.

The demographic challenge

By the end of 2008 in Finland, the dependency ratio, defined as dependants per 100 working-age people, was 50.3. The ratio has been at this level since the 1970s. When the ‘baby-boom generation’ retires, the situation will worsen dramatically. According to Statistics Finland predictions, by 2016 the dependency ratio will be over 60 and by 2026 over 70, a level it has never reached during Finland’s independence.11 This prospect is due to a low birth rate combined with longevity. It is notable, though, that regional differences are big.

In this context, immigration, which has increased rapidly since the beginning of this century’s first decade, becomes significant: If Finland were to close its borders and no immigrants entered the country, it would mean that the working-age population would diminish even more strikingly. In this scenario the dependency ratio would be over 75 already in 2027. Thus the demographic structure clearly poses a challenge, and while the same is true of most of the EU27 countries, in the coming decades Finland’s situation is among the worst. However, as the OSF report notes, what these figures show is not necessarily an inevitable development. It only shows how the population will look like, if the current trends continue.

The discourse on the demographic ‘time bombs’ has also been challenged and criticized for legitimating the rolling back of welfare provisions by arguing that current services are not economically viable.12 While I agree that

11 Official Statistics of Finland (OSF) 2009a.
the problems of care cannot be reduced to demography, and that the question is not merely one of economic capability but of political commitment or ‘extension in morality’; I maintain that the sort of elder care scandals discussed above demonstrate that Finland is not really coping with the aging population. I do see the dependency ratio as setting certain parameters for what is feasible policy-wise. Thus it seems that to make wide-scale social services sustainable, either the dependency ratio has to be ‘fixed’, or the way care of the elderly is organized must change significantly. With the simultaneous demands for stronger rights for care services, there are clearly tensions here.

Elder care in Finland since the 1990s

The Finnish constitution guarantees those not capable of providing for themselves the right for indispensable subsistence and care and basic subsistence during old age. It states that ‘[t]he public authorities shall guarantee for everyone, as provided in more detail by an Act, adequate social, health and medical services and promote the health of the population.’ Currently, there is no separate legislation concerning the elderly with regards to social and health care. The applicable provisions to the care of the elderly are found instead within many different laws. The social services in Finland have been built around an ethos of a strong welfare state, universal rights, and public institutions responsible for organizing and providing social services. However, since the deep recession in the beginning of the 1990s, different types of trends have characterized social policy: Significant reforms were started in the 1990s as a response to criticism against public sector inefficiency and bureaucracy. The economic hardship of the time, combined with a turn toward neoliberal politics, reconfigured the welfare state. Cuts in public spending and the suppression of welfare services and benefits were common politics in the 1990s. For example, in elder care the number of places in institutional care residences fell approximately 20 per cent during the 1990s. The 1980s have been seen by many researchers as a turning

13 Hardin 1968.
14 Constitution of Finland, ch. 2, sec. 19.
15 The Elder Care Bill is supposed to come into effect in 2013.
16 Kiander 2001, 94.
point for the welfare state and social policy in most industrialized countries, but in Finland the constraints and limitations on social expenditure and the structural reforms from universality toward means testing and individual responsibility started in conjunction with the depression of the 1990s.\textsuperscript{17} The new public management model and market-oriented mechanisms today prevail in the municipalities, instead of the traditional administrative-legalistic way of running government.\textsuperscript{18}

In a sense, universalist social policies peaked in the early 1990s, and by 2010 Finland seems to be approaching the form of a liberal welfare state, as some Finnish researchers argue.\textsuperscript{19} The European Union’s role in these developments has been considerable, as Finland is committed to EU directives on public procurement and has started to follow the principles of international competition. The Public Procurement Act came into operation in 1994, transforming the social and health care sector. Many reforms and transformations of social service provision are still underway, such as a general reform of the social welfare legislation. To give some indication of the magnitude of these changes—for example in social services—private business has grown almost fivefold between 2000 and 2009, both in terms of personnel and revenue.\textsuperscript{20}

Thus the elder care problems and scandals emerge not only from the challenges of the demographic situation but also from the pressures of tight budgets, problems and scandals which have escalated since the global financial crisis of 2008 amid a whirlwind of reforms. A specific law as a solution to the problems of elder care is not a new idea though: a draft act concerning elderly services was first presented in the 1970s.

The Elder Care Bill that is currently under preparation strengthens the rights of the elderly for an evaluation of service need and for receiving the services required. The bill also brings together different laws and regulations concerning the elderly. There is a shift of focus toward preventative services to improve health and viability, and a strengthening of the leverage of the

\textsuperscript{17} Kiander 2001, 86–87.
\textsuperscript{18} Moisio, Loikkanen & Oulasvirta 2010.
\textsuperscript{19} Anttonen & Häikiö 2011, 16–17.
\textsuperscript{20} Ministry of Employment and Economy 2011.
elderly in matters concerning their own life. The only direct measure in the draft bill to assure the quality of caring is an individualized responsibility of care workers to inform the authority in charge of any defects, or evident threats of defects, in the care services.

Recognizing, redistributing and representing care

Fraser’s terminology of recognition, redistribution, and representation offers normative and analytical tools to make sense of complex social issues. While Fraser develops her ideas mainly on a theoretical level, her framework lends itself to analysis of actually existing cases and practical care politics too, as for example Hanne Dahl has shown. I share Dahl’s appreciation of Fraser’s framework as it ‘bridges traditional dichotomies between the socio-economic and the socio-cultural aspects of justice that have too often been analyzed independently’. The framework distinguishes analytically different dimensions of a given issue, and emphasizes the need to examine these intertwined aspects together.

According to Fraser, recognition refers to social relations and the acknowledgement and valorization of, for example, identities hitherto denied or deemed worthless. To seek recognition means aiming for social status and respect. Calls for recognition require changing cultural or symbolic value patterns, understandings, and meanings. Redistribution relates to goods and burdens, such as income and property. Demanding redistribution means demanding adequate pay and access to different socioeconomic goods. Representation, or the specifically political dimension, pertains to membership and procedure. It deals with inclusion and exclusion from the entitlement to make justice claims. It also concerns the operation of public procedures and processes within which political demands are raised. The purpose of analysing care in terms of separate dimensions is to pinpoint the different elements that factor in the ‘elder care crisis’ with somewhat different logics, but interdependent effects.

22 Fraser 2008.
Recognizing the role of care(-givers)

For a long time now recognition has been demanded for care work and other informal domestic work within the household as the international debates on the ‘family wage’ or, for instance, on childcare allowances indicate. In Finland remuneration for informal care work is granted in the form of universal public support for long child-care leaves. There is also an allowance for family caregivers of other dependents, but it is granted neither extensively nor consistently. The Association of Care Giving Relatives and Friends is now demanding recognition of the largely unpaid family care of the elderly as it is the principal form of elder care in Finland. In their statement on the Elder Care Bill, the Association asserts a need to consider the role and importance of family care and to invest in family caregivers. In its current form the Bill does not mention family care.

The significance of family care and informal care extend beyond the privacy of the family. Obviously, if people manage to take care of their elderly family members at home, it is (or at least appears to be) a cheap arrangement from the point of view of the municipalities. In fact, the role of informal care and family care has been strengthened by a reform of the Informal Care Act in 2006. Although by law people have no obligation to provide care for their disabled, long-term ill or elderly family members or relatives, in practice over 300,000 people (approximately 6 per cent of the total population) are doing so. Of these informal caregivers, 75–80 per cent are women, and only a minority receives the carer’s allowance. The significance of care relations and a wider acknowledgment of care (receiving and giving) as an integral part of social life is absent from the current social and elder care policy. The disconnectedness of care from other policy and decision making is problematic as it causes difficulties for individuals and families struggling with lack of adequate support for care. But furthermore, the indirect societal costs of care do not figure in the current policy although research suggests they should. For instance Peggie Smith has noted that elder care’s hefty eco-

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23 See for example Fraser 1994; Hiilamo & Kangas 2009.
24 Omaishoitajat ja Läheiset-Liitto ry 2011.
nomic price tag extends indirectly to employers. She points to initial research that indicates that care giving for elderly takes a tremendous toll on worker productivity, and names elder care ‘The Work-Family Issue of the 21st Century’. This is a pivotal point to consider, especially in the context of Finnish politics where one general aim—and an OECD recommendation—of work and pension policy is to increase the length of working life.

However, a considerable amount of elder care work is now formal and provided within state institutions and (increasingly) in the market. And it was precisely formal care that came in for criticism in the media scandal in 2009. As a particular form of labour, the idiosyncrasies of care seem to lack proper recognition. Hanne Dahl has elaborated the intricacies of care work in the context of the Danish home helpers’ situation. Her analysis reveals a pattern of disrespect for particular features of care-giving work, and she argues that the ‘field of elderly care is colonized with a foreign, Fordist production-oriented logic’. In Finland similar trends are visible and become concrete—for example, in the acute shortage of nurses and practical nurses in social and health care services. The Union of Health and Social Care Professionals has stressed that increasing the number of students in nursing does not solve the problem as 30,000 nurses and practical nurses are currently working in other trades than nursing in Finland. Hence it is essential to increase the appeal of the caring professions. Research suggests that wage alone may not sufficiently increase the appeal and that other elements such as contractual and working conditions play an important role as well. It is the affective elements, the ethical attitude and practice that caring requires, and the associated ambivalences that make care resistant to the frame of paid work and cause stress for care workers in understaffed and inadequately resourced institutions. Recognition in the form of good working conditions for professional caregivers is thus demanded for caring as a specific type of work. This is one aspect of care that is mostly ignored in the national elder care policy.

26 Smith 2004.
28 Tehy 2010.
29 Kankaanranta 2009.
30 Mol 2008; Vega 2008; Austin 2009.
The specificity of caring complicates family caring too. As Smith notes, elder care contributes to work-family tensions not only because of insufficiencies in formal care but also because it involves activities that do not lend themselves to outsourcing.\textsuperscript{31} Similarly, the need for recognition of certain aspects of care becomes clear in Laura Kalliomaa-Puha’s research on the trend of growing contractualism in the social sector in Finland. She points out that contracts are becoming the main tool through which responsibilities and public relationships are channelled.\textsuperscript{32} Both contracts between public and private firms, and between organizations and private citizens, such as care contracts with family members of those needing care services, are ever more common. The consequences of client contracts are problematic and contradictory, according to Kalliomaa-Puha. The potentially emancipatory freedom of negotiation can lead to the displacement of the weakest, as contract law presumes that contracting parties are autonomous individuals capable of deciding for themselves. Demands of contracting are quite high and client’s negotiation and self-presentation skills are vital. The danger is that the weakest cannot formulate or justify their needs in contractual terms, or they tend to agree to these terms too much. Kalliomaa-Puha calls for good procedures with efficient legal safeguards if we do not want the social services only to be for the contractually fittest.\textsuperscript{33}

Feminist theory explains many of the challenges discussed above as springing from the history of the gendered division of labour. Fraser argues that care has not been accordingly valorized because of its associations with the feminine sphere of life—namely, the private and the domestic. Androcentrism, the authoritative construction of norms that privilege traits associated with masculinity, goes together with cultural sexism to create and perpetuate the pervasive devaluation of things coded as ‘feminine’.\textsuperscript{34} As a devalued practice, care has been misrecognized and remained largely invisible, with much of what it entails and requires left unacknowledged.

\textsuperscript{31} Smith 2004, 378.
\textsuperscript{32} Kalliomaa-Puha 2007, 344–345.
\textsuperscript{33} Kalliomaa-Puha 2007.
\textsuperscript{34} Fraser 1997, 19–20.
In the discourse on elder care policy the gendered nature of the challenges of care disappears from view. The ministry policy reports fail to mention gender or discuss the gendered impacts of care policy, although care work is still placed heavily and squarely on the shoulders of women. Informal and formal care workers are overwhelmingly women. Understanding the entanglements of informal care with the realm of paid work and the gendered character of care relations is necessary for a proper recognition of care and for the successful and just reorganization of social care practices and institutions in turn.

Redistributing the costs of care

Examples of injustice in terms of redistribution include exploitation, economic marginalization (being confined to undesirable or poorly paid work or being denied access to income-generating labour altogether), and deprivation (being denied an adequate material standard of living). What demands of redistribution could be raised along with claims for recognition for care? Care is costly in a number of ways: it requires resources, time and money. What are the real costs of care? And how is the price of care determined? Finnish elder care policy currently emphasizes the right of the elderly to live at home for as long as possible. This is partly due to the perception of institutional care as the more expensive option. However, a recent report by the National Audit Office of Finland revealed that home care is not necessarily always the most cost effective way of organizing care services, nor the most humane. According to the report, neither the Ministry of Social Affairs and Health nor the municipalities have a proper conception of the total costs of home care.

If the prices of formal care services are already challenging to calculate, the monetary value of informal care is even more difficult to evaluate. What is clear is that the Finnish Family Care Allowance, which is paid out as compensation for taking care of a family member (typically round-the-clock and

35 THL 2009; Official Statistics of Finland (OSF) 2009b.
36 Fraser & Honneth 2003, 13.
37 National Audit Office of Finland 2010.
with little free time), is way below the price of care in 24-hour care homes. In a comparison from 2004, the gross cost of the Family Care Allowance for municipalities was 750 euros per month, whereas the price of institutional care ranged from 2000 to over 3000 euros per month. And as already pointed out above, the work-life balance is also affected by the dynamics of care and can have considerable monetary costs. The current policy of hybrid support systems for informal care and care at home, in the form of the Care Allowance and for example service vouchers, ‘represent[s] diversity rather than uniformity and equal treatment that were typical to the old governance of public sector provision’.

But distributing the monetary resources for care in novel and innovative ways, while possibly advantageous in some contexts, neither solves the overall imbalance in the demand and supply of care, nor succeeds in overcoming the fact that some elements of care work are perhaps impossible to mould into calculable units that can be bought and sold.

The plan for the new Social Welfare Act in Finland is to focus on the content and coverage of the services, and things such as financing, procurement, personnel policy, and monitoring are left out, as they are largely left out of the Elder Care Bill. These issues are dealt with separately by a working group whose task is to prepare a reform of social and health care legislation concerning organization, development, and supervision. The costs of social and health care services make up over half of the expenditure of municipalities. Elder care services form a significant part of these expenses. The main financial sources are state and municipal taxation, mandatory and optional insurance charges, and employer and client payments. For elder care, municipalities finance 80 per cent and households 20 per cent through taxation and client payments respectively. The financial situation of municipalities has been chronically tight. The municipal tax rate has risen annually and the loan stock has grown 2.5 fold within the last 10 years. Municipal

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38 Salanko-Vuorela 2006.
40 STM 2011: 7.
expenses are approximately 40 per cent of all public sector expenditure.\textsuperscript{42} The ministry report on these issues states that ‘without raising the productivity of basic services and stopping the growth and reducing the municipal statutory responsibilities … we’ll end up with a negative trajectory and big increases in taxation.’\textsuperscript{43}

So while one working group drafts an Act giving the elderly strengthened rights for care services (which would inevitably increase the need of personnel), another group declares a need to reduce municipal responsibilities. When it comes to making these services more efficient, there is a limit to how much more productive the municipalities can become, as the services in question are very labour-intensive. In any case, the challenge of elder care is clear: on the one hand recognition of the need and right of care services; on the other a clear lack of resources to make these rights a reality.

Representing and framing elder care
Care concerns us all, as past, present or future care recipients or caregivers, and as citizens entangled in the relations of care that have an impact on society and the economy in many direct and indirect ways. How then should care issues be politically framed?

In Fraser’s terminology, representation concerns the nature of the state’s jurisdiction and the decision rules by which it structures contestation.\textsuperscript{44} Fraser argues that the dimension of representation is especially crucial in the context of globalization, which has called into question the boundaries of political community, traditionally taken for granted to be the national citizenry. Today, however, many social processes shaping people’s lives overflow territorial boundaries.\textsuperscript{45} Hence arguments about justice today also concern meta-level questions about the proper frame within which to consider first-order questions of justice and the relevant subjects entitled to a just distribution or reciprocal recognition in any given case.\textsuperscript{46}

\begin{itemize}
\item \textsuperscript{42} STM 2011:7, 21.
\item \textsuperscript{43} STM 2011:7, 22.
\item \textsuperscript{44} Fraser 2008, 278–279; Fraser 2008b, 18–20.
\item \textsuperscript{45} Fraser 2008, 280–282; Fraser 2008b, 13.
\item \textsuperscript{46} Fraser 2008, 280–282; Fraser 2008b, 26.
\end{itemize}
In Finland the frame is a matter of dispute first of all within the state, as the overlapping state and municipality levels of governance affect the practices of care. As the municipalities that are responsible for providing social care services have not managed to fulfil their duties in a satisfactory manner, claims concerning elder care are now made on the national level. Thus the municipal borders, but also the different levels of administration from local to European to global level, affect the practices of care. The transformations of these borders are significant from the point of view of the rights of citizens for social services.\(^{47}\)

Who is entitled to make demands and claims concerning care, and through what political institutions can these claims be articulated? In preparing the Elder Care Bill, the Ministry of Social Affairs and Health heard many actors and parties in the process of its work, including, for example, representatives of family carers. It remains to be seen whose voices are taken into account in the final version of the bill\(^{48}\). It is notable, though, that currently the bill deals almost exclusively with the rights and status of the care receiver (the client). The challenges of informal caregivers are left out, and the assumed care receiver is (implicitly) constructed as a consumer of services who has the capabilities to make demands and informed choices. Care as a material and ethical relation fades from view.

Similarly, the effects of EU policies on the reality of elder care in Finland remain to be evaluated.\(^{49}\) The reach of the politico-juridical duties and entitlements of elder care is now being transformed, and attention should be paid to the transnational dimensions of care relations too. Some care companies are already bringing in nurses from abroad as a calculated policy to fill the lack of Finnish care workers. The rights of migrant workers and their transnational family members, in particular their entitlements to social welfare, is yet another factor to consider. In fact, controversies have already risen as to the status and right to care of immigrants’ elderly family members. Alluding to these ‘global care chains’\(^{50}\) serves to highlight the fact

\(^{47}\) Kuotola 2009.
\(^{48}\) The final version of the bill came out in late 2012. Due to restrictions of time and space, it cannot be discussed here.
\(^{49}\) Cf. Mahon 2002.
\(^{50}\) Yeates 2011.
that care is also a global question and requires attention in the context of international relations too.

The complexities of care

Greg Marston has argued that ‘positivist approaches to policy analysis have failed to address the way in which policy language constructs welfare identities, legitimates policy interventions and functions as an important site of ideological struggle over the meaning of human services within the welfare state.’\textsuperscript{51} By applying a Fraserian three-dimensional analysis, I have attempted to address the different important aspects of elder care policy. I have pointed out factors that, I would argue, require more attention in the analysis and development of elder care policy—namely, the role and importance of informal and/or family care and its relation to paid work; the affective elements and the gendered nature of care (work); care’s transregional and transnational dimensions; and the limits to contractualism and consumer orientation in care relations.

If we commit ourselves to a society with extensive care rights, we need to think of how to arrange our society in such a way that this is possible in practice, given the budget pressures and the demographic structure. Yet the current policy concentrates on preventative measures and regulations vis-à-vis the procedures by which care services are to be organized. An abstract right (for care services) is recognized, but no corresponding redistribution of resources is delineated. The legal-bureaucratic discourse articulates care relations in terms of ‘services’ and ‘rights’, producing meanings saturated by an ideology of commodification of human relations and regulatory governmentality aiming for administrative efficiency. It presents the issue of elder care in terms of local procedural issues and demographic structure. It emphasizes procedural fairness but says nothing of the (highly gendered) distributive patterns of care labour, formal or informal. Also, the communal elements of care disappear from view. The subject and object of care policy is an individual. \textit{His} resources to prevent his care needs from escalating are aimed to

\textsuperscript{51} Marston 2000, 349.
be improved and his individual right to services is guaranteed. The informal resources of care provision—namely, the care that people provide in their social networks in their day-to-day life—remain invisible, get no recognition. I would argue that we should instead construct elder care policy as requiring not only new legal regulation but (transformative) social change too.

As other chapters in this volume discuss, the currently unfolding crises and struggles over welfare emanate from the failures and internal contradictions of expanding neoliberal capitalism. Thus the renewal that is called upon, and that is in a sense made possible by the rupture of the present crisis, would require a reorganization and even a constraining of further market expansion that only functions in terms of monetary value. ‘The logic of care’ is in many ways incompatible with the ‘logic of choice’ inherent in the market.\(^{52}\) However, as I have emphasized in this chapter, care as work and as ethical practice cuts through the divisions of public and private, in many ways affecting our (working) lives. Discussing the dimensions of recognition and redistribution, I explicated the ways in which care encompasses multiple interdependent elements; finally, in terms of representation, I pointed to the many possible subject positions and sites of political contestation in relation to care provision. My analysis suggests, then, that care has to be properly understood not only as a multifaceted, relational practice and an intrinsic part of human life, but also as a contingent site of political struggle.

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\(^{52}\) Mol 2008.


Hom, Sabrina (2009) *Antigone’s Lament: Care, Death and Subjectivity in Hegel and Irigaray.* Stony Brook: Stony Brook University.


STM 2011:68 Press release of the Ministry of Social Affairs and Health, ‘A law to ensure the right of older persons to care according to their needs.’ Helsinki: Ministry of Social Affairs and Health.
Part IV

POLITICS OF RECONSTRUCTION
In the wake of the post-2007 financial crisis Australia’s former Prime Min- 
ister Kevin Rudd declared ‘the great neoliberal experiment of the past thirty 
years has failed, that the neoliberal emperor has no clothes’.¹ US presidential 
candidate Barack Obama proclaimed it was ‘time to change America’.² Even 
New Zealand’s Prime Minister John Key acknowledged some of his former 
finance industry colleagues had shown a ‘recklessly complacent attitude to 
risk’ and suggested that ‘lead economies should consider whether monetary 
policy, fiscal policy, and prudential policy should be more counter-cyclical.’³

There was a fleeting moment when the mantra ‘there is no alternative’ 
(TINA) seemed vulnerable. Yet neoliberalism has proved remarkably resil-
ient, at least in the global North. Limited re-regulation of financial markets 
has failed to tame the dominant players, who are unrepentant and resurgent. 
Policy decisions seem driven, more than ever, by the need to maintain in-
vester confidence and avoid downgrades by the same private credit rating 
agencies that gave toxic collateralized debt obligations a triple-A rating.

Countries that were deeply affected by the global financial crisis, with 
the exception of Iceland and (ironically) the US, have responded to the bur-

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¹ Rudd 2010, 85.  
² Obama 2008.  
³ Key 2008.
dens of recession and debt-funded bailouts with a reinvigorated programme of fiscal austerity, privatization, labour market deregulation, and cuts to social safety nets and education spending, irrespective of the human costs and longer-term damage to the nation’s social and economic infrastructure.

The strategies ‘of the 1 per cent, by the 1 per cent, for the 1 per cent’ have provoked local and international resistance, but with no discernable impact to date on the prevailing orthodoxy.

That response is not confined to the epicentres of the crisis. In New Zealand, hailed during the 1980s and 1990s as a model for the world, there is complacency that the global financial crisis was an episodic event brought on by greedy bankers in the United States and profligate governments in Europe. That illusion feeds a pervasive—although not universal—belief that, despite a recession and contrary to the early rush of blood, there is no need to rethink three decades of neoliberalism. Instead, the current government has used the crisis to justify a further radical cycle of fiscal austerity, privatization, light-handed regulation, and foreign investment, claiming this is essential to stave off future financial and economic instability.

This chapter asks why the neoliberal paradigm appears to be so effectively embedded in the richer parts of the world that it can survive the contradictions of a massive crisis in the global financial system. Is it that governments since the later 1970s have, emulating Ulysses in Homer’s iconic poem *Odyssey*, agreed to tie themselves to the mast of neoliberalism so they can resist the siren calls of the democratic constituencies in ways they cannot, or do not want to, escape? Or is there the prospect of a ‘double movement’ that sees people react against and transform the market paradigm, in the manner of Karl Polanyi’s ‘great transformation’?

The first section highlights the way that neoliberalism has constructed, legitimized, and sustained the shift from advanced industrial capitalism to an intrinsically unstable alternative where finance and credit are the principal sources of wealth creation—referred to as ‘financialization’.

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4 Kelsey 2003, chapters 2 and 3.
5 English 2012.
Using New Zealand as a case study, the article then links the material aspects of financialization with the regulatory framework of neoliberalism, or its ‘economic constitution’. On one hand, the individual elements have an internal logic and coherence, and collectively constitute a potent bulwark of ‘embedded neoliberalism’. Although conditions in New Zealand are very different from Europe or the United States, and closer to Iceland, these embedding mechanisms are very similar. On the other hand, intrinsic contradictions are apparent in both the regulatory regime and financialization itself. When the economic model is in crisis, cracks emerge in its support edifice. To date, however, these fractures have been isolated and contained.

The conclusion asks what it would take to achieve a genuinely progressive post-neoliberal paradigm, and urges a more sophisticated and forensic understanding of embedded neoliberalism and its relationship to financialization as a prerequisite to an effective transformative strategy.

Rethinking neoliberalism

Early critics of neoliberalism, including the author, commonly focused on the Washington Consensus policy platform of deregulation, privatization, trade liberalization, tax cuts, fiscal austerity, the rollback of social welfare, and labour market deregulation. By focusing on who, what and how, they often ignored the dynamic relationship between neoliberalism and the shift in form and social relations of capital accumulation since the 1970s. That limited perspective was reinforced by linear accounts of the transition from the Washington Consensus to the Third Way and the post-Washington Consensus, echoed by critics. This approach failed to problematize the contradictions of neoliberalism that have repeatedly forced its reinvention and rescued it from a terminal crisis.

More recently, critics have challenged the dominant narrative of neoliberalism that depicts the withering of the state through limited government and self-regulating markets. This ignores the state’s active role in re-
constructing national and international regulatory arenas and repositioning the state apparatus to favour capital ahead of the social. David Harvey points to a radical reconstruction of the state-finance nexus through national and then international deregulation of financial operations, the liberation of debt financing, the opening of the world to heightened international competition, and the repositioning of the state apparatus with respect to social provision.  

Critics have also tended to analyse neoliberalism at either a meta-level, such as Harvey, or in silos, such as monetary and fiscal policy, free trade, labour market deregulation, privatization, or welfare retrenchment. Both approaches underanalyse how the regulatory and institutional regime serves financialization and the cumulative and interlocking effect of its individual components. As a result, advocates for a post-neoliberal paradigm, such as neo-Keynesianism, underestimate the obstacles that this deeply embedded regime will pose to a post-neoliberal realignment.

Stephen Gill offers one way to confront these various shortfalls, using the notion of ‘disciplinary neoliberalism’—which he describes as a ‘discourse of political economy that promotes the power of capital through extension and deepening of market values and disciplines in social life, under a regime of free enterprise’. This approach is a synthesis of two analytically distinct elements: the social structures of accumulation (financialization) and the regime of accumulation that facilitates and stabilizes those structures.

This chapter expands on Gill’s framework by developing the concept of ‘embedded neoliberalism’ as a way to explain the resilience and potential fragility of the neoliberal regime of accumulation. The term conveys the cumulative effect of a set of organizing principles, instruments, and institutions for neoliberalism. Each element can be separated for analytical purposes, revealing its particular contradictions. Collectively, however, they constitute a regime so extensive, coherent and integrated that it cannot be transformed through a regulatory reordering that targets isolated elements.

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10 Harvey 2005.
12 Gill 2002, 47.
Even when there is a crisis in the social structure of accumulation, the regime erects barriers that are designed to protect the neoliberal paradigm.

‘Embedded neoliberalism’ is used here in a very particular sense. It is not simply adding a ‘neo’ to John Gerard Ruggie’s notion of ‘embedded liberalism’, coined to describe the international institutions and treaties that drove the Post World War II international economic order. Ruggie argued that shifts in underlying ideational, political, social and material conditions explained the prevailing sense of the legitimate social purpose for which the state can exercise power. Following the failure of the laissez-faire era, the postwar regime recognized the state had a role in mediating between markets and society in pursuit of multiple objectives, embodied in the Keynesian welfare state. Ruggie’s constructivist approach has explanatory power. However, it does not critically address the relationship between the regulatory regime and the prevailing mode of accumulation, or how contradictions in each can generate fractures, resistance, and transformation. Ruggie’s embedding mechanism is also limited to the subset of international institutions and agreements.

Philip Cerny describes ‘embedded neoliberalism’ as superseding Ruggie’s ‘embedded liberalism’, constituting ‘a kind of common sense for the 21st century’. The combination of ‘free-market liberalism, arms’-length regulation, institutional flexibility and international openness’ provides a ‘relatively manipulable and fungible platform’ where diverse actors can adapt it as they will. This embedded neoliberal consensus means that alternatives proposed, even by the left, involve evolution and reinvention within the neoliberal paradigm.

By contrast, ‘embedded neoliberalism’ is used here as tool of critique. It identifies a regime of national and international instruments and institutions with a common, driving objective: to sustain the current mode of wealth creation by finance and credit. In diverse and complementary ways, its different elements constrain the state from regulating capital, labour, natural resources, and information in pursuit of non-market or social ob-

14 I first used the concept in relation to monetary policy in the European Union in Kelsey 2003.
15 Ruggie 1982.
jectives. They achieve this through highly technical and seemingly neutral legal instruments that attain a quasi-constitutional status. Nation states are relegated to a self-limiting and ‘enabling’ role vis-à-vis capital within an increasingly sterile spectator-style of democracy; the responsibility to govern is entrusted to political leaders and their appointees, technocrats, and ‘voices of the market’. The architects of embedded neoliberalism assume, like Cerny, that this regime, unlike its precursors, will endure for time immemorial. But the intrinsic contradictions of its constituent elements, and of financialization itself, render the regime potentially fragile and unsustainable. The conditions under which a post-neoliberal transformation might occur become a serious matter for intellectual engagement.

The meaning of ‘embedding’ is also quite distinct from Karl Polanyi’s use of ‘embeddedness’ to challenge the illusion that the economy can ever be autonomous. While there was an economic theory of self-regulating markets, the human economy is always enmeshed in economic and social institutions. As Greta Krippner points out, Polanyi barely used the term ‘embedded’, despite its elevation to iconic status, especially in economic sociology.\(^\text{17}\) It was shorthand for Polanyi’s warning against reductionism. That understanding of the economic as intrinsically social informs this analysis, but ‘embedded neoliberalism’ is a quite different theoretical construct.

Social structures of accumulation

From the 1970s the ‘centre of gravity of the capitalist economy’ in advanced industrialized countries shifted from production to finance\(^\text{18}\), as industrial production relocated to countries with lower-cost emerging economies. The profitability of increasingly de-industrialized, service-centred economies came to depend on the contradictory combination of falling real wages and increased consumption, with profits generated from FIRE (finance, insurance, and real estate) bridging the gap. Governments came to rely on capital markets to finance their own deficits and private sector debt, and to provide credit that maintained the purchasing power and standard of living of

\[^\text{17}\] Krippner 2001.
\[^\text{18}\] Foster & Magdoff 2010, 13.
wage-stagnant households. As a result, highly leveraged economies became especially vulnerable to financial volatility and the ‘spillover effects’ of deleveraging by foreign wholesale funders during financial crises.

New Zealand is a prime example. Public debt was almost eliminated through fiscal austerity in the 1990s and the first decade of the twenty-first century, but it was replaced by massive private debt. As of March 2008, official New Zealand government overseas debt was only 10 per cent of GDP, but corporate sector foreign debt was 115 per cent and later peaked at 126 per cent of GDP in March 2009. By December 2011, government debt had risen to 21 per cent of GDP as a result of recession, limited stimulus packages, and bailouts after more than 50 barely regulated finance companies collapsed (unrelated to the global financial crisis); corporate sector debt was still 105 per cent of GDP.\(^\text{19}\) The commercial banks were heavily exposed to short-term commercial paper that depended on readily accessible refinancing. Despite steps by the Reserve Bank to reduce that exposure, New Zealand’s Australian-owned banking system remains reliant on rollover credit in offshore financial markets. Even the IMF observed in 2012 how this leaves New Zealand highly vulnerable to offshore crises.\(^\text{20}\)

It is not just New Zealand’s government, financial institutions, and commerce that are structurally dependent on financialization—ordinary people and households are too. Real household incomes of lower and middle income groups dropped dramatically between 1985 and 1995.\(^\text{21}\) Successive governments abandoned the commitment to full employment and promoted a de-unionized, competitive labour market. Real wages in New Zealand fell by 25 per cent from their peak in 1982 to the mid-1990s and never recovered, despite productivity increasing by 80 per cent between 1978 and 2008.\(^\text{22}\) Skilled workers migrated to higher-wage economies and were replaced by low-wage immigrants, keeping levels suppressed. Real income growth for middle classes since 1995 accounts for a recent slight decrease in overall income inequality.

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\(^\text{19}\) Reserve Bank of New Zealand (n.d.b).
\(^\text{20}\) IMF 2012, esp. 62.
\(^\text{21}\) OECD 2008.
\(^\text{22}\) Treen 2009.
Severe cuts to social welfare benefits in the 1990s were compounded by a punitive differentiation between beneficiary households and those in low-paid work in the new century’s first decade. At the same time, an unprecedented income gap opened between workers and management. Since 1985 the distribution of earnings has widened by 22 per cent, compared to the OECD average of 15 per cent. Capital income in particular has become more unequally distributed at a faster rate than in most OECD countries. Further regressive realignments of income and consumption taxes were introduced in 2010. Income inequality in New Zealand is now among the highest in the OECD, despite having plateaued in the first decade of the century.

Households have sustained their consumption and expected living standards by borrowing either to generate wealth from the property market or, for those on lower incomes, simply to pay the bills. As a result, debt is integrated into the fabric of people’s daily lives in ways it never used to be. Outstanding total household debt has increased more than six-fold in dollar terms since 1990, peaking at 180 per cent of households’ disposable income in 2008. As of December 2008, 92 per cent of household debt was housing debt, with interest costs of servicing the debt as a percentage of incomes 50 per cent higher than 1990. Anecdotal evidence suggests many poor households are prey to loan sharks that successive governments have been reluctant to regulate, while higher income earners are overexposed to excessively leveraged finance. Added to mortgage and consumer credit are new forms of debt associated with privatized education and purchase of private pensions.

This snapshot illustrates the structural dependence of New Zealand’s domestic economy and quality of life on the survival of financialization. Even without a financial crisis, the economic model seems unsustainable for a significant section of New Zealand society whose socioeconomic well-being has suffered a relentless long-term decline.

24 See OECD 2008.
25 Reserve Bank of New Zealand (n.d.a).
New Zealand: the exemplary neoliberal regime
The disciplinary effect of financialization on governments and people helps to explain why international and national responses to the global financial crisis have re-stabilized and partially re-legitimized an accumulation model that fails. However, its resilience is not due to material conditions alone. Since the late 1970s, neoliberalism has constructed, normalized and sustained that economic model. Ideology and sociocultural expectations helped create that hegemonic platform. This chapter focuses on a less well-understood factor: an evolving complex of regulatory mechanisms, each with discrete functions and internal contradictions, which explicitly aims to embed the neoliberal paradigm in perpetuity.

The details of this regime evolved over time, but the objectives remained consistent and clear. The architects of structural adjustment stressed the need to initiate the process of economic transformation, and then to consolidate it through a coherent policy, regulatory and institutional regime.26 This was a conscious political project. Analysing the same process from a critical perspective, Gill describes how it sought to lock in the gains of capital under neoliberalism and lock out or depoliticize the forces that challenge it.27 The state apparatus was reconfigured so that government facilitates, and operates within, market values and disciplines, and is insulated from pressures from below in doing so. New markets were constructed and protected by laws that prevent national interference with property rights. States guaranteed the unimpeded entry and exit of mobile capital. Ameliorative measures dealt with dislocations and ‘externalities’ generated by the purportedly self-regulating market order, especially in relation to labour and natural resources. The risk that electoral democracies could pursue a different paradigm created demand for supra-nationally enforceable international economic treaties that accord primacy to capital and intrude progressively deeper into the domestic policy domain.28

28 Schneiderman 2000.
Successive New Zealand governments revelled in the kudos of being a world leader in devising such arrangements, especially from the 1980s to mid-1990s.29

*The State-owned Enterprises Act 1986* created a generic framework to re-define government operations, such as electricity, telecommunications, and forestry, as commercial enterprises and to require them to operate as successful businesses, subject to private sector governance, management and employment practices. In theory they could be contracted to perform social responsibilities; in practice those were abandoned. Corporatization prepared enterprises for privatization, the ultimate embedding mechanism—except when it failed and the state resumed responsibility.30

*The Public Finance Act 1987* shifted government accounts from funding of inputs to a narrow contractual form of output-based budgeting, combined with accrual accounting, and a wide range of technical reporting requirements. This funding mechanism transformed the nature and role of the entire state sector in a highly technical, but deeply profound way.

*The State Sector Act 1988* insulated ministries and their chief executives from their government ministers through contractual relationships and mandated the State Services Commissioner to review the ‘machinery of government’, including the functions and inter-relationships of departments and agencies.

*The Reserve Bank Act 1989* made inflation-targeted monetary policy the Bank’s overriding objective, institutionalized the independence of the Board and Governor from the government, and tied the Governor’s performance contract to the inflation target.

*The Fiscal Responsibility Act 1994* specified principles of fiscal responsibility to be monitored through a series of disclosure and reporting obligations at specified times, including pre-election, with forecasting periods of up to ten years.31

*The Regulatory Responsibility Bill* was designed to tie government to

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29 Kelsey 2003, chapters 2 and 3.
30 The New Zealand government nationalized the railways and Air New Zealand and created a new retail bank.
31 This legislation was incorporated into the Public Finance Act in 2004.
Statutory principles of pro-market regulation and strict protection of private property rights, with private actors empowered to seek a judicial declaration of government non-compliance. That law has been promoted unsuccessfully since 1994. A diluted Regulatory Standards Bill was endorsed in 2011 as part of a post-election coalition deal; if passed, this will provide a statutory framework for a 2010 Cabinet Directive on Better Regulation, Less Regulation that embodies the proposed principles.32

Successive New Zealand governments have championed a raft of World Trade Organization and bilateral free trade and investment treaties that have come to symbolize neoliberal globalization. These agreements impose the most potent meta-regulatory constraints because they are negotiated in secret, ratified by the executive, not the New Zealand Parliament, and can be enforced by states and foreign investors outside New Zealand’s legal system. Obligations restrict options for policy and regulation of industry, services, foreign direct investment, capital movements, intellectual property rights, financial and telecommunications regulation, government procurement, and more. Foreign investors can sue the government directly through private supranational tribunals where they claim new measures significantly damage their value or profitability.

Economic constitutionalism

All these instruments, aside from the trade and investment agreements, are ordinary laws that can be amended or repealed by a simple majority vote in Parliament and there is no legal penalty for non-compliance. Yet individually and cumulatively, they have attained a quasi-constitutional status.

The intellectual architects of the project actively promote that ‘constitutional’ discourse. The nature of the laws imply quasi-permanence: governments pre-commit themselves and their successors to a prescribed set of normative, political and legal disciplines that they are obliged to maintain, even in times of crisis. Those norms privilege the economic and the individual, and subordinate the social and the collective.

A favourite metaphor has governments emulating Ulysses by tying ‘themselves to the mast to escape the siren-like calls of pressure groups’ that seek a different direction.33 The crew of Ulysses’s ship are the ideologically deaf technocrats, academics, corporate lobbies, and think tanks who successfully touted these disciplines. The Sirens who would have lured ‘sound’ governments onto the rocks, had they not been tied to the neoliberal mast, are any domestic constituencies that resist those prescriptions. Governments within democratic states have to listen to the songs of the voters, because they hold the key to their re-election—they may even sympathise with their values and sentiments—but the constitutional constraints will save them from responding to their message.

James Buchanan, one of the fathers of public choice theory, created a research programme on ‘constitutional economics’ that called for a high-level ‘choice among constraints’ that would set the parameters for governments to make ‘choices within constraints’.34 Freidrich von Hayek and Milton Freidman made similar arguments for fiscal and monetary constitutions, while Richard Epstein championed a ‘regulatory constitution’ that protected property rights from ‘regulatory takings’.35

Their ideological agenda is profoundly hostile to democratic governance. They believe the fundamental tenets of individual liberty, private property, contractual freedom, and the rule of law are threatened by electoral democracy36—an antipathy clothed in such euphemisms as minimizing the risks of ‘political market failure’37 or ‘political economy challenges’.38 This discourse has been a prominent feature in New Zealand, especially from the ideological vanguard in the New Zealand Business Roundtable.39 At one event advocating a Regulatory Constitution for New Zealand, Epstein bluntly depicted the temporary majority in Parliament as a threat to the national interest.40

35 Epstein 2000, 842.
36 These principles form the basis of the Regulatory Responsibility Bill, discussed above.
38 Brook 2011.
39 See for example Kerr 2007.
40 Epstein 2000, 2.
Critics of neoliberalism also draw constitutional analogies. Gill describes the regime of accumulation as ‘new constitutionalism’. David Schneiderman contrasts ‘democratising constitutionalism’, which is characterized by open-endedness of rules and where no single societal force predetermines political outcomes, with ‘constitutional political economy’, which stresses an economic model of citizenship in which the citizen is a market actor. 41

Focus on the regime’s political dimension should not obscure the significance of the design features and technical tools that create an invisible barrier to paradigm change. Consistent with the ‘Ulyssessian methodology’ that constrains governments from responding to current political pressure or sentiment 42, the regime operates as a form of ‘meta-regulation’ 43—a process where certain domestic laws and international treaties institutionalize the presumption of pro-market governance and embed it within everyday routines of governmental policy making. These higher-level normative instruments set the parameters for more specific policies and laws.

The normative terminology is crucial. The state’s obligations are clothed in seemingly neutral, but ideologically loaded, terms that impel them to resist dissident voices, such as fiscal and regulatory responsibility, price stability, free trade, least burdensome measures, efficiency, competitive neutrality, cost-benefit analysis, and soundness of the financial system. What government wants to be irresponsible, promote instability, be inefficient, or adopt unsound practices? Most instruments provide inbuilt flexibility that can act as a shock absorber where the economic, social or political costs of compliance would be untenable. However, governments are required to confess their non-compliance before Parliament and inform it when they will return to the orthodoxy.

Technical, legal and accounting tools, such as accrual accounting, output classes, key performance indicators, and fiscal projections, make the norms operational. They are imbued with scientific qualities of certainty, precision, and objectivity that disguise their highly subjective and ideological content.

41 Schneiderman 2008, 10 and 14.
42 For a detailed discussion of this concept, see Elster 2000.
43 Morgan 1999, 50; Morgan 2003.
The devil is in the detail. Their novel and highly technical form and methodology restrict critical engagement, especially by politicians who are privy to the contractual arrangements and formally tasked with their oversight.

The design features make sustained non-compliance difficult. In addition to ministerial confessions when governments deviate, the Treasury maintains control of the purchaser-provider method of public finance to which the performance contracts of chief executives are tied. The disciplinary mechanisms in free trade and investment agreements are more problematic still. Other states and foreign investors can enforce rules that intrude ever more deeply into the domestic regulatory domain through extraterritorial tribunals, at considerable financial, reputational and economic cost.

Emergent contradictions
Each of these instruments is exhibiting internal contradictions. The Reserve Bank’s monetary policy has used interest rates to dampen the inflationary effects of property speculation since the mid-1990s. That, in turn, has fuelled hot money flows, making the New Zealand dollar one of the most traded currencies in the world. The constantly overvalued dollar has a devastating effect on exports; but the impact of the inflation-control strategy on the productive economy is not part of the Reserve Bank’s mandate. In 2002 the Finance Minister hinted he might use the exceptional power to give the Reserve Bank broader instructions in an attempt to address this quandary.44 That set off the ‘fire alarms’ among foreign investors, economic commentators, and international institutions, and so he backed down.

The preoccupation of successive governments with increasing dairy exports through free trade deals reinforces economic dependency on the primary sector, which is already pushing the limits of sustainability. These agreements are negotiated in secret and signed and ratified by the executive. Once agreed, they are almost impossible to undo. Yet there is growing awareness that free trade and investment treaties prevent re-regulation of foreign investments, foster the outsourcing of jobs, and restrict local procurement

44 Infometrics 2002.
options. A proposed mega-Trans-Pacific Partnership faces growing resistance to trade-offs that would hike medicine prices, criminalize Internet users, stop parallel imports, and empower foreign investors to sue in offshore tribunals to stop public policies, such as tobacco control laws.

The contradictions intrinsic to other ‘fundamentals’ have attracted less attention. The mantra of reducing government debt drives fiscal policy in a pro-cyclical fashion, despite New Zealand’s low debt level compared to other countries and the much more serious problem of private debt.

Public financing through prescriptive outputs leaves gaps in provision and a short-term focus, despite moves to incorporate outputs into broader statements of expected outcomes. Perversely, the contractual basis of funding and public sector employment has eroded direct political accountability for policy failure and effective parliamentary scrutiny. Light-touch or self-regulation has transferred governance roles to commercial entities that has spawned a series of disasters, including unsafe coal mines, leaky buildings, and fraudulent finance companies; yet re-regulation has been reluctant and minimalist, consistent with the neoliberal version of ‘better regulation’.

The prospects for regime change

The regime’s resilience is partly due to a long-standing bipartisan commitment to the ‘economic fundamentals’ as international best practice. This consensus may weaken as its international orthodoxy erodes, but this will be a slow and tentative process. The main political opposition remains trapped by the ‘orthodoxy’ it has embraced, albeit with adjustments, since 1984. In 2008 the Labour Party, while still in government, announced an end to the consensus over the Reserve Bank Act, but it has still not articulated its alternative. The same can be said for other policies on financial regulation, privatization, labour market policy, or social welfare.

Indeed, since 2009 there has been a resurgence of radical neoliberal agenda that has met with resistance on specific issues. Deals in which the Prime Minister, a former currency trader, has promised to change laws in

45 Kelsey 2010.
return for foreign investment in pet projects are especially contentious.\textsuperscript{46} But the spaces for dissent in the media, academia, and think tanks have progressively closed. Public broadcasting has again been fully commercialized. University funding is harnessed to national economic goals, with government threatening to appoint their councils. Public protests and dissent, most recently over a new wave of privatizations, have been ignored. The government continues to dominate the opinion polls, reflecting a sense, even amongst the suffering and disaffected, that there is no alternative.

Even if a government were minded to make piecemeal changes to individual instruments, that would not change the paradigm because the whole is more potent than the sum of its parts. Transition from the neoliberal paradigm to even a soft neo-Keynesianism would require an overhaul of the entire legal framework and institutional arrangements. Just the hint of such an idea would spark vocal, organized and potentially damaging resistance from those who wield power courtesy of the government/corporate nexus.

For three decades New Zealand governments have ‘stacked the decks’ by vesting authority in like-thinking public officials, private bodies, and élite individuals who will ring the ‘fire alarms’ at the first signs of deviation\textsuperscript{47}, warning of investor flight or a crisis of investor confidence should the government deviate from the ‘orthodoxy’. Credit raters still define acceptable policy and regulatory responses, despite their role in the global financial crisis.\textsuperscript{48}

These threats are potent in a country that depends on a steady flow of short-term finance. Financialization is not just a material phenomenon: it has normative and disciplinary effects on governments, businesses and households. Maintaining hegemony requires active consent, or at least acquiescence, and scepticism about alternatives. New Zealanders have come to expect a first-world standard of living, with instant access to cheap consumer goods and services funded by credit. Ubiquitous surveys on consum-

\textsuperscript{46} Campbell 2012.
\textsuperscript{47} Radaelli 2008, 6.
\textsuperscript{48} A typical example is the New Zealand Herald report that the 2011 Budget ‘passed its first test yesterday when credit-rating agency Standard and Poor’s saw no need for any change to its rating on New Zealand.’ See Young 2011.
er and business confidence reflect, and help shape, the behaviour of actors on which the consumption-based economy depends—at the same time as they are admonished to reduce private debt and save more. New Zealanders’ life options now depend so deeply on access to affordable finance that alternatives are currently unthinkable. That lifestyle will not be given up voluntarily, short of some catalytic event.

Pathways to a Polanyian transformation

This rather depressing account, suggests Cerny, might be right about the capacity of neoliberalism for perpetual renewal. Yet Polanyi’s analysis of the great transformation from laissez-faire to Keynesian welfarism resonates too closely with current conditions to concede that is true. As with the 1930s, a transition from financialization to a new model of accumulation will require a reordering of power relations in the state/finance nexus, widespread rejection of neoliberal ideology, and a radical shift in social values and personal expectations. Polanyi attributed the great transformation to spontaneous and multifaceted mobilizations, which were triggered by the systemic failure of a model that sought to divorce the economic from the social and de-legitimized that prevailing orthodoxy.

This chapter suggests that contemporary neoliberalism is embedded in more complex and sophisticated ways. The kind of double movement Polanyi describes seems unlikely without a truly catastrophic upheaval that makes ‘solutions’ that try to restabilize financialization untenable. While that upheaval will have a global dimension, it will manifest in crises, mobilizations, and calls for alternatives at a national level. Even if a crisis triggers a radical shift in popular sentiment and expectations, transformation requires both a tenable alternative model of accumulation and a strategy to unravel the web of constraints woven over the past 30 years and to replace it with a supportive regulatory regime. As Naomi Klein has shown, neoliberalism thrives in conditions of crisis.49

49 Klein 2007.
The author does not pretend to have a template to replace New Zealand’s economic constitutionalism or a political strategy to implement it—just a sense of urgency that alternatives and strategies need to be articulated, debated and legitimized that engage with the complexity of transforming the neoliberal paradigm.

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CHAPTER 15

The role of globalization in Ireland’s turn to austerity politics: A discursive institutionalist analysis

FIONA DUKELOW

When the economic crisis began to unfold Ireland’s response was marked by two relatively unique interventions. First, in an effort to contain its banking crisis, it made an unprecedented and unilateral move to put in place a near-blanket guarantee of banking debt. Secondly, it rapidly embraced austerity measures. This ran counter to early responses elsewhere in Europe, which in many cases included improvements to social security and fiscal stimulus.¹ Substantial retrenchment was achieved prior to acquiring assistance from the EU/IMF in late 2010, and the programme of support agreed upon largely represented a continuation of existing measures. Since 2008 Ireland has incurred the largest costs in comparative terms for its response to the banking crisis, measured at 38 per cent of GDP.² This accounted for half the rise in government net debt, which rose from 11 per cent of GDP in 2007 to 95 per cent of GDP in 2011.³ After Greece, Ireland is undertaking the largest austerity plan in the OECD, worth 17 per cent of GDP between 2009 and 2014.⁴ Meanwhile, since real GDP contracted by 12.4 per cent from peak in 2007 to trough in 2010, the economy shows very weak signs of recovery with growth of 0.7 per cent of GDP in 2011.⁵ Yet the idea of no alternative to austerity has prevailed within Irish political and economic discourse.

¹ Armingeon 2012.
² IMF 2011.
³ IMF 2012a; IMF 2012b.
⁴ OECD 2011.
⁵ Department of Finance 2012.
This chapter examines the conditions in which such a rapid and pervasive turn to austerity and public expenditure cutbacks occurred in the Irish response to the crisis. The analysis is informed by ideational institutionalism, which looks at how ideas exert ‘causal influence’ in institutional change and continuity. While not claiming that it is the only influential factor or idea, the chapter focuses on the prominence of ideas about economic globalization in the reinforcement of the extant policy paradigm which has paved the way for welfare retrenchment and austerity. In this context, alternative ideas and actors are rebuffed as unrealistic, despite the window of opportunity afforded by the costly and contradictory nature of the response to the banking crisis compared to the fiscal crisis. The analysis concentrates on the first two-and-a-half years of the crisis from Autumn 2008 to the first general election held since, in Spring 2011. This period spans moments of major instability: from the onslaught of the financial crisis, the dramatic drop in economic growth and escalation of public debt, to external assistance. This period could arguably be considered a critical juncture in Ireland’s political economy and an exceptional period of policy debate and reform. However, to date, the critical juncture created by the crisis seems to represent a case of ‘continuity through and in spite of historical break points’ in which dominant pre-crisis ideas, interests and policy goals have maintained their power.

The chapter begins by briefly discussing welfare retrenchment and economic pressure associated with its occurrence and considers how an ideational institutional approach, drawing on Blyth and Schmidt, provides an understanding of how retrenchment can take hold in a particular context. The ideational path dependency of the Irish economic and social model is then sketched to demonstrate the influence of economic globalization over time. This forms the backdrop to a closer investigation of how the crisis evolved discursively and how policy goals, problems and solutions were imbued with particular ideas about economic globalization that shaped the conviction that austerity is the way to economic recovery.

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6 Schmidt 2008, 305.
7 Thelen & Streeck 2005, 8.
Ireland, austerity, economic globalization and the role of ideas
Welfare retrenchment is typically considered a difficult policy to pursue and an unpopular move for governments to make.  

Periods of welfare retrenchment tend to occur in the face of severe economic difficulty and budgetary pressure that seem to eliminate room for other policy options or at least offer opportunity for blame avoidance to political actors who implement such measures. However, a focus on economic drivers, such as budget deficits, do not on their own account for why particular policy preferences are pursued and for different national responses to similar pressures. To paraphrase Blyth, negative economic data ‘do not come with an instruction sheet’ about how to deal with them. As Blyth argues, crises must be understood by attending to how agents use ideas to ‘argue over, diagnose, proselytize, and impose their notion of what a crisis actually is on others’ and by recognizing that ‘the set of available ideas with which to interpret the environment and make purposeful collective action possible becomes crucially important in determining the form of new institutions’. In the Irish case, ‘available ideas’ about economic globalization have contributed to a discursive environment where austerity is understood as the correct solution to a crisis for which there is no realistic alternative. The crisis seemed to clarify belief in Ireland’s economic model and the notion that it is in Ireland’s interest to adhere to it more rigorously. In this framing, alternative ideas about the role of the state in the crisis and in the economy, and the actors who promote them, are associated with a lack of realism about the crisis and Ireland’s position as a small open economy in the global context.

In examining how political actors dealt with the emergence of the crisis and the instability it created, two concepts from Schmidt’s discursive institutionalist framework may be brought to bear to analyse how ideas were put to work at the micro level. These are actors’ ‘background ideational abilities’ and ‘foreground discursive abilities’. The former refer to the ‘human
capacities, dispositions, and know-how related to how the world works and how to cope with it … [which] underpin agents’ ability to make sense in a given meaning context.\textsuperscript{13} In the Irish context, the background ideational abilities of political actors cohere around the ‘rules’ of the Irish economic model, which is an expression of how Ireland as a small open economy fits into a world that is understood to work by the logic of economic globalization. ‘Foreground discursive abilities’ allow actors ‘to communicate critically about … institutions, to change (or maintain) them\textsuperscript{14} and in the context of the crisis provide a way of examining how political actors defended the existing policy model and justified an austerity response in the face of rival ideas. However, focus on discursive abilities and analysis of ideas about austerity does not imply that the ideas have power in their own right. As Mehta observes, ‘it almost goes without saying that the resources “each” side can bring to bear are critical in any fight over problem definition’.\textsuperscript{15} In this regard the wider political and institutional context in which political leaders have pursued an austerity agenda against the challenges posed by proponents of alternatives is significant. The Irish political system has been described as politics ‘without social bases’.\textsuperscript{16} Traditionally, the two main political parties, \textit{Fianna Fáil} and \textit{Fine Gael}, have pragmatically hovered around the centre, and the Labour Party has always been a weaker force gaining power only as a junior coalition partner. This weaker position extends to other left-wing actors and activists who have generally found it difficult to wield influence in a polity where pragmatic articulation of the Irish economic model obscures ideology and policy making and political discourse is tightly controlled.\textsuperscript{17} The turn to social partnership in the late 1980s did not alter this power configuration. Participating civil society groups were to some degree disarmed of their capacity to develop alternative ways of engaging with the state and to build counter-discourses to policy developments which increasingly came under the influence of a globalized neoliberal framework. This

\begin{flushleft}
\textsuperscript{13} Schmidt 2011, 55. \\
\textsuperscript{14} Schmidt 2010, 4. \\
\textsuperscript{15} Mehta 2010, 36. \\
\textsuperscript{16} Whyte 1974, cited in McCashin & O’Shea 2009, 262. \\
\textsuperscript{17} Kirby & Murphy 2011.
\end{flushleft}

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lack of strength and capacity has followed through in the crisis. Although social partnership has broken down, anti-austerity actors, including the trade unions and other civil society groups and alliances (who have adopted anti-austerity positions to varying degrees), have had limited success in mobilizing resistance and generating support for alternative problem definitions and solutions. Against this background the following section outlines the dominant ideational pathway of Irish economic and social policy.

Irish welfare state development and globalization

Globalization may have become an object of international debate in the 1990s but active Irish encounters with economic globalization can be traced back even to the late 1950s, when a new direction in economic policy, representing a major ideational departure, was being pursued. By the early 1950s it was clear that the project of autarkic development adopted in the 1930s was failing. Radical transformative efforts did not occur until Seán Lemass became leader of Fianna Fáil and instigated a major path of reform in the government of 1957–1961. The ‘instruction manual’ came in the form of a white paper, *Economic Development*, written by a key policy actor, T. K. Whitaker. He articulated the need to alter the objectives of economic policy and aligned national interests with foreign capital by arguing that ‘we must be prepared to welcome foreign participation, financial and technical, in new industrial activities aimed at exports’.18 The state began to invest heavily in attracting foreign direct investment with a range of fiscal instruments, including tax exemptions and generous capital grants. This entailed a significant shift in fiscal policy and openness to borrowing money to fund the new policies.19 However, this did not extend to resourcing the welfare state; as Whitaker put it, ‘the national candle can not be burned at both ends’.20 Moreover, Lemass held the view that once Ireland solved its economic problems ‘a rising tide lifts all the boats’.21 His view of the constraints posed by

18 Whitaker 1958, 36.
19 Norton 1975.
21 Dáil Éireann 1964, col. 1791.
the global economic trends also resonated with much of the later literature on economic globalization:

The world’s economic environment is constantly changing, and we must always be prepared to adapt our policies to it, and to ride the winds of change, no matter whence they may blow. Failure to do so would involve heavy economic penalties. The prosperity of a small nation is never a static situation but the outcome of a continuous struggle.22

When the economy expanded, pressure grew to improve welfare standards and some advances occurred. However, this brief ‘social democratic turn’23 comprised a relatively fragmented set of reforms and did not leave a lasting ideational legacy unlike the new departure in economic policy. Furthermore, these improvements were undermined by the economic crisis during the 1980s.24

The 1980s crisis was succeeded by a decade of major growth from the mid-1990s, which signified a new phase of global economic integration, or at least integration between Europe and the US. With the EU single market, Ireland attracted new foreign direct investment by virtue of its relatively low-wage and flexible labour market, and its low corporate tax burden. Its foreign direct investment inflows as a share of GDP ranked amongst the highest in the EU since this period, averaging at 9.4 per cent of GDP per year in contrast to the EU average of 2.8 per cent of GDP from 1990 to 2011.25 By the 1990s, debates about globalization had also become commonplace and Ireland and its prosperity became a frequently cited exemplar in the globalist literature. Growing interest in economic globalization became synonymous with what Hay observes as the progressive normalization of neoliberal economic assumptions in the political economy of Anglophone countries, at the centre of which are ‘stylised open economy macroeconomic assump-

22 Dáil Éireann 1964, col. 1790.
24 Dukelow 2011.
25 Calculations based on data from OECD investment statistics and analysis (OECD n.d).
tions of the business school hyperglobalization thesis.\textsuperscript{26} Consciousness of the need to be competitive and articulation of this in Irish political discourse became more evident and greater policy emphasis was placed on tax competition, light touch regulation and managerialism in the public sector.\textsuperscript{27} Yet reference to competitiveness and to economic globalization was not cast in negative terms. In keeping with the pragmatism of mainstream politics, such issues were not so much debated as accepted as the key to economic growth and prosperity. The position of Ireland in globalization surveys attests to this. For example, the IMD \textit{World Competitiveness Yearbook} ranks Ireland first out of 59 countries surveyed for positive attitudes towards globalization and for understanding the related need for economic and social reform.\textsuperscript{28}

As for social policy development, trends seemed to suggest that the progressive neoliberalization and globalization of the economy did not extend to curtailing the welfare state. Social protection appeared to be on a growth path marked by greater recognition of new social risks, growth in social-insurance-based schemes and universal benefits, and rate increases. However, while real spending grew, it declined as a proportion of the more rapidly growing GDP, preserving Ireland’s preference for a low-spend welfare model. Trends in the tax-to-GDP ratio show that extra expenditure committed did not impact on the tax burden; since the mid-1990s income and corporate taxes were reduced and Ireland remained one of the countries with the lowest tax-to-GDP ratio in the EU during the first decade of the twenty-first century.\textsuperscript{29} Ireland was able to initiate some modest welfare improvements and still remain a low-tax country. Consequently, it also maintained its welfare model of modifying ‘extreme inequalities rather than attempting substantial redistribution or universal social provision.’\textsuperscript{30} For most of this period, poverty rates remained above the EU average, reflecting the fact that while social protection rates grew they remained low relative to average incomes. The poverty reduction effects of social welfare did, however, improve

\textsuperscript{26} Hay 2007, 62.
\textsuperscript{27} Ó Riain 2010.
\textsuperscript{28} IMD 2012.
\textsuperscript{29} European Commission 2010.
\textsuperscript{30} McCashin & O’Shea 2009, 274.
by the mid-decade when budgetary decisions were made to increase social protection rates beyond the rate of wage growth. Yet overall levels of income inequality remained comparatively high.

Economic crisis, economic globalization, and austerity
Turning to the present crisis, the remainder of the chapter examines the discursive defence of the dominant policy paradigm and its affinity with austerity. Key speeches regarding the economic crisis made by the two principal political leaders, the Taoiseach (Prime Minister) and the Minister for Finance in office during the onset of the crisis in Autumn 2008 to February 2011, are analysed in order to gain an understanding of the ideational construction of the crisis in terms of policy goals, problems and solutions, and the influence of Ireland’s relationship with economic globalization. Over that period austerity measures of €21 billion (13 per cent of GDP) were implemented, with expenditure cuts accounting for €13 billion (62 per cent) of the total adjustment.

Policy goals and policy problems
At the outset, the background ideational abilities of political actors were evident in how efforts were made to orient Ireland in relation to the global crisis and how to cope with potential implications. Elements of the Irish economic model were upheld as armour against external economic threats. In July 2008, for example, the Minister for Finance, Brian Lenihan, contrasted the soundness of the Irish economy with the problems being encountered elsewhere:

we have a low level of public debt; our markets are flexible allowing us to respond quickly to difficulties; we have a dynamic and well-educated labour force; and the tax burden on workers and businesses is low. Not many countries anywhere in the world are facing the present global economic difficulties from such an enviable position.

31 Department of Social Protection 2011.
33 Department of Finance 2011.
34 Lenihan 2008a.
However, recognition was also evident of how Ireland was particularly vulnerable to changes in the global economy: ‘as a small, open economy which earns its living by trading on world markets, Ireland is uniquely exposed to this crisis’.35 Despite its vulnerability, reliance on the model was emphasized as the key element of the solution to potential problems. The past success of the Irish economic model remained the frame of reference in understanding and navigating the crisis.

By 2009 it became increasingly evident that Ireland’s economic problems were more severe than anticipated and they were not the product of external financial instability but domestic imbalances and mismanagement of a booming economy. Emerging analyses of the crisis pointed to the role of the housing price bubble and crash, the role of pro-cyclical fiscal policy and over-reliance on construction and consumption-related taxes. These ideas quickly became a core part of media and economic commentary and were crystallized in a series of banking reports that pointed to the ‘home grown’ nature of the Irish banking crisis and the failure of banking regulation and fiscal policy.36 Notably, however, criticism of domestic policy actors and institutions did not extend to questioning Ireland’s overall economic model and its neoliberal means of navigating economic globalization. This was reinforced by the epistemic authority conferred on economic commentators and economists in media debates, which became largely restricted to issues considered to be matters of technical economic expertise. In this context, other civil society actors whose contributions included normative critique of Ireland’s neoliberal model and its impact on inequality, and the idea that there were political choices to be made in responding to the crisis were marginalized. The position of the trade unions in particular was weakened by diminished political support for social partnership, which broke down by the end of 2009, and by the wider view that social partnership—and in particular the unions—had been responsible for ‘ramped up’ public expenditure and loss of competitiveness through pay increases.37

35 Cowen 2009a.
36 Honohan 2010; Regling & Watson 2010.
37 Roche 2011.
Faith in Ireland’s model of economic development also remained the cornerstone of government reaction to criticism that its policies were responsible for the bulk of the crisis. At this point political actors’ foreground discursive abilities came into use in their efforts to defend Ireland’s economic model and adapt to such criticism. While some criticism was absorbed into dominant discourse about the crisis, faith in the past model remained central to the message of how to solve it. Policy decisions and economic trends over the course of the early years of the century’s first decade were presented as veering away from the fundamentals of the Irish model. Two elements in particular were highlighted: excessive growth in public expenditure and a loss of competitiveness. Regarding the former, the Taoiseach, Brian Cowen, suggested for example that

As a society, we became over-optimistic about our recent, seemingly spectacular, economic success, and badly overshot the mark. People became impatient with restraint. … The general attitude was that we could afford to ramp up spending, while simultaneously being a low tax country, as if there were few hard choices to be made.\(^{38}\)

As for the loss of competitiveness, essentially another form of excess, it was suggested that the economic model faltered because costs were not kept in check: ‘our real success was based on producing goods and services which were in demand internationally … That was sustainable insofar as our costs, including labour costs, were competitive’.\(^{39}\) However, both these problems are amenable to being solved within the existing economic paradigm; they don’t pose a challenge to the soundness of the model, but represent policy mistakes made by not adhering to it closely enough.

The damage created by economic and banking problems to Ireland’s standing as an iconic case of economic globalization also became part of the government’s repertoire in diagnosing the crisis. In this context where

\(^{38}\) Cowen 2010a.
\(^{39}\) Cowen 2009b.
countries believe they have to act like corporations in attracting a ‘market share’ of trade and investment, the notion that Ireland had lost its reputation as a good place to come and do business was frequently invoked:

the international spotlight that once highlighted our economic transformation is now focused on the pace and scale of the adjustment we are experiencing and the impact on our reputation of recent events. International markets, where we trade and on which we depend for borrowing had questioned whether our economic success was a transient phenomenon.\(^{40}\)

The ultimate solutions to the reputation problem were expressed in terms such as restoring ‘market credibility’ and regaining ‘investor confidence’. These are not amenable to direct tangible solutions in their own right but are dependent on getting a number of elements of the Irish model back on track. Thus major elements debated in solving the crisis revolved around restoring competitiveness and fiscal stability to be achieved through a programme of austerity.

_Policy solutions_

A hyperawareness of competitiveness as a problem and a solution was evident in the communicative discourse. Yet, relatively scant empirical evidence was offered to substantiate this problem. Figurative language was used in place of evidence such as, ‘we took our eye off the ball so to speak’\(^{41}\) and ‘we have slipped in this area’.\(^{42}\) Following this, competitiveness as a solution was consistently presented as a constraint the country has no option but to accept if it is to recover:

This recession has changed the financial world. The lesson we need to take from it is that we are in a competitive global market-place and

\(^{40}\) Lenihan 2009a.
\(^{41}\) Lenihan 2011.
\(^{42}\) Cowen 2009c.
soft option solutions are not going to provide the basis for sustainable growth and the improvement of living standards.\textsuperscript{43}

The imperative and rewards of competitiveness were also applied to taking early action on austerity: ‘right across Europe many countries are now facing serious problems in their public finances. Ireland has gained an advantage by moving quickly to tackle them’.\textsuperscript{44} Reducing wage costs became a core element of restoring competitiveness and in that regard public sector wages were reduced by an average of 14 per cent in 2009–2010.

In comparison to the communicative presentation of the competitiveness problem, the problem of the fiscal crisis was consistently presented with reference to data on the gap between government revenue and expenditure: ‘As many of you know, for every €50 we spend on services, we must borrow approximately €20. Everybody knows that we can’t continue to do this’\textsuperscript{45}. The problem was presented as a matter of common sense: ‘people know that it is unsustainable for us to be spending so much more than we are earning in revenue. No household could afford to do it, neither can the State’.\textsuperscript{46} Cognitive locking, which makes a situation ‘amenable to only one “problem description”’\textsuperscript{47}, is evident in how solutions to this dilemma were posed against the context of a loss of competitiveness and a loss of reputation. This problem definition served to constrain the range of solutions to the fiscal crisis. Specifically, taxation and borrowing were ruled out as the Minister for Finance frequently argued that ‘we cannot tax our way out’ and ‘borrowing more is not the answer’\textsuperscript{48}. Alternative proposals about how to deal with the crisis included a call for a Keynesian-inspired stimulus plan and job creation from the trade union sector\textsuperscript{49} which also argued that debt could be addressed in the longer term via wealth generated by its plan for economic growth. However, such ideas were equated with fiscal irresponsibility and specifically extra borrowing, which was ‘just not on’\textsuperscript{50}.

\textsuperscript{43} Cowen 2010b.
\textsuperscript{44} Cowen 2010c.
\textsuperscript{45} Cowen 2010b.
\textsuperscript{46} Cowen 2009d.
\textsuperscript{47} Hamilton & Rolander 1993, 10 cited in Blyth 2001, 22.
\textsuperscript{48} Lenihan 2009b.
\textsuperscript{49} ICTU 2009.
\textsuperscript{50} Lenihan 2009b.
Ireland’s ‘reputation for fiscal responsibility’\(^{51}\) guided tax policy decisions in response to the crisis and beyond. While in the initial rounds of austerity income tax was increased (an income levy was introduced in 2009 and replaced with a more comprehensive universal service charge in 2011, beginning at 2 per cent for income over €4,004\(^{52}\)), the idea that there were limits to how much taxes could be raised and that these were quickly met, became part of the budget discourse. As the austerity measures deepened, greater emphasis was placed on preserving the pro-enterprise base of the Irish tax regime, and the low corporation tax rate was repeatedly referred to as one of Ireland’s non-negotiable competitive strengths:

> Our Corporation Tax rate of 12½ per cent has become an international ‘brand’, known the world over. It is a powerful expression of our pro-enterprise ethos … In a time of great uncertainty for international business, it is important that we send out a clear message. The 12½ per cent Corporation Tax rate will not change. It is here to stay.\(^{53}\)

This low corporate tax preference is matched by a similar awareness of the need to have a pro-employment income tax regime. In this respect a high tax burden on labour was problematized in terms of competitiveness. For example, speaking to the American Chamber of Commerce, the Minister for Finance said that ‘[h]igh labour taxes ultimately increase the cost of employing workers, especially high-skilled workers. In such a globalized world, business leaders who make investment decisions and create jobs can easily look to other countries as alternative locations for investment’.\(^{54}\)

In this context, discourse turned to the need to broaden the tax base and to consider taxation that does not directly burden investors, employers, or employees such as carbon, water and property taxes. However, as the crisis deepened the idea of broadening the tax base to include more income earners also became a feasible policy option. Budgetary decisions made over the

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\(^{51}\) Lenihan 2008b.

\(^{52}\) The threshold was increased to €10,036 in 2012 by the new government.

\(^{53}\) Lenihan 2009b.

\(^{54}\) Lenihan 2009c.
century’s first decade to lessen the burden of income tax on low income earners were recast as creating an unsustainable situation, taking too many low income earners out of the tax net. By contrast at the top end of the income scale, the idea that there are limits to tax increases was justified with reference to the global mobility of such labour:

All of the available evidence suggests that high marginal tax rates will discourage high-skilled workers from remaining in Ireland, as well as discouraging high-skilled workers from locating here in the first place. It is not good policy.\(^55\)

Given the beliefs about the limits to increasing taxation, attention turned to what can be done on the expenditure side. This was one area the government consistently emphasized that decisive action can and must occur. Yet there is also awareness that such action risks social unrest and resistance. Repeated emphasis was therefore made to needing to ‘share the burden’, and cuts to public services were presented as unpalatable. However, beyond this lies the idea that they are also important in contributing to the future competitiveness of the economy: ‘no one wants to cut spending but the cost of providing public services has to be reduced to bring it in line with sustainable revenue levels and to help restore our international competitiveness’.\(^56\)

With the exception of pensions, across-the-board cuts in social protection rates were implemented in 2010 and 2011 (cumulative average 10 per cent), with higher cuts and greater conditionality imposed on the young unemployed. Both times announcements regarding these cuts were coupled with the idea that the system is and remains generous, with rates ‘much higher than our nearest neighbour’.\(^57\) Retrenchment also included curtailments to social-insurance-based entitlements and reductions to child benefit, the main universal payment in the system. Arguments that refuted the idea of generosity, which made comparisons with rates across the EU, not

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\(^55\) Cowen 2009c.

\(^56\) Lenihan 2009b.

\(^57\) Lenihan 2010.
just the UK, and with the risk of poverty rate made little headway.\textsuperscript{58} Political reference to generosity generated enormous media debate and economic commentary about the cost of the social protection, sidelining the social purposes of the system and its role with respect to poverty. In this climate campaigns such as \textit{The Poor Can't Pay} mounted by a broad alliance of civil society organizations had little success in mobilizing the public opposition. Ideas about generosity segued to ideas about the disincentive effects of social protection and the problem of ‘a welfare system out of step with labour costs in the rest of the economy’.\textsuperscript{59} This led to reforms based on creating a more individualized activation-based system more closely aligned with the needs of a competitive economy. These reforms, potentially involving all adult recipients of social protection payments, are ongoing.

\textbf{Concluding remarks and continuing questions}

This chapter examined how, following the emergence of the crisis, mainstream political actors managed to protect the dominant policy paradigm with recourse to ideas that framed unprecedented levels of austerity and welfare retrenchment as action necessary to repair it. In this respect the turn to austerity did not conflict with the paradigm goal of achieving a successfully globalized economy via a cost competitive tax and social protection regime suited to the needs of investors. As such, the Irish case demonstrates how crises can be ‘an object lesson in the way that [a] regime reproduces and stabilises itself’.\textsuperscript{60} In the period succeeding the analytical focus of this chapter, the ideational pathway that set the context for austerity has, for the most part, remained dominant. The results of the 2011 general election indicated that Fianna Fáil, the main political party in power during the period examined, suffered a major loss of legitimacy for its role in creating the crisis. However the election of a Fine Gael/Labour Party coalition suggested limited support for more radical anti-austerity measures. Reaching a near majority, the election was the most successful in its history for Fine

\begin{footnotesize}
\textsuperscript{58} EAPN 2009 and 2011.
\textsuperscript{59} Lenihan 2009b.
\textsuperscript{60} Hudson & Martin 2010, 111.
\end{footnotesize}
Gael whose policy manifesto indicated substantial continuity with the prevailing ideas, promising for example to focus on ‘budget cuts rather than job-destroying tax increases’.\(^6\) The coalition’s programme for government affirmed commitment to EU/IMF conditions regarding fiscal consolidation and structural reforms. Absence of major public resistance to austerity is however open to multiple interpretation, including the possibility of passive or disaffected consent,\(^6\) and this is not necessarily open-ended. Some groups have recently succeeded in resisting cuts announced in areas such as educational disadvantage and disability support, but whether instances of specific sectoral resistance would extend to broader opposition to welfare retrenchment framed in terms of generosity and disincentive effects is an open question. So too is the question of the implications of a recent campaign against the household charge in which about 50 per cent of eligible households paid the charge by the relevant deadline in 2012. The charge was introduced on a self-assessment basis as a precursor to a property tax due for 2013. However, lack of compliance may reflect an anti-tax attitude as much as an anti-austerity one. At the same time, such trends indicate the increasing pressure the government may encounter in continuing to persuade the public of the necessity of austerity. In this regard political discourse has shifted somewhat to focusing on the need for economic growth as part of the solution to the crisis. To date, however, it would appear that the concern with growth does not involve substantial departure from the ideational context that shaped the austerity response. Policy measures have largely focused on supply-side measures designed to enhance Ireland’s low-tax, pro-enterprise competitive economic model. Whether that growth, if it materializes, would have a beneficial impact on the Irish welfare state and redistribution is also an open question. It would entail a much stronger shift from the orthodoxies and interests currently associated with economic globalization in the Irish context.

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61 Fine Gael 2011, 4.
References


CHAPTER 16

A comparison of welfare state criticism in Denmark in the 1970s and post-2008

MICHAEL KUUR SØRENSEN

Introduction

This chapter addresses the following question: Is the criticism of the welfare state during the present crisis fundamentally different from that of the economic crisis of the 1970s? In the following I will examine how the criticism of the welfare state in Denmark developed in two periods of crisis, the first in the 1970s and the second after the crisis in 2008. The aim of the chapter is to compare the discourses in these two periods in order to bring out similarities and differences. Are the political parties advancing the criticism of the welfare state along the same ideological lines? Do they use the same critical discourses?

First it is necessary to establish when one can speak of critical discourses towards the welfare state. This chapter works with the following definition: Being critical of the Danish welfare state means to question its universal characteristics, such as benefits for all citizens and tax financing of social insurance. In addition to this definition, it is necessary to bear in mind that it is two fundamentally different periods in Danish history that are being compared. The initial situation in 2008 differed from that of the 1960s and 1970s. Already in the 1990s the fiscal problems of the welfare state were apparent, whereas they were not in the 1960s.1 In addition, there is a fundamental difference in the fact that it was a mature welfare state that entered an

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economic crisis in 2008, whereas it was a ‘young’ welfare state that entered a crisis in the 1970s. The demographic challenge reflected in the population aging process is, for example, of recent origin. The age-group 15–64 years is expected to shrink by 10 per cent between 2002 and 2040. In the context of the politics of social policy, the 1990s were defined as a period of ‘permanent austerity’, and although scholars have continued to debate the actual impact of factors such as economic globalization, ageing population, and the unfolding of postindustrial society, the existence of these problems is real. The nature of the capitalist economy has also changed in the period from an industrial society to a service society. In the 1970s Denmark was an industrial society, while in the 1990s the Danish economy was proclaimed to be a postindustrial knowledge economy with a large service sector. Agriculture has diminished in importance and now rests on subsidies from the European Union. Furthermore, the economic globalization of goods and services since the 1980s has changed the conditions for the Danish economy. In addition to the economic and social differences, the political parties have also changed. Throughout the period the two main right-wing parties were the Liberal Party of Denmark and the Conservatives People’s Party both of which were flanked in the 1960s by the small Independent Party (with roughly 2–3 per cent of the votes) and in the 1970s by the Progress Party (with 14–16 per cent of the votes on average). Since 1995, the two parties have been flanked mainly by the Danish People’s Party (with 12–14 per cent of the votes on average). On the left of the political spectrum, the main party throughout the period was the Social Democrats, which was flanked by the Socialist People’s Party, the Communist Party and the Left Socialists in the 1970s; in the present crisis, they are now flanked by the Socialist People’s Party and the Unity List (or the Red-Green Alliance).

Bearing these differences in mind, it is interesting to compare how the criticism of the welfare state evolved in two distinct periods of crisis. Therefore this chapter is divided into three: the first section provides an overview

2 Velfærskommisionen 2005a, 13.
of the discursive developments from the 1960s to the 1970s; the second section describes how the political parties looked upon the welfare state in the 2008 crisis; and the third section compares the discourses that emerged in the two different periods in order to identify similarities and differences.

The criticism of the welfare state in the 1970s
In the prosperous 1960s most people in Denmark believed that the future would hold more of the same: more state-provided welfare, more social rights, and continuous economic growth. The Social Democrats and the Danish Social Liberal Party successfully expanded the universal welfare state together with the main opposition parties, the Liberals and the Conservatives in the 1960s. From around 1963, the Liberal and the Conservative Parties chose to argue that it was not in the area of social policy that the dividing lines existed in Danish politics. On the one hand, the ideology of the Liberals and Conservatives continued to be critical of the increasing scope of the state in the 1960s; on the other hand, both parties chose to vote for all of the policies that expanded the welfare state. However, this consensus on expanding the universal welfare state broke down at the end of the 1960s, when the Liberals and Conservatives increasingly became critical of the welfare state. By comparison, the Social Democrats continued to believe in the expansion of welfare throughout the 1970s.

This process of welfare expansion met the harsh reality of economic crisis in the 1970s, however, a crisis which strained public budgets and therefore also the amount of resources that could be allocated to new welfare initiatives. The contrast in economic growth in the two decades is striking. Average growth in GDP from 1960–1973 was above 4 per cent. From 1973–1979 the economic recession meant a drop in GDP growth rates to 1.5 per cent. Low growth became more or less permanent for the decade to come and continued in the period from 1980–1993 with an average growth of 1.1 per cent. The effect on the unemployment rate was dramatic. Whereas the un-

5 Pedersen 1967.
6 For more on this dilemma, see Sørensen forthcoming.
7 See Petersen 2011.
8 Danmarks Statistik 2001, 17.
employment rate had not exceeded 2 per cent in the 1960s, it rose dramatically after 1974, reaching 10.3 per cent in 1983. The main economic worry of the 1960s was related to the current account deficit caused mainly by a chronic balance of trade deficit. The oil crisis in 1973 intensifed the current account deficit and the trade balance, which in the mid 1980s meant that foreign debt rose to nearly 40 per cent of GDP. The ideological climate changed on both the left and the right at the end of the 1960s and early 1970s.

Before the economic crisis that began to take hold in Denmark in 1973–1974, the Liberals and Conservatives were influenced by an early form of neoliberalism advanced by the populist, provocative lawyer Mogens Glistrup, many years before Reagan and Thatcher launched their attack on the public sector. The new party that entered the political scene in the 1970s, the Progress Party, got popular support by pointing to the perverse effects of the welfare state. The party was created in August 1972 by Glistrup, who became infamous in Denmark for comparing tax evaders with the Danish resistance movement during World War II. The party played on common prejudices about the public sector and advocated various populist policies such as abolishing income tax. Glistrup even proposed that the Danish military be replaced by an answering machine that would say in Russian ‘we surrender’.

As a charismatic leader of the Progress Party, Glistrup toured Denmark with radical and often populist slogans on how to deal with public administration, the bureaucracy, and social policy, claiming, for instance, that ‘[w]hen people become free from paying tax, we will not have to give them public support for their theatre tickets, table tennis instruction, rent, and the like.’ Glistrup argued that the welfare state was ironically contradictory and perverse in its nature. Another strand of Glistrup’s argumentation was directed at the clients of the welfare state, whom he claimed were lazy parasites living on public welfare:

9 Danmarks Statistik 2001, 16.
11 Danish Television, DR, Focus, January 1971.
12 Refers to those who pay tax.
13 Refers to those who receive various forms of social and economic help from the state.
When one looks at the number of people receiving disability pensions, one would suppose that a nuclear war had swept across the country! To my knowledge this is not the case. But my God, I will not deny that we in Denmark still have a number of good old invalids without arms and legs, and that they of course also must receive their pensions in the future. But all the others whose disability consists in having become stressed through running around public offices—offices that should be closed down anyway—yes they must go out and work with a shovel if they want food on the table.\textsuperscript{15}

Compared to the Independent Party in the 1960s, Glistrup had more political power and electoral support, gaining 15.9 per cent of the votes compared to 2–4 per cent that the Independent Party won in the 1973 election. Because of this political threat to the right wing, it came as no surprise that the Conservatives and Liberals did everything they could to portray Glistrup as an irrational person on the one hand and to make parts of Glistrup’s discourse their own on the other. By being a political threat on the right, Glistrup above all legitimized a more radical criticism of the welfare state among the Liberal and Conservative parties. Glistrup’s success showed the Liberals and Conservatives that there was popular support for a frontal attack on the welfare state, an attack to which the two large right-wing parties had to respond. A reduction in the tax level and the discourse of persistent public cutbacks remained a noticeable change in Conservative policies from the 1960s in response to Glistrup’s politics. In 1974 it even became the official policy of the party to scale down on free social services: ‘In a number of areas the principle of free universal benefits must be rolled back at the same time as the tax rate is lowered.’\textsuperscript{16} All of a sudden it was legitimate to utter liberal slogans with the full consent of the potential voters of the Conservative People’s Party.

The Liberals did the same as the Conservatives in their dealing with Mogens Glistrup’s political success. They made parts of Glistrup’s discourse

\textsuperscript{15} Nielsen 2000, 87–88. Own translation.

\textsuperscript{16} Vor Tid, 8.
their own only to reject and ridicule the more radical and provocative ele-
ments of his thinking. At the very same time as they portrayed Glistrup as
a mad man, they explicitly, albeit moderately agreed with the central feature
of Glistrup’s programme—namely, those features relating to income tax and
social policies.

Much of what became popular among young Liberals and Conserva-
tives in the 1970s reflected the ideas of ‘public choice’ and neoliberalism.
Bertel Haarder, Anders Fogh Rasmussen, and Claus Hjort Frederiksen, all
later influential politicians in the Liberal Party, adhered to some form of
neoliberalism. Bertel Haarder aired ideas similar to those originating in the
public choice discourse in the United States. In Haarder’s view, the people
employed in the public sector acted in line with their own self-interest—that
is, their interest was in wage increases, new employment positions and more
employment for themselves. The bureaucracy’s pursuit of self-interest was
a fiscal problem for state finances and created the need for ever-higher taxes
in Denmark. Therefore this trend had to be stopped before the bureaucracy
would ruin society, according to Haarder’s argumentation. Also derived
from the theories of Friedrich von Hayek and Milton Friedman was the idea
that the welfare state made people lazy and unwilling to work. This idea
was often found together with arguments about the perverse nature of hav-
ing free public services. Uffe Ellemann-Jensen, who was later to become the
leader of the Liberal Party, argued in an article written in the early 1980s
that the time had come to render free public services in the Danish welfare
state obsolete.

To recapitulate, there were both internal forces as well as wider interna-
tional ideological movements behind the Liberal Party’s and the Conserva-
tive Party’s abandonment of the welfare state consensus. The ideologist and
populist Glistrup had an impact on both parties, as well as the neoliberal
wave that internationally gained ground in the 1970s.

17 Hartling 1975, 5.
18 Hartling 1975, 5.
19 Buchanan & Tollison 1972; Bellone 1980.
21 Frederiksen 1980, 57–58.
22 Ellemann-Jensen 1980, 42.
In the 1970s the Social Democrats remained optimistic about the expansion of the welfare state and social policies. The crisis in the 1970s coincided with a political turn to the left within the Social Democrats, which meant that they continued to ideologically support the universal welfare state and even tried to expand it. The Social Democrats in this period were even critical of the welfare state because it did not produce enough equality, and they still identified themselves as the guardians of the welfare state, a role whose solidity first began to show signs of erosion close to the new millennium, as will be shown later.

In opposition to the Social Democratic optimism, the radical left argued that the welfare state was a mere parenthesis that was linked to the boom of the 1960s. The economic crisis in the 1970s provided an impetus for the left wing in Denmark to revive some of the ‘old Marxian’ ideas of economic crisis and the tendency of the profit rate to fall and the resulting fall of capitalism. According to several Marxists, the crisis of the welfare state was connected to recurrent crises of capitalism. These ideas were linked to Paul Baran’s and James O’Connor’s analyses of the economic crisis in the 1970s. In the 1960s, the dominant idea on the left was that the welfare state was another form of capitalist alienation and that the welfare state was a necessary and useful institution for capitalism, safeguarding it against social conflicts and providing capital with services it could not produce itself.

In connection with the economic upturn in the 1960s, more emphasis was put on the alienation of the worker rather than on unemployment, crisis, and material misery. The change of mindset among those on the left wing is striking, and they even usually added that they went from being quite optimistic to becoming severely pessimistic. Martin Korst of the Socialist People’s Party describes this change of heart: ‘From being highly optimistic... I must admit that I have moved all the way down the scale to a conviction

24 Baran 1957.
26 Socialistisk Folkeparti 1963, 3; see also Venstresocialisterne 1969 and Danmarks Kommunistiske Parti 1965.
27 Venstresocialisterne 1969, 16.
that the classical Marxist economic analysis is correct, even if it is more than a hundred years old. In the Socialist People’s Party, the crisis-rhetoric was revived and taken as a natural part of the capitalist system, although the same party in the 1960s expended little ink on the question of capitalist crisis. In the 1970s this changed with the disappearance of the 1960s optimism and its replacement with the rhetoric of capitalist crisis. Like on the right, the bureaucracy was seen as an economic problem for society, especially the tax levels for ordinary workers. In Jørgen S. Dich’s well-known book *Den herskende klasse* (*The Ruling Class*), the economic logic of the public sector is also seriously questioned. Dich was sceptical of the power of the bureaucracy and was convinced that the ‘ruling class’ in the welfare state was made up of public employees in the social sector, the healthcare sector, and the educational system.

As the above analysis shows, the Social Democrats remained optimistic regarding the prospects of expanding the welfare state in the 1970s, whereas the radical left increasingly began to see the welfare state as an interim phase of capitalism that rested on the high growth rates of the 1960s. The crisis in the 1970s did not therefore alter the balance regarding the consensus on the welfare state on the left to the same extent as it did on the right, where the neoliberal discourse took hold in this period.

The discourse in the wake of the current crisis

When the crisis hit in the autumn of 2008 the initial political task in Denmark, like in the rest of the world, was to save the banks from collapse. Financial meltdown was on the horizon and the major parties in the Danish Parliament came together in a feeling of national emergency to save the financial sector after Lehman Brothers had collapsed. The credit market was frozen and credit was becoming tight. Therefore the majority of the political parties in the parliament decided to facilitate liquidity to the banking

28 Korst 1975, 19.
29 Socialistisk Folkeparti 1980, 17.
30 Talamas 1976, 9.
32 *Politiken* 2008.
sector, as well as to guarantee private savings stored in the Danish Bank. In addition, the government created a publicly owned company called ‘Financial Stability’ that would take over troubled and insolvent banks in order to guarantee the continuation of financial transactions.

The most common discourse on the right before and after the 2008 crisis was the discourse on cost containment. Cost-containment was important because of the external pressure from the European Union. The government argued that it was necessary to have drastic cutbacks in the public budget in order to satisfy the capital markets and the EU demands. In order to curb the economic crisis, the Danes had to raise the retirement age and receive less public transfers in general. This was the line of argumentation that was behind the plan of the Liberal-Conservative government (in office from 2001–2011) to abolish the early retirement scheme and postpone exit from the labour market. The Prime Minister from 2009 to September 2011 Lars Løkke Rasmussen of the Liberal Party argued in the New Year address to the nation on 1 January 2011 that it was necessary to make some adjustments with regard to public spending in order to safeguard financial stability in times of crisis.\(^{33}\) One of these necessary reforms was the abolition of the early retirement scheme known as ‘Efterløn’: ‘The government therefore proposes that we gradually abolish the early retirement scheme.’\(^{34}\)

The abolition of the early retirement scheme was seen as one of the obstacles to create a viable fiscal situation. Prime Minister Rasmussen argued during the election campaign in September 2011 that Denmark had to make necessary reforms if the country were to remain economically viable and not end up in a debt crisis like Greece.\(^{35}\) In February 2012, Ulla Tørnæs, a member of the Liberal Party, argued that unemployed people below the age of 30 should have their unemployment insurance cut in half in order to encourage them to undertake education.\(^{36}\) Likewise the former leader of the Conservatives Bendt Bendtsen proposed to abolish the universal old age

\(^{33}\) Rasmussen 2011.
\(^{34}\) Rasmussen 2011.
\(^{35}\) Venstre (n.d).
\(^{36}\) DR Nyheder 2012.
pension for rich citizens in June 2010.\textsuperscript{37} Compared to the 1970s, the neoliberal arguments after 2008 were embedded in a broad consensus shaped by economic globalization and the need to stay competitive in the global market.\textsuperscript{38} This was not the case in the 1970s, where the Social Democrats still held on to the ideal of expanding the welfare state, although they were unsuccessful in their strivings during these years. The only real victory at that time was the adoption of the early retirement scheme in 1979. Where an ideological consensus emerged in the 1960s stressing the importance of a universal welfare state, an ideological consensus emerged in the 1990s that stressed the need to stay competitive in the global market\textsuperscript{39}; a trend which has been reinforced after the crisis in 2008. As Robert Cox has noted, there was a qualitative break in the way in which social policies were framed in the 1990s and the first decade of this century compared to the ‘classic’ universal welfare state logic. Measures were introduced that changed the logic of the system to becoming more means-tested\textsuperscript{40}—changes which the advent of the economic crisis after October 2008 have accentuated. The question whether a radical break from the universal welfare state has taken place is however contested among scholars.\textsuperscript{41} This move towards a more critical stance towards the universal welfare state can be seen among several political actors in the aftermath of the financial crisis in 2008.

The left-wing parties in parliament backed the Danish bailout of the banking sector in October 2008, just after the collapse of Lehmann Brothers. The only party that refrained from adopting the bailout plan was the Unity List. Whereas the parties to the centre and right of the political spectrum believed that cuts in welfare were necessary, the parties to the left of the Social Democrats have repeatedly tried to frame the debate differently. According to the latter, instead of cutting back on the welfare state, the government should make the banks and those financial institutions that caused the financial crisis pay for it by increasing the tax on bank profits and financial

\textsuperscript{37} Børsen Nyheder 2010.
\textsuperscript{38} Pierson 2000; Green-Pedersen 2011, 135–150.
\textsuperscript{39} Crouch 2011, 22–23.
\textsuperscript{40} Cox 2001, 463–498.
\textsuperscript{41} Kautto, Heikkilä, Hvinden, Marklund & Ploug 1999; see also Brooks & Manza 2006.
transfers.\textsuperscript{42} Leftists once again aired the Marxist rhetoric of predicting the inevitable collapse of capitalism that had been virtually forgotten after the collapse of the Soviet Union.\textsuperscript{43} This ‘economic turn’, which is reminiscent of much of the 1970s, was, however, bolstered by a new effort on the radical left to safeguard the universal welfare model in Denmark. In contrast to the criticism of the Left Socialists and the Communists in the 1970s, the Unity List\textsuperscript{44} argued after the economic crisis in 2008 that it was their goal to preserve the Danish welfare model.\textsuperscript{45} It seems that, in the wake of 2008, the parties on the far left increasingly saw themselves as the guardians of the universal welfare model, while the Social Democrats became sceptical of that very model.

In March 2012 the Social Democrats initiated an intra-party debate regarding universal benefits. Several of the leading members argued that existing universal benefits should be reformed to become means-tested benefits. The reform agenda, called ‘Priorities in the Area of Welfare’, paves the way for a higher degree of means-tested benefits in the future organization of the welfare state. The Social Democrats explicitly stated that it was the economic crisis that has led them to formulate a reform agenda that questions the universal welfare state and its logic:

\begin{quote}
We are in an economic situation where it is necessary to consider whether or not we can afford universal benefits. It is possible that some benefits in the future can be prioritized differently and that some can be phased out. Perhaps it will be necessary to a greater extent to distinguish between those in need and those who are not.\textsuperscript{46}
\end{quote}

As can be seen from the above description, the current economic crisis has produced a different attitude towards the welfare state from the one that prevailed in the 1970s.

\begin{flushright}
\textsuperscript{42} Poulsen 2011.
\textsuperscript{43} Andersen 2009, 4.
\textsuperscript{44} The Unity List was created after the end of the cold war as a fusion between different small leftwing parties, most notably the Communist Party and the Left Socialists.
\textsuperscript{45} Enhedslisten 2011, 48–55.
\textsuperscript{46} Socialdemokraterne 2012, 2. Own Translation.
\end{flushright}
Another indicator of the fact that the sentiment has changed is that several leading Social Democratic politicians avoid using the term ‘welfare state’ and have preferred ‘welfare society’, as the director of the Social Democratic think tank, CEVEA asserts: ‘Actually we do not use the word “welfare state” any more’.\(^{47}\) The Social Democrats argue that the state constitutes a problem in itself because it works too bureaucratically: ‘Today a large part of the public sector functions too bureaucratically, in reality with elements of mistrust.’\(^{48}\) According to the current minister of employment Mette Frederiksen, the way forward is to focus on ‘self-governing institutions’ and ‘volunteers’ as actors that function outside the realm of the welfare state.\(^{49}\) It is one of the ironies of history that the Social Democrats in the year 2012 have taken up the term ‘welfare society’, a term which the Liberal Party had launched as part of their neoliberal campaign in 1985 against the welfare state.\(^{50}\) This suggests that the social Democratic identity as the natural defenders of the welfare state is changing. They now openly argue in favour of scaling down on the universal coverage such as unemployment insurance, health care, and the educational system. In all of these sectors the Social Democratic agenda seeks to strike a new balance between the role of philanthropic organizations, volunteer organizations, private institutions, and public institutions.\(^{51}\) On the radical left, the new policies of the Social Democrats have been met with scepticism: ‘I am a bit confused, for is it really a Social Democratic policy that they want to win the next election by renouncing Social Democratic principles?’ asked Per Clausen, a member of Parliament for the List of Unity.\(^{52}\) Where this ideological turmoil on the left will settle no one knows.

\(^{47}\) Weise 2012, 1.
\(^{48}\) Frederiksen, Mette 2012.
\(^{49}\) Frederiksen, Mette 2012.
\(^{50}\) Rasmussen & Ellemann-Jensen 1985, 3–4.
\(^{51}\) Socialdemokraterne 2011.
\(^{52}\) Clausen 2012.
Conclusion: comparing the 1970s and the present crisis

This analysis suggests that though the majority of the political parties—led by the Social Democrats—formed a consensus in establishing and expanding the universal welfare state in the 1960s, the consensus was short-lived. Beginning in the 1970s the Liberals and the Conservatives increasingly identified themselves as being ideologically opposed to the universal welfare state. In the 1970s the Liberal and Conservative parties, partly influenced by the literature on public choice, and partly influenced by the populist right-wing politician Mogens Glistrup, began to question the legitimacy of central elements of the universal welfare state, such as providing free health care, universal benefits, and other transfer payments. In the 1970s the left-wing began to refer to the idea that the welfare state was only possible during the economic upturn of the 1960s.

This scepticism towards the legitimacy of the universal welfare state has been reinforced with the advent of the current economic crisis. The discourse of necessity has, not surprisingly, been advanced across the board of political actors that now face huge public deficits and a European Union that is increasingly sceptical of governments that cannot control their public finances. The Liberal Party, the Conservative People’s Party, as well as the Social Democratic Party and the Social Liberal Party all argue that cuts in welfare are necessary to the point where the universal welfare state is to be cast in doubt. After 2008 the Social Democrats have become increasingly sceptical of the state and its remedies for creating welfare. Interestingly, whereas the radical left-wing parties were highly sceptical of the welfare state in the 1960s and 1970s, they have become defenders of that state in the wake of the 2008 crisis.

In comparing the development of the 1970s to the present crisis one striking feature emerges—namely, the gradual erosion of support for the welfare state. The consensus that once was the backbone of the welfare state has been eroded through the process of economic crisis. In the 1960s the criticism of the welfare state was marginal on the right, whereas in the 1970s it intensified with the resurgence of neoclassical economics and neoliberalism. During the 2008 crisis the right did not devote much time to an ideo-
logical criticism of the welfare state, arguing instead that the fiscal pressures on the welfare state necessitated reform. This chapter has proposed that this change towards implicit neoliberalism occurred because some of the neoliberal doctrines that seemed provocative in the 1970s have, by 2012, become mainstream, shaped as they are by the need to stay competitive in the global market. The left-wing discourses have also changed decisively, moving from an emphasis on the welfare state in the 1960s as an entity that alienates the population towards an interpretation of the welfare state in the 1970s in terms of a more Marxist political economy discourse. In addition, in contrast to the 1960s and 1970s, the radical left has defended the universal welfare state after 2008, whereas the centre-left and the right-wing parties more or less agreed that major reforms of the welfare state are necessary. In contrast to the center-left, center-right consensus, the radical left calls for an alliance between all parties that are ready to defend the welfare state. 53 The major change on the left has been that the Social Democrats have gone from being the self-proclaimed guardians of the universal welfare state in both the 1960s and 1970s to becoming its critics after the 2008 crisis. In the 1990s and the first decade of this century, the Social Democrats still argued that they wanted to preserve the universal welfare state, whereas they after the crisis in 2008 have questioned the logic of universalism. As described above there are a lot of arrows that point to the fact that the Danish welfare state is now experiencing a series of reforms that will question the universal welfare state, not least because the Social Democrats are now openly discussing a move away from universalism. In light of Klaus Petersen and Urban Lundberg’s analysis of social democracy and the welfare state, it seems that almost all political parties have exited the welfare state consensus that existed in the 1960s.54 Overall this chapter has shown that an economic crisis makes such a consensus vulnerable. The first blow was the rise of neoliberalism in the 1970s; the second blow was the questioning of the universal principles on the part of the Social Democrats in the present crisis. It is a piece of historico-political irony that the radical left was most critical of the welfare

53 Frederiksen 2012.
54 Petersen & Lundberg 1999.
state in the 1960s, when the centre parties supported it, and has been most endorsing of the welfare state after the 2008 crisis, when the welfare state has come under attack from the centre parties.

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In the wake of the collapse of the Icelandic banks in October 2010, the parliament set up a Special Investigation Commission (SIC)\(^1\) the task of which was to 'search for the truth about the events leading up to and the causes of the collapse of the Icelandic banks and related events'.\(^2\) In relation to this commission, the parliament also established a Working Group on Ethics (WGE) to deal with the question whether the collapse of the Icelandic banks could to some extent be explained by morality and work practices, not only in the financial sector but in other areas of society as well. The concluding words of the WGE report state that although several individuals in the financial, administrative, political and public sphere showed negligence and sometimes reprehensible action, the most important lessons concern weak social structures and public institutions that are needed to sustain a well-functioning democratic society.\(^3\)

In this chapter, the main reasons for this conclusion of the WGE are clarified and related to the political development after the collapse. The analysis is framed in terms of Habermas’s three normative models of democracy.\(^4\) In his account, the liberal model enables citizens and social actors to pursue their private interests within the boundaries drawn by law and constitution. While election results give legitimacy to political power, no particular attention is paid to how voters’ preferences are formed. In the republican model,

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1 Special Investigation Commission 2010.
2 Law no. 142, 18 December 2008.
3 Cf. Árnason 2010.
4 Habermas 1996.
the main emphasis is upon political will-formation as a praxis of self-legislation. Citizens engage in dialogue in which they articulate their collective self-understanding and the values constitutive of their identity. In the discourse theory model, the emphasis is neither on the expression of voters’ preferences nor on an engaged citizenry but on the institutionalization of deliberative processes of will-formation and on the practices of public accountability for policies and political decisions.\(^5\)

My argument is that (i) events in the period preceding the collapse showed major flaws in the type of liberal democracy practiced in Iceland; (ii) events in the wake of the collapse showed serious mistrust in the liberal model as republican views came to the fore; (iii) distorted republican reactions to the collapse have resulted in a certain type of democratization which exploits the weaknesses of Icelandic society; and (iv) deliberative democratic theory points towards the kind of remedies that need to be made in order to strengthen the practices and public institutions of Icelandic democracy.

**Flaws of the liberal democratic state in Iceland**

The broad mandate of the WGE made it possible to place the SIC analysis of events in the financial and administrative sector into wider social and political context. The reports demonstrated how crucial political decisions facilitated the course of events that led to the crisis.\(^6\) In the 1990’s a liberal political agenda was implemented, with the privatization of the Icelandic banks in 2002 and a general deregulation of the financial sector. The principle of distributed ownership—the backbone of the process of privatization—was discarded. The two state banks were each sold to two small groups of individuals with little banking experience. These two groups were each favoured by one of the ruling political parties, turning the privatization into a de facto political deal aimed at maintaining the balance of power and influence. In this politically favourable environment, the financial sector was allowed to expand beyond control and become dominant in Icelandic society. Coupled with easy access to loans on international financial markets, the Icelandic

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\(^5\) For other models of democracy, see Held 2006.

\(^6\) See also Wade and Sigurgeirsdóttir 2012.
banks grew excessively, and, their collective capital became approximately nine times the gross national production of the Icelandic state. This resulted in political paralysis within the government when signs of impending crisis were shown. No one dared to take decisive action because doing so might initiate a process of systematic financial collapse.

A major theme in the political justification of privatizing the banks was the necessity of uprooting the corruption of political influence in the banks and the achievement of this uprooting by giving the laws of the market free reign. This theme squares well with Habermas’s liberal model of democracy, which hinges ‘on the legal institutionalization of an economic society that is supposed to guarantee an essentially nonpolitical common good by the satisfaction of private preferences’. Later, the liberalization of the financial market was legitimized by the apparent success of the banks, which created conditions for extremely high levels of private consumption, partly through easy access to loans and the favourable exchange rate of the Icelandic krona.

However, the way in which privatization was executed paved the way for cross-ownership and mutual lending relationships that were largely hidden in a complex and non-transparent structure of conglomerates. The political message of the government was to make supervision less burdensome for financial companies so as not to place obstacles in their way to increased profit. A report from the Icelandic Chamber of Commerce argued that it would be much more sensible to let players on the market set their own rules and implement them rather than rely on public regulation which is burdensome and costly. Effectiveness was the euphemistic term for the light touch regulation policy preached by the main stakeholders in the financial sector, supported by many intellectuals—especially by those at the semi-private University of Reykjavík, which is partly owned by the Chamber of Commerce—and implemented by the politicians.

It is a characteristic feature of Icelandic politics that the leaders of the ruling coalition parties—usually the prime minister and the secretary of

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7 Habermas 1996, 22.
8 Cf. Jónsson and Helgason, chapter 8 of this book.
9 Ólafsson 2011.
10 Icelandic Chamber of Commerce 2007, 19.
state—are dominant figures in their respective parties, which together have majority in parliament. Attempts of the opposition to raise critical questions are often dismissed simply for the fact that they originate from the opposition and the strategic rhetoric of the political discourse tends to ignore questions of truth and legitimacy in favour of partisan bickering and winning the battle of words. Ministers are responsible for their set of issues and can make key decisions without consulting the parliament or even the government.

Another characteristic of Icelandic politics of relevance in this context is the close personal relationships and informal interaction between powerful financiers, public officials, and political ministers. This type of interaction is particularly characteristic for the relationships within the government and civil service. For example, the chair of the Board of Governors of the Central Bank of Iceland had formerly been the prime minister for 13 years. This affected his relationship to former political allies and foes, with some of the key high ranking public officials hired by him as a former prime minister, and with influential people in the banking sector, some of whom had been favoured by him when the banks were privatized. The WGE argued that it is one of the weaknesses of a small society that there is a lack of the professional distance and detachment needed for efficient regulation. The impersonal space created by objective moral rules that protect the values at stake is especially important in a situation of personal proximity, close connections, and naive trust. Such space was all the more needed in Iceland’s case since the legal framework for the financial sector was rather slim. It has been argued that the ‘prevalent nepotism’ in Icelandic society was the main reason for the collapse of the Icelandic banks.\(^\text{11}\) This can be regarded as symptomatic of a systemic corruption that goes unobserved by the parameters used by international monitors in whose quality checks Iceland has always scored high as a country putatively free of corruption.\(^\text{12}\)

Another indication of this systemic corruption is that there was no democratic resistance to the bankers’ own version of their unprecedented success. Attempts by the opposition in parliament to raise critical questions

\(^{11}\) Vaiman, Sigurjónsson & Davidsson 2011.
\(^{12}\) Transparency International 2008.
were swept aside in the strategic rhetoric that dominated the political discussion. Most politicians had also received financial support from the banks in order to finance their participation in primaries, which did not encourage critical thinking among them about the financial sector. For example, a proposal in the parliament to carry out a study on the distribution of power in Icelandic society, similar to those carried out in Scandinavian societies, was ‘put to sleep’ in a committee, indicating a lack of concern about how dominant the financial sector had become in the social and political sphere.

As the financial sector in Iceland grew excessively the agencies of administration and politics entrusted to maintain the balance of power and protect the public interest failed to do so. The key elements of liberal democracy—such as elections, party competition, parliamentary discussion, and the media—indirectly contributed to the crisis instead of providing resistance to the impending threats. Most professionals of law and accountancy working in the financial sector uncritically serviced the companies they worked for, disregarding the public interest. The media, mostly owned by the major financial groups, framed the discourse about the banks in a favourable light and did not pursue opportunities for investigation when critical voices were raised. After the collapse, members of the media complained that they had been working in a close-knit society where it was hard to get hold of reliable information. They correctly criticized specialists from universities for their unwillingness to contribute to the public debate. The WGE argued that the public sphere in Icelandic society in the boom years leading up to the collapse was very weak and provided poor conditions for enlightened public debate.

Republican development of democracy after the crisis
In the liberal model, it is a key test of democracy whether a transfer of power takes place when the majority demands it. From this perspective, it can be said that liberal democracy as a security valve against ongoing misuse of power did function in Iceland. It is interesting to note, however, that in the

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13 Togeby, Andersen, Christiansen, Jørgensen & Vallgårda 2003.
wake of a major social crisis which was largely due to incompetent politics, no political figure resigned. Nor were any of the key administrators that were responsible for overseeing the financial sector forced to resign. It was not until after serious riots in January 2009 that the government resigned and new elections were announced. When a new left coalition government had been formed, the board of governors of the Central Bank of Iceland were forced to resign.

In the wake of the collapse, there were signs of raised political consciousness among Icelandic citizens. Hopes of a new beginning and signs of a republican model of democracy as described by Habermas were in the air: ‘According to the republican view, … political rights—preeminently rights of political participation and communication—are positive liberties. … through the exercise of which citizens can first make themselves into what they want to be—politically autonomous authors of a community of free and equal persons’.14 When the republican model is given a communitarian interpretation, the democratic will-formation draws its legitimating force from a ‘previous convergence of ethical convictions’15 and not from the power of arguments that come into play in a process of informed deliberation.

The republican tradition has not been strong in Iceland. Referendums have been rarely used and public trust in political institutions and authorities has been relatively high. After the financial collapse, this trust faded rapidly and republican tendencies set their mark on Icelandic politics. Three examples can be taken to substantiate this claim. First, two national forums were held in which participants were selected randomly from the population to have roundtable discussions for a day in the major sports arena in Reykjavik.16 The first was held in November 2009 with 1231 participants and its objective was ‘to give a nation the task of articulating its values and creating a future general policy for a whole country’.17 The organizers called themselves ‘The Anthill’ after their guiding analogy and methodology: ‘the theory that crowds—like ant colonies—possess wisdom, or “collective intel-

14 Habermas 1996, 22.
15 Habermas 1996, 22.
16 Cf. Árnason 2013.
17 Helgadóttir and Kristjánsson 2009.
ligence,” that is inaccessible to individuals, unless it is extracted using the methodology of market research.’18 The key word here is ‘extracted’; the emphasis was not on facilitating an informed and reflective dialogue but rather on registering the several values articulated by participants and calculating their frequency. The results of the first forum—for example, optimism, integrity, and honesty—were regarded as the true values of the Icelandic nation. These values were loosely related to the main sectors of society such as the systems of welfare and education. Very little time was allotted for this complex task.

The meeting was formally endorsed by the government and used as a model for the next national forum with 950 randomly selected participants that met for a day in November 2010. The meeting was to precede a specially elected assembly whose task was to rewrite the constitution: ‘The National Gathering shall endeavour to call for the principal viewpoints and points of emphasis of the public concerning the organization of the country’s government and its constitution.’19 A handbook describing the methodology and instructions for the ‘navigators’ at the National Gathering on the Constitution states that the ‘key element of the National Assembly is to start the meetings by creating a frame of mind conducive to a discussion about the attitudes, values or visions that the subject is based upon.’ After this general discussion about values, the main task was to answer the question: ‘What do you want to see included in the new Icelandic Constitution?’ The authors of the Act on a Constitutional Assembly saw ‘discuss[ing] what kind of society we want the new Icelandic Constitution to reflect’ ‘as important and beneficial.’20 The results of this national forum were reported by a special Constitutional Committee and presented to the Constitutional Council, which was to take the results of the national gathering into account in its deliberations.

These two national assemblies are interesting attempts to engage citizens in the political process. However, as a result of the anthill methodology and the limited time and size of these gatherings, they could hardly be

18 Helgadóttir and Kristjánsson 2009.
19 Act on a Constitutional Assembly 2011.
20 Act on a Constitutional Assembly 2011.
described as forums for critical reflection. Participants were not expected to assume a public standpoint by engaging in informed debate, but merely to express relatively unreflective viewpoints. Consequently, the conversation that took place could at best be described as ‘a hermeneutical process of self-explication of a shared form of life or collective identity’, as Habermas characterizes discourse in the spirit of communitarian republicanism. Political questions are ‘reduced to the type of ethical questions where we, as members of a community, ask who we are and who we would like to be.’

In the national forums, the emphasis was on teasing out the national collective identity and then translating this identity into the ethical discourse of values and felicitously phrased descriptions of a collective vision—but not the identity, the discourse, or the vision was tested in a critical debate. The results of this national forum have been referred to as providing wide democratic legitimacy for the proposals of constitutional assembly and the procedures leading up to it. And instead of feeding into a public discussion about the new constitution in an open democratic process, the results of the national forum were used by the major spokesmen of the constitutional council as a “conversation stopper”, an authoritative will of the nation that should not be tampered with.

Another key development from a democratic point of view in Iceland since the collapse is a much more active role the president has carved out for himself, primarily by activating Article 26 of the constitution, which enables the president to submit a bill to a referendum. In the history of the republic since 1944, no president has ever activated this article until the present president did so in 2004 when he decided not to confirm a most controversial bill on the media. In the last three years, the president has twice refused to sign in a law on an agreement between the Icelandic state and the United Kingdom and the Netherlands respectively concerning reimbursement of the savings that were lost in these countries when the Icelandic bank Landsbankinn collapsed (Icesave accounts).

22 Gylfason 2012, 12.
23 Cf. Gylfason 2012b.
24 The Constitution of Iceland.
In arguing for his decision, the president has appealed to the will of the nation and direct democracy, emphasizing a cleavage between the parliament and the nation. The president’s statement after the vote in 2011 was characteristic of republican discourse:

The people have now spoken clearly on this matter on two occasions in accordance with the democratic tradition which is Europe’s most important contribution to world history. The leaders of other states and international institutions will have to respect this expression of the national will. ... The two referendums on the Icesave issue have enabled the nation to regain its democratic self-confidence and to express sovereign authority in its own affairs and thus determine the outcome in difficult issues.25

The Icelandic people used the opportunity given in the referendums to refuse to repay the people in the United Kingdom and Netherlands part of the money that the authorities in these countries decided to pay to the holders of the Icesave accounts. The position voiced by the majority of voters in the debate preceding these elections was that ordinary citizens should not pay for the debts of private bankers. In the years preceding the crisis, the Icelandic president had developed his own theory of the unique qualities of Icelandic bankers claiming roots for these qualities in Icelandic history and heritage.26 In the wake of the collapse, however, he has led the flock of those who argue that by refusing to repay our share in Icesave we are defying the capitalistic system. This strategy has fed into a damaging nationalistic mentality that before the crisis painted Icelanders as victors and since the crisis as victims bullied by other nations. As a result, Icelanders are presently defying a hard-won and fair agreement that was made between the countries at issue and demanding that the public in the United Kingdom and the Netherlands pay our part as well as their own.

25 Grímsson 2011.
From a democratic point of view, the referendum on the Icesave agreement in 2011 was a clear case of an issue that was badly suited for an exercise in direct democracy. The nation has been in a state of frustration, sadness, and anger after having been exploited by a risk-taking band of financial moguls who robbed the banks from within, partly because of incompetent authorities and the naïve political ideology which facilitated the process. Many people lost money and every citizen is paying the cost of the collapse in one form or another. When this grieving and resentful population is given the opportunity to say ‘no’ to the repayment of debts that were instituted by the financial moguls, it is understandable that they would do so.

Furthermore, Iceland is a country where the media is both professionally and financially weak and the conditions for enlightened public opinion are poor. Many voters nourish their resentment and reinforce their predetermined ill-informed views on the Internet. The official media also suffers from serious shortcomings. To take one example, the current editor of Morgunbladid, one of the two major newspapers in the country, is the former chair of the board of governors of the Central Bank of Iceland (who was forced to resign after the new government took over in 2009). As former prime minister of Iceland, he oversaw the privatization of the banks and was a key player in implementing the laissez-faire ideology that enabled them to grow. As of 2012 he holds one of the key positions for influencing public opinion and heavily invested interests in directing the attention of the public from the internal causes of the collapse to the ‘hostile world’ around us. The other main newspaper, the main private TV station, and a radio station forming a media conglomerate are still mainly owned by one of the pre-collapse financial moguls and the chair of the board is none other than his wife.

Since the time of the collapse of the banks, the demand for a more direct democracy by the increased use of referendum has been in vogue in Iceland. Out of the 25 candidates for the constitutional assembly, 21 said that they were in favour of more frequent national referendums. Not surprisingly, a major aim of the newly drafted constitution is ‘to boost direct democracy’.

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27 Gylfason 2012, 16.
28 Gylfason 2012, 18.
While retaining the president’s right to refer laws to a referendum, it adds new clauses about the rights of citizens to petition for a referendum on legislation and to submit a legislative bill to the parliament. In both cases, only 10 per cent of the electorate is needed. The question is whether such attempts to boost direct democracy are likely to provide the remedies for the weaknesses of Icelandic democracy pointed out by the SIC and WGE. There seems to be no reasons to believe that increased direct democracy would have made any difference in the years preceding the crisis; on the contrary, given their popularity direct democracy might have given the popular financial moguls stronger legitimacy to carry on as they did.

The value of direct democracy is contextual in the sense that it is dependent on the background conditions of the political culture and institutions in the society at issue. If these conditions are poor, citizens can be easily exploited by populist appeals to direct democracy and the will of the nation.29 As consequence, the republican model of democracy can only appear in a distorted form as has happened in Iceland. For enhanced political participation such as that evidenced in referendums to be informed and effective, the conditions for popular autonomy need to be the strengthened through democratic institutions— institutions that, inevitably, serve as the vehicle of democratic will-formation.

Deliberative politics and the task of democratization

Contrary to a popular understanding of deliberative democracy, Habermas does not emphasize direct participation of the public in deliberation and decision making. On this point he is very clear: ‘Discourse theory has the success of deliberative politics depend not on a collectively acting citizenry but on institutionalization of the corresponding procedures and conditions of communication’.30 He also goes on to argue that discourse theory rejects certain premises of the philosophy of consciousness that he takes to be a precondition both for the republican view of civic self-determination and for the liberal view of isolated private subjects under the rule of law:

30 Habermas 1996, 27.
Discourse theory works instead with the higher-level intersubjectivity of communication processes that flow through both the parliamentary bodies and the informal networks of the public sphere. Within and outside the parliamentary complex, these subjectless forms of communication constitute arenas in which a more or less rational opinion and will-formation can take place.31

This understanding of democracy is of major importance in responding to the political situation in Icelandic society. It concentrates on the strengthening of institutions and channels for informed democratic discourse rather than on the expression of the popular will each time. While Habermas describes the forms of communication that would saturate the political structures and the informal networks of the public sphere as ‘subjectless’, the communicative power required for public accountability and deliberative practices can only be active if citizens acquire the discursive competencies needed to support these structures and networks. The structures of democracy could possibly become semi-autonomous, but without reflective citizens they will not be of much democratic value. This requires strengthening of the media, citizenship, and the political culture, a strengthening of a different kind than has been emphasized by the liberal and republican models of democracy.

The following is a sketch of issues that are of primary importance in the task of reconstructing Icelandic democracy in light of discourse democratic theory.

The media
From a republican viewpoint, Icelandic newspapers have for a long time been quite democratic as their doors have been wide open for contributions from the public. There is a strong tradition in Iceland of people from all sectors of society expressing their opinions in articles and letters to the editor

31 Habermas 1996, 28.
and other columns. From a discourse-theoretical point of view, however, it is much more important in democracy that the media is professionally strong and sufficiently independent to provide the public with conditions for ‘rational opinion and will-formation’, to use Habermas’s words. Such conditions can only be provided by having well-educated, professional and vigilant reporters who are in a position to delve into major social and political issues. This crucial feature of the media in a democratic society is, however, almost nonexistent in Iceland, and it is questionable whether such a media can be brought into being without actions on the part of the state. The state could earmark money, for example through grants, for this purpose while giving competent investigative reporters complete freedom to pursue the important issues.

Since the tendency in Iceland now is to increase ‘vote-centric’ democracy, improving the media in terms of strengthening its professionalism and independence would be crucial to improving the conditions for the dissemination of public information and the provision of public deliberation preceding elections. However, these conditions are threatened by various forces in contemporary society.\textsuperscript{32} I have already mentioned features of the Icelandic media that should be of concern from the liberal-democratic viewpoint because members of the media have not been in an effective position to act as a watchdog of the power structures that affect the well-being of the public. The question of ownership is a delicate issue in a small society where it is inevitable that relatively large corporations are needed to stand behind a privately owned newspaper. A major problem has been the lack of transparency of ownership. A new law on the media (no. 38, 2011), as well as articles in the bill for a revised constitution, should increase transparency of ownership and also the independence of editors against media owners.

\textsuperscript{32} Cf. Curran 2011.
The constitution
The discussion about the recent emphasis in Iceland on direct democracy and referendums requires clarification in the constitution vis-à-vis what the formal conditions should be for setting up a referendum. As of 2012, it is still basically left to the judgment of a single person, the president of the Republic, to decide whether he refers a bill to a national referendum or not. The reasons provided for his decisions, such as the number of voters who signed a petition for him to refuse to sign a bill, or the number of MPs who were against the bill, have not been consistent, and it is hard to foresee how the president will react. Of major importance for the development of Icelandic democracy is that the role of the president and the conditions for referendums be made constitutionally unambiguous.

Another important task for the constitutional council has been to clarify the distribution of power in the constitution and to limit the supremacy of the executive branch in Icelandic politics. In the bill for a new constitution drafted by the council, there are also articles concerning independent state agencies, equal weight of votes, and right to information, all of which can serve an important function in strengthening democratic culture, although it remains to be seen how they will eventually be fleshed out.

Improving political culture
While institutional changes are necessary, they will certainly never be sufficient for improving ‘the communication processes that flow through … the parliamentary bodies’, to quote Habermas again.33 One of the issues criticized in the WGE report was the prevailing rhetoric in Icelandic politics, which, it argued, is characterized by strategies aimed at winning debates by one party claiming to have a stronger appeal to the ‘opinion of the many’, as Plato put it in The Republic, than the political opponent.34 The source of a statement—that is, whether it stems from the opposition or from the ruling side—is seen as more important than the substance of the statement. As a consequence, conditions for political dialogue (at least that aspect of po-

33 Habermas 1996, 28.
Political dialogue visible to the public) are poor in Iceland: participants rarely engage in a process of argumentation in order to understand the matter at hand and to reach a reasonable agreement. This is one of the major reasons why the public is fed up with political discourse. Though it is realistic to expect that this kind of inter-party battling is an inevitable part of politics, there are nevertheless sensible ways to facilitate a more healthy climate of deliberation in politics in which the power of the stronger argument—through better evidence and sounder reasoning—is favoured over strategic rhetoric.

Both internal and external means could be used as attempts to remedy this. One way to proceed internally is that members of parliament set themselves a code of conduct in which they clarify for themselves and others the main obligations and responsibilities implied in their role as politicians. It is essential that the politicians themselves are the authors of this codex and that they go through the deliberative exercise of discussing it and writing it down. The process of self-clarification and education that can take place in such an exercise may even be more important than the product, although the product would play a crucial role in the self-regulation of a political assembly or political party. Among the obligations and responsibilities to be discussed in such an exercise would be the norms of political discourse. By thematizing their own mode of discourse and holding it up for critical scrutiny, politicians, it is hoped, would greatly improve the conditions for healthy deliberation.

The task of strengthening institutions external to the government that are entrusted with the role of guarding the public interest against misuse of power both in the public and the private spheres is also crucial from the viewpoint of deliberative democratic theory. In addition to supervisory institutions of the financial market and competition, other institutions are also important in this respect. For example, the Office of the Althing Ombudsman, which has the role of monitoring the administration of the state and local authorities and safeguarding the rights of the citizens vis-à-vis the authorities, and the Icelandic National Audit Office, whose mandate is to

35 The Althing Ombudsman (n.d.).
audit the financial statements of central government bodies and to moni-
tor and improve the financial management of the State.\textsuperscript{36} These institutions
play a crucial role in strengthening the practices of accountability—that is,
in enhancing the quality and the rationality of the reasons brought to de-
fend policy, law, and political practices. As succinctly described by Simone
Chambers, such institutional oversight is in the spirit deliberative democ-

\begin{quote}
Deliberative democratic theory \ldots studies and evaluates the institu-
tions, forums, venues, and public spaces available for deliberative justification and accountability. It looks at the social, economic,
political, and historic conditions necessary for healthy deliberation
as well as the attitudes, behaviours, and beliefs required of partici-
pants.\textsuperscript{37}
\end{quote}

The task of strengthening these structural conditions is much more im-
portant for developing Icelandic democracy than the exercises in direct de-
mocracy that have been dominant in the years after the financial collapse.

\textit{Strengthening the professional and public structure of consultation}

There is a need in Icelandic politics to seek much more professional and
expert council in the process of law making and parliamentary deliber-
ations. In some Scandinavian countries, there are practices of parliamentary
hearings in which committees working on complex and controversial issues
of public concern hold meetings within the parliament to which experts
and major stakeholders are invited. These practices reflect a political culture
of consensus that fosters a high level of harmonization of interests in the
labour market and encourages compromises in a political system in which
stakeholders are given an active role in influencing legislation.\textsuperscript{38} The par-
lliamentary hearings are often held in cooperation with national commit-

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{36} Althingi’s Independent Monitoring Body (n.d.).
\item \textsuperscript{37} Chambers 2003, 309.
\item \textsuperscript{38} Cf. Hilson 2008.
\end{itemize}
\end{footnotesize}
tees such as national councils of ethics if the subject matter is in the area of biopolitics. However, none of this is done in Iceland where there is no national ethical council charged with the task of raising public debate about bioethical developments and policy. This lack of official consulting practices relates in fact to the weakness of the media in the country because, among other things, it is public meetings and the reports published by these expert bodies that call for and feed into an informed and critical media discussion on such pressing ethical issues. Hence, by strengthening the structure of consultation and mobilizing expertise, conditions for the formation of more enlightened public opinion would be improved, providing resistance to entrenched forces in the economic sphere that influence political decisions.

Moreover, instead of the kinds of national forums where participants in the spirit of the republican model of democracy articulate their core values and ethical identity, Iceland could be an optimal place for deliberative exercises designed to enhance and facilitate public deliberation on issues for public policy. Because of the country’s small and relatively homogenous population, deliberative groups would be quite representative of the population at large. From a democratic point of view, several mini-public meetings about issues for political decision making could provide much more food for political thought than the anthill type of gatherings in which the ‘opinion of the many’ is the accepted wisdom. 39

This feature of deliberative democracy should not be confused with direct participatory democracy where the primary emphasis is on the outcome of elections and on widening the scope and increasing the amount of issues about which citizens can have a direct say. In deliberative democracy, the main rationale behind the deliberative forum is to facilitate better informed and more reasonable decisions. The results of deliberative forums feed into policy decisions by informing policy makers about the arguments, viewpoints, and concerns of the citizens. It goes without saying that citizenship

education from an early age could contribute to a more literate, thoughtful and vigilant citizenry. The law on obligatory schooling in Iceland states that pupils should be prepared for participation in a democratic society. From a discourse-theoretical viewpoint, this should involve exercising each citizen's abilities for critical thinking and competencies for participation in public dialogue, which would also improve conditions for national referenda.

I take these tasks aimed at strengthening institutions and practices for more informed decision making, public deliberation, and consultation to be crucial from the viewpoint of discourse theory of democracy. They are also appropriate reactions to the criticism of policy making and working practices conveyed in the SIC and WGE reports. If these tasks are systematically worked upon, the Icelandic nation could possibly build a better functioning democratic society.40

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Abstracts

The conceptual morphology of welfare:
A site of ideological indeterminacy

MICHAEL FREEDEN

The chapter explores the trajectory of welfarism as an ideology since its emergence over a century ago and identifies the developments that initiated it. Those included an organic view of social structure and human interdependence in which the wellbeing of the parts was crucial to the health of the whole, a shift from a view of human nature as mainly entrepreneurial to one that was also fragile and dependent, an appreciation of the normality of risk and uncertainty, and a rich notion of welfare as the flourishing of every member of a society, with creative work being a part of welfare. The role of the state changed from that of protector to that of enabler, a benevolent entity under democratic control. But there were problems with those understandings from their inception, and these can illuminate some of the current crises of the welfare state. One of them relates to the exaggerated unity ascribed to society, discounting its internal pluralism. A second was a disregard of the possibility that a democratic society may legitimately turn against welfarism. A third was a divergent perception of human needs either as finite and manageable, or as infinite and uncontrollable. Recent ideological assaults on welfarism are linked to the decline of the state as a positive term, and the diminishing of the language of citizenship. Different conceptual combinations have pulled proponents of welfare in diverse directions, and their opponents’ positions also depend on varying decodings of ostensibly shared concepts of liberty, justice, power and equality, each of which contain multiple conceptions.
Social democratic welfare capitalism (SDWC) with its integral redistributio-
tional welfare and equilibration system, the hegemonic regime of the West-
ern world since the late 1940s, is under threat from three interconnected
main forces—the collapse in fiscal capacity of states, the decline in power
and legitimacy of its chief institutionalized agents such as unions and politi-
cal parties, and the rise in influence of social and cultural forces that reject
the authority of the liberal-capitalist state and its corporate allies. Under-
lying these forces are the deeper, longer-term, economic and geopolitical
changes of de-industrialization and growing inequality in the West, the rap-
id industrialization of the East, and the massive global imbalances brought
about by the post-Bretton Woods financialization of the world’s markets.

This crisis is one of the Western model of capitalism only and we have to
ask if we are witnessing the beginning of the end of this model. Will SDWC
emerge intact from this crisis or be transformed into something else? Is this
a moment of regime transformation in the West? Can there be a popular
political foundation any longer for the Western model? And if not, what will
supplant it? In seeking answers we must look to new understandings about
the interconnections between political economy, organizational regulation,
culture, sociobiology, biopolitics, and the long-run evolutionary processes
of diversified capitalism. The chapter examines pessimistic and optimistic
arguments for the survival of SDWC, which will probably require a new
kind of community-based politics.
Gender, inequality and the crisis

DIANE PERRONS

The global financial crisis was sparked by mismanagement of capital markets in the financial centres of the Western world, but underlying causes are deeply rooted in rising economic inequalities associated with the neoliberal model of global development, which prioritizes the economy and freedom for self-regulating markets above social needs. This chapter outlines the processes leading to social and gender inequalities and the relationship between inequality and the crisis by drawing on the Keynesian-inspired work of feminist and heterodox economists. Both approaches are critical of the austerity policies being pursued in the United Kingdom, United States, and Southern Europe and similarly to Karl Polanyi, argue that it is necessary to re-establish social control over the markets to secure social well-being. The feminist analysis goes further by arguing that more transformative policies are required to redress gender and social inequalities and the mistaken priority given to production over reproduction in order to establish a genuinely inclusive society.

The new politics of austerity in the United Kingdom and the United States

DANIEL BÉLAND AND ALEX WADDAH

The 2008 financial crisis and the Great Recession it brought about have had direct consequences for the politics of social policy in both the United Kingdom and the United States, two countries often categorized as having a ‘liberal welfare regime’. One consequence of the Great Recession has been the deterioration of the fiscal situation of governments, which helped push austerity to the centre of the social policy agenda in both countries. Thus far, budget cuts affecting social welfare programmes have been much more explicit in the United Kingdom than in the United States, which reflects institutional and electoral differences between the two countries. This chapter
will explore the politics of social policy during the Great Recession in both
countries, with a focus on ideational and institutional factors shaping differ-
ces in agenda setting and policy outcomes between the United Kingdom
and the United States.

Crisis and recovery in Iceland

STEFÁN ÓLAFSSON

This chapter gives an account of the characteristics of the Icelandic finan-
cial and economic crisis. It outlines the political developments in 2009 and
the policy emphasis of the social democratic-left green government that as-
sumed power in early 2009. The stated goal of the government was to pur-
sue Nordic welfare policies in order to shelter ordinary families against the
crisis as possible. This was no doubt difficult to achieve, given that govern-
mental finances were devastated by the crisis, with great needs for reduc-
ing the public deficit, either by expenditure cuts or tax increases—or both.
The findings indicate that the goals of sheltering lower and middle earning
households against the worst consequences of the crisis have to a significant
degree been achieved in Iceland. This outcome seems to deviate significantly
from the paths undertaken in Ireland and the UK.

Ireland’s economic crises in recent historical perspective:
From resilience to retrenchment in the Irish welfare state?

MAIRÉAD CONSIDINE AND FIONA DUKELOW

In the 1980s Ireland experienced a protracted economic recession, the fall-
out from which took well into the 1990s to resolve. By the end of that decade
Ireland became feted for its capacity to embrace globalization, resulting in a
rapidly growing economy. By the end of the first decade of the twenty-first
century, this reputation was quickly displaced given the rapid onset of se-
vere economic crisis. This chapter explores this turbulent economic trajec-
tory with reference to these most recent crises, examining their respective impacts on the Irish welfare state. The chapter outlines how these crises were manifest in economic and social terms, and explores the policy responses and the manner in which these were framed. The chapter demonstrates that while the economic and fiscal narratives were broadly similar, the degree to which economic, political and social circumstances differed had a significant bearing on the extent to which narratives of retrenchment became embedded in policy changes in each period. Relevant factors include the degree of European economic integration and economic globalization more broadly; internally, the level of welfare state development and relative standards of living are examined. Considering the present crisis in recent historical perspective, the chapter identifies the drivers that have led to deeper and more rapid welfare retrenchment in the current crisis. This argument is borne out when the case of social welfare is examined; ideas about how social welfare expenditure needs to be restrained are not new but gained more traction and have influenced policy changes to a greater degree. The impact would appear to be significant, the consequences of which are potentially much more far reaching than those previously experienced.

Icelandic consumers in boom and crisis
GUDMUNDUR JÓNSSON AND MAGNÚS SVEINN HELGASON

Consumer boom fuelled by economic growth and easy credit was an important facet of the bubble economy leading up to the crash in the Autumn of 2008. Iceland offers one of the more extreme cases of the shifting fortunes of consumers from boom to crisis and how the transition from a period of carefree consumption to times of austerity has affected consumer behaviour. The chapter presents on the one hand detailed quantitative analysis of the rapid rise of private consumption between 1994 and 2008 followed by the dramatic contraction in 2009 and 2010. The focus is on changes in consumption patterns, growing debt financing of household consumption and inequalities between consumers. The analysis shows unprecedented
accumulation of material wealth and consumer durables during the boom years. From a different perspective, we explore people’s perceptions of the social and economic impact of the boom and crisis on consumer behaviour. For this purpose we use interviews with 80 Icelanders to shed light on the consumption choices of people and discuss the ways in which people understand their own participation in the consumption boom.

Economic crisis and the ageing welfare state: Reforming pension schemes in Finland in the 1990s and early 2000s

MATTI HANNIKAINEN

In the early 1990s the Finnish economy plunged into the deepest peace-time recession in the twentieth century. The economic crisis was exacerbated by an ageing population who saw their pension schemes and other social benefits scaled down in its wake. Major pension reforms were made to public-sector pensions as public-sector benefits were aligned with those in the private-sector. And employee contribution share was introduced to the earnings-related pension schemes, even as early retirement schemes were weakened. The pension reforms continued after the recession and mostly entailed decimations of benefits and a slowing down of future pension expenditure growth. Moreover, a change in the financing environment required extensive reforms to pension companies’ investment operations. During the recession the trade unions succeeded in preventing and delaying many radical changes. When the labour market organizations were successful in reforming the pension schemes after the recession, corporatist features became even more prominent in the pension policy. This chapter highlights how the strong and long-lasting position of labour market organizations can be explained by their success in reforming the pension schemes.
'It’s a Mancession’: Discourses of gender in the aftermath of the US financial crisis

JYL JOSEPHSON

Popular and scholarly sources covering unemployment in the wake of the financial crisis in the United States noted the gendered nature of unemployment. Because more jobs were lost in sectors dominated by men—such as construction and finance—men did constitute a larger number of workers laid off. This led to speculation in press coverage of the recession of a possible reversal in gender roles in US households, as for a brief period there were more women than men in the US workforce. This kind of coverage peaked in mid-2009, with coverage such as the ‘Mancession’ chapter in the Atlantic Monthly. Such coverage has not been duplicated as women have lost ground, and men have gained ground, in the slow job gains in the US economy since 2009. This reflects a familiar pattern in US discourses about gender and inequality: that the real problem of gender is that men are vulnerable, and social policies must respond and put resources into shoring up men to relieve this gender imbalance. This discourse, however, serves a broader function than simply justifying sustenance of gender inequalities in access to resources. Rather, this discourse of vulnerable men serves to simplify understandings of the interaction between social inequality and public policy, making the simple binary men/women into a zero sum game and ignoring the larger structural issues that would be called into question if we looked beyond the purportedly vulnerable male to the wide range of groups actually harmed by the economic downturn and its aftermath in state austerity measures. This chapter analyses and reflects on what these discourses tell us about the role the ‘vulnerable male’ in turning our attention away from larger structural inequalities.
Should men have more rights…? Gender role-related attitudes before and during the 2008 crisis

IVETT SZALMA, JUDITH TAKÁCS

This chapter will examine whether this gendered perspective concerning labour market positions has changed due to the economic crisis. We expect the rapid erosion of more traditional gender attitudes, in particular concerning women’s obligation to stay at home with small children, and concerning the priority, which should be given to men in periods of job scarcity, while in order to avoid financial difficulties and stabilize the financial situation of families with children female employment is necessary in most Hungarian families. The new period of recession raises important questions about the future implications of these trends. To analyse the short-term effects of the financial crisis on gender role attitudes, the third and the fifth waves of the European Social Survey database will be used. In both waves (2006, 2010) a rotated module is included, focusing on work, family and well-being issues, which will enable us to compare the attitudes before and after the crisis. In order to explore the changes in gender role attitudes in Hungary we will apply descriptive statistics as well as factor analysis. This analysis can also be extended to include data from other European countries when these data will become available.

Polarization among Icelandic women in the aftermath of the crisis?

INGÓLFUR V. GÍSLASON

In the wake of the financial collapse in Iceland in October 2008 important changes have been observed in the situation of men and women in the country. Mainly these changes have accentuated development already observable. So for example women’s political representation has risen, their share among high state officials has increased, men’s share of unpaid household work has increased and the gender pay gap has diminished at an unparal-
leled rate. In almost a quarter of the households in the capital area the woman is the main breadwinner. Many more men than women are unemployed and predictions that the situation on the labour market would change to women’s disadvantage following cuts in the welfare system have so far not materialized. On the other side there are indications that fathers use a smaller part of the parental leave than before the collapse and there has been a partial reversal of the collectivization of child care. The question is which of these changes, if any, are sustainable changes and which are likely to be reversed now that economic growth has begun. In this paper I will mainly look at the changes on the labour market and discuss their possible sustainability. I will also discuss whether we are witnessing a polarization among women, where those with a strong position have moved on while those in a weaker position remain there or have even moved backwards.

**Elder care policy in Finland: Remedies for crisis?**

**HANNA-KAISA HOPPANIA**

This paper analyses the current situation of elder care policy in Finland. Since the deep economic recession in the beginning of the 1990s, Finnish welfare policy has undergone structural reforms from universality toward means testing and individual responsibility. The current crisis is putting further pressure on elder care services in particular, and a care deficit is looming close. According to Statistics Finland, in 2030 Finland will be in the worst situation of the EU countries in terms of the dependency ratio. Concurrently, a new separate Act concerning the services for the elderly is being prepared. In this paper, I analyse the policy reforms of elder care provision in the context of growing demands for the elderly’s rights to care, of demographic and budgetary pressures, and of neoliberal trends. I utilize the conceptual framework of recognition, redistribution, and representation developed by Nancy Fraser to search for the subtext and roots for such a ‘care crisis’ in a ‘welfare state’ and to examine what is at issue politically when remedies for this situation are sought.
Ulysses versus Polanyi: Can embedded neoliberalism prevent a ‘Great Transformation’

JANE KELSEY

This chapter asks three inter-related questions: Does the latest financial crisis signal a terminal phase of neoliberalism and the emergence of a post-neoliberal era? Why has it been possible to use the crisis as an opportunity to re-secure and advance the neoliberal paradigm, irrespective of the social and political damage? Is neoliberalism so effectively embedded that it can contain its intrinsic contradictions in the medium term? The chapter argues that neoliberalism in New Zealand has been embedded through normative and coercive disciplines in domestic legislation, economic integration treaties and international institutions. These disciplines are increasingly brittle as self-regulating markets repeatedly fail and new crises of climate, energy, food and livelihoods expose the limits of market-driven ‘orthodoxy’. Despite this the agenda of less state, more market has been revived with a vengeance through fiscal austerity, privatization, job losses, cuts to services and safety nets, and restoration of corporate power, especially in the financial sphere. This suggests that neoliberalism is so effectively embedded that it can survive these contradictions for the medium term?

The Role of globalization in Ireland’s turn to austerity politics: A discursive institutionalist analysis

FIONA DUKelow

Ireland has experienced enormous economic damage following the global financial crisis, recording some of the most severe banking and fiscal problems amongst the countries most affected. Its response was marked by a rapid self-directed turn to austerity subsequently reinforced by conditions attached to an EU/IMF loan agreement. This chapter is concerned with exploring the ideational conditions which enabled such a response, cast-
ing austerity as the only feasible and realisable option. The chapter argues that beliefs about economic globalization and Ireland’s position as a small open economy played a central role in the nature of the response taken and how that was discursively constructed. After examining the policy legacy of earlier ideational departures in economic policy and their impact on social policy development, the chapter details the way in which austerity was framed and pursued as the policy solution to resolve the problem of Ireland’s damaged economic model and restore its position as a successful globalized economy, trading competitively and winning foreign direct investment. Attention is paid in particular to how policy decisions taken in respect of taxation and public expenditure were linked to particular beliefs about global competitiveness that significantly narrowed the field of policy options. At the same time these beliefs framed rival ideas about the crisis and how to recover as unrealistic and irresponsible. As such this case study provides an example of a critical juncture in which dominant pre-crisis ideas, interests and policy goals have so far, managed to maintain their power.

A comparison of welfare state criticism in Denmark in the 1970s and post-2008

Michael Kuur Sørensen

The chapter analyses how the criticism of the welfare state developed in two periods of crisis: the first in the 1970s; the second after the crisis in 2008. The chapter takes a look at the discourses that were developed in the 1970s on both sides of the political spectrum and how they differ from the discourses that emerged after 2008. By comparing these discourses, the chapter suggests that the welfare state consensus that was created in the 1960s is vulnerable to economic crisis. In the 1970s the Liberals and the Conservatives became increasingly sceptical of the welfare project, a scepticism which was then shared by the Social Democrats after the 2008 crisis.
Financial collapse and democratic reconstruction in Iceland

VILHJÁLMUR ÁRNASON

A parliamentary Working Group on Ethics looking into the causes of the 2008 collapse of the Icelandic banks argued that the most important lessons are about weak social structures and public institutions. In this chapter, the main reasons for the conclusion of the Working Group are clarified and related to the political development after the collapse. The analysis is framed in terms of Habermas’s three normative models of democracy. It is shown that events in the period preceding the collapse revealed major flaws in the type of liberal democracy practiced in Iceland. Drawing upon democratic deliberative theory, this chapter argues that attempts to strengthen Icelandic political practices in the spirit of republican democracy in fact exploit their weaknesses. The chapter also argues that features of deliberative democracy are crucial for a genuine reconstruction of Icelandic democracy. Such is the case not least because of the emphasis that this approach lays upon the practices of accountability—that is, the quality and rationality of the reasons brought to defend policy and law, and on the conditions necessary for informed deliberation among the citizens and their representatives. This, for example, requires improved political and educational practices and a strengthening of the constitution, supervisory institutions and the media.
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The global economic crisis that began in 2008 has presented serious challenges to welfare states, shaking their financial, social and political foundations in what has become the worst economic fallout since the Great Depression. This book provides an in-depth analysis of the impact of the crisis on social policy and welfare state development in Europe and North America. The varied national experiences of the crisis are examined and put into a wider intellectual and historical context. The book poses such questions as the following: What has been the impact of the current crisis on social policy? Has the crisis heralded a new phase of entrenchment and austerity, or are there signs of opportunities opening up for progressive social reform?

The volume is a collection of 16 chapters by authors from different disciplines within the humanities and the social sciences. It contains both general surveys and country-specific studies dealing with a range of issues and provides a broad overview of the present crisis and its implications for the future development of the welfare state.