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Head of Doctoral School: Dr. Miklós Szanyi, DSc.

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Generosity trends of welfare state regimes before and after the crisis

Ágnes Orosz

Supervisor:
Dr. Miklós Szanyi, DSc. university professor



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Témavezető: Dr. Szanyi Miklós, DSc. egyetemi tanár

A doktori szigorlati bizottság:

elnök: Dr. Szanyi, Miklós DSc. egyetemi tanár, DE KTK

tagok: Dr. Musto István, PhD.

Dr. Hámori Balázs CSc, tanszékvezető egyetemi tanár, BCE

A doktori szigorlat időpontja: 2013. április 05.

Az értekezés bírálói:

Dr. Kőrösi István, egy. docens, PPKE-JÁK, MTA KRTK
tudományos főmunkatárs

Dr. Farkas Beáta, CSc. intézetvezető egy. docens, SZE-GTK
Pénzügyek és Nemzetközi Gazdasági Kapcsolatok Intézet

A bírálóbizottság:

elnök: Dr. Losonczi László, DSc. professor emeritus, DE KTK

tagok: Dr. Erdey László, egyetemi docens, DE KTK

Dr. Musto István, PhD. egy. magántanár

Az értekezés védésének időpontja: 2014.

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1. Introduction

The dissertation focuses on the welfare state, the most important systemic element of capitalist models according to SAPIR (2006).

However my interest in comparative welfare state research dates back to several years ago, it started to intensify in 2012. Since April 2012 I have been involved in a four year research project, WWWfor Europe, which is funded by the European Commission within the 7th Framework Programme. This research tends to develop a new European growth and development strategy, which enables a socio-ecological transition to high levels of employment, well-being of its citizens, social inclusion, resilience of ecological systems and a significant contribution to the global common goods like climate stability. Research on the welfare states is an important area within the whole project, since social welfare issues are currently the largest public expenditure category in the countries of the European Union. My research has explored topics such as the institutional development of Welfare State models in Europe (convergence vs. divergence) and the process of a large-scale institutional transformation of socio-economic institutions over the past 20 years, with a special focus on East Central European countries.

The classification and the distinctiveness of welfare states in East Central Europe (ECE) are of great interest in contemporary welfare state literature. The dissertation is aimed at providing explanation of welfare state generosity trends of the welfare state regimes and highlighting the commonalities and differences of the ECE model.

The thesis is composed of 10 main sections. After the introductory part, the second chapter consists of the theoretical framework, literature review and definitions of concepts used in this research. Taking into account the theoretical framework, the hypotheses are proposed at the end of the second chapter. The research design and the applied methodology are presented in the third chapter. Trends of general government expenditures and aggregated public social spending are the basis of the comparison and analysis carried out in Chapter 4. Chapter 5-9 consist of detailed examination of the distinct welfare state regimes, leading to conclusions and new scientific results and theses which are proposed in Chapter 10.

1.1 Overall Aim of the Dissertation

The overall aim of this dissertation is to provide a comprehensive analysis of the generosity trends of the different welfare state regimes in order to assess whether there is convergence between the distinct welfare state regimes.

The financial and economic crisis, has led to “an ongoing legacy of turbulence in the euro zone” (OBSTFELD, 2013: 1). The severe indebtedness problem in parts of the European Union and the lack of economic growth that has followed in the years since, combined with the already existing challenges of ageing population, has the inevitable consequence or assumption that the universalist and generous welfare states are no longer sustainable. In light of these processes the dissertation questions and analyses the reactions of the distinct welfare state regimes to these challenges, especially to the current financial and economic crisis.

Therefore, the thesis is three-folded in its purpose:

1. to investigate the convergence of the distinct welfare state regimes,
2. to analyse the effects of the financial crisis on the evolution of the welfare state regimes,
3. and to summarize the common features of the welfare state model in East Central Europe.

1.2 Key Research Questions

Following the core research aims outlined above, the study seeks to address and answer the following research questions.

The main research questions of the paper are thus:

1. *Have the welfare state regimes converged across the European Union¹ over the last two and a half decades?*

Starting with the article of O'CONNOR (1988), the analysis of welfare state convergence has become subject of growing number of publications in different areas, such as political science, economics or sociology. The assessment of welfare state convergence might lead to different results according to the applied method or dimension of welfare state operation. Therefore the dissertation analyses only the generosity trends of the distinct welfare state regimes in order to highlight the existing converging or diverging trends.

Since the end of the 20th century welfare states in general, and in the European Union in particular, have been constantly challenged by three interlinking factors, namely globalization, demographic changes, and new social risks (PIERSON, C., 2007). Moreover, individuals and the society face a new set of risks which is result of changes in external and internal conditions, encompassing technological shifts, international competition, demographic ageing, migration and the break-up of traditional family structures. Global economy of the twenty-first century is characterised by rapid changes putting the European welfare states under constant pressure to adapt.

These challenges are accompanied with the harmful effects of the current financial and economic crisis. The challenges the welfare states have to face are the same; however the welfare states or the welfare state regimes react differently. These different reactions have led us to the second research question.

¹ Not all EU countries are analysed due to data availability, only those EU member states which are members of the Organisation for Economic Co-Operation and Development (OECD) as well (henceforward referred to as: EU21).

2. *How have the European welfare models reacted to the current financial and economic crisis? What kind of changes, welfare reforms have been induced due to the crisis?*

To answer this question, research is leading to the following sub-questions:

- 2.1 *How have the patterns of general government spending, especially public social spending changed during the last two and a half decades within the EU?*
- 2.2 *Which welfare states/welfare state regimes have been able to work as automatic stabilisers in times of the current crisis and why?*
- 2.3 *What is the difference between the effects of planned welfare state reforms (carried out before the crisis) and crisis-induced welfare state reforms?*

In the dissertation the welfare states in East Central Europe consist a distinct welfare state regime, the common and distinct features of the ECE countries display an important part of the research.

3. *What are the distinct features of the welfare state model in East Central Europe² (ECE)? Have the countries of the ECE model become more similar over time?*

In comparative welfare state literature there is disagreement about the characteristics, commonalities and differences of the post-communist/CEE or ECE welfare model. The dissertation aims to summarize the distinct features of the ECE model based on the evolution of welfare state generosity ratios before and after the outbreak of the financial and economic crisis.

² In the dissertation ECE is referred to as the examined six new EU member states which are members of the OECD as well, namely: the Czech Republic, Estonia, Hungary, Poland, the Slovak Republic and Slovenia. CEECs are referred to as the whole Central and Eastern European region (broader term).

1.3 Relevance of the Study

By addressing and answering these core research questions, the dissertation hopes to make a comprehensive contribution to the academic debate on comparative welfare state research.

The relevance of the thesis is two-folded. First, the already existing challenges of the welfare state, the new social risks and aging population is coupled with the new phenomena of financial crisis, euro-crisis, debt crisis and the lack of economic growth that has followed in recent years since which might lead to converging or diverging welfare outcomes. These processes affect the sustainability of the welfare state, even a second period of retrenchment³ (VIS ET AL., 2011) was predicted. Welfare state retrenchment dominates politics today, strict austerity policies have been widely adopted in Europe since 2008. However fiscal consolidation has been mainly aimed at welfare services (CARREIRA DA SILVA ET AL., 2013), even significant increase of social spending can be observed. Moreover, there are good theoretical arguments both for and against welfare state convergence, and existing empirical studies found only limited evidence. The European examples (decreasing and increasing public social expenditures as well in many welfare states) contradicts this prediction of one-way development of public social spending.

The financial and economic crisis served as a stress test of the welfare states which led to different solutions, different social policy reforms. These challenges, pressures are similar for all European countries; however it is possible that country-specific peculiarities may provide different welfare outcomes or the welfare regimes may develop into the same direction. The argument on the existence of convergence between welfare state regimes depends on testing. One method for testing the convergence hypothesis is the analysis of social spending generosity trends.

Second relevance of the dissertation is linked to the commonalities and differences of the welfare state model in the East Central European region. Since the form and existence of the distinct ECE welfare state regime is so debated, the dissertation is aimed at collecting the common characteristics.

³ The first phase of retrenchment followed the first oil crisis in 1973.

Furthermore, the specific features of the ECE welfare model is analysed on a more detailed way, since the New EU member states not really presented in any major comparative social policy studies (for instance see: SAPIR, 2006; ESPING-ANDERSEN, 1990⁴), consequently they are typically left out of theoretical or empirical studies on issues like welfare state developments or reforms.

Welfare reforms among the post-communist states have been on the agenda for long time since the regime change; therefore it is important to shed light on welfare regime formation in the region. To analyse the welfare states of the East Central European (ECE) region, they are presented as a fifth European social model.

⁴ ESPING-ANDERSEN (1996) rejected to add a fourth, Central Eastern European welfare type to his classification, arguing that these countries were in transition and later they will develop into one of the existing category.

2. Theoretical background

This chapter provides an initial overview of the meaning, function and likely implications of welfare state research. First, a clear conceptualisation of some of the main concepts of this paper is inevitable, as the definition of welfare and the welfare state. The following literature review discusses the concepts and relationships that are at the foreground of the thesis.

2.1 Background and Contexts

The concept of welfare state is highly debated and discussed in economic literature, moreover, there is no universally accepted definition, nor is there one that suits all purposes (including the measurement issues and the compilation of statistics). NICHOLAS BARR (1987:5) emphasized that the concept of welfare state can be understood as a mosaic, “with diversity both in its source and in the manner of its delivery”.

The use of the expression welfare has always been inexact, that is why a clear description is necessary regarding the object of this dissertation.

2.1.1 Defining welfare

The term welfare has been so widespread and used in so many different areas, that a clear definition is required in order to understand what welfare state is and how welfare can be measured. OXFORD DICTIONARY (2013a) can be used as a starting point in which welfare is defined as: (1) “the health, happiness, and fortunes of a person or group and (2) statutory procedure or social effort designed to promote the basic physical and material well-being of people in need”.

In its general meaning welfare is referred to as the “six main perspectives on welfare: happiness, security, preferences, needs, desert, relative comparisons” (FITZPATRICK, 2001:5). The term welfare can be found among WILLIAMS’ (1976) Keywords of culture and society. “Welfare was originally the phrase *wel fare*, from *well* in its still familiar sense and *fare*, primarily a journey or arrival but later also a supply of food” (WILLIAMS, 1976:281). From the fourteenth century the term welfare was commonly used to indicate happiness and prosperity and as a subsidiary meaning

merrymaking. The current understanding of welfare as organized care or provision first appeared only in the twentieth century (WILLIAMS, 1976).

The definition problem of welfare can be well represented with the fact that it is outside the scope of *The Welfare State Reader* or *The Oxford Handbook of The Welfare State*. The introductory part of the Handbook starts with welfare state as a key element to modern democracy and its emergence and evolution (WHITE, 2010:19) as well as in the *Welfare State Reader*. Welfare is described only in connection with other words, such as welfare regimes, welfare capitalism or welfare state; there is no discussion of the concept itself (GREVE, 2008).

The problem of defining welfare arises from the fact that it is used in several disciplines as well. For example looking at welfare merely biologically, divorced from social circumstances means how many calories, vitamins or how much water is needed for survival (SPICKER, 1995:19), or it is totally different understanding welfare “from a sociological or social policy perspective” (GREVE, 2008:54) or from economic angles.

Other questionable area is whether “welfare is the property of individuals or can collectives (groups, societies) be described as being in the state of well-being” (FITZPATRICK, 2001:11). Individual well-being is not included in our analysis, in accordance with FLEMING (1952) welfare is understood as “the sum of individual well-beings” (p. 366), however it is an essential question for theorists whether individual welfare can be aggregated together to a collective welfare or not (FITZPATRICK, 2001:11).

Ignoring all definition problems in the following the term welfare is used as GREVE (2008) suggested: “Welfare is the highest possible access to economic resources, a high level of well-being, including happiness of the citizens, a guaranteed minimum of income to avoid living in poverty, and finally, having the capabilities to ensure the individual a good life” (p. 58).

Based on the welfare definition these three common subclassifications of welfare can be defined: (1) social welfare, (2) economic welfare and (3) state welfare. The thesis focuses only on welfare state, however in order to better understand the different welfare state concepts, the explanation of the other two is crucial.

“In its narrowest sense, social welfare includes those nonprofit functions of society, public or voluntary, which are clearly aimed at alleviating distress and poverty or at ameliorating the conditions of the casualties of society” (DOLGOFF – FELDSTEIN, 1980:91). Social welfare is an imprecise term; it is mainly defined as policy and programs to respond to recognized social problems or to improve the well-being of those at risk. BORNET (1960) offered a general definition: "Social welfare is special services supplied and material assistance given by all or part of society to a human being thought to be in need" (p. 31). It is a broader concept, is not limited to the scope of the state.

PIGOU (2005|1920) defined economic welfare as “restricted to that part of social welfare that can be brought directly or indirectly into relation with the measuring-rod of money”, however “no precise boundary between economic and non-economic welfare exists” (p. 11).

Examining the source of welfare it can be concluded that individual welfare comes from at least four sources, three other ways in addition to state activity. The first and most important source of welfare is the labour market, through wage income. Secondly, welfare is provided through private provision which includes voluntary private insurance and individual saving. Thirdly, voluntary welfare arises within and outside the family, for instance in the forms of voluntary charitable donations. Finally, the state provides cash benefits and benefits in kind (BARR, 2012). The dissertation only focuses on welfare which source is provided by the state.

Welfare is typically connected to the concept of the state, which implies “a clear role for the state with regards to helping members of society” (GREVE, 2008:57). “The welfare state, in distinction from the Warfare State, was first named in 1939” (WILLIAMS, 1976:281) and is “central to modern democracy” (WHITE, 2010:19).

The welfare state has several connotations, in the following the most commonly used definitions, and the different conceptual foundations will be presented.

2.1.2 Defining the welfare state

Like for welfare itself, there is no generally accepted definition of the welfare state. This theoretical debate can be concluded with Richard Titmuss' words: "I am no more enamoured of the indefinable abstraction of the 'Welfare State' than I was some twenty years ago [...]. Generalized slogans rarely induce concentration of thought: more often they prevent us from asking significant questions about reality" (TITMUSS, 1987: 141). However, in order to answer the research questions, a working definition is crucial.

The OXFORD DICTIONARY (2013b) can be used again as a good starting point to define the welfare state: "a system whereby the state undertakes to protect the health and well-being of its citizens, especially those in financial or social need, by means of grants, pensions, and other benefits".

The concept of "The Welfare State", which appeared in the 1940's, is generally accepted as a wider definition of the role of the State in the field of social and economic policy. Most scholars of the subject, whether on the right or left politically, take it to mean a more positive and purposeful commitment by government (TITMUSS, 1958).

Myrdal concluded that, "in the last half-century, the State, in all the rich countries in the Western world, has become a democratic "Welfare State", with fairly explicit commitments to the broad goals of economic development, full employment, equality of opportunity for the young, social security, and protected minimum standards as regards not only income, but nutrition, housing, health and education, for people of all regions and social groups" (MYRDAL, 1960: 45).

BRIGGS (1961) provided an early and famous definition of the welfare state, which is a state in which "power is deliberately used (through politics and administration) in an effort to modify the play of market forces in at least three directions – first, by guaranteeing individuals and families a minimum income irrespective of the market value of their work or their property; second, by narrowing the extent of insecurity by enabling individuals and families to meet certain 'social contingencies' (for example, sickness, old age and unemployment) which lead otherwise to individual and family crises; and third, by ensuring that all citizens

without distinction of status or class are offered the best standards available in relation to a certain agreed range of social services” (p. 228).

The first two conditions are concerned with minimum standards, and can be met by a “social service state”, but the third goes beyond this approach bringing the idea of optimum rather than minimum (BRIGGS, 1961).

Titmuss gave a functionalist definition in which he determined the welfare state as “the collective recognition of certain socially determined needs” (WEDDERBURN, 1965: 138). "All collectively provided resources are deliberately designed to meet certain socially recognized 'needs'; they are manifestations, first, of society's will to survive as an organic whole, and secondly, of the expressed wish of all the people to assist the survival of some” (TITMUSS, 1958: 39).

The main idea behind Esping-Andersen’s definition is that social citizenship constitutes the core idea of the welfare state (MARSHALL, 1950). ESPING-ANDERSEN (1990) gave a simple definition: welfare state “involves state responsibility for securing some basic modicum for welfare for its citizens” (p. 18-19). However ESPING-ANDERSEN (1990) called the attention that exclusive focus on the expenditure side of government operation might be misleading. The analysis carried out in this thesis limits itself to the previous results of WILENSKY (1975), ESPING-ANDERSEN (1985) or CUTRIGHT (1965), so the main object of the analysis on welfare states is spending.

GOODIN’s (1988) definition distinguishes the welfare state from other sorts of state: “the welfare state is a system of compulsory, collective, and largely nondiscretionary welfare provision” (p. 12) which “intervenes (a) in a market economy (b) to meet certain of people’s basic needs (c) through relatively direct means” (p. 11).

Welfare state can therefore be thought of “as a shorthand for the state’s role in education, health, housing, poor relief, social insurance and other social services” (GINSBURG, 1979: 3) in developed capitalist states. Several different combinations of programmes and policies constitute the welfare state. “In broad terms the modern welfare state comprises cash benefits and benefits in kind. The latter embrace a wide range of activities that can include education, medical care, and more general forms

of care for the infirm, that mentally or physically handicapped, and children in need of protection” (BARR, 2012: 8). Barr’s broad definition allows us to use only aggregated social expenditure but because of the wide range of activities covered by the cash benefits and the benefits in kind, it is possible to draw conclusion on the welfare state in general at the end.

There is a wide range of definitions of the welfare state, VEIT-WILSON (2000) concluded that “theoreticians of the welfare state have failed to develop a dynamically discriminating criterion of a “welfare state” (p. 22), consequently each author dealing with the given subject has to stick himself, herself to a chosen, favourable definition which fits the purpose of the research.

Throughout the thesis, welfare state refers to the social welfare provision through the agency of the state (PIERSON, C., 1991: 6-7.). Broadly, the welfare state is considered to be “a particular form of state, a distinctive form of polity or a specific type of society” (PIERSON C., 1998: 7). The primary focus of the study is on the welfare state as a form of social insurance guaranteed by the state with a special focus on welfare efforts measured by aggregated public social spending.

2.1.3 Defining social policy

Social policy is another significant term in the context of welfare state and its service provisions. Social policy is not an easy discipline to define. “Social policy is an academic field of study is one of those curious items, rather like an elephant, which we recognise when we see it, but which is notoriously difficult to describe” (ALCOCK ET AL., 2004: 1).

Firstly, it can be understood as a set of policies and practices concerned with promoting social welfare. Secondly, social policy can be defined as a broad research area, a distinctive field of study (COFFREY, 2004).

Social policies are governmental acts undertaken for a variety of political reasons, to provide services for the population in need. The reason for this social service provision is that they are not or cannot be satisfied by the market (HILLS, 2001:104). MARSHALL (1964) explained social policy with regard to state actions having a direct effect on the welfare of people through social services and income benefits.

Throughout the thesis social policy is understood as the first definition states, a government policy tool, a set of policies. This definition has been mostly associated with the provision of welfare through state institutions. Any social policies which are enacted and implemented outside the aegis of the state are out of the scope of the dissertation.

It is therefore necessary to formulate a conventional definition of the scope of social protection which meets as well as possible the needs of social policy analysis and data collection on an international level. According to the ESSPROS (European System of Integrated Social PROtection Statistics) Manual, “social protection encompasses all interventions from public or private bodies intended to relieve households and individuals of the burden of a defined set of risks or needs, provided that there is neither a simultaneous reciprocal nor an individual arrangement involved. The list of risks or needs that may give rise to social protection is, by convention, as follows: Sickness/Health care, Disability, Old age, Survivors, Family/children, Unemployment, Housing and Social exclusion not elsewhere classified.” (EUROSTAT, 2012)

Although there is a database for social protection statistics and definition of the European Union, integrating social policy action of private bodies, Eurostat statistics are not suitable for the analysis carried out by this dissertation. As a consequence of the data availability, OECD definition and database are used in the thesis.

In the analysis, social policy equals to social policy programs measured by the level of aggregated public social spending. OECD (2007) defined two main criteria which have to be simultaneously satisfied for an expenditure item to be classified as social. First, the benefits have to be intended to address one or more social purposes. Second, programs regulating the provision of benefits have to involve either inter-personal redistribution, or compulsory participation.

9 social policy areas are described as benefits with social purpose (OECD, 2007):

- Old-age – pensions, early retirement pensions, home-help and residential services for the elderly;
- Survivors – pensions and funeral payments;
- Incapacity-related benefits – care services, disability benefits, benefits accruing from occupational injury and accident legislation, employee sickness payments;
- Health – spending on in- and out-patient care, medical goods, prevention;
- Family – child allowances and credits, childcare support, income support during leave, sole parent payments;
- Active labour market policies – Employment services, training youth measures subsidised employment, employment measures for the disabled;
- Unemployment – unemployment compensation, severance pay, early retirement for labour market reasons;
- Housing – housing allowances and rent subsidies; and
- Other social policy areas – non-categorical cash benefits to low-income households, other social services, i.e. support programs such as, food subsidies.

2.1.4 The welfare state in historical perspective

Welfare theory has roots that extend far into history, so the historical overview of the evolution of the welfare state is essential to be part of the literature review (FITZPATRICK, 2001:196).

The development of social insurance was a gradual process and a significant administrative and political innovation (PIERSON, C., 1991). The origins of the welfare state date back to the end of the nineteenth century and are linked to the significant societal, economic and political changes caused by the Great Transformation of that time. Industrialisation, urbanisation, population growth and even the rise of the capitalism indicated changes that “undercut the traditional forms of welfare provision offered by family networks, charity organizations, feudal ties, guilds, municipalities, as well as churches” (CASTLES ET AL., 2010: 3). On the contrary the increased level of productivity was able to provide the necessary resources for these new social needs.

The first example for welfare entitlements is the introduction of social insurance in the 1880s in Imperial Germany by Otto von Bismarck, Chancellor of the Reich based on the Prussian idea of social insurance from the 1840s onwards (KUHNLE – SANDER, 2010). The German social insurance scheme was imitated by other nations (BRIGGS, 1961), it was a salient example, and less than two decades thereafter, social insurance laws had appeared in most countries of Western Europe, and after the First World War it also appeared outside Europe, in Australia, Canada, the United States and Japan as well. In Western countries, these early laws meant the expansion of welfare states and the development of social citizenship (MARSHALL, 1950) leading to the 20th century transformation of citizens’ life conditions (KORPI, 2008).

The introduction of social protection meant a breakthrough in the history of the nation states which was added to their existing functions of protecting their populations and modernization (investment in infrastructure and communications to promote economic development). Social insurance was a core element of this new state role, but governments started to be involved in other social issues, such as public education and health, worker protection, factory inspection and protection against

child labour, length of working hours and relations between employers and workers (KUHNLE – SANDER, 2010).

The Great Depression triggered new forms of government intervention in social and economic life, especially in Sweden and the US (PIERSON, C., 1991: 117-118), defining “New Deal as social democratic as the contemporary Scandinavian social democracy” (ESPING-ANDERSEN, 1990: 28). During the interwar period, social insurance and protection provided by the state were extended in three ways: in terms of the scope of risks, the coverage of the population and through an increased compulsory provision (KUHNLE – SANDER, 2010).

The modern welfare state was shaped by the Great Depression and the preparations and the outbreak of the World War II. CHRISTOPHER PIERSON (1991:116) defined the period of 1918-1940 as “consolidation and development” and in which the obstacles to the welfare state expansion after 1945 were removed. The wartime experiences can be understood as basis for national solidarity and increased social policy efforts, except in the United States. From the 1940s onwards, the concept of the welfare state became common (KUHNLE – SANDER, 2010).

The famous British Beveridge Report of 1942 described the welfare state “as the new idea of citizenship in a democratic society, which combines political and social rights” (INGLOT, 2008: 22).

The post-war period can be divided into the expansion phase from 1945 to the first oil crisis in 1973 and a retrenchment phase afterwards (NULLMEIER – KAUFMANN, 2010). The whole period between 1945 and 1975 can be characterised as the thirty years “Golden Age” of the welfare state, with the phase of major growth and expansion of social expenditures from 1960 onwards (PIERSON, C., 1991: 125-140).

Typically, the mid-1970s and early 1980s can be identified as turning points in the history of the welfare states. Due to the economic and labour market impacts of the increasing oil prices, governments switched from expansion towards cutbacks (CLASEN, 2005). The oil crises resulted in significant cuts and social expenditures restructuring.

HUBER and STEPHENS (2001) defined three sub-periods of the retrenchment phase of 1973 and onwards: 1973-1979, 1980-1990 and 1990-2000. The first sub-period is characterised with new emerging challenges as a consequence of the two oil crises. The second phase' trait is the need for structural measure beside cyclical ones was recognized by policymakers. The 1990s as a phase is marked by the demise of state socialism and EU integration.

What factors lie behind the growing need for retrenchment, what challenges has the welfare state been facing since 1973. NULLMEIER and KAUFMANN (2010: 93) collected three retrenchment hypotheses to explain these factors. (1) The hypothesis of an early onset of the retrenchment phase which describes the pressure on the welfare state with the oil crisis of 1973/74, the shifts in international trade relations and the demise of the Bretton Woods system of fixed exchange rates. (2) According to the globalisation hypothesis the initial phase of economic globalisation enforced retrenchment. Welfare state expansion is no longer possible. (3) As the postindustrialism hypothesis argues, technological changes, the rise of the service economy and the knowledge society as well as the social developments shaped by the restructuring of labour markets are more important than the globalisation itself. These changes create new social risks which require the transition from the "industrial welfare state" to the "postindustrial welfare state".

Although welfare state is under pressure, PAUL PIERSON (2001b) showed the difficulties of cutting social spending. Pierson claims that retrenchment follows different patterns than expansion and welfare state cannot be isolated from broad social development, consequently it has undergone changes like other institutions.

To sum up, it can be concluded that there is a general trend of decreasing public revenues, however as a consequence of the unfavourable recent economic processes there is an increasing demand for welfare services. As disproving the retrenchment hypothesis PAUL PIERSON (2001a) changed the terminology from retrenchment to restructuring which is a major shift in welfare state literature.

Unequivocally the global financial crisis of 2008/2009 has had a significant impact on welfare state development, on the one hand consolidation of public finances might enforce public expenditure cuts, on the other hand as a consequence of

worsening economic, employment situations there is an increasing demand for social protection schemes.

This controversy is a core element of the thesis, with the recent crisis that started in 2007/08, social spending increased to 22% of GDP on average across the OECD⁵ in 2009 and it has not decreased since. The average figures obscure the real differences within the sample (EU21). The dissertation aims at identifying different social policy patterns of the various welfare state regimes.

⁵ This increase is higher for the EU21 where social spending increased to 25.4% of GDP on average.

2.2 Literature Review and Critique of the welfare state

Welfare state and the idea of social justice are inseparable. Changes in the nineteenth century brought capitalism. To understand the welfare state itself, it is essential to look at welfare state theory in the context of capitalism. “The welfare state is set in the context of a market economy” (GOODIN, 1988: 7), with the specific function of modifying “the play of the market forces” (BRIGGS, 1961: 228). It is really important to note that the welfare state “did not reject the capitalist market economy” (MARSHALL, 1964: 298). In the following the first critics of the welfare state will be introduced.

The main idea behind libertarian views is that institutions of free markets and private property maximize welfare. Libertarian theorists argue against state intervention not on moral grounds, but its negative impact on welfare (BARR, 2012).

First, HAYEK’s (1960) ideas have to be mentioned, who was critical to the welfare state concept. At the core of his criticism lies the idea how wealth redistribution is used in order to achieve social justice. Distributive justice “cannot be derived from general rules”, it requires resources to be centrally allocated according to “particular aims and knowledge of the planning authority” leading to the “command economy” (HAYEK, 1960: 232). Hayek’s general critique of the welfare state touched the topics of social security and taxation and redistribution. He argued that the welfare state’s social security and taxation policies are coercive, however it should be the state’s main role to secure freedom while avoiding coercing citizens and preventing them from coercing each other (MILLER, 2010). Hayek’s argument was not simply against the welfare state, because its conception “has no precise meaning”, rather against its “contradictory elements” which cost much more than “people imagine or would be willing to bear” (HAYEK, 2000: 90-92). Individual freedom constructs the core element of libertarian theories; the desire for “greater equality” will reduce or destroy liberty (HAYEK, 1944: 82).

For FRIEDMAN (1962) individual freedom has the primary value, and he argued against the coercive power of the government as well. According to his views, the major functions of the governments “must be to protect our freedom both from the enemies outside our gates and from our fellow-citizens: to preserve law and order, to

enforce private contracts, to foster competitive markets” (FRIEDMAN, 1962: 2). In Friedman’s and Hayek’s views the state has no distributional role, only in the case of certain public goods and for strictly limited measures to ease poverty (BARR, 2012).

This idea re-emerged with the New Right, written by one of the most prominent scholars of this area, MURRAY (1984) argued that despite increasing social expenditures, poverty was aggravated in the US after 1965. This led to the shift in thinking that individuals are responsible for their own well-being. GOODIN (1988) contradicted to New Rightists’ arguments on a normative basis, providing an ethical defence of the welfare state’s basic institutions. GOODIN (1988) repudiated the three main critical themes (economic, moralistic and social-psychological) of the New Rightists’, such as (1) “social welfare measures undermine economic efficiency” (p. 229) and welfare state “is being indirectly self-defeating, undermining its own goals” (p. 257), (2) welfare state is “moralistic, drawing on ethical notions of moral deserts, of freedom or of self-reliance” (p. 278) and “welfare state transfers [...] are collective, coerced, one-way” (p. 306), and (3) “welfare programs have done more to create dependency than to cure it” (p. 332). GOODIN (1988) offered an argument in favour of policies aiming at “minimum protection” rather than “equal protection” of what might be regarded as “minimal welfare state” (p. 16).

A vast part of welfare state literature deals with globalisation and welfare state linkages. In line with a major part of the literature, increased capital mobility reduces governments’ room to maintain generous social policies. There are economic and political channels through which globalisation influences domestic welfare policies (SWANK, 2002). The first linkage rests on the economic logic that capital seeks the most profitable rate of return on investment, so capital mobility influences policymakers’ scope of social policies through markets. The political logic of globalisation argues that capital mobility (as consequence of globalisation) may contribute to welfare state retrenchment through democratic politics. The main argument of mobile businesses and their interest associations is that welfare state negatively affects profit, investments and jobs, putting pressure on governments to cut social expenditures (SWANK, 2003). This wave of the literature is called the

globalist school. Its main argument is that internalisation of the economy threatens welfare state.

The globalist school was extremely popular, but in the mid-nineties globalisation sceptics gained attention. Their views are mainly built on CAMERON's (1978) argument that increased trade is associated with the expansion of public economy (see also KATZENSTEIN, 1985). According to RUGGIE's (1982) views, after World War II a multilateral international regime of 'embedded liberalism' emerged in which trade liberalisation was coupled with salient government interventionism and social insurance. Globalisation and internalisation have not generated significant cuts in social spending; governments maintain social insurance against the new risks (GARRETT, 1998a; 1998b). RODRIK (1998) demonstrated evidence that both in developed and developing countries, high level of trade is associated with generous social policies.

The two confronting lines of the theory raise the question why the welfare state has been under constant pressure, if not because of globalisation. The *revisionist school* has offered a distinct answer: troubles of the welfare state are largely self-inflicted. Social programs introduced during the last decades have come to full maturation, these extended government commitments produce persistent budgetary pressures and a marked loss of policy flexibility, making any welfare state reform inherently difficult (FERRERA – RHODES, 2000).

The debate on the linkages, impacts between globalisation and the welfare state has turned to a full circle with the revisionist position. GENSCHEL (2004) argued that globalisation, is far from causing these troubles, also it is part of their solution. "The disciplinary power of international markets helps governments check the vicious dynamics of welfare policy and thus contributes to saving the welfare state from itself" (GENSCHEL, 2004: 616).

Other scholars argue that many pressures on the welfare state are wrongly attributed to globalisation. For example, IVERSON (2001) asserts that 'post-industrialisation', transition into a service-based economy is a more crucial impetus of the recent changes than globalization.

At the end of the 20th century the welfare state was challenged by three interlinking factors, namely globalization, demographic changes, and new social risks (PIERSON, C., 2007). Individuals and the society face a new set of risks which is result of changes in external and internal conditions, encompassing technological shifts, international competition, demographic ageing, migration and the break-up of traditional family structures⁶. Global economy of the twenty-first century is characterised by rapid changes putting the European welfare states under constant pressure to adapt (AIGIGNER – LEONI, 2008). The reform of the social policy and labour market is inevitable (SAPIR, 2006). Beside the above mentioned socio-economic risks and challenges, the welfare state has to cope with fiscal austerity. The difficulties of the welfare state are not unprecedented, the decline of economic growth during the nineties posed challenges to the welfare state (PIERSON, P., 1998).

In the forthcoming the major challenges will be listed which give rise to reforms of the different welfare state models.

First reason for an impasse of public finances is described by the Wagner's "law". ADOLPH WAGNER (1883) formulated a "Law of expanding state expenditures", highlighting the growing importance of government activity and expenditures as an inevitable feature of a "progressive" state. A modern formulation of Wagner's "law" was proposed by BIRD (1971): as per capita income rises in industrialized nations, their public sectors will grow in relative importance. Summing up, demand for welfare services tends to increase faster than income.

Second source of pressure on welfare states is referred to as Baumol's "law". BAUMOL and BOWEN (1965) argued that productivity in the production of welfare services tends to increase at a lower rate, if at all, than in the production of goods or other services. It means that the labour-intensive welfare services would become increasingly more expensive, imposing high levels of fiscal stress (SCHWARTZ, 2001).

The two phenomena taken together imply a tendency for higher expenditure growth on welfare services than GDP growth over time. As long as the production of these services remains in the public domain, or as long as they are tax-financed, the tax burden must also exhibit a tendency to rise continuously with GDP. This is a

⁶ The detailed analysis of these factors lies outside the scope of the dissertation.

continuous problem of the welfare state that we have been living with for decades now (ANDERSEN ET AL., 2007).

Crisis and economic recession affect the operation of the welfare states. The main tasks of the welfare state is to help those who suffer job loss or income loss. Social policy is about protecting individuals from their vulnerabilities to risks of all kinds (CASTLES, 2010).

As a result, well-functioning systems of social protection increase spending in times of recession, and scale it back as the economy recovers (MATSAGANIS, 2013). The welfare state can operate as an effective “automatic stabiliser” (BASSO ET AL., 2012).

Since the patterns of welfare spending developments were significantly different before the crisis, and the welfare state models acted differently to mitigate negative effects of the crisis, the thesis compares social policy spending trends of the different welfare state models before and after the crisis. Before the detailed analysis of the welfare state typologies, the “laws of motion” of the welfare states are investigated.

2.2.1 Evolution of the welfare states

There are two basic ideas how welfare states can change. The first wave of literature explains that welfare states develop path-dependently, and that they are characterized by a great immobility (ESPING-ANDERSEN, 1996). Studies show that the way in which the welfare state is organized contributes to public support for the welfare state, especially in the large, universalistic ones (ACHTERBERG – YERKES, 2009). The high public support helps to preserve welfare state in their original form (BROOKS – MANZA, 2006). “Welfare systems display path-dependency” (TAYLOR-GOOPY, 2001: 136), however this thesis does not exclude the opportunity of gradual changes of the welfare state. They are merely developing according to specified paths. The path-dependency thesis predicts that changes are gradual; it does not exclude changes at all.

“The second idea concerning welfare state ‘laws of motion’ is that with modernization, countries are becoming increasingly similar” (ACHTERBERG – YERKES, 2009: 190), which is known as the convergence thesis (WILENSKY, 1975; INKELES, 1998). The convergence thesis argues that welfare states gradually tend to converge upon each other (BROOKS – MANZA, 2006). Convergence is driven by neo-liberalization according to the literature. If this neo-liberalization argument is correct, those countries with universal, expensive welfare states will continue to develop in the direction of a more unadorned liberal welfare state. Liberal welfare states, which are already less costly and more ‘neo-liberal’, will not change much (ACHTERBERG – YERKES, 2009: 190).

The empirical evidence is not that extensive as the theoretical foundation of this argument, welfare states are not necessarily converging towards the most liberal end of the welfare spectrum. In sum, although the first idea of path-dependency and the second idea of convergence may contradict each other, welfare states are most certainly on a path of convergence. The question is whether welfare states really converge and whether this means that universal welfare states are becoming increasingly liberal (ACHTERBERG – YERKES, 2009).

Large, universal welfare states are expected to go through retrenchment because of the effects of domestic pressures, globalization and Europeanization. Internal

factors which make generous, universal welfare states unaffordable are the aging population and increasing unemployment and social inequality (TAYLOR-GOOPY, 2001). Globalization is an often cited source of retrenchment, “pressures associated with global economic change create a new context where the generous social provision characteristic of advanced industrial societies represents an unaffordable luxury” (PIERSON, P., 2001b: 85), leading to convergence in the direction of a liberal welfare state, with growing emphasis on markets and individuals with less interference by the central government (ACHTERBERG – YERKES, 2009). Policy harmonization of the European Union is another driving force of convergence; it is assumed that institutional differences between countries will disappear as countries move in the direction of one social Europe (CORNELISSE – GOUDSWAARD, 2002).

Testing the convergence thesis, ACHTERBERG and YERKES (2009) concluded that convergence is mostly a result of convergence between countries within welfare regimes. Countries are converging towards the middle, with social democratic countries becoming more liberal and liberal countries becoming more generous.

Analysing the scenarios of convergence, one wave of the literature predicts a downward convergence in welfare provisions due to unfettered market forces and increased economic competition. To fit the challenges of postindustrialisation, spending on education as well as a technologically advanced and well-functioning infrastructure cannot be the target of major cuts; thus social policy, welfare state services may have to carry the burden of austerity (PAETZOLD, 2013).

On the other hand, different authors predict a trend that is known as the “compensation hypothesis” (RODRIK, 1998). Contrarily to downward adjustment, this hypothesis stresses convergence at the top, due to the emergence of new social risks. As a consequence of deepening economic integration and an ever growing competitiveness pressure, the people have to face rising uncertainty and insecurity in respect of their jobs, their economic status. These changes increase the demand for more social protection and welfare state efforts.

A third stream of the existing convergence literature expects a “natural process of saturation, best described as convergence to an upper-limit welfare state equilibrium” (KITTEL – OBINGER, 2003: 22). The convergence can be understood as a

catching-up process, i.e. a growth to limits. Therefore, elementary welfare systems are expected to stretch out their social provisions to public policy fields that are not yet covered. These processes result in a situation in which welfare state laggards (such as the Mediterranean and CEE model, even the Anglo-Saxon) experience above average growth in social spending, whereas welfare frontrunners (Nordic and Continental) cut their social spending. Consequently, social provisions should become more similar over time (PAETZOLD, 2013).

From a more institutional aspect, the fourth strand of convergence theory of the welfare states argues for persistent divergence caused by institutional rigidity (PIERSON P., 2001b). Country-specific specialities and the assumed path dependency of state institutions will continuously produce different welfare state outcomes, even when challenges are similar. Radical shifts within the welfare system cannot be expected due to institutional stickiness. Moreover, the institutional divergence argument assumes that once a welfare programme is installed, it is difficult to remove it. To summarize, there are ongoing divergent welfare efforts resulting in a conservation of the existing varieties in welfare capitalism (PAETZOLD, 2013).

Finally, a fifth argument states that the divergence of different welfare systems will persist due to a continuance of the “old partisan politics” paradigm (KORPI – PALME, 2003). “According to this old politics approach, socio-economic problems do not necessarily lead to convergence, since pressures always require political mediation” (STARKE ET AL., 2008: 979). Consequently a general “race to the bottom” scenario is rejected; instead, ongoing divergent responses depending on the different involved political powerbrokers are expected (PAETZOLD, 2013).

Summing up, it can be concluded that there is not much of a consensus in the welfare state literature on the question of convergence or divergence, or even on the underlying determinants of welfare state evolution.

2.2.2 Welfare typologies

Typologies are widely used in social sciences to analyse complex phenomena (MIDGLEY, 1997). They are method of comparative welfare state research in order to summarize the commonalities and differences among cases. Regime typologies of the welfare state are major tools of generalising across the advanced welfare states (FERRAGINA – SEELEIB-KAISER, 2011).

A key hypothesis in the comparative welfare-state research is that the different welfare regimes create systematic variation of welfare state principles, policies or programmes (e.g., Korpi, 1980; Linos – West, 2003; Svallfors, 1997; Arts – Gelissen, 2001, 2002; Mischke, 2014). Several different combinations of programmes and policies can be understood as the welfare state. Within this diversity there are a few clear clusters, which are broadly distinctive types of the welfare states. They represent prototypes or can be understood as ideal types, called welfare regimes or welfare state models.

The seminal work of ESPING-ANDERSEN (1990) and his typology inspired social policy and welfare state research over the last two decades. Esping-Andersen's typology is rooted in Max Weber's ideas on the use of ideal types and deductive reasoning, as he highlighted “as regards the fundamental phenomena of economic life, the construction of a system of abstract and therefore purely formal propositions analogous to those of the exact natural sciences, is the only means of analysing and intellectually mastering the complexity of social life” (WEBER, 1949|2011: 87).

In analysing welfare states, several typologies can be used; MITCHELL (1990) provided a framework for analysis, identifying five main approaches to comparing welfare systems: (1) comparison of policy, (2) comparison of inputs, (3) comparing production, (4) comparing operations (detailed operation of benefits and services) and finally, (5) comparing outcomes. Several typologies are identifiable based on these approaches.

The first typology of state social welfare provision was formulated by WILENSKY and LEBEAUX (1965), identifying two major conceptions of social welfare, taking into account the impact of industrialisation on the development of social policies. Their first concept is called “residual” model arguing that “social, welfare

institutions should come into play only when the normal structures of supply, the family and the market break down” (WILENSKY – LEBEAUX, 1965: 138). The other, “institutional” concept “sees welfare services as the normal first line function of industrial society” (p. 138). In the residual model limited, means-tested services⁷ are provided for different groups of people in need, while in the institutional concept the whole population are taken care of with institutionalized social welfare provision.

WILENSKY and LEBEAUX (1965) argued that the United States have been gradually developing from the residual to the institutional model (MIDGLEY, 1997). While Wilensky and Lebeaux constructed their concept examining social welfare in the United States, another important typology was formulated by TITMUSS (1968), who used the example of the US to classify different countries.

TITMUSS’ typology (1968, 1974), the universal-selective model was very similar to Wilensky and Lebeaux’s approach, but he also believed that some countries, such as Germany or the Soviet Union did not fit the model. To accommodate these shortcomings, TITMUSS (1974) added a third type, which he called the “industrial achievement-performance model” (p. 31). In countries which were characterised by this model, social welfare provision is linked to economic performance, “social needs are met on the basis of merit, work-performance and productivity” (p. 31). According to his classification, he argued that all three concepts could be understood only in terms of their relation to “work ethic” and family. Since the appearance of Titmuss’ three-model typology, several other welfare state classifications have been published; some consist of two, three or four types (MIDGLEY, 1997).

An important two-type model was formulated by MISHRA (1984), who divided industrial countries into (1) differentiated welfare states in which economy is separated from social welfare, and into (2) integrated welfare states in which social welfare is closely harmonized with economic policy. Another example for a threefold typology was published by FURNISS and TILTON (1977) who made distinction between (1) the positive state, ensuring economic stability and protecting the interest

⁷ Welfare services that are available only to citizens who meet certain criteria based not only on need but on levels of income and savings. Source: Encyclo Online Encyclopedia available at <http://www.encyclo.co.uk/local/20212>.

of property holders, (2) social security state, guaranteeing minimum standards of welfare for its citizens, and (3) social welfare state, providing comprehensive scope of social services and fostering equality and participation in political affairs.

The most influential and most frequently cited classification of the welfare state was constructed by ESPING-ANDERSEN (1990) attempting to “develop a model for analysing the emergence and divergence of welfare regimes that considers the family, as well as the labour market and the welfare state, as one of the three central arenas of distribution” (PEDERSEN, 1995: 8). The different welfare regimes form different “worlds of welfare capitalism”, representing totally different worlds being sharply differentiated from one another (INGLOT, 2008, pp. 4-5).

Esping-Andersen’s concept is in line with Titmuss’ typology; however Esping-Andersen emphasized individual rather than familial strategies for achieving welfare. ESPING-ANDERSEN (1990) formulated a three-model typology, in which the concept of decommodification plays a key role. The degree of decommodification is, “the degree to which individuals, or families, can uphold a socially acceptable standard of living independently of market participation” (ESPING-ANDERSEN, 1990: 37). Esping-Andersen referred to political movements and their ideas to create the different models: Liberal (Anglophone countries), the Conservative/Corporatist (continental Europe and Japan) and the Social Democratic (Scandinavian) regimes (FERRAGINA – SEELEIB-KAISER, 2011).

His typology of welfare state has been confirmed, challenged, expanded and even widely criticized. The main argument of the critics was the misclassification of specific countries⁸ (LEIBFRIED, 1992; FERRERA, 1996; JONES, 1993). Other stream of criticism is based on the limited nature of work and welfare nexus of Esping-Andersen’s typology. As additional welfare state domain, LEWIS (1992) introduced the care-welfare nexus, BUSEMEYER and NIKOLAI (2010) analysed education and BAMBRA (2005) examined healthcare. Despite all the criticism, welfare state analyses have been strongly influenced by ESPING-ANDERSEN’s (1990) welfare state regime typology.

⁸ LEIBFRIED (1992) and FERRERA (1993) argued that the Mediterranean countries constitute a separate cluster, according to JONES (1993) East-Asian countries form a distinct welfare model.

The three different types defined by ESPING-ANDERSEN (1990) were modified by SAPIR (2006) who in order to highlight the differences among the social policy models made the following four different clusters for Europe. (1) The Nordic countries: Denmark, Finland, Sweden and the Netherlands represent the highest levels of social protection expenditures and universal welfare provision with active labour market policy instruments (social democratic model in Esping-Andersen typology). (2) Anglo-Saxon countries: Ireland and the United Kingdom feature relatively large social assistance of the last resort and salient activation measures (liberal model in Esping-Andersen typology). (3) Continental countries: Austria, Belgium, France, Germany and Luxembourg rely extensively on insurance-based, non-employment benefits and old-age pensions (corporatist-statist or conservative model in Esping-Andersen's typology). (4) Mediterranean countries: Greece, Italy, Portugal and Spain concentrate mainly on old-age pension and allow high segmentation of welfare entitlements.

East Central Europe constitutes a separate cluster, because the countries of this region have been in a transitional state with a wide diversity of situations, whose definitive characteristics are not yet clearly specified (ANDRÉ, 2006). However AIDUKAITE (2004, 2011) argues that post-communist European countries form a singular welfare state type because of their distinct institutional similarities. FARKAS (2011: 419) concluded that it is relevant to treat the ECE countries as a distinct welfare state regime, because their distinctness from the other models are stronger, than the differences within the ECE model. The debate on the emergence of the post-communist (or CEE, ECE⁹) type of welfare state has been inconclusive

⁹ "Central and Eastern Europe seems easier to define by what is not, than by what it is. It is an area without clear geographical borders (BATT, 1998: 1). Based on the definition of the OECD, Central and Eastern European Countries (CEECs) is an OECD term for the group of countries comprising Albania, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic, Slovenia, and the three Baltic States: Estonia, Latvia and Lithuania. Therefore, the dissertation does not use the term CEECs, it limits itself to the concept of East Central Europe (ECE), throughout the dissertation including the four Visegrad countries, plus Slovenia and Estonia. In the welfare state literature these countries are often referred to as CEECs or post-communist welfare regimes; however the scope of analysis is varying.

(ADASCALITEI, 2012). In the following, six post-communist countries¹⁰ are grouped together as a first step, and they constitute the fifth welfare state regime.

Using the five different models (Nordic, Continental, Anglo-Saxon, Mediterranean, Post-Communist), the thesis analyses the social spending patterns and the direction and scale of welfare state reforms.

¹⁰ Namely: the Czech Republic, Estonia, Hungary, Poland, Slovakia and Slovenia. However Romania and Bulgaria are left out of the scope of analysis due to data availability; SOTIROPOULOS ET AL. (2003) emphasized the specific features of the post-communist welfare state in Bulgaria and Romania. Unlike other European countries, these countries did not embark on retrenchment policies until the mid- or even late 1990s. Welfare regime formation in both countries started belatedly, which can be characterised as a “two-step transition to democracy”. Latvia and Lithuania are not OECD members, no consistent data on social policy expenditures are available for them.

2.2.3 Measurement

When considering the comparison of the different welfare state regimes, the first problem the researcher faces is defining the concept itself. As the relevance of the welfare state and the use of the different typologies have increased, the concept and relevance have become part of the theoretical debate. After choosing the relevant definition, being used in the dissertation, the problem of measurement pose a second critical topic. In the following the applied measurement method is introduced in details.

“Welfare derives from many sources in addition to state activity. Individual welfare comes from at least four sources” (BARR, 2012: 7). The most important source of welfare is the labour market, first through wage income. In its broad definition, full employment is a major component of welfare. In addition to wage income, firms provide occupational welfare in different forms, such as sickness, injury and retirement. Second, there are different forms of private provisions of welfare including voluntary private insurance and individual savings. Third, there are within family and outside family channels of voluntary welfare where people donate their time freely or below the market price, or make voluntary charitable donations in other forms (BARR, 2012).

BARR (2012) named cash benefits and benefits in kind as the fourth source of welfare. In the dissertation, only this source of welfare is taken into account, the labour market, occupational and voluntary welfare are outside the scope of this PhD dissertation. In order to understand state provided welfare aggregated social expenditure data¹¹ are used. Aggregated social spending as a percentage of GDP is one of the most widely applied measuring methods for assessing “welfare effort” that governments make on behalf of their citizens, and changes in this measure provide a useful hindsight into the nation’s continuous commitment to welfare (CASTLES, 2004).

Research focusing only on social spending has its limits; however it is the most common measuring method in comparative welfare research. The thesis in accordance with the mainstream focuses on the size of the welfare state which is

¹¹ For aggregated social expenditures data from OECD SOCX database are used.

based on social expenditure data as on public budgets, and relating this spending aggregate to gross domestic product (GDP).

This method allows us to carry out comparison of welfare service provision across countries. ADEMA (2010) stressed that “such an analysis has many advantages, not least that it allows for a detailed examination of different social spending programmes. But it has its shortcomings: it ignores the effect of tax systems as well as private social spending” (p. 22).

In the framework of this dissertation only aggregated public social spending is taken into account, even if tax systems can significantly influence the real social public efforts and private social spending, and are crucial to understand the operation of the welfare state.

Welfare delivery has mainly been understood and analysed as the welfare delivered and/or financed by the state (GREVE, 2008). Most of the literature concerning the comparative analysis of welfare state spending thus concentrates on public sector spending (DIXON, 2000; OBINGER – WAGSCHAL, 2001; CASTLES, 2004).

“The very existence of the welfare state is evidence for the proposition that specific caring exists, [...] it is not a general concern but, [...] is associated with specific aspects of consumption” (CULYER, 1980: 65) “The welfare state is a response to the existence of caring externalities based upon the preferences of members of the community” (CULYER, 1980: 181). The benefits of welfare state are evaluated in relation to its costs, which requires conceptual distinction between inputs and outputs, the study of various means by which inputs are transformed into outputs. It is neither always possible nor even desirable to assign money value to the outputs (even if they can be measured), because the evaluation of the benefits should be carried out on the political level (CULYER, 1980), the thesis limits itself to taking into account mainly the inputs (expenditure side).

Analysing the nominal level of social expenditures can be a good basis for comparison; however it can be misleading as well. In an economic downturn, spending-to-GDP ratios can rise for two reasons: (1) because public spending increases to address the greater need for social support, such as unemployment or housing benefit; and/or (2) GDP grows slowly or declines (OECD, 2012a). In order

to unravel these two effects real (adjusted for changes in prices) social expenditures are taken into consideration, as well.

There is a wide range of literature dealing with the measurement problems of welfare indicators. In the forthcoming, welfare state generosity ratio will be introduced in order to analyse welfare efforts, however in purely monetary terms.

Aggregated social spending as a percentage of GDP as the most widely used measure of the “welfare effort” will be used as basis. With the introduction of generosity ratios it is possible to broaden the general picture of social expenditure developments while taking into account the population in need, but this methodology still remains within the framework of quantitative spending based welfare state research. However comparative welfare state research is mainly based on public spending data, scholars have long emphasized the shortcomings of this methodology and the need for more qualitative approaches (SCRUGGS, 2007).

Welfare state generosity ratio is a simplistic measuring rod for assessing how well modern welfare states cope with the self-contradiction that while providing services they are generating increased demand for these services at the same time. Relevant literature mostly cites two categories as most important factors affecting the welfare state, namely the aging population and the increasing level of unemployment (equal together the population being dependent on the welfare system).

Based on the method of dividing the aggregates of social expenditures by the percentage population being dependent on the welfare services (population aged sixty-five and over and unemployed persons as a percentage of the labour force based on the EU Labour Force Survey) a simple ratio can be computed, measuring the generosity of welfare. Theoretically it can be interpreted as the percentage of GDP received in welfare spending for every 1 per cent of the population in need (CASTLES, 2004: 36). Main advantage of the method is that the use of welfare state generosity ratios enables us to put the post-communist EU member states on the map of the world's welfare states and allow us to compare welfare state policies of the country groups over time.

$$Generosity\ ratio^{12} = \frac{SOCX}{\frac{POP_{65+} + POP_{UNEMP}}{POP_{ACTIVE}}}$$

$SOCX$ = aggregated public social expenditures as a percentage of GDP (source of data: OECD SOCX database)

POP_{65+} = population aged sixty-five and over (source of data: Eurostat Population database)

POP_{ACTIVE} = total active population – annual averages (source of data: Eurostat Population database)

POP_{UNEMP} = unemployed population – for calculation using unemployment rate (source of data: Eurostat database)

There are two obvious deficiencies with this measurement. First, an average figure for each country can be calculated without taking into account the different sections of the population in need. Second, expenditures are delivered to only two categories of welfare recipients (CASTLES, 2004).

In his original analysis CASTLES (2004) calculated generosity ratios for 21 OECD countries¹³ and the welfare state families (group means) in 1980 and 1998 and the changes over time. His method provides us a snapshot of generosity performance, but it does not allow us to track long run processes. Real added value of the dissertation is the annual calculation of generosity ratios for the period of 1992 and 2013, and the inclusion of East Central European into the analysis.

Even though the described method is a really simplistic way to measure the performance of the welfare state by neglecting several other important factors; it is possible to draw general trends to compare different models.

¹² The results of welfare state generosity ratio calculations are presented in *Annex table 3*.

¹³ 14 EU countries: EU15 (“old EU member states”) excluding Luxembourg, plus 2 non-EU European countries: Norway and Switzerland, and 5 non-European OECD member states: Australia, Canada, New Zealand, United States, and Japan.

2.3 Hypotheses

Taking into account the theoretical framework explained above and the key research questions, we can arrive at some hypotheses.

The convergence thesis argues that welfare states gradually tend to converge upon each other. However theory predicts that convergence is driven by neo-liberalization, so welfare states develop in the direction of a more unadorned liberal welfare state. Empirical evidence contradicts this thesis and as policy harmonization of the European Union is another driving force of convergence; it can be assumed that institutional differences between countries will disappear as countries move in the direction of one social Europe.

H₁ There is convergence of welfare efforts between welfare state regimes and between countries within regimes, as well. Welfare regimes are converging in the middle.

If the hypothesis is proven correct, it means that the extreme values converge, Nordic countries (social democratic countries) become more liberal (meaning less generous) and Anglo-Saxon (liberal) countries become more generous.

In order to test whether there is convergence of generosity trends of the distinct welfare state regimes it is essential to define the convergence concept being used in the dissertation. “Convergence is a multifaceted concept” (SCHMITT – STARKE, 2011: 121), different conceptualizations of convergence can be used, most notably sigma-convergence and beta-convergence. Throughout the dissertation convergence is understood as sigma convergence, which is the most straightforward version of the concept. It denotes a narrowing of differences between units over time. This is by far the most commonly used approach in welfare state research. In line with the research of O’CONNOR (1988) and several other studies, dispersion can be measured as standard deviation, coefficient variation, the Gini index or boxplots in order to track the convergence of social expenditures (SCHMITT – STARKE, 2011).

In the dissertation dispersion of governmental welfare efforts is measured by coefficient variation of welfare state generosity ratios. However, this method of measuring welfare state convergence is widely used, it suffers from methodological

limitations, tracking the change in the coefficient variation across units and over time might not be reliable (PLÜMPER – SCHNEIDER, 2009). Bearing in mind the limitations of the applied methodology, the evolution of welfare state generosity trends and coefficient variation enable us to draw conclusions on whether there is convergence between welfare state regimes or not. Sigma convergence can be calculated as a standard deviation of the logarithms of income generosity ratios for the given welfare state models. It measures dispersion of the values around certain average. In the case, sigma convergence is present providing that the dispersion of generosity ratios decreases. For the purpose of the better presentation of the results, the standard deviations for the logarithms of the generosity ratios are illustrated graphically.

Two crises (crisis of the early 1990s and the current financial and economic crisis) and their effects on welfare state development are analysed in the dissertation. Crisis and economic recession affect the operation of the welfare states. The main task of the welfare state is to mitigate the negative effects of the crisis. Well-functioning welfare systems might operate as an effective “automatic stabiliser”.

H₂ In times of a crisis welfare state works primarily via the so-called automatic stabilisers.

Crisis might enforce retrenchment, reforms or recalibration of the welfare state. In general, there is need for recalibration of the welfare state towards new social risks and in favour of less protected groups. Due to the current financial and economic crisis, in many cases deep and systematic cuts of social protection were made. Reforms that restore equity as well as efficiency of welfare systems have been pursued less consistently.

H₃ Countries conducting welfare state reforms, recalibration before the crisis have been able to reach recovery faster than those welfare states where reforms have been enforced only by the crisis.

3. Research design

Within the approach of qualitative research, research questions are embedded in existing theory. Discussing the grand theories of the topic provides abstract construction of the world. Empirical results have to be linked to existing theories. “A conceptual framework is therefore developed through deductive reasoning based on existing literature and theory” (HENNINK ET AL., 2011:40). After discussing the theoretical framework in the previous chapter, and setting the hypotheses of the dissertation, this chapter exposes the methodology planned to be used.

Testing the main hypothesis, welfare state regimes are employed in order to highlight the different social policy patterns. To understand the complex phenomena of welfare state developments welfare state typologies are used which allow us to summarize the commonalities and differences among the cases. With the use of regime typologies of the welfare state generalisation across the advanced welfare states becomes possible.

“Comparison is a fundamental tool of analysis” (COLLIER, 1993: 105), based on the evaluation of a small number of cases (LIJPHART, 1971).

Comparative welfare state research is usually based on macro-typologies of institutional configurations, by using “regime” approach it is possible to conceptualize distinct typologies and to classify empirical similarities and differences. While welfare state theory provides us the main features of ideal-type regimes, comparative analyses of the welfare states use real cases (EBBINGHAUS, 2012). Welfare state typology provides comparable cases, which are matched on many variables, and differ in the key variables that are the focus of the study (LIJPHART, 1971).

Although quantitative analyses, such as cluster analysis, linear regression or pooled time-series of medium-N cases are widely used, the method applied in the thesis is Qualitative Comparative Analysis (QCA), developed by CHARLES RAGIN (1987). QCA is a research strategy which ensures the “dialogue between ideas and evidence” (Ragin, 1994: 55). QCA ensures to fulfil two contradicting goals: on the one hand gathering in-depth insight, on the other hand, capturing the complexity of the cases, while also producing a certain level of generalization (RAGIN, 1987).

The major advantage of QCA is that it allows one to consider phenomena that vary both qualitatively and quantitatively (RIHOUX – LOBE, 2009). RAGIN (1992) emphasized that defining the case of the research is an evolving process and “may not be known until after most of the empirical part of the project is completed” (RAGIN, 1992: 8-9). In accordance with his statement the case selection follows the comparison of the different welfare state models.

After detailed comparative analysis of the welfare regimes, case study method is used in order to understand a real-life phenomenon in depth. Case study method is an empirical inquiry which highlights the specific features of the chosen cases based on the initial assumptions of the analysis of the theory and the results of the comparison. Case study method allows the deeper understanding of the processes. Descriptive case study method is employed to answer the research questions. Multiple-case study design is applied, because the cases “predict contrasting results but for anticipatable reasons” (YIN, 2009, p. 54). The chosen cases are holistic (Type 3: multiple holistic cases) and illustrative. Illustrative case studies are traditional descriptive case studies and they are used in order to specify the real developments of social policies within the welfare regimes.

3.1 Case selection

In order to understand real social policy developments of the different welfare state regimes, the illustrative case study method is applied. Five illustrative cases are chosen for each welfare state regime to describe the background factors of social policy expenditure patterns.

The focus is on the European Union, as such, the countries analysed are EU member states, even if data for aggregate public social spending is available only for those EU member states which are members of the OECD¹⁴ as well (hereinafter referred to as EU21). Time frame is varying, for the old EU member states almost all data are available for the time period of 1992 and 2013, but for the new EU member states, a lot of data are not available for the 90s.

¹⁴ EU21 consists of Belgium, Czech Republic, Denmark, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Luxembourg, Hungary, Netherlands, Austria, Poland, Portugal, Slovenia, Slovakia, Finland, Sweden, the United Kingdom.

In order to make the most of the limited data available for the Central and Eastern European countries, the main emphasis of the thesis is put on the analysis of the developments mainly after 2000 with special attention to how the current financial and economic crisis has affected the welfare state within the EU21.

3.2 Data selection

Analysing quantitative data is also an applied approach of the thesis. The dissertation is based on secondary data. Welfare efforts are measured with aggregate public social expenditures and welfare state generosity ratios.

Most comparative studies of social protection use social expenditures to measure the level of social protection in different countries. We use data from the most recent OECD Social Expenditure Database and provided by Eurostat. Using aggregated data of social expenditure has its limits (KÜHNER, 2007). There is need for standardizing social expenditure indicators, because the changes in expenditure ratio may not be caused by policy changes, but simply by the changing number of beneficiaries as a result of an ageing population or changes in unemployment levels due to cyclical factors (CAMINADA ET AL., 2010). There are several methods to standardize total social expenditures to control for changes. In the dissertation I exclusively examine welfare state generosity ratios as a method of standardizing.

3.3 Data analysis

The interpreted data is collected and compared in a table or chart format which allows us to have a better comparative approach.

A positivist approach is applied in order to enable generalization and quantifiable observations, and evaluate the result. The research topic determinates the collection of facts and figures that are associated with the research topic through general sources (SAUNDERS ET AL., 2007). The collected data are evaluated and finally support the results in order to achieve research aims and objectives. Beside the verbal description of the different expenditure patterns of welfare state regimes, the analyses are accompanied with graphical representations of the variables.

Aggregated public social expenditures (nominal and real), as well as welfare state generosity ratios and major macroeconomic indicators are analysed in depth in order to shed light on whether there is convergence between the distinct welfare state regimes.

4. Comparing welfare state models

4.1 Trends of general government expenditures

It is important to examine government activity because governments play a crucial role in economies, through their activities in providing public services, in redistributing income and by limiting the volatility of business cycles through automatic stabilisers as well as possibly through active fiscal policy. The way in which they finance themselves (taxation, borrowing) and the size, pattern and function of their expenditure have major impacts on other economic actors (WAHRIG – GANCEDO VALLINA, 2011). In the dissertation the major emphasis is put on the analysis of the expenditure side.

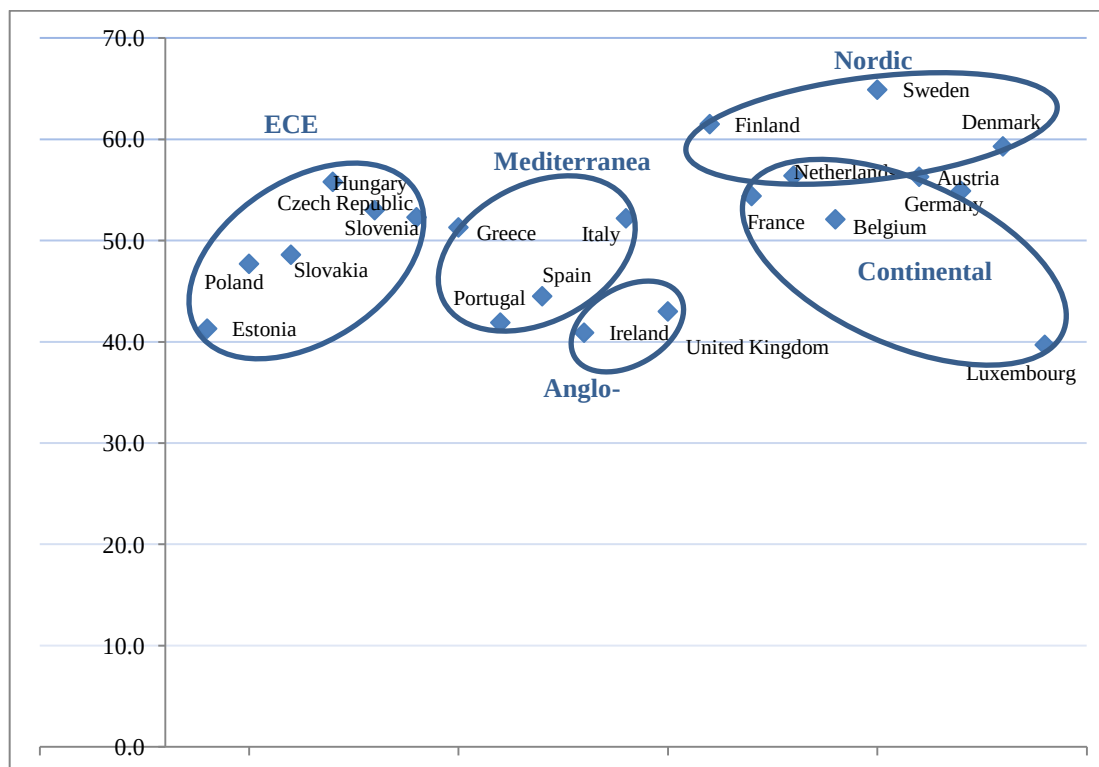
Since 1870, government expenditure has increased considerably in all industrialized countries. Although this increase has not been equal in all countries, it is nevertheless remarkable that despite the institutional differences, growing public spending has been a general phenomenon (TANZI – SCHUCKNECHT, 2000). The post-World War II period and particularly the period between 1960 and 1980 brought an unprecedented impetus of government involvement in the economy. The 1960-1980 period could be characterized as the golden age of public sector intervention (TANZI, 1997). Since the 1980s public spending has been growing at a lower pace, and in some countries has even declined. “During the 1980s, governments had to face the unpleasant reality that it is far easier to increase benefits (such as pensions and wages) than reduce them; or to hire civil servants than to fire them” (TANZI – SCHUCKNECHT, 2000: 18)

In general, it can be concluded that the size of the government reached unprecedented dimensions by the 1990s, although the growing importance of general government was mainly typical for Europe (MURAKÖZY, 2010). General government expenditures constitute of expenditures of central, state and local governments and social security funds. Examining general government expenditures as a share of GDP for 1995, it can be observed that it is 37 per cent in the United States (OECD, 2009),

while the same indicator is notably higher for the EU25¹⁵, 49 per cent¹⁶, and even higher for the EU21 which is 51 per cent based on Eurostat general government expenditure data.

Linking general government expenditures to the level of economic development, in 1995 welfare state regimes can be differentiated on the chart (*Figure 1*). In 1995, general government expenditure amounted to 51% of EU21 GDP with high variation of the values. As a ratio to GDP, the highest levels of general government expenditure among the examined welfare regimes were recorded in case of the Nordic model (60.5% on average), approximately 10 percentage points higher than in the Continental countries and even higher than in case of the other models. The lowest level can be found for the Anglo-Saxon model and Luxembourg which is an outlier of the Continental model.

Figure 1 General government expenditures (percentage of GDP), 1995



Source of data: Eurostat statistics, online data code: [gov_a_main], according to MURAKÖZY (2010)

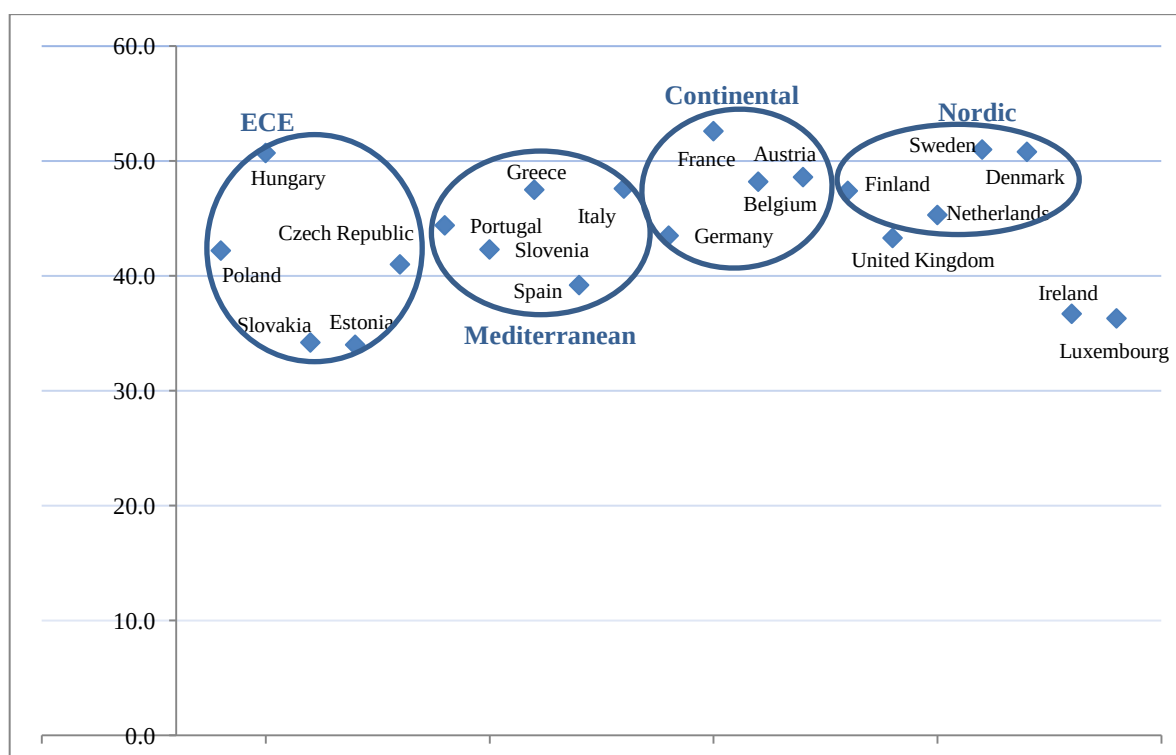
Note: x-axis: ranking according to economic development (GDP per capita)

¹⁵ The variation is high, the lowest level is for Romania (34%), while the share is highest in Sweden (64%).

¹⁶ Average data cover the differences, variation within EU25, but for instance OECD defines OECD average, calculated as the unweighted mean of the data values.

In 1995 within model variation is low for the Anglo-Saxon model, the coefficient variation amounts to only 3.5% and it is slightly higher for the Nordic model. In case of the ECE and Mediterranean model coefficient variation of general government spending is around 10 per cent. This value is the highest for the Continental model, but still low, only 13 per cent, however excluding the outlier Luxembourg, coefficient variation amounts to only 3 per cent, which means that in pattern of general government spending the Continental countries act almost identically. It is remarkable that the Netherlands is on the border of the Nordic and the Continental models just like in different welfare state theories, typologies¹⁷.

Figure 2 General government expenditures (percentage of GDP), 2007



Source of data: Eurostat statistics, online data code: [gov_a_main], according to MURAKÖZY (2010)

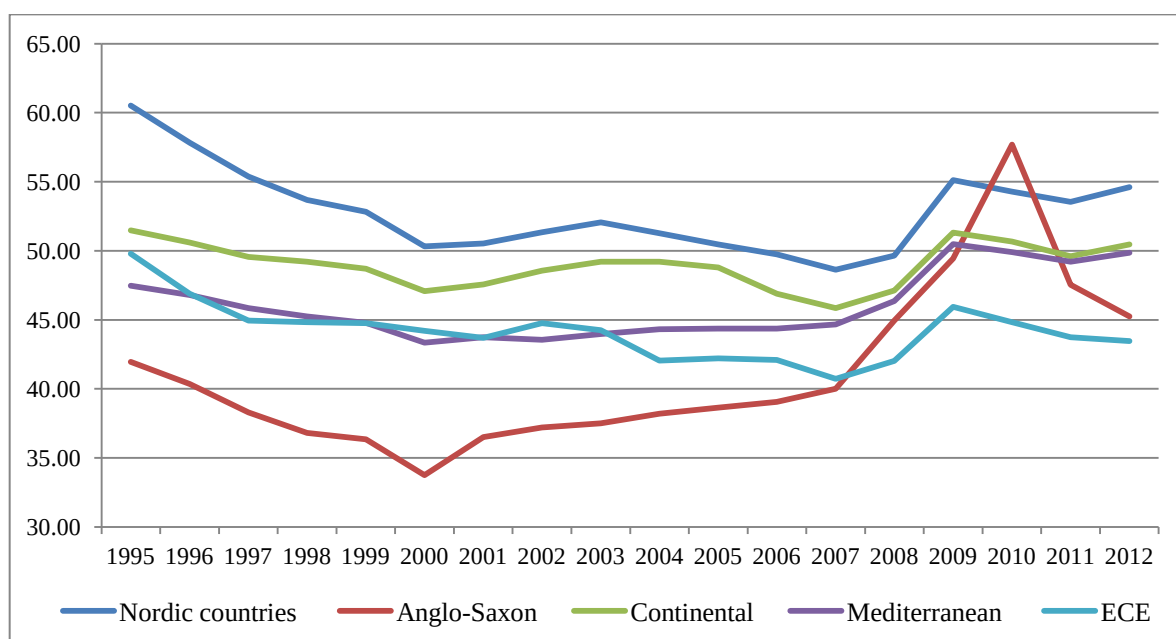
Note: x-axis: ranking according to economic development (GDP per capita)

¹⁷ According to SAPIR's typology (2006), the Netherlands is grouped in the Nordic model, while other theorists like VAN KERSBERGEN (1995), VAN KERSBERGEN and MANOW (2009) examine the Netherlands within the Continental regime, BONOLI (1997) putting it in the cluster of Bismarckian (Continental) countries.

This peak of general government expenditures in 1995 was followed by a progressive decrease until 2007, when the distinct welfare state with the exception of the Anglo-Saxon model can be differentiated and grouped again, however the level of general government spending of the distinct regimes became relatively similar (44% on average with low standard variation). Even the highest ratio was slightly above 50 per cent (*Figure 2*). Noteworthy is the reduction of general government spending in the Nordic countries, largely due to drop of public social expenditures. Except the Anglo-Saxon model, the other four models were converging to a lower general government spending. Because of the pre-crisis economic development in Ireland, a significant divergence within the Anglo-Saxon model can be observed, while the public expenditures ratios did not change compared to the 1995 level.

From the 1990s until the outbreak of the financial and economic crisis, general government expenditures were significantly reduced due to government efforts and dynamic economic growth (MURAKÖZY (2010)). Looking at the temporal evolution of general government expenditures of the models, it can be concluded that until 2009 a significant convergence process took place between the models (*Figure 3*).

Figure 3 General government expenditures (% of GDP) of the five welfare state models (1995-2012)

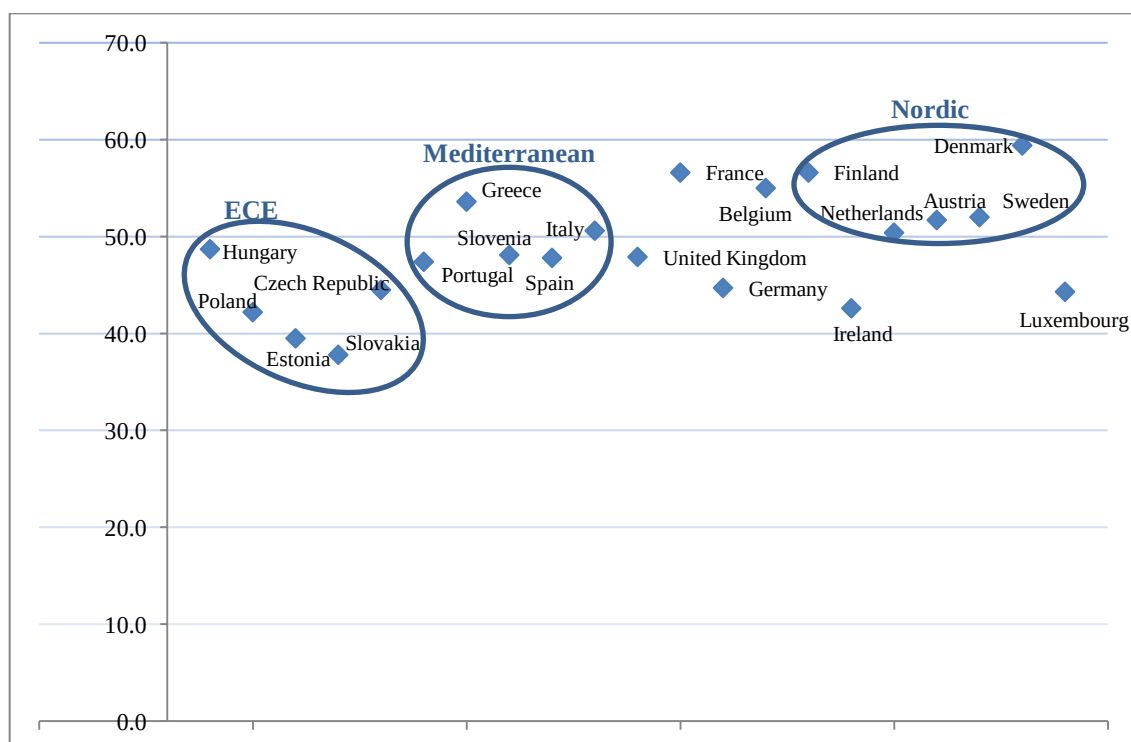


Source of data: Eurostat statistics, online data code: [gov_a_main]

The most dynamic increase is recorded for the Anglo-Saxon model: until 2000 there was a drop of public spending, afterwards general government expenditures started to grow again, and the model experienced an intensified growth in public spending between 2007 and 2010 before a salient drop again. During the 2000s, the Mediterranean model experienced continuous increase of the general government expenditures, reaching 50 per cent in 2000, and the same level as the Continental model with the exception of Luxembourg. The convergence is a result of salient reduction of the general government spending in case of the Nordic countries, while in the countries of the other models, except the ECE countries, general government expenditures increased considerably.

Before the crisis, general government expenditure levels ranged between 50 and 55 per cent of GDP for all models, except for the ECE countries. However, in 2008 Hungarian general government expenditures were close to the other models' average level of 49 per cent. Within model variation is lower for the Nordic, Anglo-Saxon, Continental and Mediterranean models than for the ECE countries.

Figure 4 General government expenditures (% of GDP), 2012



Source of data: Eurostat statistics, online data code: [gov_a_main], according to MURAKÖZY (2010)

Note: x-axis: ranking according to economic development (GDP per capita)

In a recession, government expenditures tend to stay stable or increase because of the rising number of the population in need, being unemployed and relying on social security payments. As a consequence of the crisis, the GDP share of general government expenditures increased significantly in all models (*Figure 4*) accompanied by growing deficits and debts; however the Continental and Anglo-Saxon countries cannot be grouped any more in 2012. It is remarkable that the Mediterranean and Nordic levels of general government expenditures are really close to each other. The increase for the ECE countries was lower than for the other models, and a catch-up process within the ECE model can be observed.

In terms of GDP, general government expenditure rose sharply between 2007 and 2009, increasing from the average level of 44.3 % to 50.17 % of GDP in the EU21. This is partly due to the denominator; GDP at current prices fell by more than 5 per cent between 2008 and 2009. The other reason is the increased need for government intervention. General government expenditures significantly increased in 2009, before reversing its trend by easing to 48.6 per cent of GDP in 2012. A significant increase is recorded for the post-crisis period, between 1995 and 2012, the level of government expenditures was highest in 1995 in the EU21, reaching 51.05 % of GDP, before dropping to 44.9 % in the years up to 2000.

Analysing the patterns of general government spending of the welfare state regimes, it can be concluded that until 2007 a significant convergence process took place. Coefficient variation of mean values for the distinct models decreased from 14% (in 1995) to 9% (in 2007), due to the current crisis coefficient variation did not change considerably, amounting to 9.4% in 2012. Within the given models, from 1995 to 2007 coefficient variation slightly increased in case of each model, with the exception of the Mediterranean model. The current crisis has had different impact on within model similarity. In the countries of the Mediterranean model coefficient variation within the model decreased further, as in case of the Anglo-Saxon and the ECE model, while in the Continental¹⁸ and the Nordic model within model variation slightly increased (data are presented in *Annex table 4*).

¹⁸ Luxembourg is excluded from the Continental model due to its different general government spending patterns.

4.2 Welfare state performance

4.2.1 Framework for convergence within the EU

The European Council called for a fundamental transformation on its meeting in 2000 in Lisbon. A new strategic goal for the European Union was established in order to strengthen employment, economic reform and social cohesion as part of a knowledge-based economy (EUROPEAN PARLIAMENT, 2000). New feature of this agenda that economic and social agendas were explicitly coupled. To achieve these aims, the social model needs to be modernized, while ensuring long-term sustainability of the social security systems in the light of the ageing process, participation rates should be increased (CAMINADA ET AL., 2010).

The Lisbon strategy launched in 2000 has represented a twofold ambitious goal for the European Union: “to transform the European economy of the 21st century (and make it the most competitive knowledge-based economy in the world) and to innovate EU governance through new forms of interaction between national practices and European objectives” (NATALI, 2010: 4).

In order to achieve convergence in the field of social inclusion, the European Union adopted an appealing approach, the “Open Method of Coordination”¹⁹ (OMC) as a new form of EU governance. OMC is created as part of the employment policy and the Luxembourg process, defined as an instrument of the Lisbon strategy (2000) (EUROSTAT, 2014a).

The OMC as defined by the Lisbon European Council (EUROPEAN PARLIAMENT, 2000):

- Implementation of the strategic goal will be facilitated by applying a new open method of coordination as the means of spreading best practice and achieving greater convergence towards the main EU goals. This method, which is designed to help Member States to progressively develop their own policies, involves:
- Fixing guidelines for the Union combined with specific timetables for achieving the goals which they set in the short, medium and long terms;

¹⁹ The open method of coordination takes place in areas which fall within the competence of the Member States, such as employment, social protection, social inclusion, education, youth and training.

- Establishing, where appropriate, quantitative and qualitative indicators and benchmarks against the best in the world and tailored to the needs of different Member States and sectors as a means of comparing best practice
- Translating these European guidelines into national and regional policies by setting specific targets and adopting measures, taking into account national and regional differences;
- Periodic monitoring, evaluation and peer review organised as mutual learning processes.

In general, OMC is a form of EU soft law, a process of policymaking which does not lead to binding EU legislative measures nor require Member States to change their law. The open method of coordination aims to spread best practices and achieve greater convergence towards the main EU goals. This process reduced the member states' options in the field of employment policy, which was designed as an alternative to the existing EU modes of governance (EUROFOUND, 2010).

OMC has been implemented in the areas of social inclusion, health care and long-term care and pensions (social OMC). The social OMC is a voluntary process for political cooperation based on agreeing common objectives and measuring progress towards these goals using common indicators. The process also involves close co-operation with stakeholders, including Social Partners and civil society (EUROPEAN COMMISSION, 2014a).

OMC is used by member states to support the definition, implementation and evaluation of their social policies and to develop their mutual cooperation. A tool of governance based on common objectives and indicators, the method supplements the legislative and financial instruments of social policy. It is part of the implementation of the process of coordination of social policies, particularly in the context of the renewed Lisbon Strategy. The single social OMC established in 2005 applies to the fields of: (1) the eradication of poverty and social exclusion; (2) guaranteeing adequate and sustainable pension systems; and (3) providing accessible, high-quality and sustainable health care and long-term care (EUR-LEX, 2008).

OMC can be understood as an instrument of building the “European Social Model”, however there are optimists and pessimists about the success of this process.

European Social Model refers to the institutional arrangements comprising the welfare state (transfer payments, collective social services, their financing) and the employment relations system (labour law, unions, collective bargaining). The general term “social model” refers to “ideal-types” in the Weberian sense, conceptual abstractions of distinctive and central commonalities derived from a variety of empirical situations. “Ideal-types are designed to help social analysis by virtue of their capacity for elucidating the underlying similarities and differences across a range of complex social phenomena” (MARTIN – ROSS, 2004: 11).

OMC instruments are not legally binding, they can be regarded as soft law, but soft law may be effective, because it allows for policy experimentation and better problem definition. Regarding the diversity within the European welfare models, soft law is more suitable enabling different policy solutions in different member states. In addition, OMC may be more effective than inducing long-lasting policy learning (instead of just superficial behaviour change) because it has the potential to influence deep-seated values and attitudes. OMC facilitates policy learning through the regular exchange of ideas, deliberation, peer reviews, diffusion of discourses, “socialisation”, and bottom-up experimentation (BÜCHS, 2009).

OMC instruments can strengthen “social Europe”, both the status of social policy at the EU level and the performance of national welfare states. “The European Union, acting as a ‘semi-sovereign’ policy system, seems slowly but surely to be carving out a distinct ‘policy space’ regarding social policy – a space which may gradually work to rebalance ‘softly’ and ‘from below’ the current structural asymmetry between negative and positive integration” (FERRERA – RHODES, 2000: 278).

Beside the optimistic views on OMC, there are several pessimists²⁰ who doubt that this instrument is powerful enough to balance the negative and positive consequences of integration (SCHARPE, 2002) and improve national welfare state performance. Pessimists argue that European integration is a potential challenge for the national welfare states, because the creation of the single market increases competitiveness pressure which might lead to a downward adjustment of social

²⁰ For detailed analysis of the optimist’s and pessimist’s argument see (BÜCHS, 2009).

standards. Additionally, with the creation of the Eurozone, member states are no longer able to assign an individual monetary policy, which may put additional direct pressure on welfare systems (BÜCHS, 2009).

It can be concluded that on the one hand there is a theoretical argument that welfare states have become more similar, on the other hand the European Union promotes closer social policy coordination, the need to “reinforce”, “improve” and “preserve” the “European Social Model” (BÜCHS, 2009).

Even without the effects of the crisis, the Lisbon Agenda had produced mixed results, calling for revision (ARMSTRONG, 2012). Europe 2020, as the successor of the Lisbon Strategy is aimed at social purposes as well, creating conditions to deliver a higher level of well-being for European citizens by 2030 and beyond. The Europe 2020 Strategy was designed as a European exit strategy from the global economic and financial crisis that started in 2008, targeting to improve the competitiveness of the EU and achieve sustainable growth (BONGARDT – TORRES, 2010).

Europe 2020 agenda presented itself as an integrated policy strategy with a strategic focus based around the mutually reinforcing objectives of “smart”, “sustainable” and “inclusive” growth. There are seven “flagship initiatives” in thematic areas: Digital agenda for Europe, Innovation Union, Youth on the Move, Resource Efficient Europe, An Industrial Policy for the Globalisation Era, An Agenda for new skills and jobs and European Platform against Poverty. Each flagship initiative acts as an umbrella vehicle for more specific initiatives and, deploying a range of tools and instruments: e.g. legislation, non-binding recommendations, EU funds, policy coordination processes. Policy proposals associated with achieving the economic aims of growth and competitiveness must, nonetheless, take their social implications into account, meaning the social dimension of Europe 2020 (ARMSTRONG, 2012).

Europe 2020’s social agenda is the basis for “creating a somewhat stringent social snake binding member states to remain within certain quantitative bands after reaching the headline targets (e. g. in terms of social inclusion levels) but also for establishing a fully fledged EU system of social protection” (FERRERA, 2010: 65). The OMC processes in the social sphere of the Europe 2020 strategy have remained

largely untouched (MICHALSKI, 2013). It is a possible threat to Europe 2020's social dimension that it will lose out in the competition for political time and attention.

The OMC and any social policy coordination have been implemented in the areas where the EU has no formal competence, and are regulated under the subsidiarity principle.

The asymmetries in social policies within the European Union, especially in the European South, has become even more stressed due to the recent economic crisis, since “the politics of austerity predominantly affect the welfare state, hitting drastically social rights, a fact with explosive effect in social cohesion” (ZAMBETA, 2014: 3).

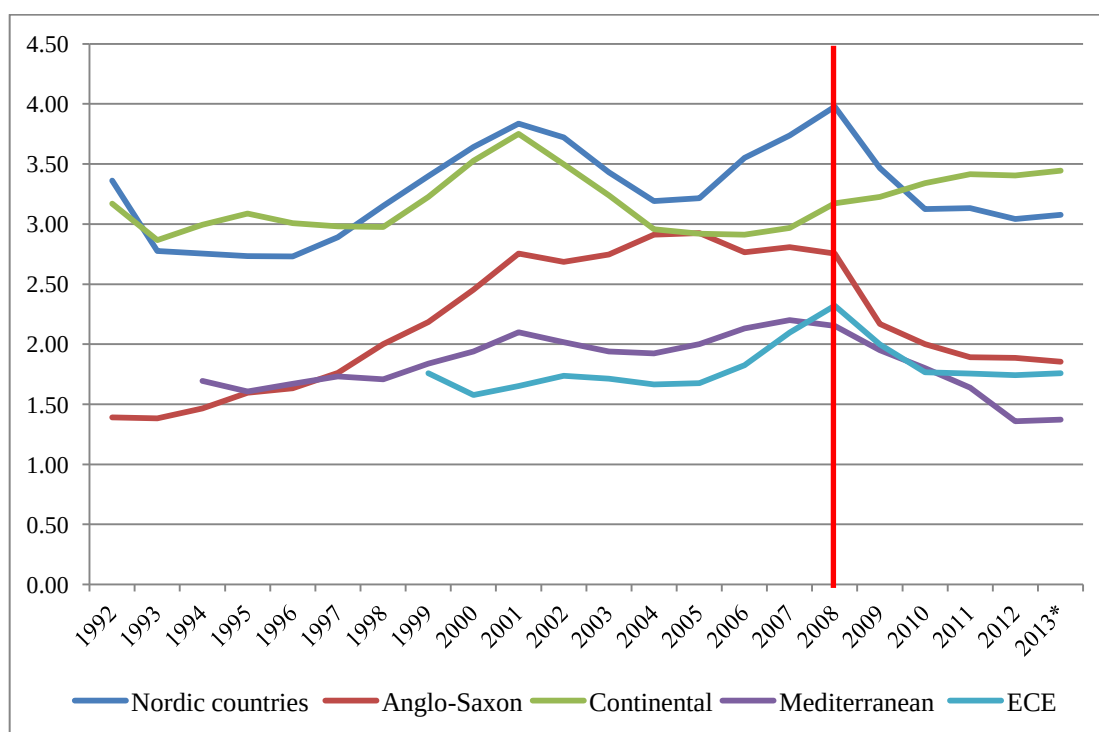
However, there has been political configuration and commitment to EU level social policy; the initial differences have remained salient. The effects of the recent financial and economic crisis on social policy divergence have exceeded the aftermath of any political tools (e.g. OMC) to promote EU level social policy convergence. The continuing social OMC has been challenged by the current financial and economic crisis, it is crucial to formulate a meaningful and substantive social dimension of EU policies.

The next section analyses welfare state performance within the EU21 since the early or mid-1990s, depending on data availability, to establish whether or not the welfare state models have experienced convergence. The main criteria examined here are social expenditure, based on the generosity ratio.

4.2.2 Generosity trends of welfare state models

Similar trends are observed for social policy spending as for the general government expenditures. Analysing generosity patterns of the different welfare state models, it can be concluded that before 2008 all models were converging towards the mean (Figure 5). Coefficient variation of group means (meaning the value for the model) decreased from 41% in 1992²¹ to 35% in 2000. This convergence process was intensifying especially during the early years of 2000s, coefficient variation of group means reached 24% in 2007. In this period, the countries of the Nordic and Continental models cut back social spending, while the Anglo-Saxon model extended social policy expenditures as a reaction to favourable economic circumstances.

Figure 5 Welfare state generosity ratios (mean values) of the different welfare state models (1992-2013)



Source of data: Eurostat Labour Force Survey, OECD SOCX database

Note: Models represent mean values.

* Figure composed by using share of population being dependent on the welfare system from year 2012.

²¹ No data available for the ECE model until 1999.

In addition, this general picture conceals that the changes of social expenditure were more pronounced for the Nordic, Continental and Anglo-Saxon regimes, whilst expenditure rose slightly and permanently in Southern Europe and in the countries of the ECE model.

In case of the Anglo-Saxon model, until 2006 the generosity ratios was steadily increasing, and afterwards the effects of the New Labour's 2006 Welfare Reform Bill in the UK and the introduction of the Development State concept in Ireland can be observed with decreasing generosity levels. The Anglo-Saxon model experienced a salient drop of generosity as a reaction to the 2008/2009 crisis.

Countries of the Mediterranean model witnessed a slight growth of generosity ratios until 2008. The crisis had a significant effect on their generosity level which deteriorated dramatically. Since 2010, the generosity level of the Mediterranean model has been the lowest among all models. But it has to be noted that this drop of generosity is not due to a drop of overall social spending, rather a consequence of the increased level of beneficiaries. Public social spending-to-GDP ratios increased in all countries of the model, except for Greece in 2013. However, when examining real (adjusted for changes in prices) social spending, the picture is different. Between 2007/08 and 2011/12, the decline in real social spending was the largest in Greece, while in the other countries, it increased compared to the base year of 2007 (*Annex Table 2*). The decline of the generosity ratio is the consequence of the salient increase of the share of population being dependent on the welfare state, especially of the unemployment rate. In 2012 and 2013, the generosity level of the Mediterranean model is notably lower than their 1995 level or the generosity of the ECE countries.

The welfare states of the ECE model had the lowest levels of generosity ratios until the outbreak of the crisis. During the first two years of the crisis, identical generosity ratios of the CEE and Mediterranean models were recorded, however the countries of the ECE model could stabilise generosity and the gap between the two models started to grow.

The global economic crisis has had an extensive impact on the performance and service provision of the welfare states. OECD social expenditure data show that on average across the OECD, public social spending-to-GDP ratios increased from

around 19% in 2007 to 22% in 2013, while this increase was even higher for the European OECD members. Public social expenditures as a percentage of GDP for the EU21 were roughly 22% in 2007 which exceeded 25% in 2013. In particular, social spending increased remarkably during 2008/09, but has stabilised since, while economic growth broadly follows the opposite trend: it declined from 2008 to 2009, and stabilised thereafter.

In general, it can be observed for all welfare state models that the convergence of the generosity trends turned into a divergence in 2008, coefficient variation of group means started to grow again, reaching 40% in 2013.

Social policy tendencies within welfare state models are described in the forthcoming chapters in detail.

5. Nordic model

5.1 General features

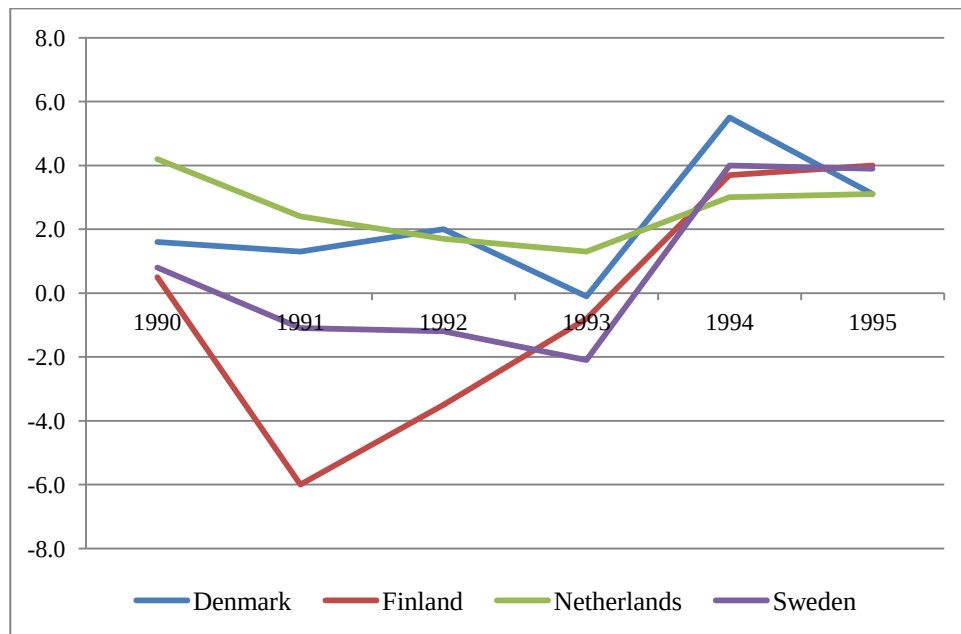
The major constitutive elements of the Nordic welfare model are the comprehensive state responsibility, universal coverage, individualism, high employment, equality of opportunities and results, high quality public services, high generosity, a decentralised organisation, strong social partners, a tradition of social dialogue, and some corporatism (KVIST – GREVE, 2011). The Nordic welfare model is characterised inter alia by mobilisation of workers and women, a political commitment to full employment and reduction of inequalities on several fronts (e.g. gender, income, family situation, and region). The Nordic model is associated with high social expenditure, public financing and high taxes. In addition to a universal and generous income transfer system, the Nordic model has featured local and publicly funded social and health care service provision (KAUTTO ET AL., 2001).

Analysing the Nordic welfare state model, the early 1990s play a central role, when along with the economic crisis at that time; changes were introduced both in Nordic social policy and in Nordic labour market policy (KUVALAINEN – NELSON, 2010). These processes were most apparent in Finland and Sweden, where the economic downturn of the early 1990s was particularly manifested. There are some differences in the development of the Nordic countries, but it is worth to shed light on the general features.

The economic crisis of the early 1990s induced re-organization of social policy, so it is crucial to examine the economic performance of the Nordic countries (*Figure 6*).

There was deterioration in Sweden's economy and an even sharper downturn in case of Finland, which led to austerity packages introduced by the government. In Finland the crash of the economy was as catastrophic as rapid, growth rate fell to 0.5 per cent in 1990 and turned negative in 1991 and 1992 (-6.0 per cent and -3.5 per cent respectively) based on Eurostat data. In the meantime, in the Netherlands and Denmark the pace of economic growth slowed down until 1993.

Figure 6 Real GDP growth rate in the countries of the Nordic model (1990-1995)



Source: Eurostat statistics, online code: [tec00115]

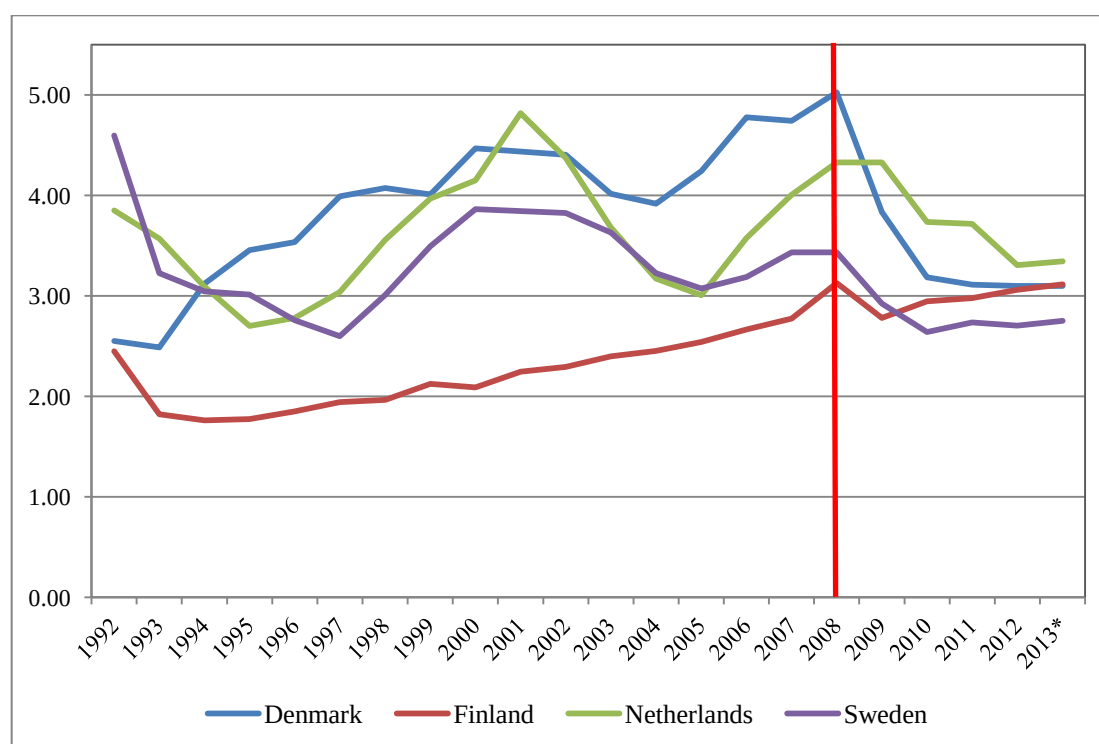
The recession of the early 1990s severely strained the public finances of the countries of the regime, and the welfare state came in for scrutiny with the rise of globalization as well. At this time the financing of the welfare state was in jeopardy, the resulting deficits created a lot of anxiety about the sustainability of welfare service provisions. The welfare state was challenged from within and outside. The complex problems the Scandinavian welfare states had to face were the rapidly growing budget deficit, severe bank crisis, increasing foreign debt, depressed domestic demand, tightening taxation, and dramatically increasing unemployment. Beside all of these challenges, no fundamental changes in the main welfare schemes were made but there were a wide variety of minor adjustments and retrenchment in welfare benefits and services (ALESTALO ET AL., 2009).

Contrary to the general idea about the generosity of the Scandinavian model, it is remarkable that after the crisis of the 1990s, the generosity ratio of the Nordic model is below the level of the Continental model (*Figure 7*), however aggregated public social spending was the highest among all models. The reason for this is within Europe aging population is the most severe in case of the Nordic countries.

After the crisis of the early 1990s, the Nordic countries started to become more similar. This convergence process can be proven by looking at the within model variation. Coefficient variation within the Nordic model started to decrease, however the generosity features of the countries became considerably similar only after 2010. In 2012 and 2013 coefficient variation of the generosity ratios was approximately 8 per cent, compared to 31 per cent in 1992 and the 22-26 per cent level for the period between 2002 and 2009. The continuous convergence process intensified after 2008.

Analysing the generosity trends of the Nordic countries (*Figure 7*) it can be concluded, that with the exception of Finland, after the retrenchment of the early 1990s, generosity ratios gradually started to grow until the introduction of several reforms in the beginning of the 2000s.

Figure 7 Welfare state generosity ratios in countries of the Nordic model (1992-2013)



Source of data: Eurostat Labour Force Survey, OECD SOCX database

* Figure composed by using share of population being dependent on the welfare system from year 2012.

In Finland, the generosity pattern was totally different. The generosity ratio was the lowest, which since 2003 was converging towards the mean value of the other three countries. The crisis of 2008/2009 brought salient changes, generosity ratios in all four countries dropped and converged significantly. With this crisis-generated drop in generosity the Nordic model's generosity level became lower than that of the Continental.

Active labour market policies are key elements of the Nordic model, coupled with solidaristic wage settings, redistribution of income via tax-transfer schemes, comprehensive and generous unemployment insurance schemes and other elements of social protection (ANDERSEN ET AL., 2007). The Scandinavian active labour market policy is for instance sometimes referred to as a model for 'welfare-to-work' programmes, or it is fused with workfare policies (GIDDENS, 1998). This shift from welfare to workfare means new social policies that put emphasis on the duties of the recipients of welfare benefits, notably the unemployed (CHRISTIANSEN – MARKKOLA, 2005). The share of public social spending on active labour market policies is higher in the Nordic countries than in the other analysed welfare states.

Public social spending-to-GDP ratios increased in all countries of the model (Table 1), reaching the peak in 2013, except in Sweden where social expenditures were cut back between 2009 and 2013.

Table 1 Aggregated public social expenditures in countries of the Nordic model (% of GDP)

	2000	2005	2009	2010	2011	2012	2013
Denmark	26.4	27.7	30.2	30.6	30.6	30.8	30.8
Finland	24.2	26.2	29.4	29.6	29.2	30.0	30.5
Netherlands	19.8	20.7	23.2	23.4	23.4	24.0	24.3
Sweden	28.4	29.1	29.8	28.3	27.6	28.1	28.6

Source: OECD SOCX database

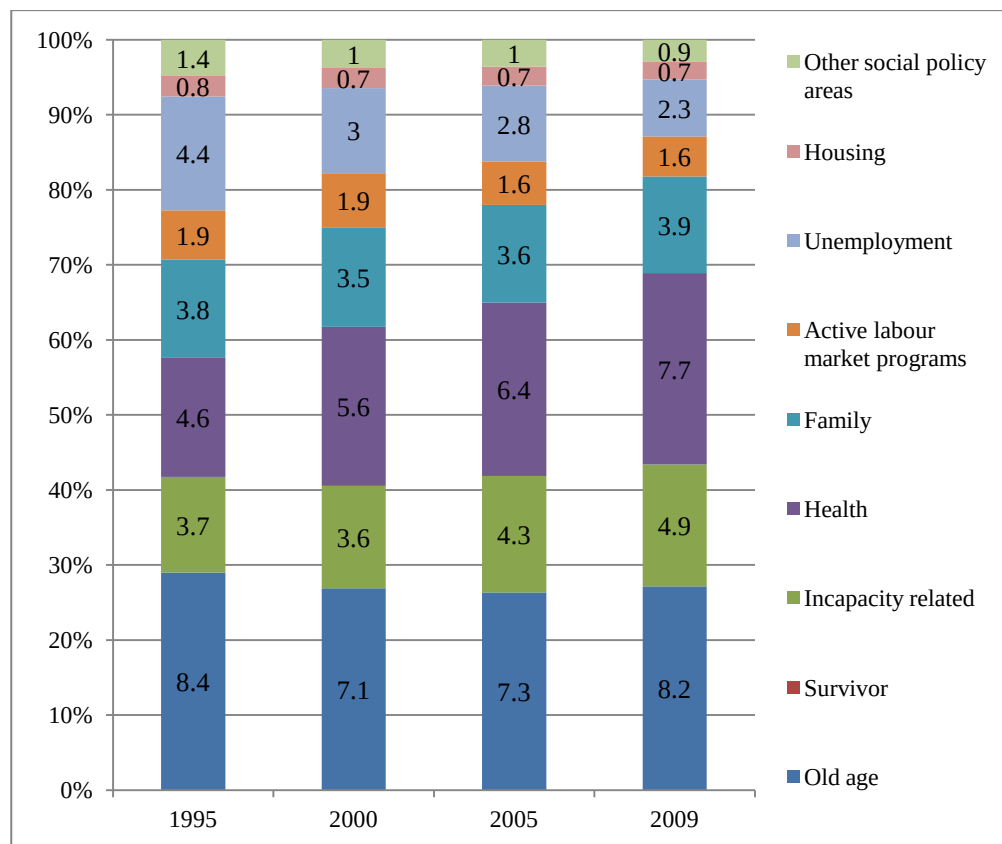
Analysing the composition of social expenditures, I have concluded that cross-country differences exist within the model, however they are not so salient (Figure 8-11).

In terms of magnitude, the largest category of public social spending concerns old-age and survivors pensions –in Denmark the latter one does not exist –, amounting to (.5-10% as a share of GDP in Denmark, Finland and Sweden in 1995,

while in the Netherlands this type of spending compared to the GDP was considerably lower, around 6 per cent in 1995.

Public spending on old-age and survivor pensions increased by around 1 percentage point in Sweden and Finland by 2009, reaching approximately 11 per cent of GDP, while this share remained stable in Denmark and the Netherlands for the examined period. The share of old-age and survivors pension expenditures of all public social expenditures has fluctuated around one third in Finland and Sweden, while in Denmark and in the Netherlands this share was lower, fluctuating around one quarter.

Figure 8 Composition of aggregated public social expenditures in Denmark



Source of data: OECD SOCX database²²

Note: Numbers represent the different types of gross public social expenditure as a percentage of GDP.²³

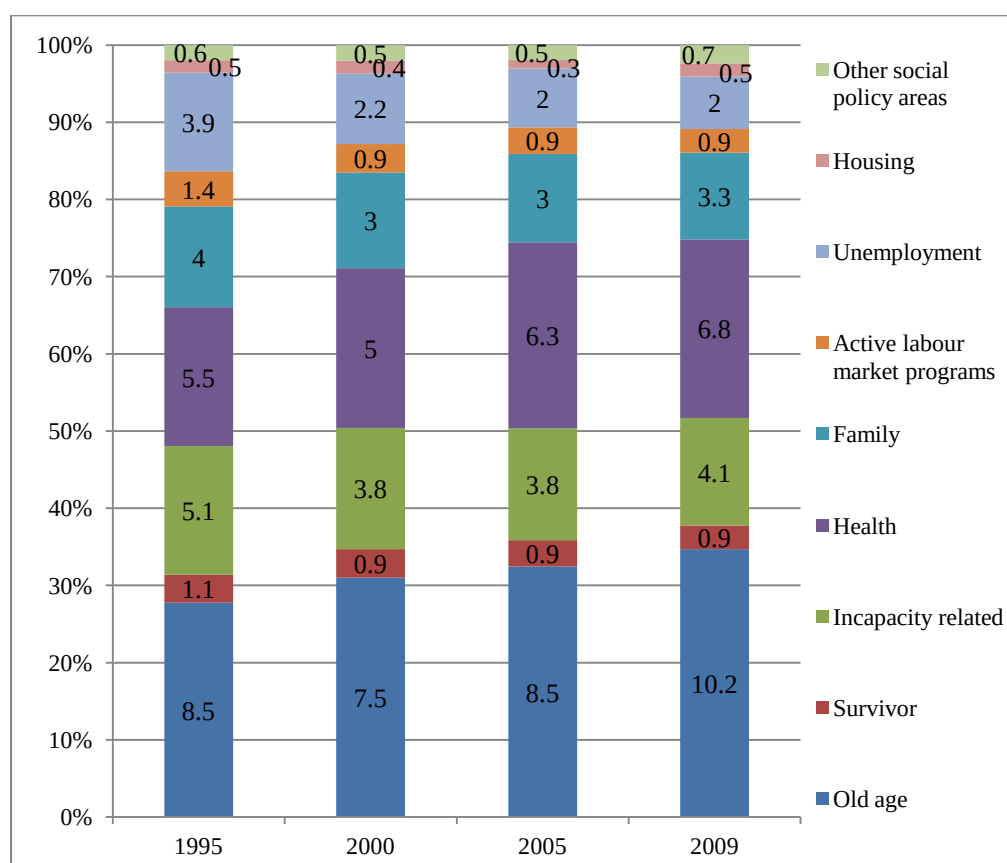
²² Latest available data is for the year 2009 on the composition of aggregated public social expenditures.

²³ Composition of public social expenditures as a share of GDP for the different types of spending categories in the EU21 is presented in the annex.

Spending on incapacity-related support does not appear to be very sensitive to economic patterns: in 1995 it amounted to around 4-5% of GDP (15-20% of total public social expenditures) in all countries of the model. In the Netherlands and Finland, the share of public spending on disability as a share of GDP fell by approximately 1 percentage point over the same period, while such spending increased by approximately 0.5-1 percentage point in Denmark and Sweden.

The two key drivers of increases in social spending over the last 20-25 years have been increased support for the retired population and health expenditure; and population projections suggest further spending increases in these two areas in future (OECD, 2007).

Figure 9 Composition of aggregated public social expenditures in Finland



Source of data: OECD SOCX database

Note: Numbers represent the different types of gross public social expenditure as a percentage of GDP.

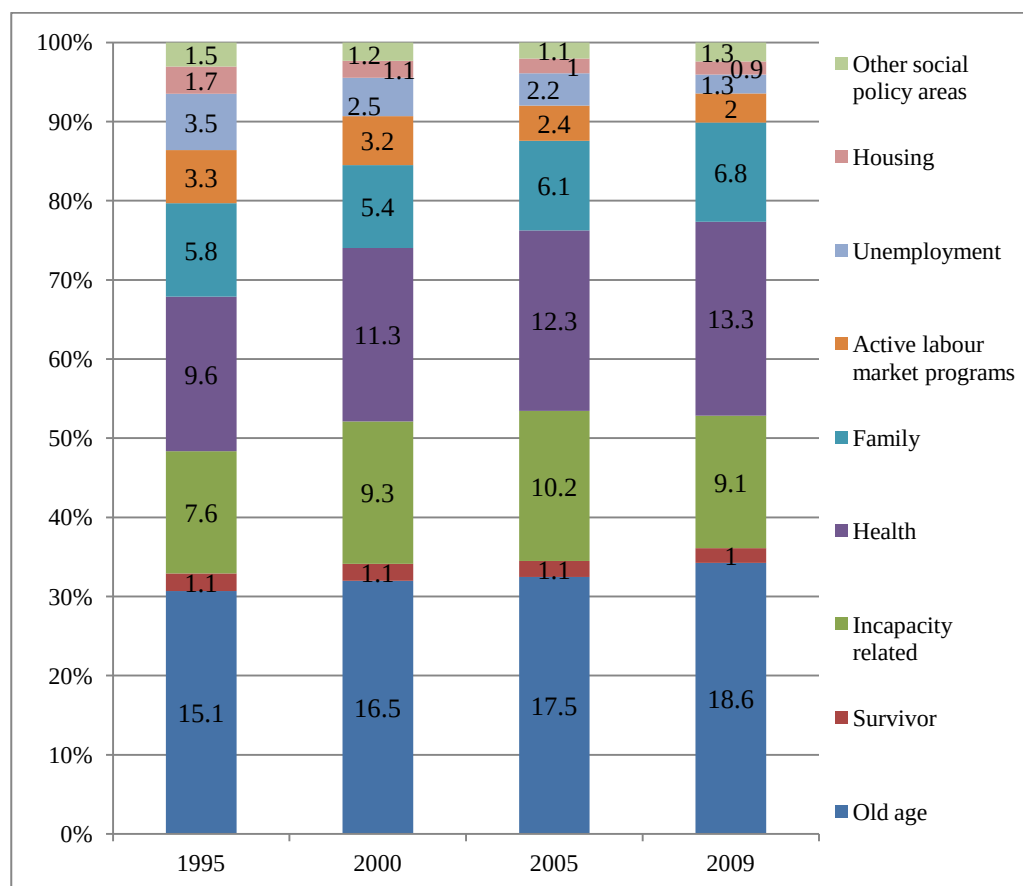
Within the model, health expenditures increased from 5.5% to 7.5 % of GDP (OECD SOCX data) on average, and the share within all public social expenditures grew significantly in all Nordic countries as well.

The share of health expenditures of total public social spending reached one quarter by 2009 in the Scandinavian countries of the model, and one third in the Netherlands.

During the examined period, public spending targeting families with children amounted to around 4 per cent of GDP in the Nordic countries except in the Netherlands, where it fluctuated around 1.5 per cent.

In the Nordic countries, where the role of active labour market policies (ALMPs) is extensive, it amounted to 2 and 3 per cent of GDP (5-8% all public social expenditures). Whereas its level was rather lower in case of other models, remaining below 1 per cent in during the whole examined period between 1995 and 2009.

Figure 10 Composition of aggregated public social expenditures in Sweden



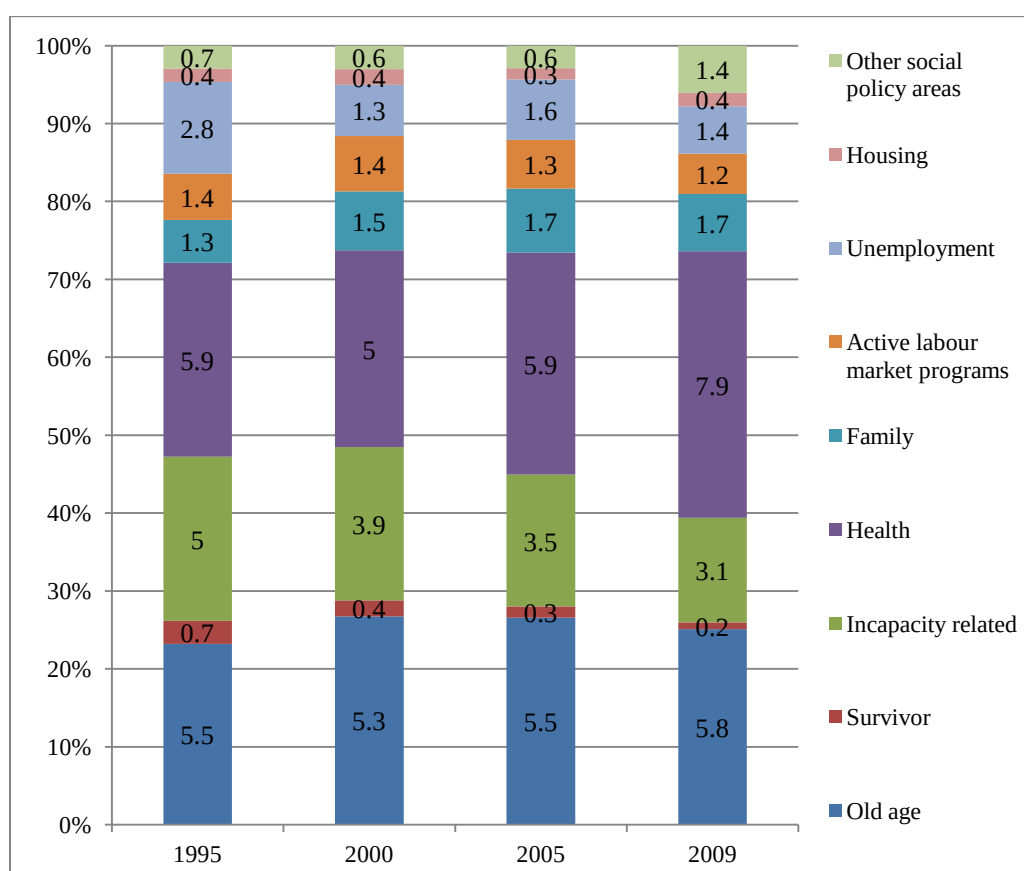
Source of data: OECD SOCX database

Note: Numbers represent the different types of gross public social expenditure as a percentage of GDP.

On average for the Nordic model, spending on unemployment benefits decreased considerably, from around 4 per cent to 2 per cent of GDP in Denmark and Finland, in the Netherlands and Sweden the level in 1995 reached approximately 2 per cent and both countries experienced a decline in unemployment benefits (1 per cent of GDP in 2009). There was a significant drop in the share of unemployment benefits in all four countries of the model. The proportion of unemployment benefits as a share of all public social expenditures considerably decreased in all four models as well.

The share of housing and other social expenditures in all Nordic countries fluctuated around 0.5 and 1 per cent of GDP during the examined period.

Figure 11 Composition of aggregated public social expenditures in Netherlands

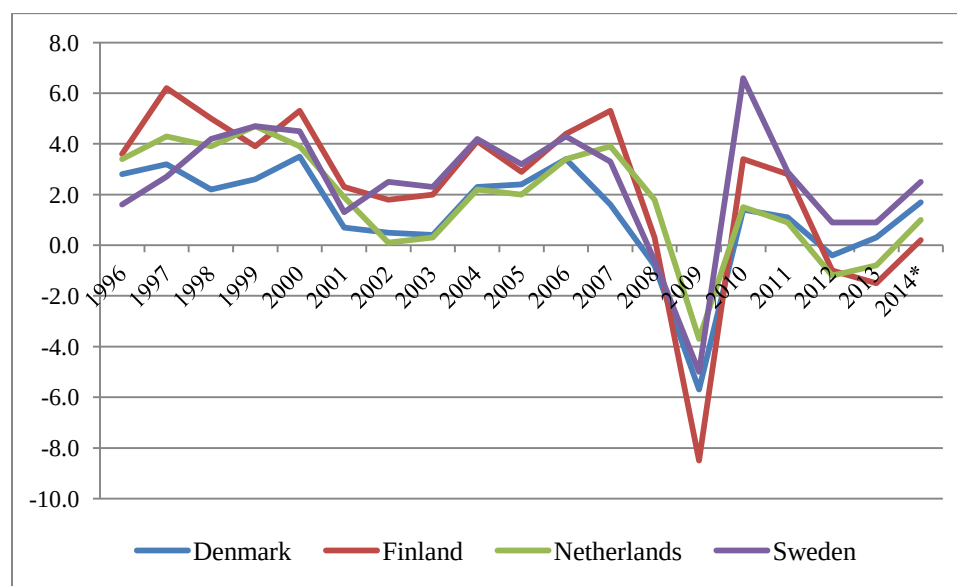


Source of data: OECD SOCX database

Note: Numbers represent the different types of gross public social expenditure as a percentage of GDP.

Finland, Sweden and Denmark was hit particularly hard by the 2008/2009 financial and economic crisis, GDP growth turned negative and inflation peaked in 2008 (Eurostat statistics), however, compared to other EU countries, inflation growth was relatively modest. Recession in the Netherlands was less severe (*Figure 12*).

Figure 12 Real GDP growth rate in the countries of the Nordic model (1996-2014)



Source: Eurostat statistics, online code: [tec00115]

* EUROPEAN COMMISSION (2014b): Winter forecast 2014 - EU economy: recovery gaining ground

The crisis led to a drop in generosity in all countries, which is a result of the increased share of population being dependent on welfare service provision, caused by higher unemployment rate (*Table 2*); being an important consequence of the crisis except for the Netherlands.

Table 2 Unemployment rate in countries of the Nordic model

	2000	2005	2009	2010	2011	2012	2013*	2014*
Denmark	4.3	4.8	6.0	7.5	7.6	7.5	7.0	6.9
Finland	9.8	8.4	8.2	8.4	7.8	7.7	8.2	8.3
Netherlands	3.1	5.3	3.7	4.5	4.4	5.3	6.7	7.4
Sweden	5.6	7.7	8.3	8.6	7.8	8.0	8.0	7.7

Source: Eurostat Labour Force Survey

* EUROPEAN COMMISSION (2014b): Winter forecast 2014 - EU economy: recovery gaining ground

In case of the Danish style of flexicurity²⁴ system, unemployment is a lesson to be understood. Under the pressure of rising costs, by 2010 Denmark started to trim its benefits by limiting its generous unemployment payments and tightening up on job search requirements (GILBERT – BESHAROV, 2011).

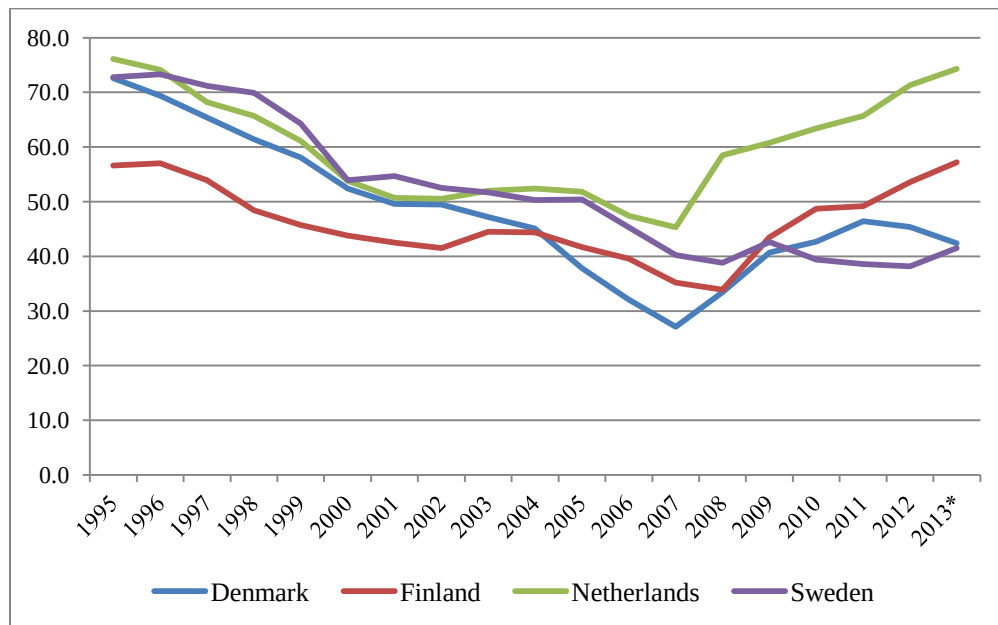
The stabilisation of generosity ratios in the countries of the Nordic model proves that the Nordic type of welfare state operated well, welfare service provision has remained extensive. Short-term measures were mainly expansionary and the use of automatic stabilisers was the dominant approach (STARKE ET AL., 2014).

In the context of the welfare state and the crisis, it is worth noting that three countries known for having expansive and extensive welfare states, Sweden, Finland and Denmark, had succeeded in consolidating public finances prior to the crisis, and they have also addressed the ageing problem. It is proven by the examples of the Nordic countries that a prudent fiscal policy is not detrimental to a well-functioning welfare state; rather it widens the scope for the welfare state in a crisis situation. These countries thus have not faced a debt crisis (*Figure 13*), and they have had some degree of economic policy freedom to counteract effects of the financial crisis (HEMERIJCK – VANDENBROUCKE, 2012).

Gross debt has been considerably higher in the Netherlands, but still below the EU21 average level in 2012 and 2013 (this feature of the Netherlands is closer to the Continental group). Different from the practices of other Nordic countries, transformations in the Netherlands could lead to a fundamental change in state support, especially concerning social assistance, converting this from a universal rights approach towards increased selectivity with an emphasis on workfare (YERKES – VAN DER VEEN, 2011). The strong performance of the Nordic model, especially in Sweden, Finland and Denmark, rests on three pillars. First, these countries aimed at restoring profitability and fiscal prudence by containing private and public costs. Second, they improved incentives by adjusting their welfare systems to the new challenges and deregulating part-time work and product markets. Finally, they significantly increased investments into future growth (AIGIGNER, 2004).

²⁴ The Danish flexicurity model is characterized by flexible hiring/firing rules, generous social safety net, and active labour market policies (SCHMIDT – HERSH, 2012).

Figure 13 Evolution of government consolidated gross debt of the Nordic model (1995-2013)



Source: Eurostat Eurostat statistics, online code: [teina225]

* EUROPEAN COMMISSION (2014b): Winter forecast 2014 - EU economy: recovery gaining ground

The competitive strengths²⁵ before and after 2008 can be recognised as the outcome of a long-term process of capacitating social policy and reform in the countries of the Nordic model.

Special feature of the Nordic models is that countries of the model continuously and gradually have become more similar in their generosity patterns. Coefficient variation within the model amounted to 31% in 1992, until 2007 the decrease of variation was moderate, reaching 22%. This convergence process has been intensified by the effects of the crisis, in 2013 generosity levels of the Nordic countries were relatively similar, and coefficient variation amounted to 8%.

²⁵ All four countries are ranked in the top 20 of the World Competitiveness Scoreboard 2013 (IMD, 2013).

5.2 Illustrative case study: Denmark

The Nordic model is undergoing a fundamental transformation, and by using Denmark as an illustrative case study it can be shown how a universal welfare state model is gradually being transformed into a multi-tiered welfare state. Denmark has preserved the core characteristics of its welfare state model, at the same time new structures have been developing due to profound changes (KVIST – GREVE, 2011).

The Danish welfare state dates back three centuries, the origins of Danish welfare programs can be traced to “poor laws” enacted in 1708. The initial formal institutions of the welfare state were established in the late 19th century to reduce tensions among an emerging urban industrial working class. Welfare programs then shifted from the “deserving poor” to broader groups of beneficiaries against the loss of livelihood due to old age (1891), sickness and chronic disease (1892), unemployment (1907), and disability (1921). The Danish welfare state developed further through the interwar period, but accelerated after World War II with expanded social benefits and free education. Universal coverage of retirement was approved in 1956 for people over age 65, independent of former employment and income. In 1973, a compulsory health insurance program was introduced, funded through government tax revenue. All developments of the welfare state resulted in such political thinking, in which an extensive safety net became the norm, irrespectively of political views (DAEMMRICH – BREDGAARD, 2013).

Analysing the developments of the 2000s, the understanding of the flexicurity system is indispensable. The Danish model of flexicurity is the symbol of unexpected complementarity between a generous welfare state, a competitive labour market and a vivid entrepreneurial activity (DAEMMRICH – BREDGAARD, 2013). The Danish flexicurity system reminds us that this model has been challenged recently, on the one hand by the liberal-conservative government and yellow unions even before the crisis hit the economy, on the other hand by the rising unemployment creating a new situation where the sustainability of the model was questioned (SCHMIDT – HERSH, 2012).

There are several versions of flexicurity, among which the Danish model is one of the most prominent. The model is formed by three key elements, known as the

golden triangle: low level of job and wage protection, meant as high level of workers' mobility; generous social welfare provision (unemployment, pensions and healthcare); and income security and active labour market policies (GILBERT – BESHAROV, 2011).

Since the 1970s, the idea of activation has become a driving force of Danish welfare and labour market policies, strengthened during the 1980s with few changes until the 1990s. During that time Denmark experienced several years of retrenchment and high unemployment rates. Welfare reforms took place in the 1990s, a labour market reform in 1993, which was supplemented by a second (1995), and third one (1998), in addition to a social policy reform, implemented in 1998. These reforms can be interpreted as implementations of a workfare trajectory. The labour market reforms of 1993, 1995 and 1998 were characterised by activation, cutting the unemployment period, and being combined with an income ceiling corresponding to the maximum rate of unemployment benefit (KILDAL, 2001). In addition to the third labour market reform in 1998, a new Social Assistance Act (1997) and an Activation Act (1998) were implemented. To summarize the Danish unemployment benefit system is, in principle, a social insurance scheme in which entitlements to both transfers and services are tied to labour market performance; entitlements are also dependent upon obligations to participate in various job training and educational activities. This is called the active turn within Danish welfare policy (ABRAHAMSON, 2009). However these laws radically weaken the principle of income protection.

Denmark has been a pioneer in Scandinavian compulsory activation, which is the distinctive feature of 1990s Danish welfare and labour market reforms. The shift towards workfare trajectory in Denmark was introduced during the 1990s, after the recovery of the Danish economy (KILDAL, 2001). The reforms of the 1990s resulted in decreasing unemployment; although there is no clear-cut causality between the system of flexicurity and unemployment (DAEMMRICH – BREDGAARD, 2013). The unemployment rate in Denmark continued to fall until the outbreak of the global financial crisis in 2008. Unemployment more than doubled from 2008 to 2010, and stabilised around 7.5 per cent in 2011 and 2012. The EUROPEAN COMMISSION (2014b)

forecast predicts a slight drop in the unemployment rate for 2013 which is relatively low compared to other EU member states.

The global financial crisis of 2008, followed by the European debt crisis, has brought four key conflicts to challenge the Danish flexicurity system. First, Danish workers have begun to demand greater job protection, but if recession persists and unemployment rises, then Danish workers will demand a new balance between flexibility and security, with more regulation regarding layoff. Second, income security has worsened in recent years. Third, declining employment security has led leads to changes of the flexicurity programmes. During crisis, as a consequence of rising unemployment, work first approach has become ineffective and unpopular as well. Finally, all these processes led to the decline of mutual trust, which is the major building block of the balance between flexibility and security. Mutual trust between the government and social partners are needed for the operation of the flexicurity system (DAEMMRICH – BREDGAARD, 2013).

In 2013, Denmark's public finances are expected to improve compared to 2012, with the budget deficit shrinking from 4% in 2012 to 1.7% of GDP in 2013, coupled with improving labour market situation. Denmark has carried out important reforms of the early retirement pension, disability pension and the subsidised employment schemes to enhance labour supply (EUROPEAN COMMISSION, 2014c). The crisis led to a direct cut of family benefits in 2010, which was an unprecedented government act since the 1970s. The crisis has affected the unemployment benefits as well, the share of privately insured individuals is still small, but increasing. It may grow further as other public benefits are eroded due to the lack of full indexation or if adverse economy developments lead to more middle and high income group people becoming unemployed. There has been a movement from the universal welfare state into the direction of a model in which in order to acquire social rights to benefits, there is an increasing pressure on workers to be in the labour market. The extended use of market mechanisms in the public sector might lead to less solidarity in the model. If these changes continue, then a gradual erosion of the universal Danish welfare state is feasible, with an increase in the focus and use of a more private model (KVIST – GREVE, 2011).

6. Anglo-Saxon model

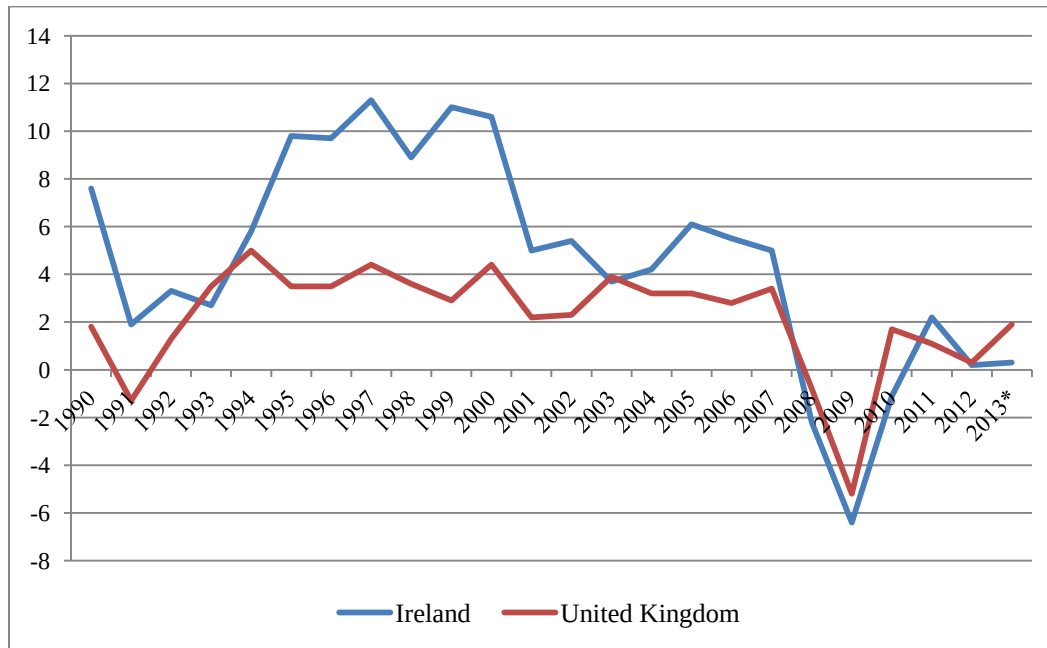
6.1 General features

The welfare model of Ireland and the UK seeks to sponsor market solutions actively. The role of state is residual, only the population in need is targeted by the benefits (ESPING-ANDERSEN, 2002). The Anglo-Saxon model, more guided by utilitarian market principles, is characterised by (1) a bias towards targeted, needs-based entitlements; (2) low replacement rates in transfer programs; (3) general revenue financing; (4) underdeveloped public social services beyond health and education; (5) poor family services; (6) low levels of employment protection, largely confined to ensure fair contracts, and no legacy of active labour market policy, nor vocational training and education; (7) uncoordinated industrial relations with moderately strong unions, decentralised wage bargaining, and low levels of collective bargaining coverage. Consequently, the Anglo-Saxon welfare states are comparatively far less threatened by long-term problems of financial sustainability (HEMERIJCK, 2002).

The recession of the early 1990s brought slight and short recession in the UK and slowed down the outstanding growth performance of Ireland. The recovery was fast, average annual growth in real GDP from 1990 to 2007 was relatively strong in the UK, while between 1993 and 2007 the economic performance of the Irish Republic was truly exceptional (*Figure 14*).

During the two decades prior to the current financial and economic crisis, the Anglo-Saxon economies evolved in similar ways, both the real GDP growth and generosity ratios followed the same trend. During the whole examined period, the Irish generosity level was below the British, however until 2006 Ireland converged to the UK in its generosity. Until the outbreak of the financial crisis in 2007, generosity ratios in the United Kingdom and Ireland were converging, coefficient variation within the model decreased from 30% (in 1992) to 1.6% in 2006.

Figure 14 Real GDP growth rate in the countries of the Anglo-Saxon model (1990-2013)



Source: Eurostat statistics, online code: [tec00115]

Note: For Ireland, data source for 1990-1995: EUROPEAN COMMISSION (2013): Statistical annex to European Economy

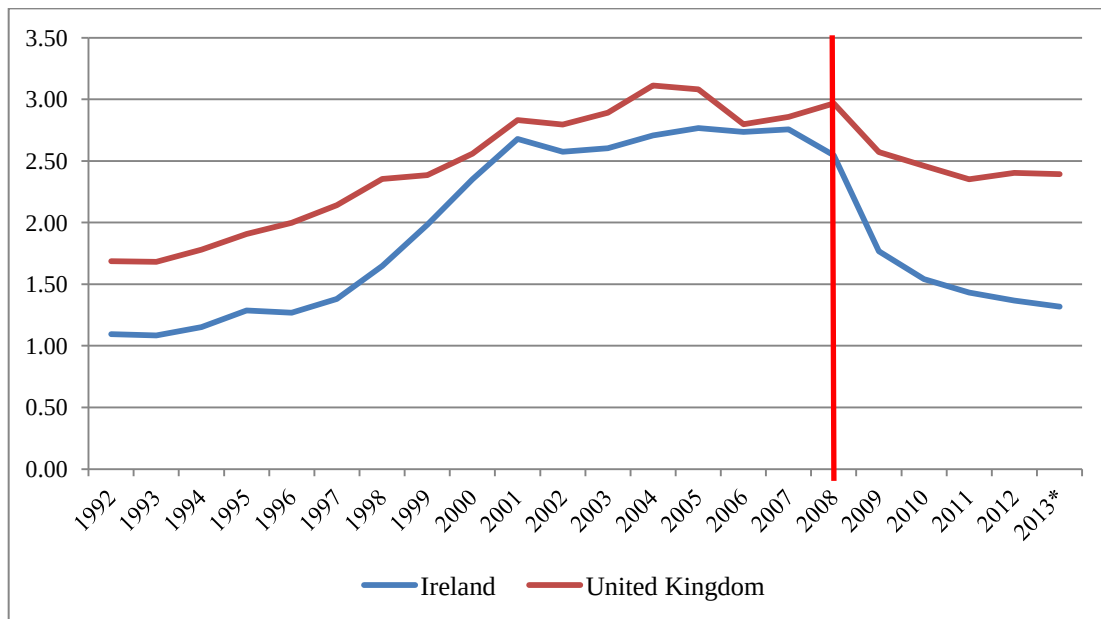
* EUROPEAN COMMISSION (2014b): Winter forecast 2014 - EU economy: recovery gaining ground.

In 2007, the convergence of generosity ratios turned into a divergence first due to the financial crisis (*Figure 15*). As the crisis deepened, the divergence intensified. The divergence can be indicated by the growth of within model coefficient variation of the generosity ratios from 1.57 per cent in 2006 to 41 per cent in 2013.

Both countries introduced welfare reforms prior to the crisis of 2007/2008, generosity ratios started to stagnate after a long-term increase in 2005 due to the introduced New Labour Welfare Reform Bill in the UK (RUTHERFORD, 2012) and the introduction of the Development Welfare State concept in Ireland (NESC, 2005).

Analysing the composition of social spending, it can be concluded that the largest category of public social expenditures concerns health spending, reaching approximately one third of all public social expenditures by 2009 in both countries. As a share of GDP, health expenditures increased significantly from 1990 to 2009 in Ireland and the UK, from 4.8% to 7.1 % and from 5.6% to 8.1% respectively (OECD SOCX data), and the share within all public social expenditures grew in both countries as well.

Figure 15 Welfare state generosity ratios in countries of the Anglo-Saxon model (1992-2013)



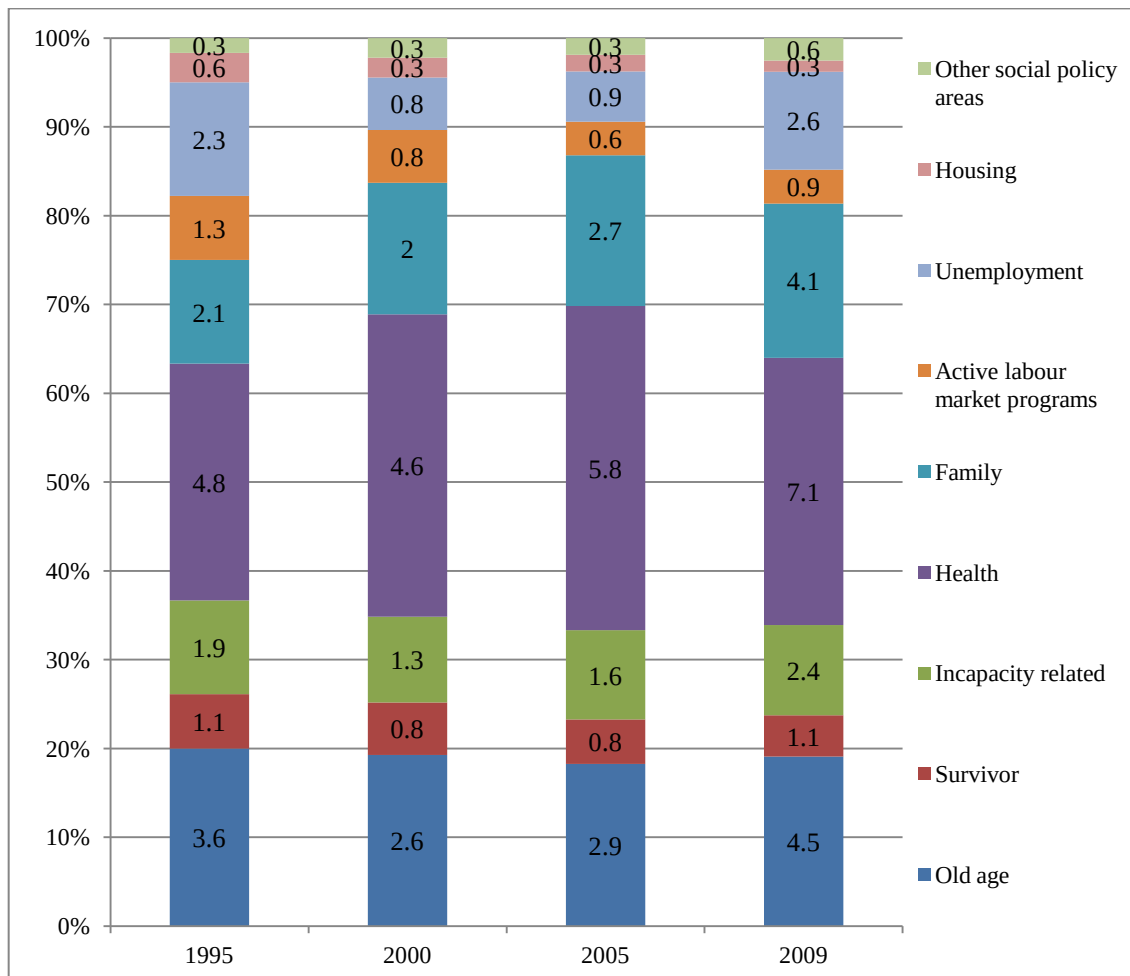
Source of data: Eurostat Labour Force Survey, OECD SOCX database

* Figure composed by using share of population being dependent on the welfare system from year 2012.

The aggregated share of public spending on old-age and survivor pensions is 1 percentage point lower in Ireland (4.7% in 1995) than in the UK (5.8% in 1995), but it has to be mentioned that old-age pensions represent considerably lower share in Ireland than in the UK, but the Irish support for survivors is higher. The share of old-age and survivor benefits increased incrementally in the UK, while its pattern was fluctuating in Ireland, during the examined period. Pension spending as a share of GDP amounted to 5.6% (25% of total public social expenditures) in Ireland and 6.8% (30% of total public social expenditures) in the UK in 2009.

The patterns over time of spending on incapacity-related and family support have been relatively similar in the UK and in Ireland, while active labour market policies play different roles. ALMPs are substantially less extensive in the UK than in the Nordic countries, and their share did not change over time, remained below 0.5 per cent of GDP. In Ireland, ALMPs are clearly major tools of government labour market policy; ALMP spending amounted to 1.3% of GDP in 1995, after a salient drop decreasing to 0.9% of GDP in 2009.

Figure 16 Composition of aggregated public social expenditures in Ireland

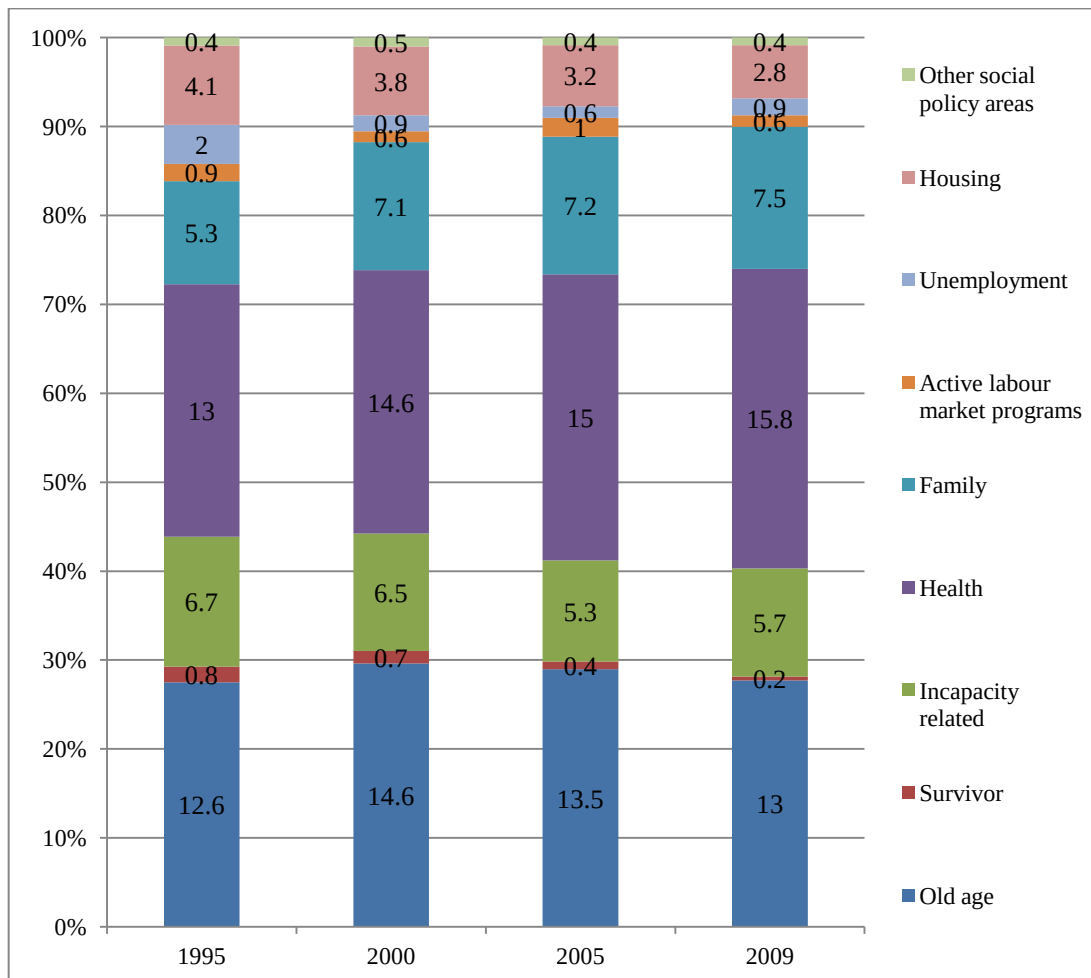


Source of data: OECD SOCX database

Note: Numbers represent the different types of gross public social expenditure as a percentage of GDP.

Unemployment benefits do not play a dominant role in the UK, incapacity related benefits and income support for lone parents were more important elements of welfare service provision during the 1990s and this pattern has not changed. Spending on unemployment compensation in Ireland is more pronounced; it amounted to 2.3% of GDP in 1995, then a salient reduction to below 1% of GDP during the early years of the 2000s. Due to the negative impacts of the crisis, expenditures on unemployment benefits reached 2.6% of GDP in 2009, similar to the level in 1995.

Figure 17 Composition of aggregated public social expenditures in the United Kingdom



Source of data: OECD SOCX database

Note: Numbers represent the different types of gross public social expenditure as a percentage of GDP.

Housing support is an important item of social policy in the UK, amounting to around 1.5% of GDP, while other social expenditures represented constantly 0.2% of GDP for the period between 1995 and 2009. In Ireland, housing did not play a key role, the share of housing and other social expenditures fluctuated around 0.3 per cent of GDP during the examined period.

The impact of the financial crisis was severe in Ireland and the UK, recession peaked in 2009, but the Irish recovery in the level of real GDP has been slower than in the UK. The crisis led to an increase in public social spending, being moderate in the United Kingdom, while significant in Ireland, and reaching almost the British level of aggregated public social expenditures as a share of GDP (*Table 3*).

Table 3 Aggregated public social expenditures in countries of the Anglo-Saxon model

	2000	2005	2009	2010	2011	2012	2013
Ireland	13.4	16.0	23.6	23.7	23.3	22.4	21.6
United Kingdom	18.6	20.5	24.1	23.8	23.6	23.9	23.8

Source: OECD SOCX database

The salient drop in generosity, especially in Ireland, is the consequence of the dramatic increase of the share of population being dependent on welfare services. The Irish unemployment rate almost doubled from 2008 to 2009, reaching 12 per cent (*Table 4*). Between 2010 and 2012 unemployment rate increased further, but in 2013, the situation of the unemployed started to improve and further decline of the ratio is forecasted.

Table 4 Unemployment rate in countries of the Anglo-Saxon model

	2000	2005	2009	2010	2011	2012	2013*	2014*
Ireland	4.2	4.4	12.0	13.9	14.7	14.7	13.1	11.9
United Kingdom	5.4	4.8	7.6	7.8	8.0	7.9	7.6	6.8

Source: Eurostat Labour Force Survey

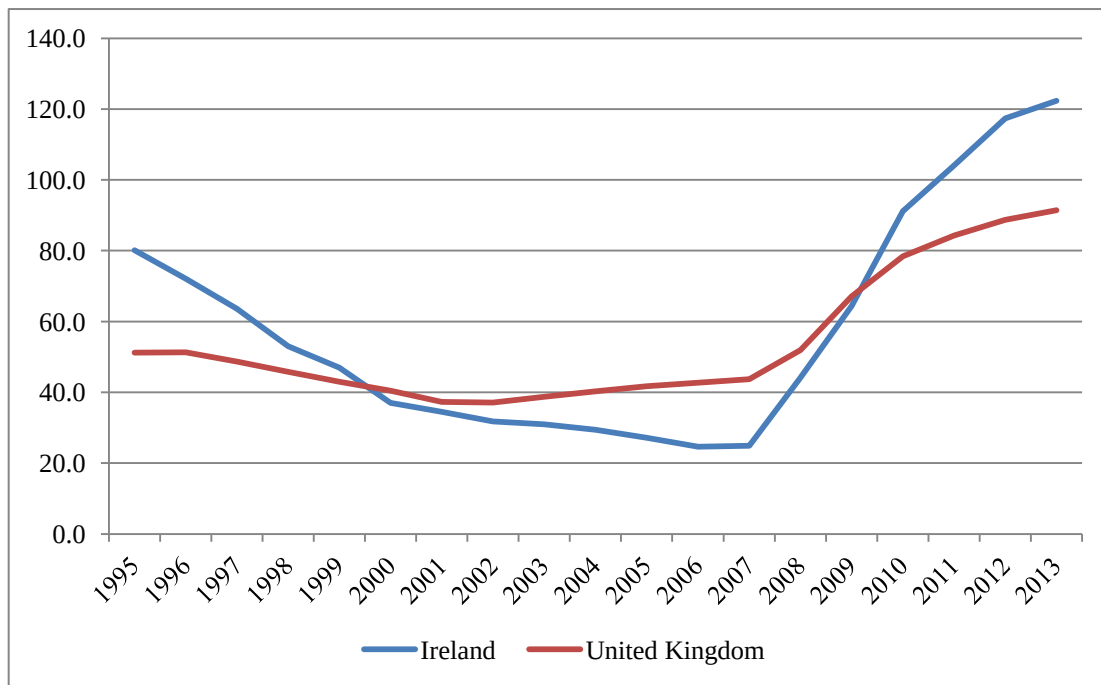
* EUROPEAN COMMISSION (2014b): Winter forecast 2014 - EU economy: recovery gaining ground

The increase in spending on unemployment benefits from 2008 to 2009 was one of the most pronounced in Ireland within the OECD, which contributed to the overall increase of aggregated public social spending. Presumably, the improving labour market performance has enabled the cut of public social spending. Increase of the unemployment rate and public social expenditures were less dramatic in the UK.

There are visible problems of the Irish public finances, one of the highest ratios of government debt to GDP were recorded in Ireland (124.8%) at the end of the third quarter of 2013 (beside Greece: 171.8%, Italy: 132.9% and Portugal: 128.7%) (EUROSTAT, 2014b). The dramatic increase of gross public debt in Ireland (*Figure 18*) led to austerity and reform, including labour market deregulation, cuts in civil servant salaries, pension benefit freezes, retirement age rises, and retrenchments in social transfers and services. Ireland has successfully completed its financial assistance programme in December 2013.

In Ireland, the debt level was relatively low before the onset of the crisis. In the Irish case, the salient growth of public debt is not linked to the operation of the welfare state, a large part of the debt increase is explained by direct support to the financial sector (by 42 percentage points until 2012) (HEMERIJCK – VANDENBROUCKE, 2012).

Figure 18 Evolution of government consolidated gross debt of the Anglo-Saxon model (1995-2013)



Source: Eurostat statistics, online code: [teina225]

Growing indebtedness in the United Kingdom started before the crisis, and intensified afterwards, leading to major welfare reform since 2008. The Anglo-Saxon countries developed a debt-driven growth model, which was driven by increasing household debt, strong consumption demand and, in some cases, a residential investment boom (STOCKHAMMER, 2014).

The UK's crisis response concerns the deepest and most precipitate cuts ever made in social provision in this country, plus a massive restructuring programme affecting nearly every area of public provision (TAYLOR-GOODY, 2013).

The extreme severity of the crisis in Ireland and greater spillover of the financial crisis to the broader economy and the governments unfavourable fiscal position (BARNES – WREN, 2012) have led to a significant drop of generosity of the Irish welfare state.

Due to the harmful effects of the crisis and the dramatic indebtedness the Irish government did not have the same policy tools available as the UK did. In the Anglo-Saxon countries the current crisis has led to the strongest retrenchment (as well as in the Mediterranean countries), the other welfare state regimes have been able to safeguard their welfare programmes, especially Germany due to its favourable economic conditions.

Retrenchment in Ireland has been part of the introduced austerity measures, while in the United Kingdom under the Cameron coalition government social retrenchment was declared as an ideological narrative about welfare dependency (HEMERIJCK – VANDENBROUCKE, 2013). After 2008, welfare state generosity ratio in Ireland significantly decreased, reaching the level of the early 1990s. The different patterns of retrenchment and recalibration within the Anglo-Saxon model have led to salient divergence of generosity trends after 2008.

6.2 Illustrative case study: United Kingdom

Welfare regime of the UK is based on the core principles of equality of opportunity and self-reliant individualism, grounded in the belief that freely operating markets are inherently welfare maximizing (HEMERIJCK, 2013). The main idea behind is that „policies interfering with the free operation of markets, with the exception of a few important public goods such as law and order, threaten the pursuit of individual liberty” (IVERSEN – WREN, 1998: 514).

The main characteristic of welfare production in the UK is the reliance on market mechanisms, for instance citizens without sufficient income are supposed to reach a certain level of welfare through self-help or through support within the family. Transfers and social services are in principle only provided on a means-tested basis for the most disadvantaged citizens. Unemployment benefits are low and of short duration with high wage dispersion and highly deregulated labour markets (HEMERIJCK, 2013). In addition to the highly deregulated labour market, labour relations are relatively fragmented with pay-bargaining taking place mainly at company level (CROUCH, 1993).

However, the British tend to regard the idea of welfare state as being their invention, it cannot be possessed or based upon any single, comprehensive coherent philosophy. The British welfare state just grew by time. Welfare state appeared in the United Kingdom only after the 1940's package of social legislation. The period of 1950s/1960s was the consolidation and expansion phase, in the 1970's the economic problems of the UK blossomed into a “real trouble” (JONES, 2004: 7-9). The election of 1979 was a turning-point in the history of welfare state in the UK, a return to a nineteenth century laissez fair style of government (JONES, 2004).

In the UK, conservative governments committed themselves to applying fairly orthodox market-liberal approach to welfare reforms from 1979 to 1997 due to the negative effects of the oil crises of the 1970s and the fiscal crisis of 1976 leading the UK government having to apply for a loan from the International Monetary Fund. Thatcher's government, among other things, engaged in large-scale privatization and downsizing of most welfare state programmes (HEMERIJCK ET AL., 2013). Benefits declined relative to average wages, since the costs of targeted, means-tested benefits

were cut back and the eligibility rules inspired by the new “workfare” philosophy were tightened (RHODES, 2000). The unemployment compensation system was reoriented in the direction of activation, but this policy came to the forefront of welfare state reform of the New Labour governments of Blair (BONOLI, 2011).

The period between 1979 and 1997 witnessed an increase of poverty and inequality, moreover a social transformation as well. The make-up of households was changing, as were people’s life expectations. On the one hand, the male bread-winner model changed, women had entered the labour market in large numbers. This changed assumptions about the average wage within a household. On the other hand, family break-up was also increasing, with the number of single-parent households almost doubling during the 1980s, not least as a consequence of high unemployment, industrial restructuring and poverty, all of which imposed sometimes intolerable pressures on families. The evidence suggests that these processes were not the consequence of welfare reform rather a result of allowing the real value of benefits to fall, high unemployment and, most significantly, the transformation of the labour market. Efforts to mitigate poverty were undermined by the government attack on trade unions and employment rights (COATS ET AL., 2012).

Thatcher administration was committed to downsizing existing social services, “not simply as a matter of unfortunate, temporary necessity, but as a matter of principle” (JONES, 2004: 11). Four lines of argument supported this approach. Firstly, the welfare state is a burden on the economy, therefore it should be reduced. Secondly, work incentives should be improved. Thirdly, Private provision of certain goods and services should be encouraged, rather than state provision in order to promote greater competition, efficiency and consumer choice. Finally, self-help and voluntary organisations should be strengthened and expected to enlarge their responsibilities for welfare action (JONES, 2004).

Main feature of the next welfare state period is that after 1997, and in particular after 1999, the government aimed at reforming public services, recapitalising the public sector (by investing in schools and hospitals), reducing the gaps in regional prosperity, and fighting poverty. After 1997, the Blair government embarked on a broad strategy of “Third Way” reform. The core element of the Third Way was

addressing poverty, disadvantage, and social exclusion by a strong reliance on employment and employability (HEMERIJCK, 2013). The Blair government developed the idea of an “enabling” welfare state with a deliberate policy choice of making welfare provisions more contingent upon paid employment (CLASEN, 2005). These reforms were inspired by the active labour market policy tradition of the Nordic countries (HEMERIJCK ET AL., 2013).

A series of New Deals were introduced which targeted different sectors of the inactive population (CLEGG, 2010). Young workers were targeted to move from public benefits into employment by putting emphasis on paid work, skills, and compulsory job search (CLASEN, 2005). After 1997, New Deal programmes were extended to additional target groups, including single parents, chronically disabled, workless partners of claimants, and older workers (HEMERIJCK, 2013). Beside all these changes, UK activation and benefit policy were targeted much on working-age people as a whole, rather than discrete groups, leading to a significant benefit simplification (CLASEN, 2011).

Welfare reforms touched pensions as well. In 2000, the Blair government introduced a means-tested minimum income guarantee. Additionally, in 2004, the government established a pension protection fund to protect members of occupational pension schemes if employers become insolvent or pension funds became underfunded. In 2006, the government raised the retirement age to 68 by 2044, complemented by more generous qualifying rules through a reduction in the number of years of work required to receive a basic state pension and the introduction of weekly credits to recognize and reward caring years. Thanks to the new 2008 Pensions Act, employees have opted out of occupational pensions, rather than opt in as before. The new 2008 Pensions Act also created a non-profit trust for those working in companies who do not offer occupation pensions. In addition, private pensions were regulated to ensure coverage for those without access to occupational pensions, including tax relief and obligatory employer contributions (HEMERIJCK ET AL., 2013).

The United Kingdom was the first European country heavily hit by the financial crisis due to strong ties with the financial sector of the USA. The financial sector was strongly supported by the government, and many additional policies were implemented in order to mitigate the negative effects of the financial crisis on the economy (CHUNG – THEWISSEN, 2012).

Although the government in the UK was an active crisis manager in the financial sector, social and unemployment crisis policies lied outside the scope of crisis management. The government was unwilling to improve, even temporarily, its already low supportive unemployment policies (CLEGG, 2010). Social partners' involvement increased considerably, they signed collective agreements concerning the reduction of working hours and respective wages to save jobs (CHUNG – THEWISSEN, 2012). Important result of the welfare state development in the UK induced by the financial and economic crisis, is that this laissez-faire approach to social and unemployment policies improved social partnership.

Summing up although the UK can still be characterised as a residual welfare state with a relatively low degree of state provided social protection, more recently the welfare state has expanded substantially. On the one hand in order to stimulate employability, there was an increase in the use of active labour market policies. On the other hand, the state played an active role in both developing new family policies and raising the amount of public investment spent on these policies. These processes have come to halt by the outbreak of the financial and economic crisis.

The government set itself the objective of erasing the budget deficit by 2014-2015, but then the deadline was extended in 2012 due to economic growth failed to return (TAYLOR-GOODY, 2013). In 2010 the conservative-liberal coalition cut back social expenditures in order to create stricter fiscal discipline. Moreover, the coalition announced a major overhaul of the welfare benefit system, including unemployment benefits and transfers to families. These reforms have been framed by the government as ways of refocusing welfare for people economically in need and to restore fairness in society, there are fears that these reforms will have severe economic effects on families (NYGÅRD ET AL., 2013).

The example of crisis responses concerning welfare service provision in the United Kingdom demonstrates that budgetary consolidation in times of financial crisis leads to drastic reductions in social investment. For instance, family benefits are among the easiest to cutback in comparison with healthcare and pensions entitlements (DIAMOND – LODGE, 2013).

The UK is the leading performer of liberal economic remedies, cutting public spending harder and faster than any other European economies, except those compelled to do so as a condition of IMF, ECB and EU loans. Roughly two-thirds of public spending cuts are directed at welfare state provision, in order of scale: health care, pensions, education, housing and incapacity-related benefits and social care (TAYLOR-GOODY, 2013).

7. Continental model

7.1 General features

A major characteristic of the Continental model is, inter alia, the relatively generous earnings-related welfare benefit system, financed through employment-based social insurance schemes, often administrated by the social partners themselves, with a more limited role for public service provision (ZEITLIN, 2003).

The countries of the Continental regime (Austria, Germany, France, Belgium and Luxembourg) have maintained their commitments to both budgetary restraint and earnings equality, but only at the cost of low levels of employment in both public and private services. Social insurance benefits are financed closely tied to stable jobs, leading to confrontation between labour market insiders and outsiders, but also to a vicious spiral of increasing payroll charges, rising indirect costs, and declining employment, undermining the financial sustainability of the continental welfare states themselves (HEMERIJCK – MARX, 2006).

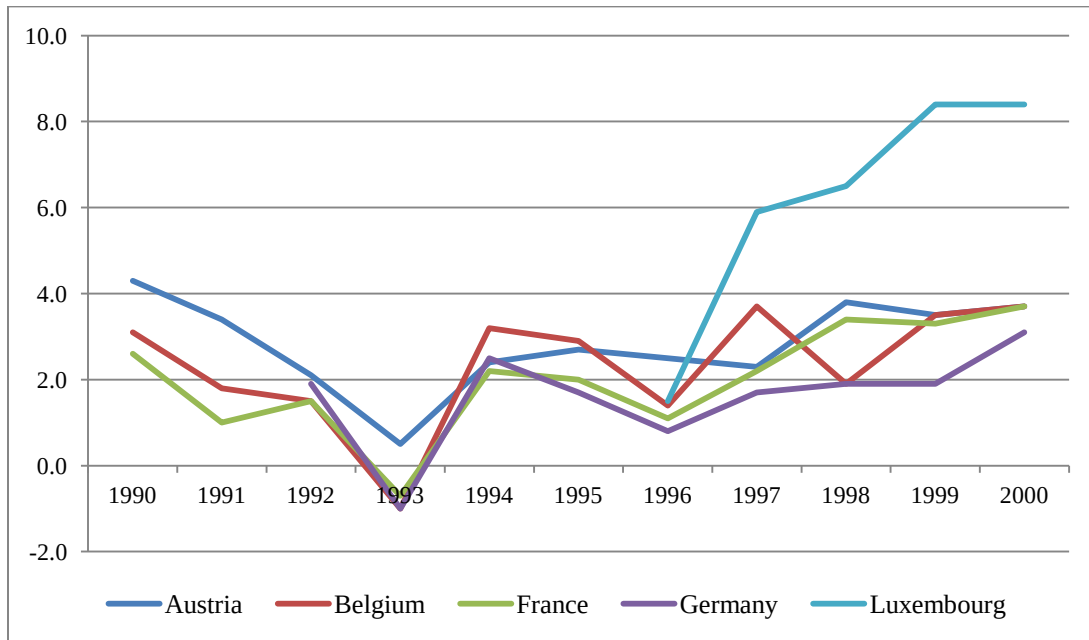
Compared to the Nordic countries, the Continental model (especially the big countries) started to diverge in economic performance since the mid-1990s. They underperformed in terms of investment in growth drivers, refrained from labour market reform and ran into persistent fiscal deficits. The countries of the continental model, specifically Germany and France had low deficits in 1990 but deficit in the early 2000s exceeded the 3% ceiling.

It is striking that compared to the Scandinavian countries; the investment into future growth is low in Continental countries. They have not raised their R&D ratio substantially, have average expenditures on education, are moderate in the PISA ratings and underinvest in Information and Communication Technologies. (AIGINGER – GUGER, 2006).

Continental countries witnessed economic recession in the early 1990s (*Figure 19*), so retrenchment of the social protection system was enforced. Reforms were introduced which aimed at reducing the level of social benefits while preserving the main features of the welfare system.

One can refer here to the so-called consolidation reforms implemented in Germany at the end of the 1980s and during the early 1990s (PALIER, 2006), or to the French sectoral reforms (new medical agreements in health care, a new benefit in unemployment insurance and new modes of calculating retirement pensions) (PALIER, 2000).

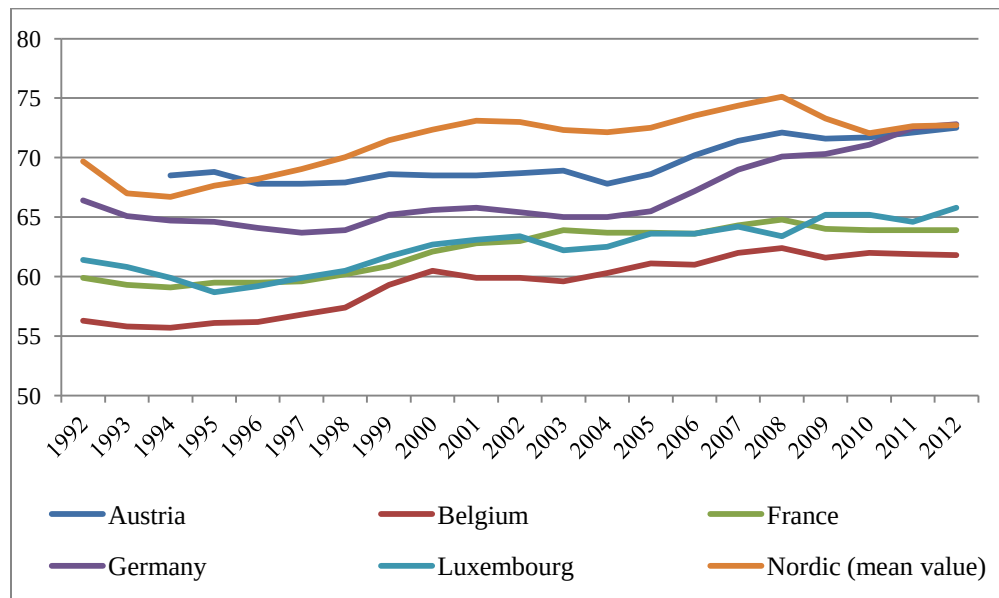
Figure 19 Real GDP growth rate in the countries of the Continental model (1990-2000)



Source: Eurostat statistics, online code: [tec00115]

During the economic restructuring of the 1970s-1980s, most Continental welfare states used disability pensions, early retirement, and long-term unemployment schemes to remove older and less productive workers from the labour market. This policy strategy of “welfare without work” resulted in increasing demand for social security causing burgeoning costs to be borne by the labour market. The growing pressure on using labour-saving technologies led to an inactivity trap (HEMERIJCK – EICHHORST, 2010).

Figure 20 Employment rate of the Continental model (1992-2012)

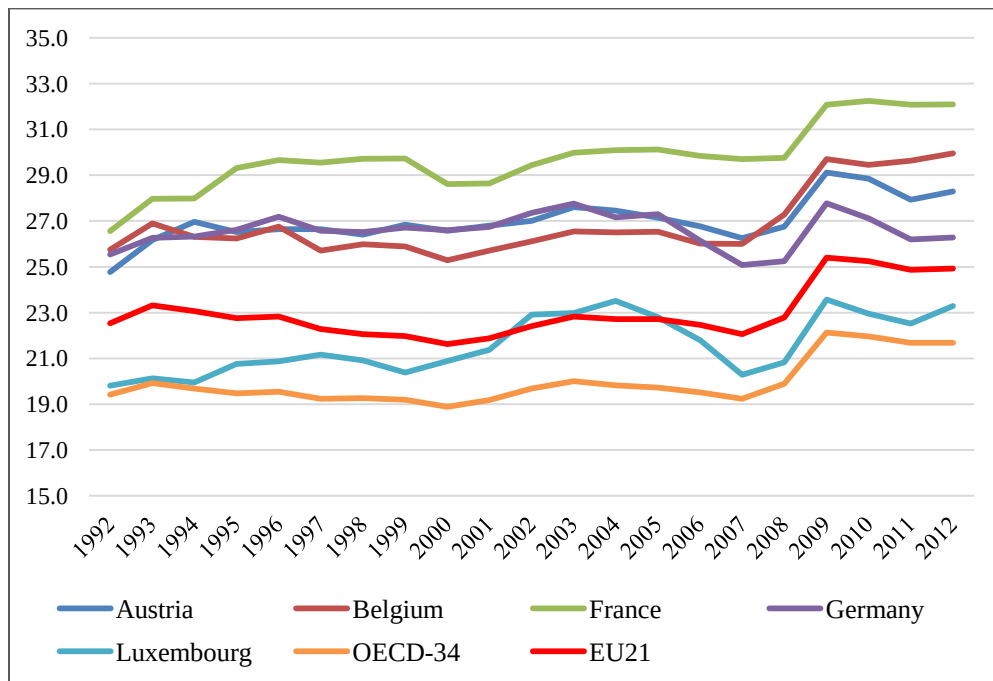


Source: Eurostat Labour Force Survey

The continental welfare regime is composed of countries that are primarily notable for the heterogeneity of their characteristics, which can be represented in the distinct patterns of employment levels (*Figure 20*). Austria and Belgium have been able to reach the Nordic level of employment after a steady improvement of their labour markets. Employment level has improved in the other countries of the model, however the ratios stagnate around 60-65 per cent.

Gross public social expenditures vary significantly within the Continental model and the within model variance has not decreased during the examined period. In all countries of the Continental model, the level of public social spending as a ratio of GDP exceeded the OECD-average and with the exception of Luxembourg, it is above the EU21 average as well (*Figure 21*).

Figure 21 Aggregated public social expenditures in the Continental model



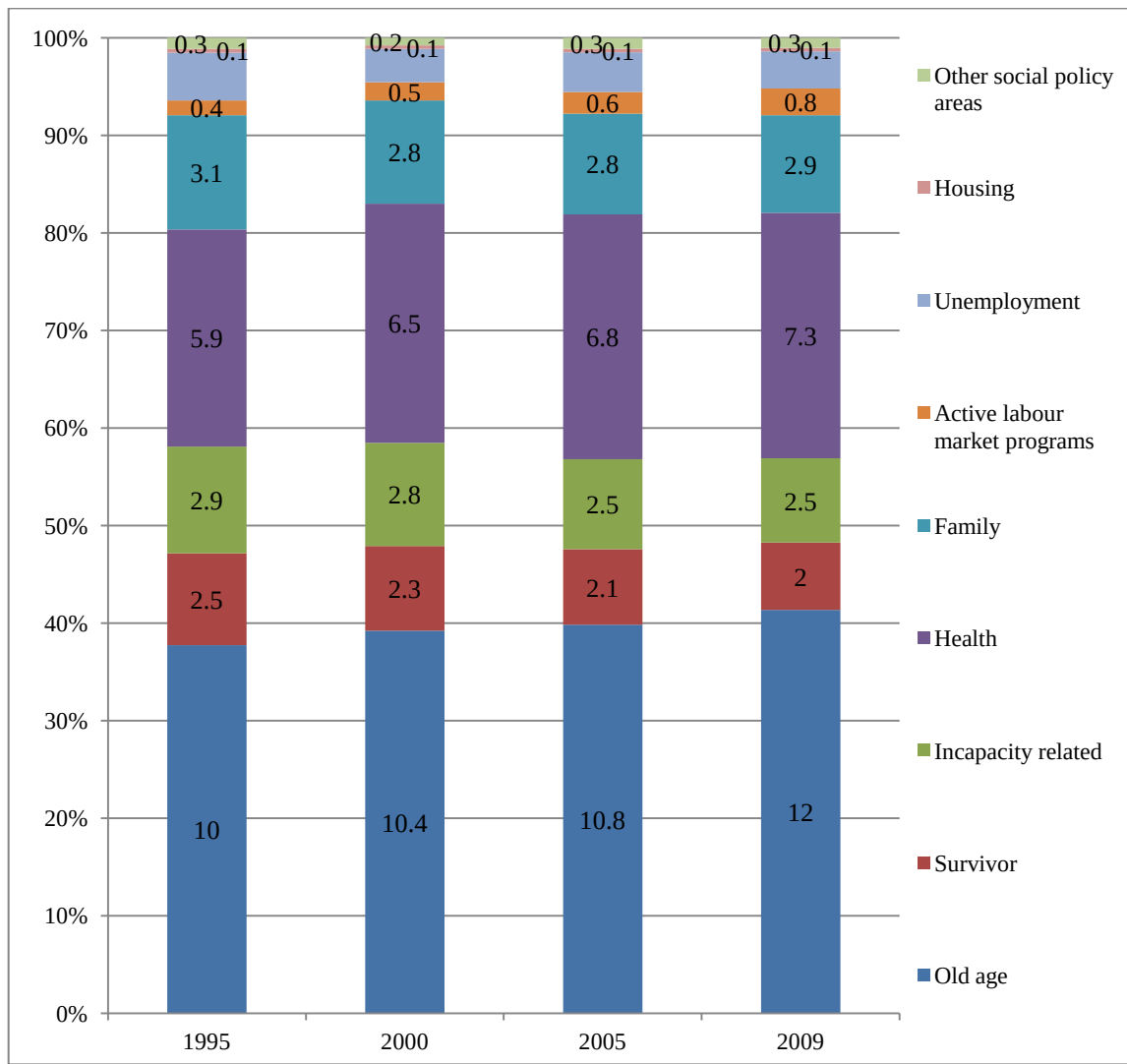
Source: OECD SOCX database

Cross-country differences of the model are wide. Public social spending range from 19.8% of GDP in Luxembourg to 26.6% in France in 1992. Until 2012, public social expenditures increased continuously in all countries (by around 5 percentage points). Within model variation has remained stable during the examined two decades.

Continental countries significantly differ in the composition of public social expenditures (*Figure 22-26*). However pension systems vary across countries within the model²⁶, old-age and survivors pension expenditures accounted for the highest share of public social spending in all five countries during the examined period, fluctuating around 12 per cent in Austria and France, 10 per cent in Belgium and Germany, and around 9 per cent in Luxembourg in 1995. By 2009, Austria and France witnessed 2 percentage points increase in pension spending, reaching 14% of GDP, in Belgium and Germany the growth of pension expenditures was rather moderate, approximately 1 percentage point. Surprisingly, old-age and survivors pension spending decreased in Luxembourg, reaching 7.7% of GDP in 2009.

²⁶ The detailed analysis of the given pension systems lies outside the scope of the dissertation.

Figure 22 Composition of aggregated public social expenditures in Austria



Source of data: OECD SOCX database

Note: Numbers represent the different types of gross public social expenditure as a percentage of GDP.

While the share of pension fluctuated around 40-50% of all public social spending within the analysed period, a significant increase of public pension compared to GDP can be observed in Austria and Germany, the growth of pension expenditures was moderate in France and Belgium. Luxembourg could considerably cut back pension spending during the examined period, decreased its share from 40% to 25% of total public social spending in 2009.

Figure 23 Composition of aggregated public social expenditures in Belgium



Source of data: OECD SOCX database

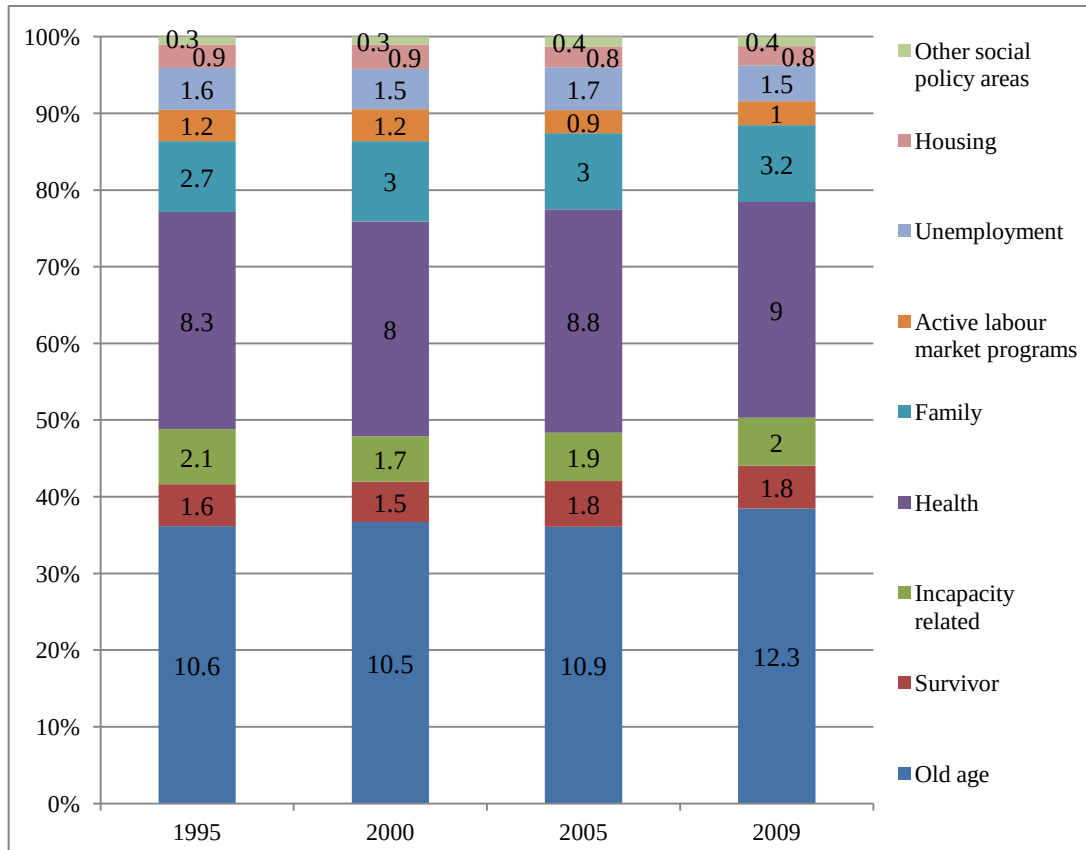
Note: Numbers represent the different types of gross public social expenditure as a percentage of GDP.

During the examined period, the share of incapacity-related benefits slightly decreased in all countries of the Continental model.

On average, public expenditure on health services of the model amounted to around 6% of GDP in Austria, Belgium in 1995, which increased to 8% of GDP in 2009. The initial level of health expenditures was considerably higher, 8% of GDP in France and Germany, both countries witnessed moderate growth by 2009. In 1995 5% of GDP were spent on health services, which was followed by a 1.5 percentage points increase by 2009. The share of public social expenditures spent on health services grew in each country of the model.

The share of spending on family benefits amounted to approximately 3 per cent of GDP. Luxembourg has a more generous family policy, spending 4 per cent of GDP on family related benefits.

Figure 24 Composition of aggregated public social expenditures in France



Source of data: OECD SOCX database

Note: Numbers represent the different types of gross public social expenditure as a percentage of GDP.

There is a trend of growing activation on the labour market in the Continental countries; public spending spent on ALMPs fluctuated around 1 per cent of GDP in all countries of the model with the exception of Luxembourg between 1995 and 2009. The Luxembourgish level of activation is the lowest, ALMP spending amounted to 0.2% of GDP in 1995, but growing activation can be observed in case of Luxembourg as well, and activation expenditures reached 0.5% of GDP in 2009.

Spending on unemployment compensation amounted to around 1-2 per cent of GDP in Austria, France, Germany and Luxembourg during the given period. Unemployment benefits are more generous and costly in Belgium, fluctuating around 3.5% of GDP between 1995 and 2009.

Figure 25 Composition of aggregated public social expenditures in Germany



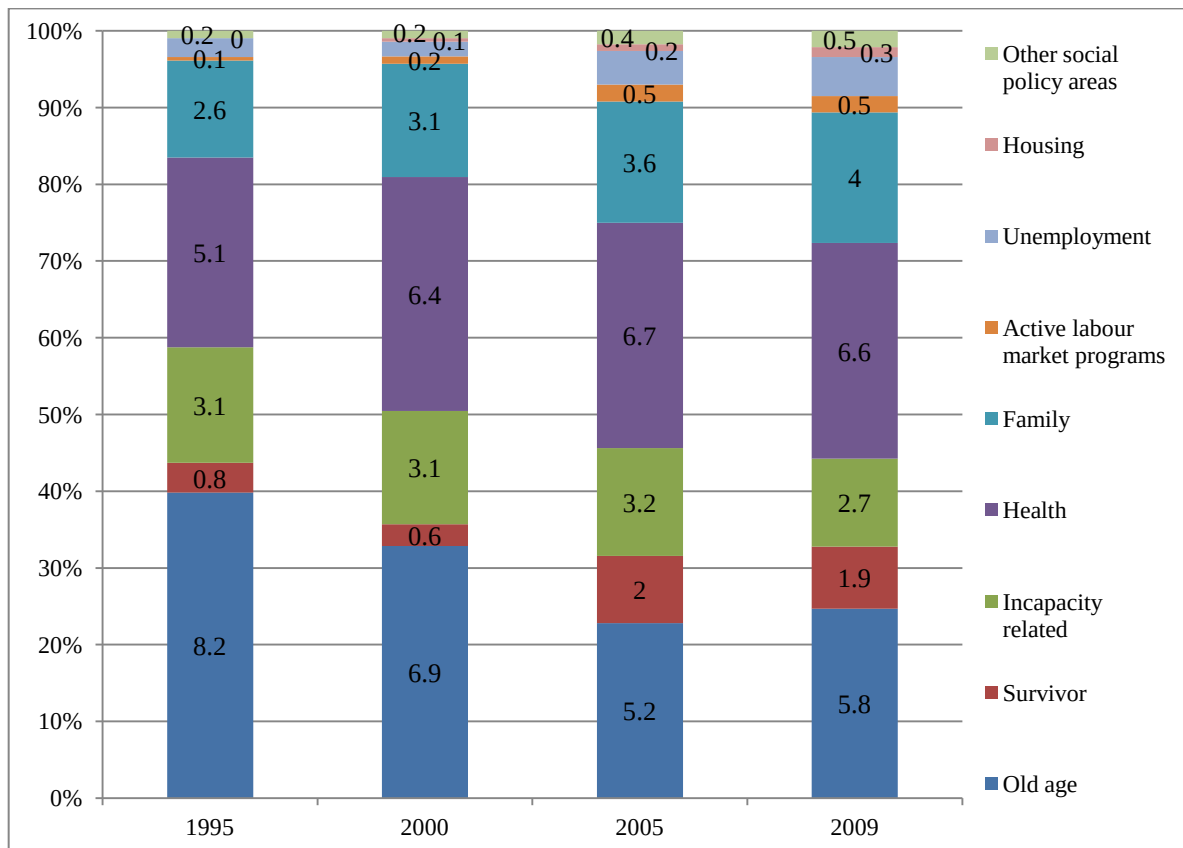
Source of data: OECD SOCX database

Note: Numbers represent the different types of gross public social expenditure as a percentage of GDP.

Housing allowances have accounted for less than 0.3 per cent of GDP in Austria, Belgium, Germany and Luxembourg, while France (0.8-09% of GDP) have more generous housing benefits for the people in need.

The share of other public social services have fluctuated around 0.5 per cent of GDP in all countries of the model, and there has been a slight increase after 2000 in Belgium, France and Luxembourg.

Figure 26 Composition of aggregated public social expenditures in Luxembourg

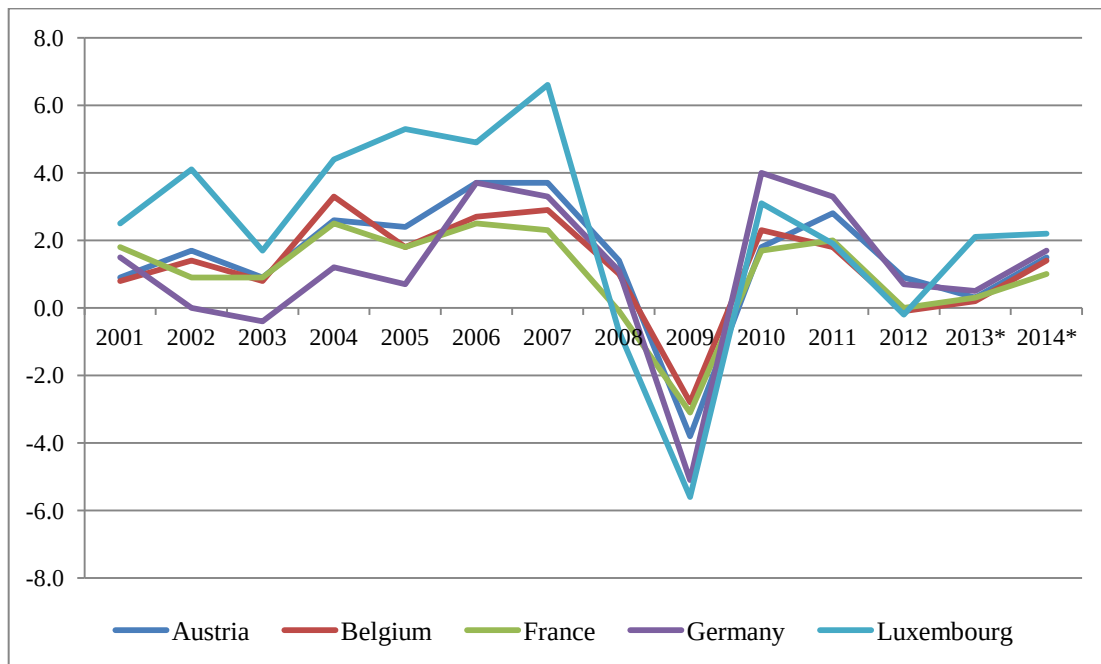


Source of data: OECD SOCX database

Note: Numbers represent the different types of gross public social expenditure as a percentage of GDP.

Understanding changes of the welfare systems, it has to be noted that political actors adopted a new social policy paradigm in the 2000s (PALIER, 2010). What were the economic circumstances of these changes? The countries of the Continental model witnessed modest economic growth during the early 2000s, only Luxembourg showed relatively high growth rates, while Germany was the “sick man of Europe” during these years (*Figure 27*). The structural reforms after the year 2000, emanating from paradigmatic changes, have brought intensification of the reform process. The unfortunate economic circumstances have enforced significant institutional changes of the model, especially in Germany (HINRICHS, 2010).

Figure 27 Real GDP growth rate in the countries of the Continental model (1990-2014)



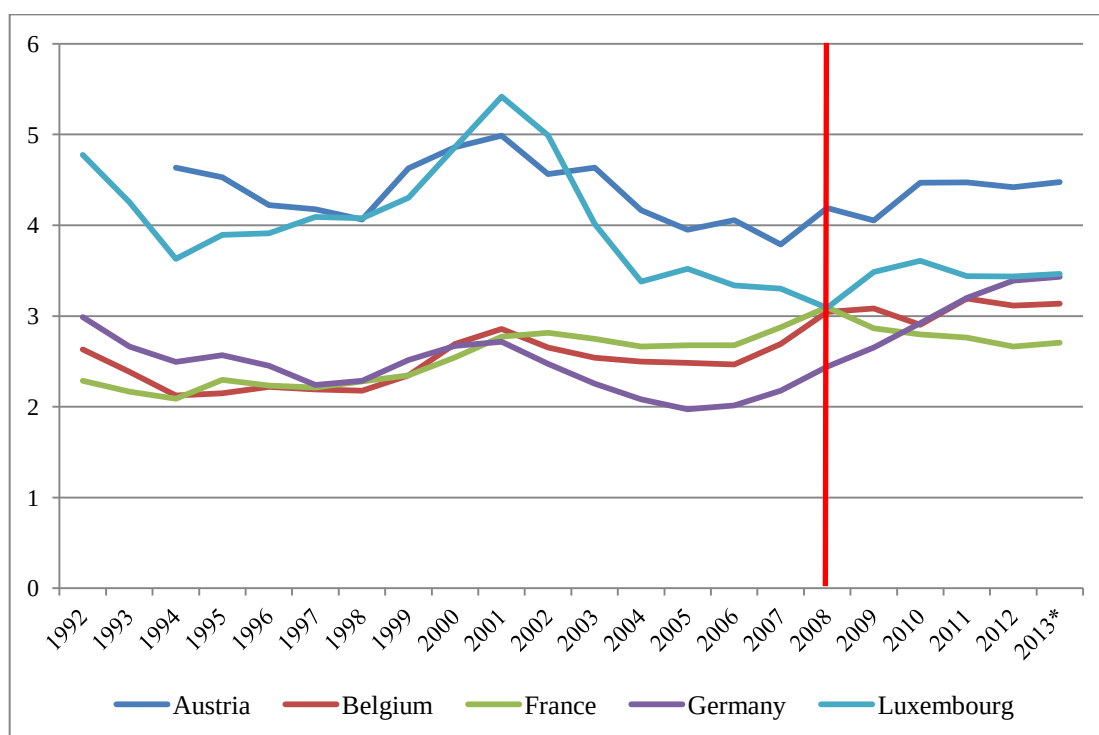
Source: Eurostat statistics, online code: [tec00115]

* EUROPEAN COMMISSION (2014b): Winter forecast 2014 - EU economy: recovery gaining ground.

In terms of generosity trends, the Continental model is unique, because as a reaction to the crisis, generosity ratios started to increase from 2008 onwards in all countries. Only France witnessed a slight drop in generosity after 2008 (*Figure 28*). This reaction to the crisis verifies the special feature of the model, that it is possible to sustain employment and stabilise public finances simultaneously (WAGNER, 2012), so the drop in generosity is not an indispensable part of crisis management.

The growth of generosity ratios is the consequence of relatively stable share of population being dependent on welfare state in the Continental countries. During crisis years Germany and Austria were even able to decrease this ratio due to their improving labour market performance. Special feature of the model is the relatively favourable unemployment situation, especially in Germany and Austria.

Figure 28 Welfare state generosity ratios in countries of the Continental model (1992-2013)



Source of data: Eurostat Labour Force Survey, OECD SOCX database

* Figure composed by using share of population being dependent on the welfare system from year 2012.

The growth of unemployment rate was moderate in Belgium and Luxembourg, while notable in France (*Table 5*). In some countries, such as France, the impact of the crisis on unemployment has also been cushioned by restrictions on the dismissals of workers on permanent contracts. There are large differences in employment protection in France, leading to labour market duality that may have generated unemployment turnover for certain categories of workers (e.g. youth and women) with no permanent effects on the unemployment rate (OECD, 2011).

Table 5 Unemployment rate in countries of the Continental model

	2000	2005	2009	2010	2011	2012	2013*	2014*
Austria	3.6	5.2	4.8	4.4	4.2	4.3	4.9	4.8
Belgium	6.9	8.5	7.9	8.3	7.2	7.6	8.4	8.5
France	9.0	9.3	9.5	9.7	9.6	10.2	10.8	11.0
Germany	8.0	11.3	7.8	7.1	5.9	5.5	5.4	5.3
Luxembourg	2.2	4.6	5.1	4.6	4.8	5.1	5.9	6.0

Source: Eurostat Labour Force Survey

* EUROPEAN COMMISSION (2014b): Winter forecast 2014 - EU economy: recovery gaining ground.

In Germany, the exit from the recession brought a reduced unemployment rate, which is an unprecedented phenomenon within the EU for the post-crisis period. The performance of Germany and Austria is remarkable because they have been able to cut back public social expenditures since 2010. The increase of their generosity ratios is due to the greater drop in the share of population being dependent on welfare services than the drop in public social spending. Real public social expenditures increased by 4% and 7% in 2012 compared to the base year of 2007 in Germany and Austria respectively.

Over the same period, Belgium and Luxembourg experienced higher increase in their real public social expenditures: 13% and 17% respectively (*Annex table 2*). In France, a continuous growth of gross public social spending can be observed, the increase in real public social expenditures was 7% between 2007 and 2012. However, the French government raised the level of public social spending, generosity ratios declined due to worsening labour market performance (higher share of population being dependent on welfare service provisions). *Table 6* collects data on the evolution of aggregated public social expenditures within the Continental model.

Table 6 Aggregated public social expenditures in countries of the Continental model (% of GDP)

	2000	2005	2009	2010	2011	2012	2013
Austria	26.6	27.1	29.1	28.9	27.9	27.9	28.3
Belgium	25.3	26.5	29.7	29.5	29.7	30.5	30.7
France	28.6	30.1	32.1	32.4	32.0	32.5	33.0
Germany	26.6	27.3	27.8	27.1	25.9	25.9	26.2
Luxembourg	20.9	22.8	23.6	23.0	22.6	23.2	23.4

Source: OECD SOCX database

The current crisis affected the similarity of the generosity trends within the Continental model, the countries started to become more similar. This convergence process can be proven by looking at the within model variation. Coefficient variation within the Continental model remained stable around 35% during the period between 1992 and 2001. Within model variation started to decrease after 2002, however the generosity features of the countries have become considerably similar only after 2010. In 2012 and 2013, coefficient variation of the generosity ratios was approximately 19 per cent. Compared to the significant convergence process of the Nordic model, the heterogeneity of the Continental model has remained higher.

7.2 Illustrative case study: Germany

HASSEL (2010) argued that the transformation of the German welfare state began after the reunification in 1990, but it reached its peak with the Hartz IV reforms during the early 2000s. The reforms of the welfare state of the 2000s were embedded in Chancellor Gerhard Schröder's Agenda 2010 program.

In the second half of the 1990s Germany was widely identified as a laggard in welfare reform. "Reformstau" (reform deadlock) became a widely used slogan to describe the German situation. Year 1997 brought changes, when Roman Herzog held his famous speech, calling for a change. The 2000 Tax Reform and the 2001 Pension Reform are major breakthroughs. The 1990s were the time of a far-reaching re-negotiation of the German welfare state, the controversies of the welfare state reform led to political confrontation during most of the decade. There were minor changes of the welfare state during the 1990s which touched three fields. First, the pension reform in the mid-1990s, which can be characterised by a lack of consolidation. Second, the policies of the unemployed have seen mainly gradual changes. Third, the tax reform suffered from a stalemate in the mid-1990s (BÖNKER – WOLLMANN, 2001).

The first years of the new millennium brought the reform of state allocation systems in Germany, coupled with the effect of world economic changes. Compared to 2000, in the following two years there was a drop in GDP growth, and the pace of broadening of domestic demand was slower than that of growth, so growth remained export-led (RÁCZ, 2001). Persistent growth problems resulted in a growing number of unemployed and a worsening fiscal performance. So in this period, the government was facing the problem of ameliorating the budgetary situation, producing an over 2 per cent growth, and reducing the number of more than five million unemployed (RÁCZ, 2005).

From 2002 onwards, Germany was unable to respect the Stability and Growth Pact²⁷, budget deficit was over 3 per cent year after year, and the public debt rose

²⁷ There are three reasons for not punishing those big EU countries (among others France and Germany) that did not respect the rules: (1) they are grandfathers of EU integration; (2) these countries are motors of EU-wide growth, and the EDP might have decreased demand and caused recession; and

from 59.1 per cent in 2001 to 66.3 per cent in 2004. After the 2001 informal warning, Germany was included in the Excessive Deficit Procedure in 2003. The 2004 stability programme was reshaped several times, since originally the government used a more favourable GDP growth number. On 14 March, 2003, the Schröder government launched the reform initiative entitled “Agenda 2010” consisting of labour market, budgetary and sickness insurance reform, but further pension reforms were needed to complement this programme (BUNDESREGIERUNG, 2003). In 2007, more significant changes took place in the pension system: mandatory retirement age was raised to 67 years (BONIN, 2009).

The real reforms of the German welfare state started with the “Agenda 2010” which was the most comprehensive reform programme of Germany. The government set the basis of returning to growth and employment with comprehensive structural reforms. Its fundamental aims were sustainability and stability in light of demographic processes, consolidation of the state budget, cutback on subventions, and reduction of bureaucracy. The long-term goal of these measures was to reach full employment.

The “Agenda 2010” package comprised of employment measures initiated by the committee of Peter Hartz. Laws Hartz I. and II. entered into force on 1 January 2003, offering new employment possibilities, ameliorating recruitment agencies’ quality and pace, setting new orientation for professional trainings and strengthen the provider quality of the Federal Employment Agency. The third and fourth law aimed at converting the Federal Employment Agency into a performance- and client-oriented recruitment service, a more effective labour market policy, a simplification of labour market tools, setting new standards for employment safety of the elderly and new employment possibilities for the young, and the merger of social and unemployment benefits. The third and fourth Hartz law entered into force on 1 January 2004 and 2005, respectively. The above-mentioned four laws transformed connections between people looking for employment, employment agencies and employment providers, rewrote the rules of personal responsibility and social welfare.

(3) it was an implicit way of acknowledging that trespassing the threshold does not necessarily imply problems – the structure of debt and factors of deficit growth are more relevant data.

Labour market reforms were complemented by important labour law reforms, comprising the change of the Termination of Employment under German Law. Laws on partial employment and limited duration employment were signed to enhance recruitment, especially for smaller companies (FREY, 2006).

Reforms brought mixed results: widening capacities for employment agencies, training programmes and wage subventions were successful, contrary to temporary public jobs and voucher systems for placement services and training measures which were relatively less auspicious (MINISZTERELNÖKI HIVATAL, 2010). For the unemployment benefit, one had to prove having looked actively for a job, and a mandatory „activity” period was set when the applicant had to participate in programmes helping to find employment. From this mandatory participation originates the obligation of accepting a so-called one-euro job that contributed to a growing ratio of the “working poor” (MÓZER – SIMONYI, 2011).

Table 7 Major macroeconomic indices of Germany (2007-2014)

	2007	2008	2009	2010	2011	2012	2013*	2014*
GDP growth, percentage	3.3	1.1	-5.1	4.0	3.3	0.7	0.5	1.7
Unemployment, percentage	8.7	7.5	7.8	7.1	5.9	5.5	5.4	5.3
General government deficit, percentage of GDP	0.2	-0.1	-3.2	-4.3	-0.8	0.1	0.0	0.1
Public debt, percentage of GDP	65.2	66.7	74.4	82.5	80.0	81.0	79.6	77.1
Current account surplus, percentage of GDP	7.4	6.2	5.9	6.4	6.3	7.0	7.0	6.6
Unit labour cost (2005=100)	97.2	99.4	105	103.9	105	108.2	110.4	n.a.

Source: Eurostat

Note: Unit labour cost (2005=100) is from European Central Bank Statistics

* EUROPEAN COMMISSION (2014b): Winter forecast 2014 - EU economy: recovery gaining ground.

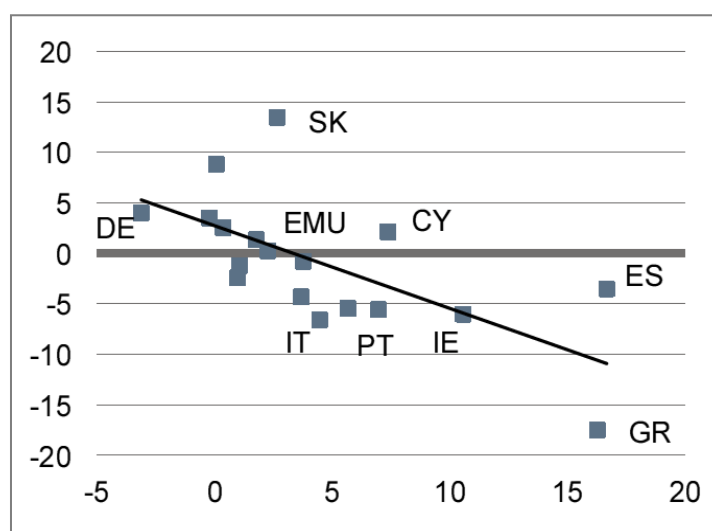
Based on Germany’s 2007-11 updated stability programme (EUROPEAN COUNCIL, 2008) I have concluded that compared to the first part of the decade, in 2006 and 2007 German economic growth was a lot more robust, over 3 per cent. The stabilising measures and the unexpected real economic effects of the escalating crisis in 2008 resulted in a downward movement of real GDP growth from 3.3 per cent in 2007 to around 1 per cent in 2008, followed by a 5.1 per cent decrease in GDP in 2009 (*Table 7*). In 2010, the economy was revived, but 2012 and 2013 produced minimal GDP growth. Overall, real GDP is projected to grow by 1.7% in 2014. The exit from the

recession brought a reduced unemployment rate, which is an unprecedented phenomenon in the EU for that period (*Figure 29*).

Competitiveness has been restored by wage restraint and structural reforms. While employment has been increased, real wages have been continuously reduced as a consequence of the cuts of unemployment benefits and the increasing share of part-time employment.

Economic prosperity helped the completion of these reforms to offset the negative effects. The positive developments of the labour market supports the forecast on the improving domestic demand, however, external demand is expected to weaken. Additional positive effects have been created by the improving innovation performance and the efficiency gains arising from the simplification of taxation.

Figure 29 German labour market outlook in European perspective



Source: DEUTSCHE BANK (2012)

x axis: change in unemployment rate Aug 07–Aug 12

y axis: real GDP growth Q2 07–Q2 12

There is a steady decline in unemployment since 2007, reaching 5.9 per cent in 2011 resulting in the rising number of people paying into the social security system. As an outstanding feature of the German labour market, the unemployment rate decreased in 2012 and 2013 as well.

As *Table 7* shows us, before the crisis Unit Labour Cost (ULC) for Germany slightly increased (base year is 2005) and afterwards the growth rate of ULC has been

one of the lowest for Germany. According to FELIPE and KUMAR (2011), unit labour costs have increased in all countries without exception within the eurozone, in some cases by a factor of 15 (e.g., Greece). The lowest increases were registered by Germany and the Netherlands for the period of 1980 to 2007, it can be interpreted as a competitiveness gain for Germany compared to other eurozone member states. Real wage growth in Germany has lagged behind labour productivity growth. For the periphery of the eurozone, the introduction of the euro resulted in an increasing current account deficit and worsening price and wage competitiveness, while the core countries – especially Germany – could improve their current account position and competitiveness (WATT, 2012).

Germany is a prime example for successful budgetary consolidation, where the main fiscal consolidation efforts focused on the expenditure side. In order to ensure long-term sustainability, promoting growth and improving employment circumstances have been on the agenda as well as cutting public expenditures.

The consolidation scenario for 2007-2011 was rewritten by the outbreak of the crisis. Gross public debt amounted to 65 per cent of GDP in 2007, and after a dramatic increase it reached 83 per cent in 2010²⁸. The excessive deficit procedure (EDP) for Germany was opened in December 2009, general government deficit and general government gross debt were above the threshold (3.4 per cent and 74.4 per cent of GDP respectively). To bring its deficit back below the 3 per cent of the GDP threshold, Germany made the fiscal effort of at least 0.5 per cent of GDP on average annually over the 2011-13 period (COUNCIL OF THE EUROPEAN UNION, 2012). By 2011, the country managed to stabilise its public finances, and in 2012 the Council adopted a decision of closing the EDP for Germany.

Recent reforms of the pensions system, especially the reform in 2007, contributed to the further increase of labour market participation of older workers. There are two channels through which the pension system has been able to build up reserves to be resilient to the weakened economic conditions: growing revenues as a consequence of improving labour market performance, and decreasing expenses

²⁸ In 2007 the fulfilment of the Maastricht criterion on debt was targeted by 2010. The dramatic effect of the crisis can be demonstrated by the counter-movements of debt trends.

because of strict regulations and the increase of the statutory retirement age to 67 years (BONIN, 2009).

A notable reform of the labour market was enforced by the global financial crisis, known by its German name, Kurzarbeit. In this programme, the state paid up to 70 per cent of a person's salary up to a given cap, workers took a cut in working hours and pay, and firms agreed not to lay off workers. The real effects and success of the programme is debated (HALLERBERG, 2013: 265-266).

Despite major parts of the eurozone living through a period of severe fiscal austerity, as a consequence of the successful fiscal consolidation and the crisis management measures, Germany has manoeuvred itself into a favourable position within the EU. The “new German economic miracle” is the consequence of the labour market developments accompanied by a successful fiscal consolidation.

German labour market developments contributed to the unique crisis responses; this period is often cited as the “new German economic miracle,”²⁹ which was accompanied by successful fiscal consolidation. Several reasons explain this unusual response of Germany. First, the economic crisis mostly hit financially strong companies that were able to implement working-time flexibility instruments. Second, in the years prior to the recession, Germany had introduced comprehensive labour market reforms to improve efficiency. Third, demographic challenges were maintained as well, policy-makers paid special attention to the labour market (CALIENDO – HOGENACKER, 2012). Admittedly, the German situation is extremely unique, the exemplary features are obvious; the special institutional factors cannot be copied to be implemented anywhere else. These reforms together changed the welfare system of Germany and contributed to a more competitive economy, ending a period of Germany when it was called the “sick man of Europe” (during the early 2000s).

However, the German welfare state has changed, it needs to continue the evolution, not just because of the perpetual economic competition, but also because of demographic changes (HALLERBERG, 2013).

²⁹ The phrase “economic miracle” relates to Germany's economic performance at time of the 2008/2009 crisis (BONIN, 2012; CALIENDO – HOGENACKER, 2012; RINNE – ZIMMERMANN, 2012).

8. Mediterranean model

8.1 General features

The Mediterranean welfare regime as a distinct model is relatively new, the first experts mentioning it during the 1990s (BONOLI, 1997; FERRERA, 1996; RHODES, 1997). The countries of the Mediterranean model belong to a single welfare model, not only because of their geographic proximity, but also due to historical and cultural legacies. “Their history of relatively recent non-democratic rule (particularly in cases of Spain, Portugal and Greece), the influence of religion (in particular Catholicism) upon diverse aspects of life, not least the family and the provision of welfare, and their seemingly ‘rudimentary’ welfare state systems” (GAL, 2010: 283) were the reasons for their differentiation from the other models. CASTLES (2006) called the attention to the fact that Italy significantly differs from the other countries, which might undermine the usefulness of the categorisation.

FERRERA (1996) identified three distinctive characteristics of the Mediterranean model. First, dualism, fragmentation and ineffectiveness of the social protection system, leading to marked gaps between segments of society and high levels of poverty within specific geographical or social sectors. Second, the existence of universal (or near universal) health provision by the state alongside a flourishing private health market. Third, the particularistic–clientelistic form that the welfare state took in these nations. In addition, the major role of the family, rather than the state, the market or the workplace, as a provider of welfare in these countries are important features of the Mediterranean model (GAL, 2010).

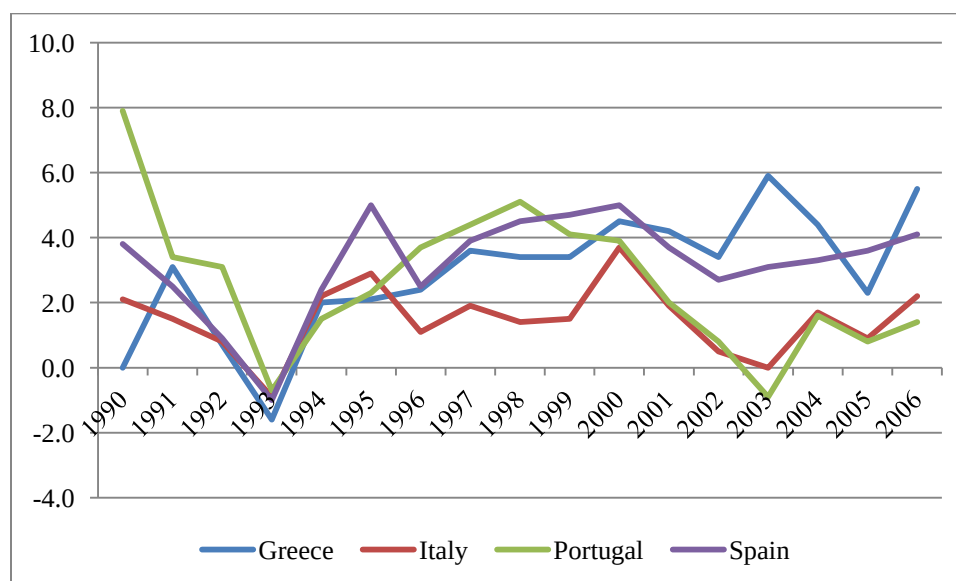
Expenditure side of the Mediterranean welfare state model is characterised by low levels of social expenditures combined with an adherence to the Bismarckian tendency to prefer contribution-funded and income-related benefits over the use of tax funded flat-rated transfer programmes (BONOLI, 1997).

Despite the high growth rates of GDP in the 1960s and 1970s, the countries of the Mediterranean model were shaped by an enduring social backwardness and economic dualism between industrialized and non-industrialized regions. Important

socio-political common features of these countries are clientship and patronage forms of political legitimization (RANGONE – SOLARI, 2010).

The oil crisis of the 1970s had severe negative impact on these economies, with the exception of Italy. The phenomenon of “development without modernisation” led to the evolution of semi-periphery kind of economies which is relatively autonomous from the pattern of development of Northern European economies (ARRIGHI, 1985). Industrial relations represented a weakness in this model, accompanied with labour market fragmentation and harsh social conflict, leading to a distribution of income that was unable to drive growth. This model underwent a deep process of reform, which started with some random changes in the 1980s and then ended unexpectedly in the 1990s (RANGONE – SOLARI, 2012). Accordingly, it is important to emphasize that since the early 1970s in Italy and after the fall of dictatorships in Spain, Portugal and Greece, all four Mediterranean countries have engaged in a process of catching up with the advanced Western European welfare states. Italy had a better starting point (KARAMESSINI, 2007).

Figure 30 Real GDP growth rate in the countries of the Mediterranean model (1990-2006)



Source: Eurostat statistics, online code: [tec00115]

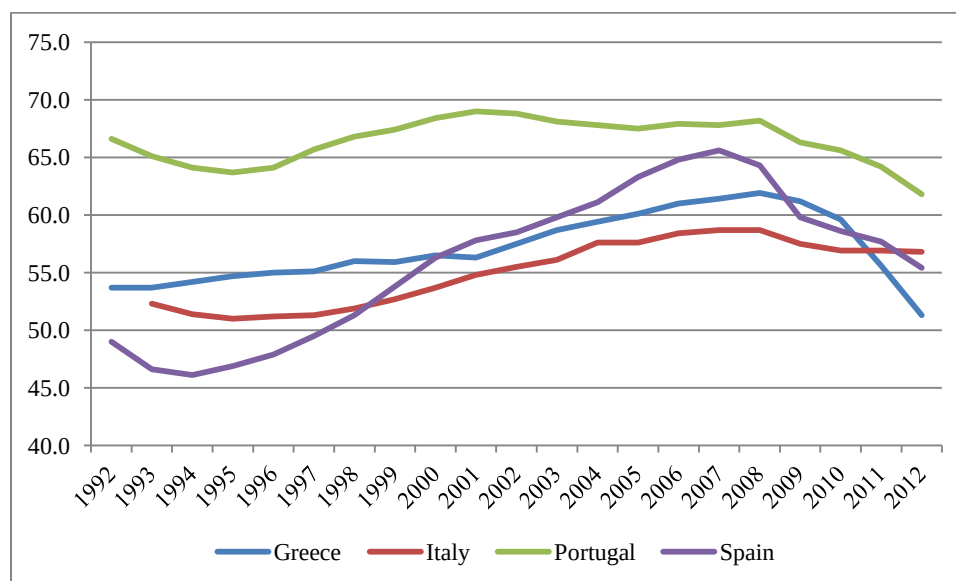
Note: Data source for 1990-1995: EUROPEAN COMMISSION (2013): Statistical annex to European Economy

A new season of growth begun in the 1990s for Spain, Greece and Portugal, driven by their accession to the European Community. The latter granted a certain institutional stability and a new opportunity for trade (RANGONE – SOLARI, 2010).

The short deterioration of the economy in all countries of the model in 1993 was followed by fast recovery, and the countries of the model with the exception of Italy reached above 3 per cent annual growth rate during the 1990s (*Figure 30*).

From 2000 to 2007 the Portuguese economy was characterised by low growth rate, persistent budget deficits³⁰ and soaring public debt and higher debt serving charges which contributed to the decline of the economic activity (KARAMESSINI, 2007). The Greek and Spanish economy enjoyed high growth rates until the outbreak of the global financial and economic crisis from the recession of the early 1990s. Italy's growth rate was lower during the whole examined period.

Figure 31 Employment rate of the Mediterranean model (1992-2012)



Source: Eurostat Labour Force Survey

The employment rate is really low in all countries, it slightly exceeds the 60 per cent level in the best performer Portugal only and in Greece and Italy, the level was below 55 per cent, while the Spanish level did not reach 50% before 2000 (*Figure 31*). High share of inactivity is coupled with relatively low level of unemployment during the examined period. The picture is totally different while taking into account the gender

³⁰ Portugal became the first country in 2000 to be subjected to the EU's Excessive Deficit Procedure.

dimension of the labour market performance. The high degree of protection of the male breadwinner's employment has been listed among the distinctive features of the Mediterranean social model (KARAMESSINI, 2007).

Table 8 lists male and female employment rates for the Mediterranean model. These countries represent strong male breadwinner societies, in which women's labour market participation is traditionally low.

Table 8 Male-female employment rate difference in countries of the Mediterranean model

	1992			2000			2007			2012		
	Males	Females	M-F difference	Males	Females	M-F difference	Males	Females	M-F difference	Males	Females	M-F difference
Greece	79.2	39.5	39.7	78.8	45.5	33.3	80.4	51.6	28.8	65.3	45.2	20.1
Italy	75.1	38.6	36.5	72.8	42.2	30.6	75.8	49.9	25.9	71.6	50.5	21.1
Portugal	84	59	25.0	82.3	65.1	17.2	79.1	66.3	12.8	69.9	63.1	6.8
Spain	73	33.7	39.3	76.9	44.5	32.4	80.7	58	22.7	64.5	54	10.5

Source: Eurostat Labour Force Survey

Note: Because of data availability in case of Italy data from 1993 are used instead of 1992.

Until 2006, the countries witnessed an improvement of employment which was more pronounced for women. Gender differences in employment significantly decreased in all countries, but with the exception of Portugal they are still the highest³¹ within the EU.

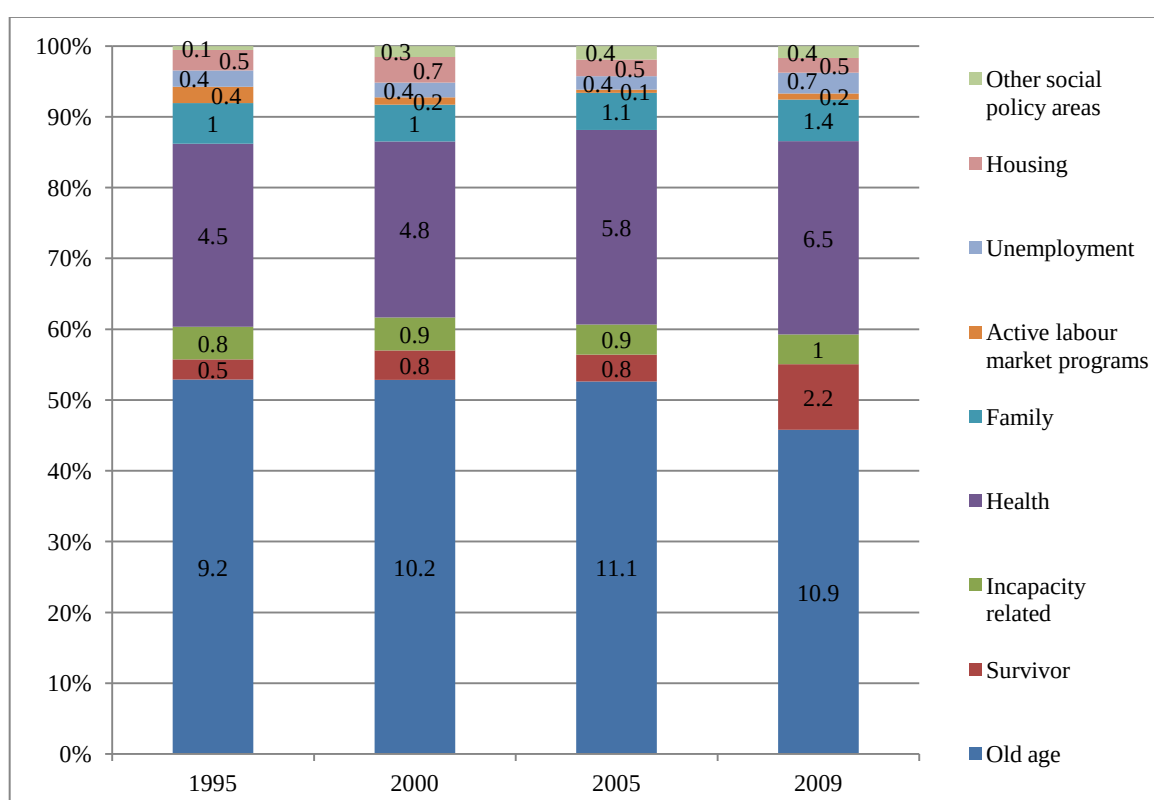
The protection of employees with indefinite duration contract is typical in the Mediterranean model. Although it has been relaxed in Portugal and Spain, the incidence of fixed term contracts is still extremely high in Spain and above the EU average in Portugal, reflecting the impact of their unconstrained or permissive use in the 1980s. In Greece and Italy the prevalence of indefinite duration contract is below the EU average. The establishment of temporary employment agencies in all four countries gave a new impetus to temporary employment with limited impact until 2007 (KARAMESSINI, 2007).

The differences between the countries of the model can be observed while examining the composition of public social expenditures (*Figures 32-35*). In terms of magnitude, the largest category of public social spending concerns old-age and

³¹ Even higher than in Central and Eastern Europe or in Ireland which has been a prime example of the strong male breadwinner model. Other data on gender difference in labour market participation can be found in PASCALL – KWAK (2010) or OROSZ (2013).

survivor pensions, which is the highest compared to other models. In 1995, the aggregated level of old age and survivor pensions as a share of total public social services exceeded 55% in Greece (9.7% of GDP) and Italy (11.4% of GDP), and reached 42% (9.4% of GDP) and 44% (7.2% of GDP) in Spain and Portugal respectively. Spain maintained the level of pension expenditures as a share of GDP until 2009, fluctuating around 9%, while a significant increase of pension benefits can be observed in Greece (13.1% of GDP), Italy (15.6% of GDP) and Portugal (12.4% of GDP).

Figure 32 Composition of aggregated public social expenditures in Greece



Source of data: OECD SOCX database

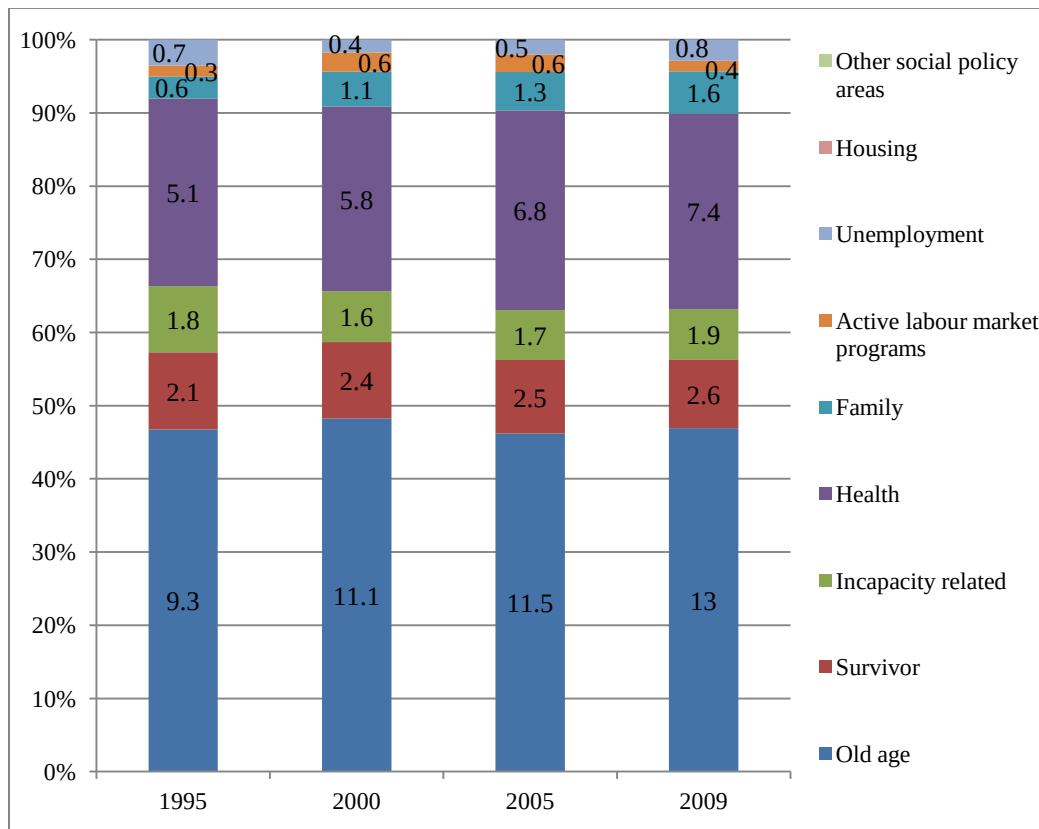
Note: Numbers represent the different types of gross public social expenditure as a percentage of GDP.

The countries of the model depict different patterns of spending on incapacity-related support, which plays a minor role in Greece's social policy, fluctuating around 1% of GDP during the examined period, while spending on disability is more pronounced in the other countries of the model, exceeding 2% of GDP. Incapacity-related benefits

decreased slightly in Portugal (by 0.2 percentage points), in Italy and Spain minor increase of disability benefits can be observed until 2009.

Health expenditures increased significantly from 1995 to 2009 in the Mediterranean countries, however the share of health spending as a ratio of total public social expenditures remained stable, approximately one quarter in all countries. In countries of the Mediterranean model health care spending amounted to approximately 5% of GDP in 1995, after a salient rise, health care spending exceeded 7% of GDP in 2009.

Figure 33 Composition of aggregated public social expenditures in Italy



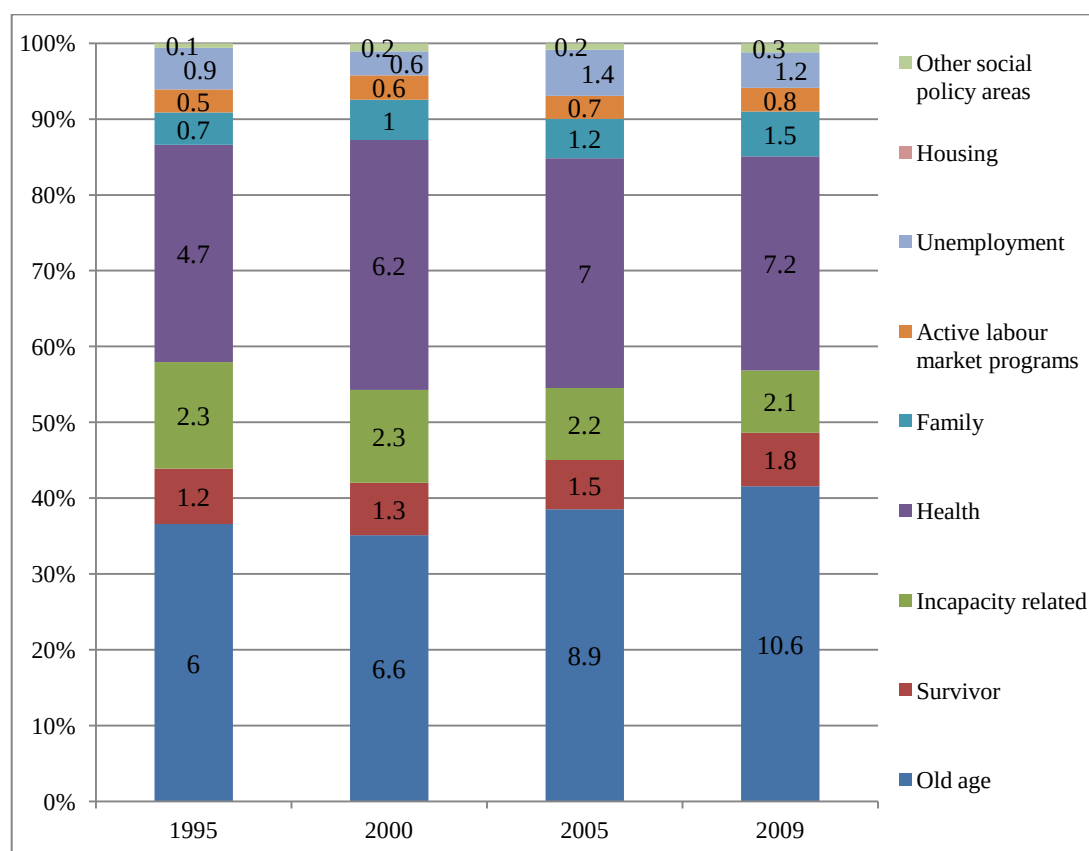
Source of data: OECD SOCX database

Note: Numbers represent the different types of gross public social expenditure as a percentage of GDP.

The strong reliance on the family for social protection can be proven by the fact that the level of family support in the Mediterranean model is below the level of almost all other countries', only in a few ECE countries (except Hungary and Slovakia) and in the Netherlands, is spent the similar low level of public expenditures on family support, around 1 per cent of GDP.

Active labour market policy tools are not used as extensively as in other models, only in the ECE countries can be observed similar low level of activation. ALMP expenditures did not exceed 0.5 per cent of GDP in 1995; Greece cut back activation spending (0.2% of GDP) by 2009, and on the contrary in other countries of the model such measure was extended.

Figure 34 Composition of aggregated public social expenditures in Portugal



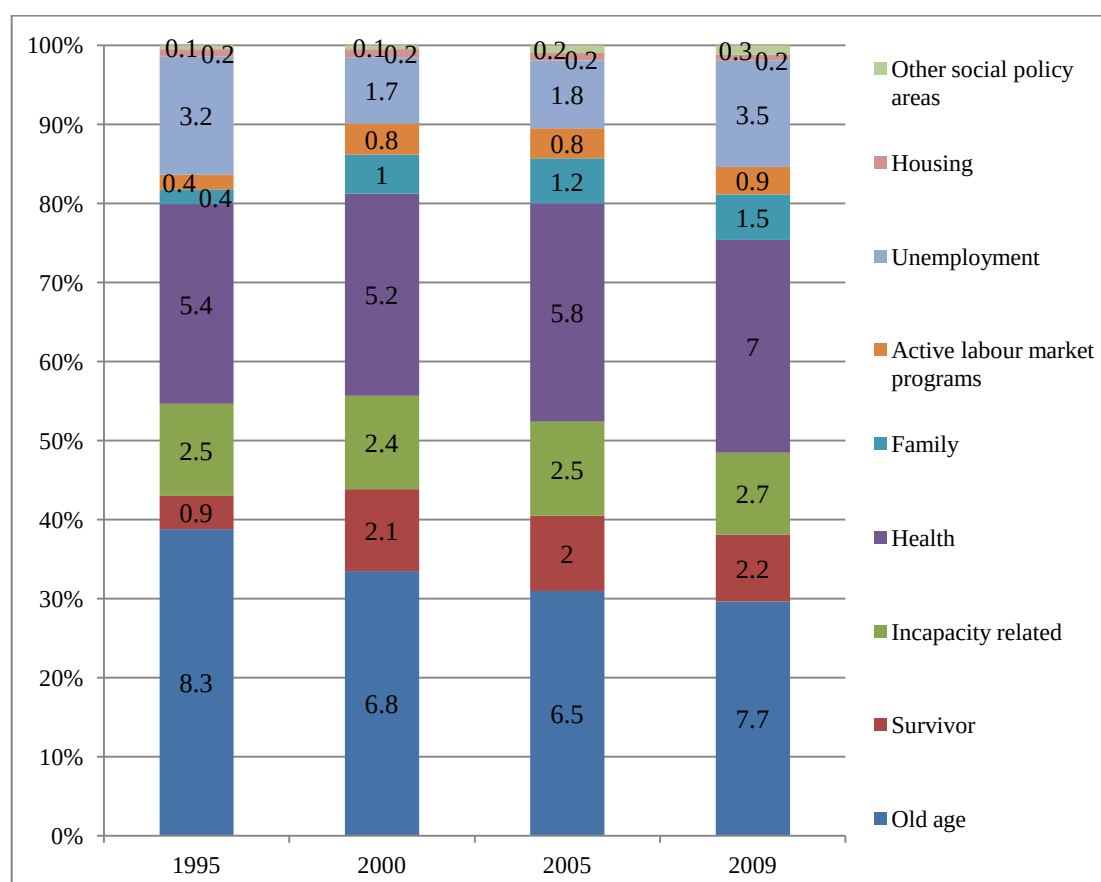
Source of data: OECD SOCX database

Note: Numbers represent the different types of gross public social expenditure as a percentage of GDP.

Employment protection is rather strict in the Mediterranean model, but unemployment benefits are relatively low with the exception of Spain. Public social spending on unemployment amounted to approximately 0.5 per cent of GDP in Greece and Italy and 1 per cent in Portugal. Until 2009 these three Southern European countries managed to maintain the 1995 level of spending on unemployment benefits. As a consequence of the recession of the early 1990s, increased unemployment led to a sharp increase in unemployment compensation

payments in the countries of the model, but unfortunately OECD does not provide the relevant comparable data on unemployment benefits after 2009 as for the other types of public social policy spending. Spain witnessed a drop in social expenditures on unemployment during the 2000s from 3.2% of GDP in 1995 to 1.8% in 2005; however the outbreak of the financial crisis resulted in a salient increase of unemployment compensation payments, reaching again 3.5 per cent of GDP in 2009.

Figure 35 Composition of aggregated public social expenditures in Spain



Source of data: OECD SOCX database

Note: Numbers represent the different types of gross public social expenditure as a percentage of GDP.

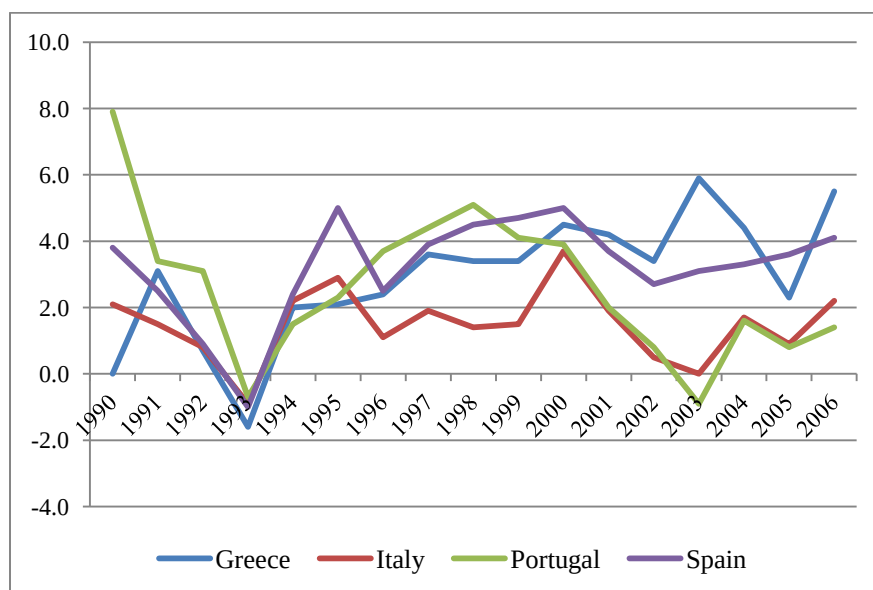
Social housing support benefits are not part of public social policies in Italy and Portugal and amounted to 0.2 per cent of GDP in Spain and approximately 0.5 per cent in Greece during the examined period.

Other social policy areas fluctuated around 0.3 per cent of GDP in the Southern European countries between 1995 and 2009 with the exception of Italy where these benefits are not part of public social policy expenditures.

The financial and economic crisis has put welfare states of the Mediterranean model under pressure. These countries are relative latecomers in welfare state building, so their social protection systems have been severely tested by the current economic situation whether they are capable to play the role they were created for: preventing an economic crisis from turning into a social catastrophe (MATSAGANIS, 2013).

The global financial and economic crisis triggered the deepest recession since the 1930s at the end of 2008. The recession has been the deepest in the countries of the Mediterranean model. In 2013, the size of the economy shrunk by 5.5% in Spain, 7.4% in Portugal, 7.8% in Italy, and as much as 23.5% in Greece compared to 2007 (Figure 36).

36. Figure Real GDP growth rate in the countries of the Mediterranean model (1990-2006)



Source: Eurostat statistics, online code: [tec00115]

* EUROPEAN COMMISSION (2014b): Winter forecast 2014 - EU economy: recovery gaining ground

In the European Union (EU) as a whole, the cumulative contraction over the same period was 1%. The contraction in social spending is due to the implemented austerity in the countries of the model. In Greece and Portugal fiscal adjustment is being supervised by the EU, ECB and the IMF. The governments have lost much

control over national budgetary decisions. Spain's request for financial assistance was approved by the EU in July 2012, whose "conditionality" is less strict, while in Italy fiscal adjustment has been enforced by the market (large spreads on Italian bonds) (MATSAGANIS, 2013).

The most visible effect of the recession has been the steeper and deeper increase of the unemployment rate in the Mediterranean compared to other EU member states (*Table 9*).

Table 9 Unemployment rate in countries of the Mediterranean model

	2000	2005	2009	2010	2011	2012	2013*	2014*
Greece	11.2	9.9	9.5	12.6	17.7	24.3	27.3	26.0
Italy	10.0	7.7	7.8	8.4	8.4	10.7	12.2	12.6
Portugal	4.5	8.6	10.6	12.0	12.9	15.9	16.5	16.8
Spain	11.7	9.2	18.0	20.1	21.7	25.0	26.4	25.7

Source: Eurostat: Labour Force Survey

* EUROPEAN COMMISSION (2014b): Winter forecast 2014 - EU economy: recovery gaining ground

Analysing welfare state generosity ratios in the countries of the Mediterranean model, I have concluded that the aggregated level has been the lowest among the four traditional European social models during the whole examined period. Although between 1999³² and 2007, generosity ratios of the Mediterranean model exceeded the ECE countries' level, as a consequence of the financial and economic crisis mean values of generosity ratios in the Mediterranean countries has fallen behind the ECE level (*Figure 37*).

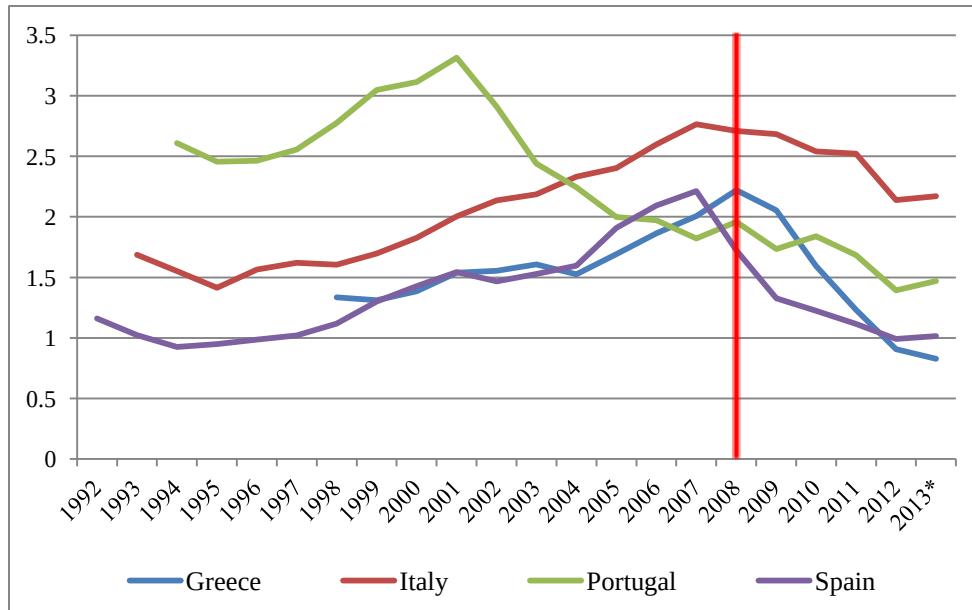
The initial within model variation was highest in the Mediterranean model compared to the other models, the coefficient variation of generosity ratios amounted to 50% in 1994 which started to decrease until 2007. The coefficient variation of generosity ratios within the Mediterranean model reached 15% in 2006. The convergence process has turned into a remarkable divergence after 2007, skyrocketing to 43% in 2013.

The initial generosity level in Portugal was considerably higher than in the other Mediterranean countries, reaching its peak in 2001 after a continuous and notable increase. Welfare state generosity ratios started to decline after 2001 in Portugal and 2005 in Spain, on the contrary this diminution has been enforced by the

³² The earliest available data for the ECE countries.

crisis in Greece. As a consequence of the financial crisis Italy experienced a slight decrease in the generosity of its welfare system, which is still much higher than during the early 1990s and for the other countries of the model.

Figure 37 Welfare state generosity ratios of the Mediterranean model (1992-2013)



Source of data: Eurostat Labour Force Survey, OECD SOCX database

* Figure composed by using share of population being dependent on the welfare system from year 2012.

One can argue that in some cases the welfare state has worked primarily via the so-called automatic stabilisers, including during the financial crisis. The welfare state is thus might be effective in cushioning the economy from shocks and in diversifying these shocks (ANDERSEN, 2012).

Generosity ratios might decline, even if aggregated public social spending increase in case the rise of the share of population being dependent on the welfare state is considerably higher. In other words, the welfare states in the Mediterranean countries have not been able to fulfil the automatic stabilising function. All four countries of the model have witnessed a dramatic increase of their share of population being dependent on welfare services due to the salient rise of the unemployment rate. Since 2009 all countries of the model have increased aggregated public social spending (*Table 10*), but all these welfare efforts have been not able to smooth the harmful effects of the rise in the unemployment rate and the number of people in

need, generosity of the welfare states has declined in all models. Only Greece cut back public social expenditures in 2013 as a part of the implemented austerity measures.

Table 10 Aggregated public social expenditures in countries of the Mediterranean model (% of GDP)

	2000	2005	2009	2010	2011	2012	2013
Greece	19.3	21.1	23.9	23.3	24.4	24.1	22.0
Italy	23.1	24.9	27.8	27.7	27.5	28.0	28.4
Portugal	18.9	23.0	25.6	25.4	25.0	25.0	26.4
Spain	20.2	21.1	26.0	26.7	26.4	26.8	27.4

Source: OECD SOCX database

Analysing the real developments of public social expenditures (adjusted for changes in prices) it can be concluded that there was a significant increase by 12 % in real social spending on average across the OECD in 2012 compared to the base year of 2007. On the contrary between 2007/08 and 2011/12, the decline in real social spending and real GDP was largest in Greece by 14% (OECD, 2012a). The retrenchment in Greece resulted in a generosity ratio (from 2011 onwards, continuously decreasing) which is lower than 1. Theoretically it can be interpreted as the percentage of GDP received in welfare spending is proportionally lower for the population in need. 1 per cent of the population in need receive less than 1 per cent in welfare spending as a ratio of GDP. However the nominal level of aggregated public social expenditures has not decreased in Portugal, there has been a decline in real spending in 2013 by 3% compared to the base year of 2007 (*Annex Table 2*).

Since the early 1990s all the elements of the employment and welfare model of Italy, Spain, Portugal and Greece have undergone changes. Institutional changes in the fields of industrial relations, wage-setting and employment protection have all aimed to increase wage and labour flexibility in order to boost profitability, provide employers with greater incentives for investment and hiring, and improve competitiveness in an open economy context (KARAMESSINI, 2007).

The shrinking of the welfare state in the countries of the Mediterranean model is directly linked to the implemented austerity measures, at varying degrees of harshness. Rising fiscal deficits and/or high levels of sovereign debt in the previous

decade have raised the cost of lending for these countries. In the cases of Greece (since May 2010) and Portugal (since May 2011) austerity has been supervised by the EU, the European Central Bank and the International Monetary Fund. Spain requested financial assistance approved by the EU in July 2012, and for Spain conditionality is less strict. Italy (unlike Greece and Portugal) is not a programme country, and (unlike Spain) has not requested financial assistance, austerity is enforced by the financial markets (high public debt takes the form of large “spreads” on Italian bonds). Austerity has reduced the supply of social services provision; simultaneously recession has raised the demand for social protection to historical heights (MATSAGANIS, 2013).

There is a huge challenge in front of the welfare states of the Mediterranean model, to design social policies that meet the needs of the traditional groups (old, unemployed, sick, poor) of social protection as well as the new needs of needs of youth, women, immigrants, non-standard workers and others.

8.2 Illustrative case study: Spain

Spain has gone through an astonishing transformation of the welfare state since the mid-1970s, from an underdeveloped Bismarckian model to its current form. Politically, strong familism and low stateness, owing to the encumbering role of the Catholic Church had significant effects on the state and nation-building processes in Spain (CASTLES, 1994). Nowadays, the Spanish welfare state can be characterized on the one hand by a highly redistributive system of retirement pensions, universal, social-democratic type of health care and compulsory education, universal care for dependants, on the other hand means-tested and underdeveloped social assistance, and a strong role of families providing care for the population in need. Finally, decentralisation of the Spanish welfare system is a key element (GUILLÉN – LEÓN, 2011).

The time between 1975 and 2010 can be understood as the consolidation of the Spanish welfare state which was driven by four forces of change: “the establishment of political democracy, the social democratization of a significant range of social policies, the increasing decentralization of social policies, and finally, the growing Europeanization of social policies ever since Spain acceded to the European Union on 1 January 1986. This period can be divided into four different phases of social policy developments (RODRÍGUEZ CABRERO, 2011: 17). As a consequence of institutional changes of the Spanish welfare state, an uneven form has been evolved; services and benefits have been expanded or universalized in parallel with high rates of relative poverty, low levels of protection, severe labour market rigidities. The foundations of the Spanish welfare state were not in the democratisation process (1975-1978), but in the capitalist modernization, taking place between 1960 and 1975 (RODRÍGUEZ CABRERO, 2011).

The period between 1975 and 1985 can be labelled as the expansion phase of the Spanish welfare state. Throughout the 1970s and 1980s, the growth of public expenditure in Spain was similar to that of the OECD countries during the 1960s and 1970s. Since 1975 until the mid-1980s in none of the OECD countries can be observed such a high public spending growth as in Spain (from 26 per cent of the GDP in 1975 to over 47 per cent in 1995) (MORENO, 1997). This decade brought a

sharp rise in social spending on pensions and unemployment benefits and a rapid widening of health care provision to reach universality (RODRÍGUEZ CABRERO, 2011).

The following decade (1986-1995) is the consolidation phase. The Rationalisation of the Structure and Action on Social Welfare within Social Security (Act 26/1985) was a necessary reform to cure the public pension reform and made the welfare system prepared for the following reforms (RODRÍGUEZ CABRERO ET AL., 2003). Since 1986, membership in the EEC/EU has brought incentives for Spain to achieve real convergence with other large EU economies. The consolidation of a fully-fledged European welfare state has also been the main challenge Spain decided to address in order to be able to offer the benefits to its population as in the other large EU member states (MORENO, 2011).

The enforcement of the anticipatory reforms took place between 1985 and 1995. The pension system went through significant reform, with the implementation of the Non-contributory Pensions Act in 1990, the coverage for both old-age (over 65 years) and disability pensions (over 65 per cent for citizens between 18 and 65years) became universal (MORENO, 1997). The 1986 General Health Act was intended to develop the National Health Service which guaranteed the right to health care for all Spaniards and all foreigner citizens resident in Spain. Coverage, which was already very high in 1980 (83.1 per cent for all citizens and residents), became almost total by 1991 (99.8 per cent) (ALMEDA – SARASA, 1996).

Implementing active labour market policy tools started to become more pronounced in the aftermath of the 1992-1994 economic crisis. The most important reform of this period is the Pact of Toledo in April 1995 reshaping the pension system in Spain. The Pact disposed the design of a three-pronged pension system: 1) a public, compulsory, pay-as-you-go model financed through both employers' and workers' contributions; 2) a second, non-contributory or care-based system financed through general taxation and directed at those in need who were not covered by insurance or have been unable to work due to disability or illness; and 3) a private and freely available supplementary system which does not substitute the public pension system (MORENO, 1997). As a part of the Toledo Pact it was agreed that pensions and unemployment insurance benefits were to remain financed out of social

contributions, but that all other non-contributory and social assistance benefits would come to be financed out of taxation (HEMERIJCK, 2013).

The third stage is the Europeanization phase (1996-2005) (RODRÍGUEZ CABRERO, 2011). Due to the impacts of EMU policies, and a particularly adverse demography, Spain was forced to put through severe internal restructuring: less generous benefits for insiders in order to cut down debts and deficits (GUILLÉN ET AL., 2003). Recalibration of the welfare state started in the second half of the 1990s, focusing on the following: cutting back generous guarantees for historically privileged occupational groups, accompanied by an improvement of minimum or social benefits; introduction and consolidation of the so-called safety net, especially through means-tested minimum income schemes; the expansion and improvement of family benefits and social services – with explicit attention to gender equality and equity issues; measures against the black economy and tax evasion; and the reform of labour market legislation with a view to promoting de-segmentation and modification of unemployment insurance benefits (HEMERIJCK, 2013).

The fourth stage in the development of the Spanish social policy can be regarded as the recalibration phase (2006-2010). Since the mid-2000s, Spain has accelerated the reform of its welfare system. This stage is characterised by „readjustment, leading to a certain consolidation of a blend of welfare and increasing influence of the market, containment at the state level, a growing third sector, and a family-based system still under the sway of traditional patterns of looking after children, non-emancipated young people and dependent elderly persons” (RODRÍGUEZ CABRERO, 2011: 24). The reform introduced in 2006³³ was aimed at reducing temporality in the labour market and gaining in flexicurity. The reform has already rendered positive results in the reduction of fixed-term contracts. Also in 2006, another significant social pact targeted the reform of social security, focused at an amelioration of both contributory and non-contributory benefits. The reform includes an expansion from 13 to 15 years of the actual minimum period of contribution to gain access to the public system. Additionally, the reform introduced incentives to

³³ The year when welfare state generosity ratio started to decrease which has been further intensified by the crisis.

continue work after the legal retirement age and measures oriented at further equalization of special (professional) schemes. Another reform was implemented in order to enhance gender equality (GUILLÉN, 2010). The period between 2006 and 2010 was challenged by a new recalibration of welfare state institutions that had been built since the 1980s.

Since 2008 the severe impact of the financial and economic crisis has led to a salient growth of social spending on unemployment. This together with the introduced measures to stimulate the economy have increased public budget deficit and gross public debt. However, the crisis hit the Spanish economy in 2008, the new period started in 2010 when the Spanish Prime Minister, the social-democrat Rodríguez-Zapatero announced an important package of measures aimed at reducing public deficit. This package included hard cuts in social rights, like the elimination of some social benefits, freezing of retirement pensions and the first reduction of civil servants' wages (5%) in Spanish history (DEL PINO ET AL., 2012). The serious impact of the crisis led to a new pension reform in 2011, when the socialist government in Spain approved a reform to increase the pension age to 67 – one of the highest in Europe – to be implemented over a period of 14 years beginning in 2013 (HEMERIJCK ET AL., 2013).

Consequently to the crisis, without counting interest payments on government debt, social expenditures have been expected to double budget deficit in Spain in 2013. SCHWARTZ (2013) summarized the conclusions can be drawn from the Spanish case as follows: “Hence, it is no exaggeration to say that Spain’s deficit, attributed by many to a sudden collapse of tax revenues, is really the consequence of the huge burden of the welfare state” (p. 281). The Spanish case illustrates how the burden of the welfare state made Spain’s economic crisis inevitable. Unless Spain confronts the fundamental need to reduce the size of the welfare state, they will be unable to generate the economic growth necessary to recover from the recession (TANNER, 2013). Although in case of other models (Nordic, Continental) or other countries (e.g. Denmark, Sweden or Germany) the operation of the welfare system has helped to mitigate the negative effects of the crisis and has contributed to a relatively fast recovery, in Spain welfare state has been a burden to overcome recession.

9. ECE model

9.1 General features

The formation and development of the welfare state in East Central European countries has brought much attention. The collapse of the communist regime was followed by rapid and radical changes, institutions of parliamentary democracy have emerged and produced laws to harmonize with the new system, installing a market-conform legal infrastructure. While the private sector developed rapidly, the reform of the pension system, medical care and social assistance systems have been laid aside for several years (KORNAI, 1997).

However, there are studies claiming that the post-communist welfare state does not follow a single pattern (CERAMI, 2005). DEACON (1992), for instance, predicted that Eastern Central European countries will develop their social policies in the future into distinct regimes that may even lie outside the three worlds of welfare capitalism described by ESPING-ANDERSEN (1990). The question of whether or not a specific CEEC (ECE or post-communist) model exists has been on the agenda for a long time. The transformation of the post-communist welfare states involves communist legacies and strong elements of path-dependency as well as innovations and path-departing changes (COOK, 2010).

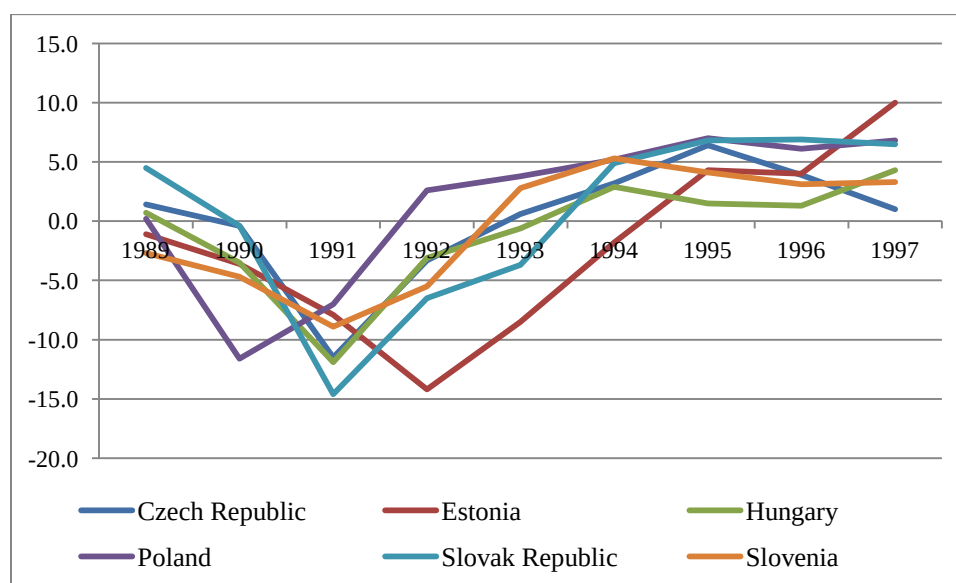
INGLOT (2008) pointed out that the welfare states of East Central Europe are dynamic historical entities, „works in progress”, rather than static, finished models (p. 8). Common feature of the countries of the model that due to delayed and obstructed political and socioeconomic development, no consolidated „regime types” may appear among the late-developers. These countries are more likely to remain „permanent construction sites or layered structuring of social policy institutions, which often incorporate highly inventive combinations of old and new benefit programs” (INGLOT, 2008: 307).

Transition brought three major challenges for the post-communist welfare states: the elimination of most price subsidies, the end of full employment, and the transformation of state-owned enterprises into profit-making companies. These

shocks, accompanied with growing social need and economic reforms caused a massive recession (ORENSTEIN, 2008).

Transformation from centrally planned systems to market economies had a significant impact on the countries of East Central Europe and in the former Soviet Union, as well. The breakdown of the communist block led to market-oriented reforms in all post-communist countries. The Czech Republic, Poland, Hungary, Slovakia, Slovenia and Estonia launched ambitious reform programmes establishing market order, while Russia and the non-Baltic successor states of the USSR opted for a longer road of reforms (PITTLIK, 2000).

Figure 38 Real GDP growth rate in countries of the ECE model (1989-1997)



Source of data: PITTLIK (2000) p. 41.

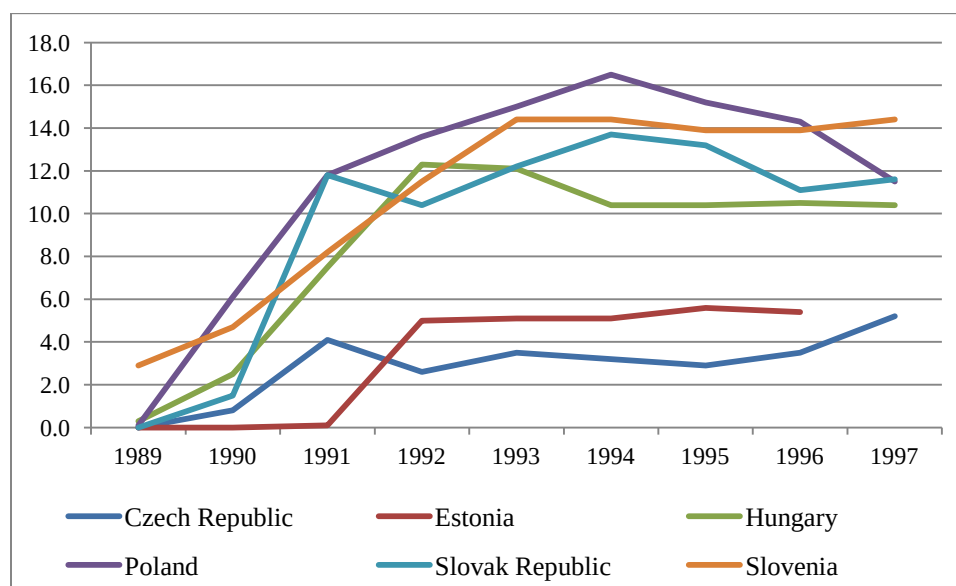
Common pattern of the ECE countries, that all of them experienced a severe output decline (*Figure 38*). Countries of the model returned to pre-1989 levels of economic output within four to five³⁴ years and then began a period of solid economic growth; however the transformation process took massive toll in the long term negatively affecting the socio-economic environment.

The dramatic effect of the end of full employment can be demonstrated by *Figure 39*. With respect to the labour market developments, economies of the ECE

³⁴ Poland returned to positive growth rates in 1992, after two years of contracting output, which is the shortest period within the model.

model experienced a salient rise in official unemployment rates exceeding 10 per cent, with the exception of the Czech Republic where rates stayed below 5 per cent until 1997 and in Estonia where unemployment rate fluctuated around 5.5 per cent between 1992 and 1996.

Figure 39 Unemployment rate in countries of the ECE model (1989-1997)



Source of data: PITTLIK (2000) p. 41.

At the beginning of the transformation, inflation in Poland and Slovenia exploded to rates of more than 600 and 270 per cent, respectively in 1989. Estonia experienced hyperinflation of 300 per cent in 1991 and almost 1000 per cent in 1992. *Table 11* illustrates that inflation varied considerably. Hungary, for example, never had an inflation rate above 40 per cent, and the Czech level only exceeded 50 per cent in 1991, later stabilising around 10 per cent. Inflation in Slovakia was the lowest almost during the whole period, and after its peak in 1989 and 1991 Slovenia could keep inflation level below 10 per cent.

Table 11 Inflation rate in countries of the ECE model (1989-1997)

	1989	1990	1991	1992	1993	1994	1995	1996	1997
Czech Republic	1.5	18.4	52.0	12.7	18.2	9.7	7.9	8.6	10.0
Estonia	n.a.	n.a.	303.8	935.5	35.6	42.0	29.0	15.0	12.0
Hungary	18.9	33.4	32.2	21.6	21.1	21.2	28.3	19.8	18.4
Poland	639.5	249.0	60.4	44.3	37.6	29.4	21.6	18.5	13.2
Slovak Republic	1.5	18.4	58.3	9.3	25.1	11.7	7.2	5.4	6.4
Slovenia	272.0	105.0	247.1	92.9	22.9	18.3	8.6	8.8	9.4

Source: PITTLIK (2000) p. 41.

Note: CPI end of year. N.a.: not available.

Transition resulted in worsening macroeconomic conditions during the first four or five year long period, policy reforms were accompanied with a serious transition recession (deterioration of economic performance, rising unemployment).

How did the transition affect welfare systems of the model? Before the transition, communist economies did not perform particularly well; they did ensure a basic standard of living for all. As this guarantee began to diminish, governments introduced emergency responses that shaped welfare-state policy through the mid-1990s to address the growing social crisis. Coordinated policy responses began to emerge only later (ORENSTEIN, 2008). In some cases the social costs of transition were compensated through the welfare system (SZANYI, 2013).

A distinct period of the transition in the countries of the model lasted roughly from 1989 to 1993. Due to deep economic recession policymakers expanded welfare provision to mitigate the immediate social distress of mass unemployment resulting from the dismissal of workers from state-owned enterprises and poverty (HEMERICK, 2013). CERAMI (2010: 242) called this period “compensating for the transition” in which the temporary growth of welfare service provisions were aimed at solving the problem of mass unemployment by introducing extensive early retirement policies and by establishing relatively far-reaching unemployment and social assistance programs. VANHUYSSE (2006) defined these actions as a “divide and pacify strategy” meaning that “the work-welfare status of individuals can be manipulated by governments in order to reduce the capacity of reform losers for mobilizing” (p. 49). This strategy led to relatively generous welfare benefits, especially if we take into account the real possibilities of these transition economies (CERAMI, 2010).

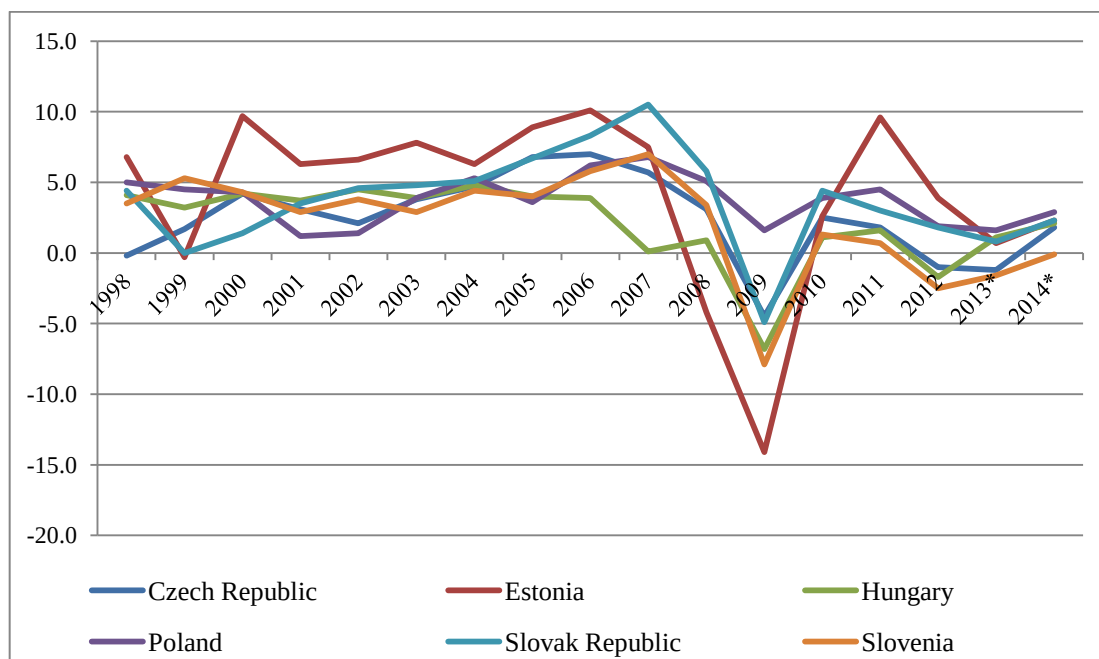
After 1994, when the cumulative burden of social protection expansion of the previous period (1989-1993) proved to be financially unsustainable, started the second phase of post-transition welfare state development, in which retrenchment and privatization gained prevailing importance (HEMERICK, 2013). The early generosity of welfare systems soon became unsustainable, especially due to the escalating number of unemployed. (CERAMI, 2010). The new direction of this period resulted in advice from the IMF and World Bank and the introduction and expansion of multi-pillar pension systems in most ECE countries. This period is characterized by three important features: 1) welfare retrenchment and cost containment, shifting away from tax financing to increased payroll financing, linking duration and benefit levels to contribution, plus indexation; 2) pension reform, in particular the privatization and individualization of savings; finally, 3) creeping re-familization of social policies, meaning that by the late 1990s family allowances started to expand (HEMERICK, 2013).

During the first few years of regime transformation the priority of welfare state reform was subordinated to political and economic aspects, “the transformation of social security system [...] could be treated as a second order phenomenon” (WAGENER, 2002: 156). The early 1990s were the time shaped by the dynamism of transition, the late 1990s and early 2000s were in flux as a part of the EU accession. An economic boom in ECE countries during the early and mid-2000s can be observed (which offered hope for a more rapid convergence with the old EU member states), but the global economic crisis and the European debt crises after 2008 resulted in a serious decline of economic performance in countries of the region (*Figure 40*) (NENOVSKY – TOCHKOV, 2013).

The accession process has contributed to significantly improve standards of living in the new Member States, fostering economic and social cohesion within the European Union. Economic catch-up can be proven by the fact that income per capita rose from 40% of the old Member States' average in 1999 to 52% in 2008. It is estimated that the accession process boosted economic growth in the new Member States as well (EUROPEAN COMMISSION, 2009). Fostering social cohesion is presented

in the Report of the European Commission, the development of the welfare states in the ECE countries has been coupled with declining welfare efforts.

Figure 40 Real GDP growth rate in countries of the ECE model (1998-2014)



Source: Eurostat statistics, online code: [tec00115]

* EUROPEAN COMMISSION (2014b): Winter forecast 2014 - EU economy: recovery gaining ground.

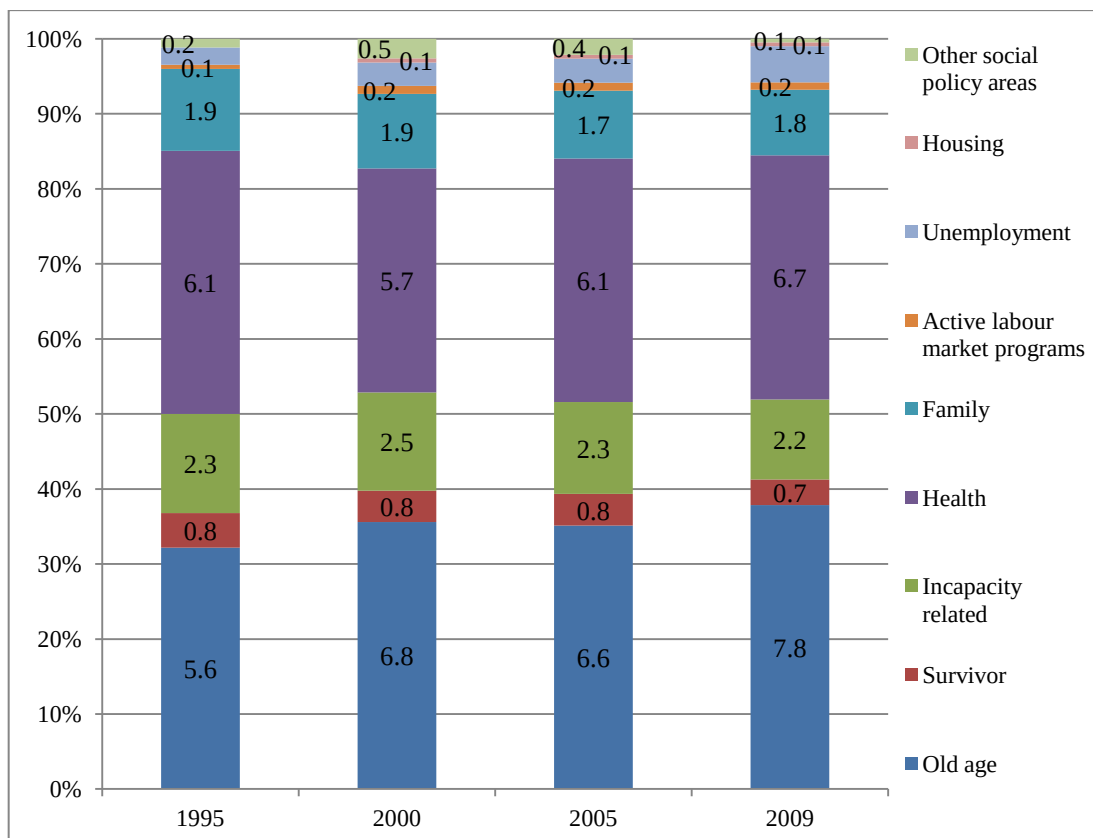
SACHS (1996) argued that high government expenditure, and high welfare expenditure in particular, is considered a threat to economic growth for the countries of the model. This statement is exemplified by the fact that during the early 2000s, the highest growth rates were recorded in Estonia and Slovakia where aggregated public social expenditures were the lowest during that period.

The third phase from 2001 to the outbreak of the global financial and economic crisis, can be characterised by recalibration of social policies and by policy learning mechanisms. The growing number of unprotected citizens attempting to claim from the already indebted social insurance funds caused severe problems; the excessively optimistic expectations for market-driven change did not survive its arrival (CERAMI, 2010). In this period activation and active labour market and social inclusion policies gained more prominence, partly due to the EU Lisbon Agenda, moreover family benefits further increased in the 2000s (HEMERIJCK, 2013).

As a consequence of the above mentioned waves of welfare state formation in Central and Eastern Europe, a mixed or “hybridized” welfare model has evolved, combining Continental Bismarckian elements, Anglo-Saxon market-based pensions and social services, supported by basic egalitarian, universalist safety-net provision (ZEITLIN, 2003).

Hybrid welfare state policy mixes within the model and over time are not stable, the analysis of the composition of public social expenditures can be a good indicator to sum up commonalities and differences among the countries of the model for the period from 1995 to 2009.

Figure 41 Composition of aggregated public social expenditures in the Czech Republic



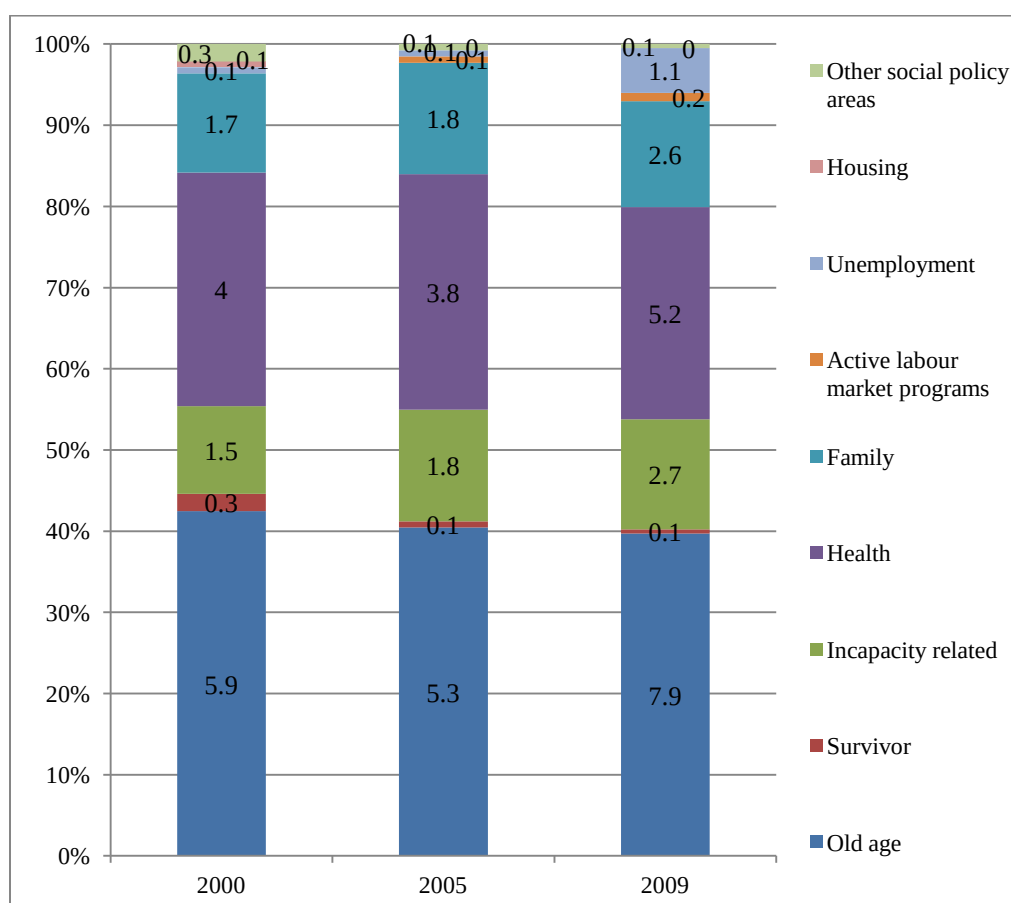
Source of data: OECD SOCX database

Note: Numbers represent the different types of gross public social expenditure as a percentage of GDP.

In 1995, the most important item for the ECE countries within public social expenditures was the cumulative level of old age and survivors’ pensions, fluctuating around 6-7% of GDP in the Czech Republic and Estonia, 8% in Hungary and around

10% in Poland and Slovenia. Pension expenditures accounted for 40 per cent of all public social expenditures, even one half in case of Slovenia (*Figure 41-46*) in 1995. The high share of pensioners is due to the economic restructuring of the early 1990s, when early retirement pension was to absorb the large number of unemployed workers. With the exception of Slovenia, all countries of the model experienced salient increase of pension expenditures by 2 percentage points by 2009. In Slovenia the growth of pension spending was minor until 2009. The distribution of these two categories varies within the model. Survivors' pension was not pronounced during the whole examined period in Estonia, such as in Slovenia which increased survivors' pension spending only by 2009, reaching 1.7 per cent of GDP.

Figure 42 Composition of aggregated public social expenditures in Estonia



Source of data: OECD SOCX database

Note: Numbers represent the different types of gross public social expenditure as a percentage of GDP.

Since the mid-1990s, CEE countries have carried out structural reforms of their pension systems. Notably, several countries have introduced a Chilean-type of mandatory, privately managed pension system (the so-called second-pillar pension system). The ECE countries that implemented this type of pension system include³⁵ Hungary (1998), Poland (1999), Estonia (2002), the Slovak Republic (2005), (the numbers in brackets indicate the years of implementation). Hungary, Poland, Estonia and the Slovak Republic had pre-existing state pension systems, the reforms resulted in scaling down the state pension systems and partially replacing them with privately managed individual savings accounts. At the same time, the state pension systems (now called the first-pillar pension systems) were also reformed by changing some key scheme parameters (e.g. the extension of the qualifying period for pensions, the increase in retirement age, and the transition from wage indexation to price indexation) (HIROSE, 2011).

Surprisingly the effects of these reforms cannot be observed on the figures. In the Czech Republic (from 6.4% to 8.5% of GDP), in Hungary (from 8.1% to 10.5% of GDP) and in Estonia (from 6.2% to 8% of GDP) pension spending significantly increased, and in Poland old age and survivors' pension expenditures dramatically and continuously soared during the analysed period, reaching their peak of 11.8 per cent as a share of GDP, exceeding half of all public social expenditures. Slovakia and Slovenia were able to maintain the level of pension spending, in both countries growth was below 1 percentage point between 1995 and 2009. Important result is the fact, that none of the ECE countries which implemented pension reforms, witnessed reduction of pension spending.

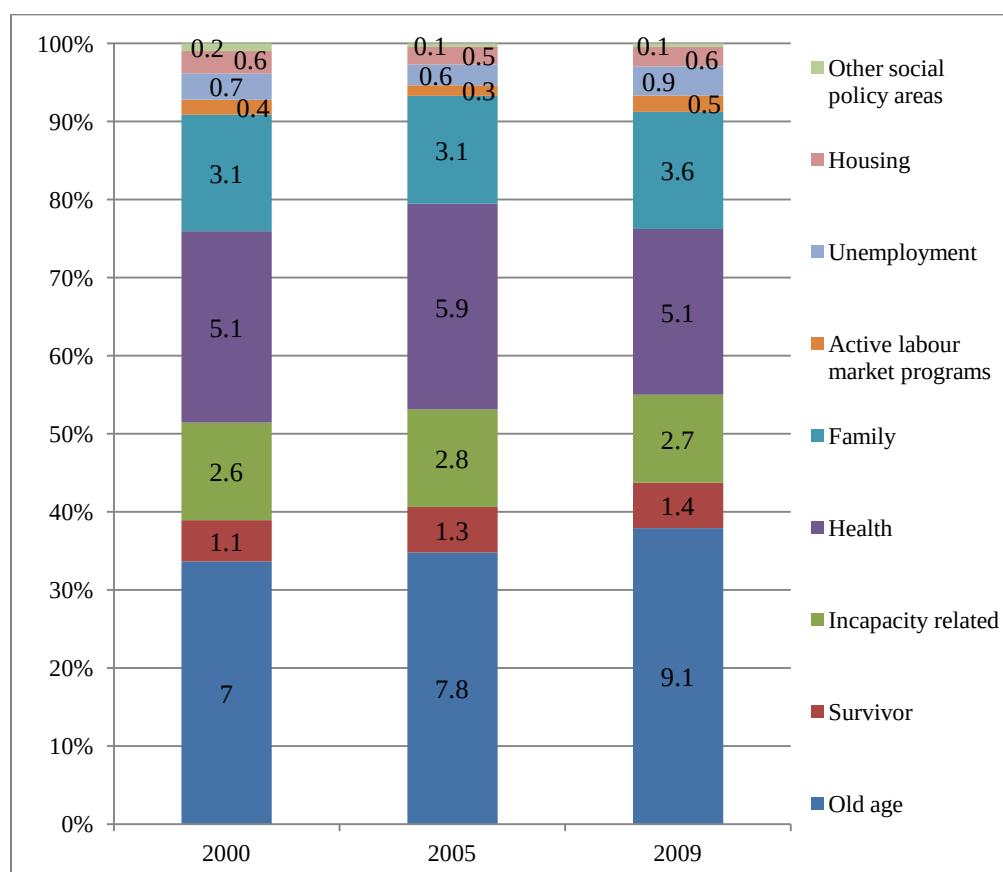
In 2000, the share of pension expenditures compared to the total amount of public social spending was the highest in Slovenia, almost reaching 50 per cent (10.6% of GDP). Until 2009, Slovenia managed the same level in both terms; however the structure was changed, shifting towards more support for survivors.

In post-communist welfare states, disability pension was often considered to be an alternative to retirement for persons failing to meet the requirements of an early

³⁵ Additionally the countries which are not analysed in the dissertation: Kazakhstan (1998), Latvia (2001), Bulgaria (2002), Croatia (2002), the Former Yugoslav Republic of Macedonia (2003) and Romania (2008) (HIROSE, 2011).

retirement pension. The substantial share of disability pensioners, particularly at higher ages, suggests that those who were not eligible for old-age pensions applied for disability pensions and managed to get them. This was only possible by using a broad definition of disability (incapacity for performing work) and the tendency of medical doctors to make generous assessments of disability (HIROSE, 2011).

Figure 43 Composition of aggregated public social expenditures in Hungary



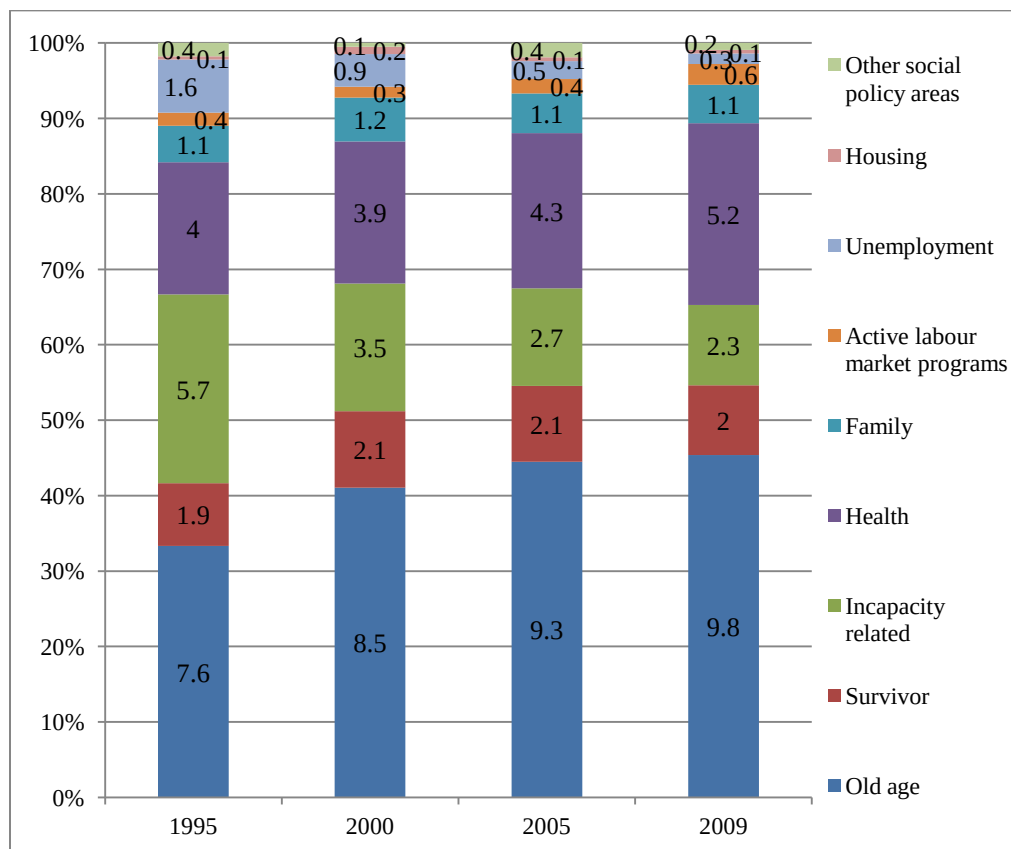
Source of data: OECD SOCX database

Note: Numbers represent the different types of gross public social expenditure as a percentage of GDP.

Incapacity-related benefits fluctuated around 2.5 per cent of GDP with minor variations within the model and over time. The only outlier is Poland, where almost 6 per cent of GDP were spent on disability pensions in 1995, much more than on health services for instance. Until 2009 Poland radically cut back incapacity-related benefits, reaching the mean value of the ECE model.

GOLDSTEIN ET AL. (1996) summarized the main characteristic of health financing in the CEE countries as follows: „CEE countries follow the general trend in which the share of GDP spent on health is positively correlated with per capita income. However, the share of GDP spent on health tends to be higher in CEE countries than in developing countries at similar income levels.” (p. 24).

Figure 44 Composition of aggregated public social expenditures in Poland



Source of data: OECD SOCX database

Note: Numbers represent the different types of gross public social expenditure as a percentage of GDP.

This statement can be proven by the fact that in 1995, health expenditures fluctuated around 6 per cent of GDP in the Czech and Slovak Republic³⁶, higher than in the countries of the Mediterranean model. In Poland health care spending was considerably lower, 4 per cent of the GDP. Until 2009, health care spending increased in all countries of the model, only in Hungary was health care spending in 2009 below the 1995 level. The Czech and Slovak Republic and Slovenia spent the most

³⁶ There is no available data on health care spending in Hungary, Estonia and Slovenia for 1995.

on health, around 7 per cent of GDP in 2009; health spending was lower in Estonia, Hungary and Poland (5 per cent of GDP).

Figure 45 Composition of aggregated public social expenditures in Slovakia

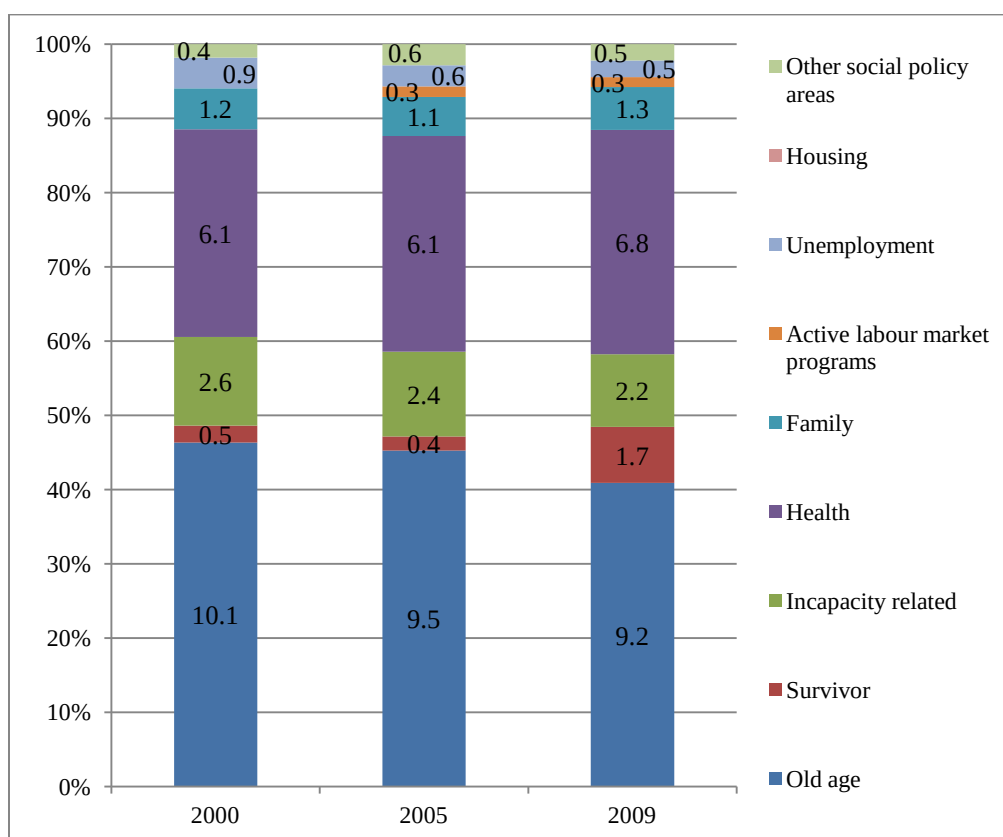


Source of data: OECD SOCX database

Note: Numbers represent the different types of gross public social expenditure as a percentage of GDP.

Specific feature of the ECE model is the extensive system of family benefits. The broad coverage within the ECE model, exceeding 3 per cent of GDP in Hungary, whose level of family support is similar to the Continental countries'. In the Czech and Slovak Republic, and Estonia it fluctuated around 2 per cent in during the examined period. The support for families was considerably lower in Poland and Slovenia, similar to the Mediterranean level, fluctuating around 1 per cent of GDP between 1995 and 2009.

Figure 46 Composition of aggregated public social expenditures in Slovenia



Source of data: OECD SOCX database

Note: Numbers represent the different types of gross public social expenditure as a percentage of GDP.

Active labour market policies accounted for less than 1 per cent of GDP in all countries of the model during the whole examined period, the initial level of ALMPs was the highest in Slovakia and Hungary in 1995 (0.8 and 0.7% of GDP respectively), but the use of these tools was reduced significantly in both countries by 2009. The only country which noticeably expanded the use of ALMPs, is Poland.

Spending on unemployment benefits varies within the model. The patterns did not change considerably by time in the Czech and Slovak Republic and Hungary, the average level of 0.7 per cent of GDP slightly increased by 2009. Estonia significantly expanded the support for the unemployed due to the salient hike in unemployment rate³⁷, the first available data show 0.1% of GDP being spent on unemployment

³⁷ 5.6% in 1995; 16% in 2000, and 16.2% in 2009.

benefits, peaking at 1.1% as share of GDP in 2009. During the 2000s, Poland could remarkably cut back spending on unemployment benefits, from 1.6% to 0.3% in 2009.

The only country within the model where housing is part of social policy is Hungary, where housing spending fluctuated around 0.5 per cent of GDP between 2000 and 2009, in the other countries housing accounted for only 0.1% of the GDP. Spending on other social policies amounted to approximately 0.5 per cent of GDP in the countries of the model, in Slovakia the initial level of such expenditure was slightly higher.

There are differences between the countries of the model, the level and composition of social spending in some cases show different patterns, but the within model variation is subtle, not higher than in other models. The main trends are relatively similar, especially in case of pension and health care spending. FERGE (2001) argued that the similarities of the ECE model are due to the influence of globalizing forces on the welfare systems. This so called residualization policy³⁸ has become the dominant welfare strategy of the CEE countries (SENGOKU, 2004). The whole debate on the emergence of the post-communist welfare state model has been inconclusive, a broad variety of approaches and institutional frameworks have evolved in the analysed ECE countries. Despite the similarities, each country has developed its own approach towards social welfare restructuring (POTŮČEK, 2008).

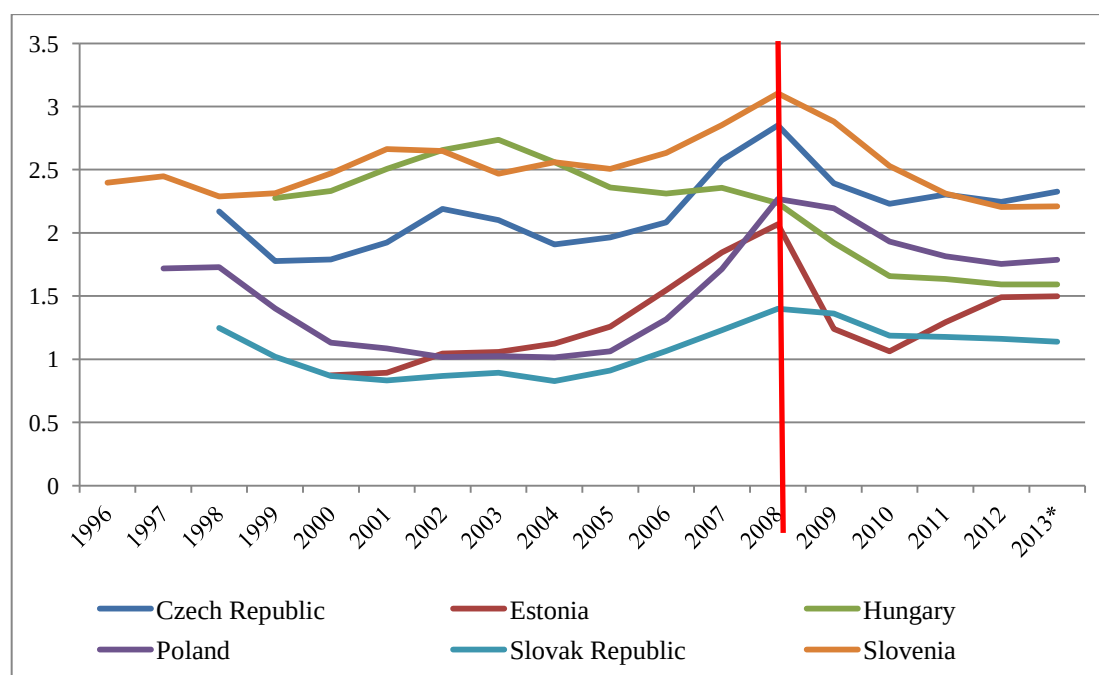
The countries of the model have common origins, however more than two decades after the transition, combined with some existing initial differences, have led to a relatively high level of differentiation in the current shape of post-communist countries and their welfare states (BEBLAVY, 2008). Due to this differentiation in the following the generosity trends of the ECE countries are analysed in order to highlight the similar features.

Looking at the development of generosity trends of the ECE model, I concluded that although there are salient differences of welfare state generosity ratios,

³⁸ The idea of residualism is based “on the premise that there are two natural (or socially given) channels through which an individual’s need are properly met: the private market and the family. Only when these break down should social welfare institutions come into play and then only temporarily” (TITMUS, 1974: 30-31).

generosity trends have followed similar patterns. The pre-crisis period can be characterised by the expansion of welfare state generosity with the only exception of Hungary which started to cut back generosity of its welfare system in 2003 (*Figure 47*). The global financial and economic crisis led to a salient drop of generosity levels in all countries of the model. The within model convergence process is proven by the fact that during the 2000s coefficient variation of the generosity ratios of the ECE model decreased from 45% in 2000 to 25% in 2008. After 2008 coefficient variation slightly increased in 2009 and 2010 but then returned the 25% level in 2012 and 2013.

Figure 47 Welfare state generosity ratios of the ECE model (1992-2013)



Source of data: Eurostat Labour Force Survey, OECD SOCX database

* Figure composed by using share of population being dependent on the welfare system from year 2012.

The outbreak of the financial crisis is a turning point for the ECE countries, because with the exception of Hungary, generosity ratios significantly and continuously increased until 2008. The expansion of welfare services and the improvement of generosity ratios are in accordance with the thesis of WILENSKY (1975): much of the expansion of the welfare state can be accounted for as a function of “economic growth and its bureaucratic outcomes” (p. xiii). “Once societies attain certain

thresholds of economic development, all begin to pass social security, health and other forms of welfare legislation, and over time they devote an increasing share of the public purse to these programs” (COX, 1993: 9). CASTLES (2004) identified the problem as how modern welfare states cope with the self-contradiction that while providing welfare services they are also generating increased demand for them.

The expansion of the welfare state changed by the outbreak of the financial crisis which enforced welfare state retrenchment in the ECE countries. The only exception was Hungary, starting to cut back its most generous welfare services provision in 2003 as a part of a broader consolidation package, and later due to the negative effects of the crisis retrenchment has been intensified. Within the ECE model, Hungary is the only country in which real public social spending in 2011/12 was considerably (13%) lower than in 2007/08. For the same period, growth of real public expenditures amounted to around 20 per cent in Poland and Estonia, in Slovenia and Slovakia exceeded 10 per cent, and the Czech Republic experienced modest increase.

After 2008, welfare state generosity ratios have decreased in all countries of the ECE model. Aggregated public social expenditures increased after the crisis (*Table 12*). The drop of generosity is due to the proportionally higher increase of share of population being dependent on the welfare state (increase of unemployment rate).

Table 12 Aggregated public social expenditures in countries of the ECE model (% of GDP)

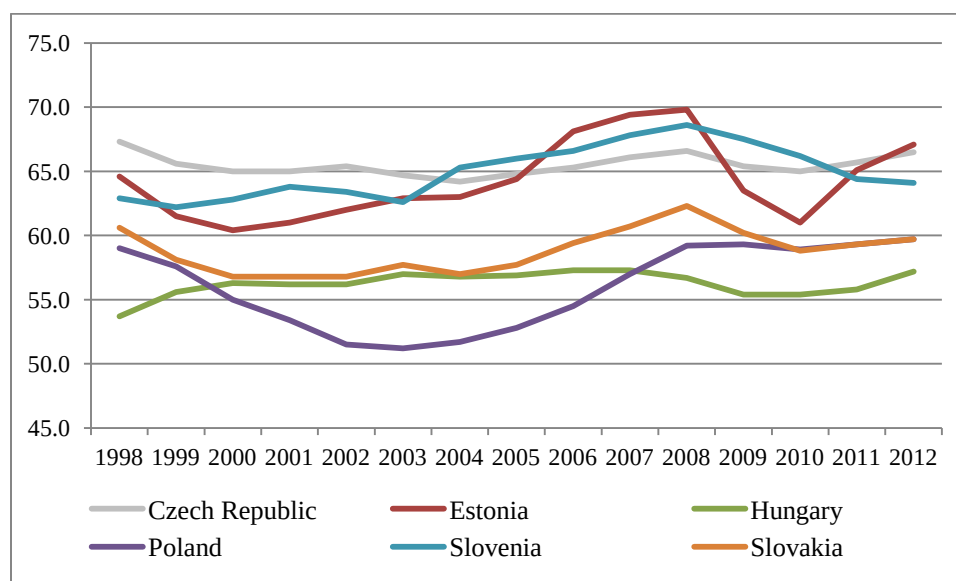
	2000	2005	2009	2010	2011	2012	2013
Czech Republic	19.1	18.7	20.7	20.8	20.8	21.0	21.8
Estonia	13.9	13.1	20.0	20.1	18.2	17.6	17.7
Hungary	19.3	21.1	23.9	23.3	24.4	24.1	22.0
Poland	20.5	21.0	21.5	21.8	20.5	20.6	20.9
Slovak Republic	17.9	16.3	18.7	19.1	18.1	18.3	17.9
Slovenia	21.8	21.1	22.6	23.6	23.7	23.7	23.8

Source: OECD SOCX database

During the 2000s, preceding the financial and economic crisis, ECE countries experienced considerable increase in employment (*Figure 48*). The only exception was Hungary where employment was stagnant. As a consequence of economic recession, employment in 2009 fell in all countries, though less than proportionally to the decrease in GDP. In Estonia the drop of employment was two-digit. After 2010

employment has started to improve in all countries with the exception of Slovenia. The decline in employment in 2009 and 2010 led to an increase in unemployment rate, though not at a similar magnitude (*Table 13*). The rise of unemployment was dramatic in Estonia, but the country experienced fast recovery of the labour market as well. The increase of unemployment in 2009 was rather moderate, and after 2013 a downward trend has started. The only exception is Slovenia, where since 2012 unemployment rate has been on the rise.

Figure 48 Employment rate in countries of the ECE model



Source: Eurostat Labour Force Survey

The financial and economic crisis have caused marked decline in economic activity, sharp increase in unemployment, fiscal constraints to public budgets and increasing indebtedness. Analysing the overall impacts of the crisis is a complex task, because it varied from country to country depending on a number of factors, such as the country's reliance on global markets, the strength of domestic currency, levels of domestic revenues, the available room for fiscal manoeuvre with which governments may stimulate the economy, etc. (ROMANO, 2014). Despite the serious effects of the global recession in countries of the ECE model, recovery has been faster and more pronounced for them than in case of the Mediterranean countries. In 2012 and 2013 the highest unemployment rates were recorded in Spain, Greece and Ireland and they

were followed by Slovakia, and unemployment rate also reached double digit in Hungary, Poland and Slovenia due to the crisis.

Table 13 Unemployment rate in countries of the ECE model

	2000	2005	2009	2010	2011	2012	2013*	2014*
Czech Republic	8.8	7.9	8.7	7.3	6.7	7.0	7.0	6.8
Estonia	13.6	7.9	13.5	16.7	12.3	10.0	8.8	8.3
Hungary	6.3	7.2	10.0	11.2	10.9	10.9	10.2	9.6
Poland	16.1	17.9	8.1	9.7	9.7	10.1	10.4	10.3
Slovak Republic	18.9	16.4	12.1	14.5	13.7	14.0	14.2	13.9
Slovenia	6.7	6.5	5.9	7.3	8.2	8.9	10.2	10.8

Source: Eurostat Labour Force Survey

The crisis was accompanied by an expansion of unemployment and an increase of the budget deficit and a corresponding increase of the public debt. However, increases of budget deficits are similar to the increases of deficits in the rest of the EU, while public debts in ECE countries are lower than in the most EU member countries, which is due to the short capitalist history of the countries. The only exception is Hungary where gross public debt has been close the EU27 average during the post-crisis period, however slight decline is forecasted.

There are problems in ECE economies, however they have been to a great extent overshadowed by the problems of the EU periphery (Greece, Spain, Portugal) which represent a much more dangerous threat for the future of the EU than the problems of the ECE region. Furthermore, the ECE countries have not performed so badly; Poland is the only EU country which has not faced depression, GDP in Slovakia recovered quickly, the economic circumstances have been improving in Hungary, the Czech Republic and Estonia (MENNINGER, 2013). In 2014, only Slovenia (beside Cyprus) is still expected to register negative annual GDP growth rates and unemployment is forecasted to grow further (EUROPEAN COMMISSION, 2014b).

All in all, during the pre-crisis period the generosity level of the ECE model was the lowest among all welfare state models. Even if the crisis caused deterioration of generosity levels, after 2010, the countries of the ECE model have been able to maintain the generosity of their welfare states, which outperform the level of the Mediterranean model in every year since 2010. The crisis unequivocally led to

welfare state retrenchment and drop of generosity levels. In the future, further increase (convergence) of welfare state generosity is not feasible. Gaining competitiveness within the EU is a key issue for the ECE countries (and other new member states as well).

DRAHOKOUPIL (2007) argued that the Visegrad countries are competition states, which means that they became structurally dependent on foreign capital, which controls access to technology, know-how and distribution networks. Being locked in the competitive direction has significant impact on social policy developments. Aiming to promote workforce flexibility and employability according to the needs of capital has been the driving force of shaping social policy after the transformation, and this trend will continue. The need for external financing and foreign direct capital might lead to a situation in which social policy is further subordinated to attracting capital and economic competitiveness.

Building a modern and efficient market-driven welfare state in post-communist economies requires decades for reaching political consensus in different approaches (health, housing, education, research, etc.) and developing institutional and legal framework. Even the most advanced ECE economies (or other CEE countries) are at the very beginning of this process, and low quality of political debates and political elites are the major obstacles on this way (KOŹMIŃSKI, 2011). In general at any socio-economic transition, the correct configuration of the time frame is a key factor in order to avoid unrealistic expectations and growing resistance in the long run.

9.2 Illustrative case study: Hungary

The origins of social insurance in Hungary dates back to the late 19th century under the Austro-Hungarian Empire. In the framework of this Bismarckian scheme industrial workers and civil servants were covered in cases of illness, maternity, old-age, and disability (MATOS, 2013). Under state socialism, rather after retrenchment in the early years, social insurance progressively became universal (INGLOT, 2008). The reforms in 1968 meant universal welfare provision and extended social insurance. “The evolution of the Hungarian welfare system in the early 1990s was marked by a macroeconomic crisis and considerable welfare reforms” (MATOS, 2013: 859).

Looking at the budgetary development of Hungary after the regime change, one can conclude that increased fluctuations in the fiscal balance may be a direct consequence of pro-cyclical fiscal policy interspersed with electoral budgets (i.e. deficits and debt-to-GDP ratios were always higher in time of elections). The existence of the fiscal cycles per se shows that the sustainability of the welfare state played a second fiddle role, and the necessity for structural reforms was therefore highly neglected (MURAKÖZY, 2008).

Let us underscore that the Hungarian welfare state is often characterised by the term ‘premature’ welfare state, coined by KORNAI (1993, 1997) by calling the attention to the fact that the socialist regime did not leave behind a mature, but a distorted system. If for no other reason than the transformation promised even more in terms of welfare services without mainly any rationalisation process in reining citizens’ expectations (MURAKÖZY, 2008: 156). Related to this, as SZALAI (2007) emphasised, fundamental changes in the institutional aspects of welfare services remained merely declarations of goodwill (i.e. the management and control system as well as the ownership structure remained unchanged, an apparatus responsible for the principle of accountability was not established, and the hierarchical management system remained almost unattained). On the other hand, the transition brought to life a series of changes (e.g. perceptible changes were registrable in the daily roles and tasks expected from service provisions, and in the interest and power relationships as well).

The core problem of Hungary's welfare system was that obviously a Nordic style welfare state was incompatible with the productivity level of any transition country (CSABA, 1995). The question is how welfare institutions can be changed, although some important changes already took place, the generosity of the welfare state in Hungary has been cut back during the 1990s. However the initial distortions still have significant effects.

From the point of view of the welfare state, transition is not yet completed. A fundamental feature of transition is its destructive nature (CSABA, 1990; 1994) and the time horizon for transition was underestimated for the CEECs. While the institutional setup is compatible with market economies despite structural dissimilarities, the current crisis is an indicator of the incompleteness of institutional and regulatory change. Welfare systems in general and pension systems in particular are far from being sustainable (CSABA, 2011).

In case of Hungary, path-dependency means that whatever change of the system took place, the country's historical experiences are inseparable from the evolved model of the 'Hungarian' capitalism. The processes of transition are fundamentally defined by the previous reform initiatives started in 1968, which are often referred to as 'long reform era' (MURAKÖZY, 2008). The long-lasting effects of the market socialism still have important consequences. A whole range of countries went through a stage in which certain ingredients of market socialism were applied. Changes pointing in this direction occurred from 1949 onward in Yugoslavia and from 1953 in Hungary (KORNAI, 1990). Among the socialist countries of Central and Eastern Europe (excluding Yugoslavia), the 1968 Hungarian reform can be considered as the most significant, despite all of its controversies leading to an increase of production and a rising standard of living (MURAKÖZY, 2008). According to KORNAI (1990) Hungary can rightly be considered a laboratory where some very important experiments were conducted. The 1968 economic reforms (reform socialism/market socialism) were an effort to combine socialism and capitalism to some extent.

Foreign debt accumulation started as a consequence of the first oil crisis because of the policy-makers aim to preserve citizens' well-being. Increased

indebtedness and the second oil crisis led to the introduction of new reform programs in 1982. With the aim of restoring competitiveness, the most important elements of the reforms were the following: legalisation of informal activities (second economy), official recognition of small private firms (especially in the service sector), the opportunity for private firms to enter the financial market by issuing bonds, the formation of a two-tier banking system and the introduction of a new, market-conform tax system (BENCZES, 2011).

The market reforms from the early eighties led to marketization which significantly increased both aggregate and individual-specific uncertainty; as compensation, the state did not hesitate to embark on generous welfare programmes. Welfare services became tools of the short-sighted state elites for compensating the losers of the economic reforms. As a consequence of these reform programmes, generous welfare spending became and is still an untouchable part of social rights, making the conduction of the necessary reforms even more difficult from a political point of view (BENCZES, 2011).

Political change opened the door to radical economic reforms to replace the system of central planning, however economic restructuring requires more time than revolutionary political upheaval. Only a few Central and Eastern European countries realised how challenging this process would be (SOMOGYI, 1993). The major problems of perfecting market economy were the unemployment and the capital shortage in these countries. At that time (before the first free election) Hungary had several favourable reforms laid down in advance, such as an almost complete price liberalisation, the Companies Act³⁹ and the Transformation Act⁴⁰ and an evolving spontaneous privatisation (CSABA, 1995). Since several reforms were implemented, there was no need to apply a big bang approach for the transition. Hungary is often picked up as an example of gradualism, however for example the bankruptcy law of

³⁹ Enacted on 1 January 1989 in Hungary, the Companies Act (Act VI of 1988 On Economic Associations) introduced the complete structure of economic associations with and without legal entity (KÁLLAY – LENGYEL, 2008).

⁴⁰ Taking effect on 1 July 1989, the Transformation Act (Act XIII of 1989 on the Transformation of Economic Organisations and Economic Associations) was designed to control how organizations can be transformed into one of the new forms introduced by the Companies Act. (KÁLLAY – LENGYEL, 2008).

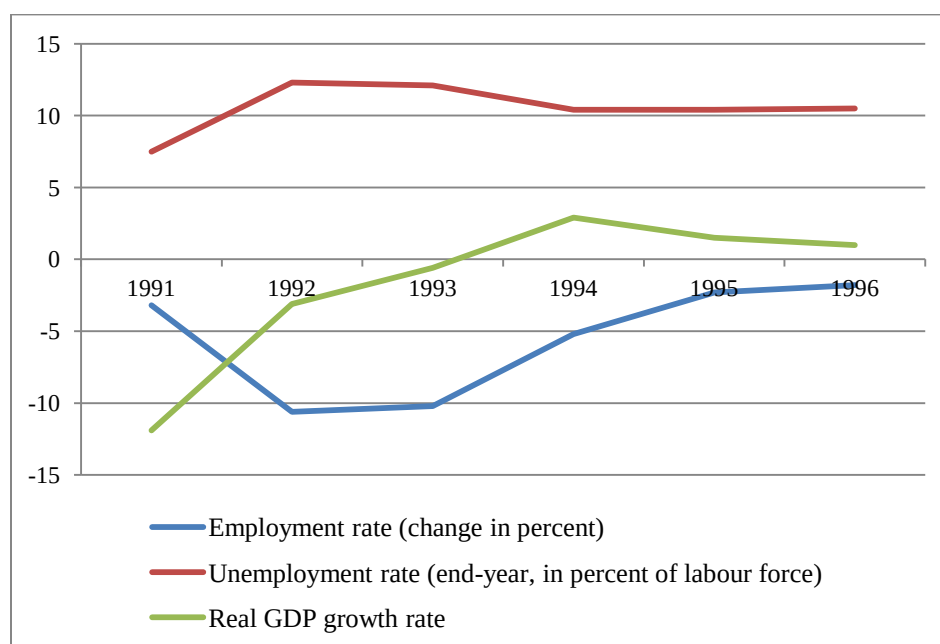
1992 represents a classic case of big bang approach and even the big bang approach advocates some sort of gradualism (CARMIGNANI, 2003).

Hungary is often cited as a prime example of gradualism (DERVIS – CONDON, 1994) based on the lack of shock therapy compared to countries like Poland, Bulgaria or Russia. In the context of post-socialist transition, gradualism was applied to avoid political conflict, it was equalled to timidity and unwillingness to change (CSABA, 2011). The overall unique feature of the Hungarian transformation can be described as “transformation without stabilisation” (CSABA, 1995:195). To link Hungary’s experience to the debate on the speed of the transition, BENCZES (2011) claimed that the gradualist character of the Hungarian transformation was not the result of a conscious decision of the freely elected government, but a historically determined path dependent outcome of a two-decade long reform process which culminated in the political change of 1989. The early years of the Hungarian transformation, however, were burdened with ambiguity and a lack of coherence in policy decisions.

On the one hand the socialist system was characterised by full employment consequently there was no need for unemployment insurance, and on the other hand the contributions to the pay-as-you-go system were fully secured. Thus before 1989 budget deficit was financed by the significant surplus of the pension fund. Transition brought salient restructuring which led to dramatic decline in employment (*Figure 49*). Therefore in 1989 Hungary introduced a system of unemployment compensation and then established an insurance-type unemployment benefit system in 1991 (OECD, 1995). The pension system bore the brunt of costs of the introduction of a new system.

Due to the transformation recession, the welfare system being so generous was placed under even more financial pressure aggravating further its unsustainability. In an effort to dampen the additional burdens, the government resorted to inflate expenditures in an era of double-digit inflation (*Table 11*).

Figure 49 Development of labour force in Hungary (1991-1996)



Source: IMF (1997) pp. 5.

Between 1989 and 1996, the real value of welfare expenditures decreased by 35 per cent (FERGE, 1999:165). As a consequence, tensions over the sustainability of pay-as-you-go systems increased in a more vigorous way. By the early 1990s, a drop of the universally provided welfare services can be observed. As part of this process, the previous health care service was replaced by a compulsory insurance-based system.

During the 1990s, the labour force participation (especially for women) fell significantly, while a rise in unemployment can be observed, which was especially sharp for men. Government-supported pension policies, intended to mitigate the effects of declining labour demand, were mainly responsible for the decrease in participation. Most people leaving the labour market became eligible to some social provision, such as old age pension, disability pension, or maternity allowance. By 1995, the share of benefit recipients among the working age population reached 31 per cent. Pension schemes were used to reduce open unemployment since the mid-1980s, and after the transition this practice was expanded (DUMAN – SCHARLE, 2011). This compensation process carried out by the extension of pension schemes could

dampen the negative effects of the transition, however in the long run it has become the cause for the unsustainability of the pension system.

Studies show that during the 1990s, the cutting back of the “premature welfare state” was successfully achieved in Hungary. During the decade after transition the decrease in welfare expenditure of the government budget was significant. The decrease in expenditure did not really mean the real reform of the welfare systems and the solution of their problems. The welfare system cannot really help solving the worsening social and income problems following the change of the political system (MURAKÖZY, 2004).

Fiscal consolidation period for Hungary started in March 1995 (nine months after the election held in 1994). This was an institutional shock therapy (Bokros ‘package’), fiscal adjustment and reforms were introduced with salient expenditure cuts, using the tool of surprise inflation and introducing the crawling devaluation of the currency (CSABA, 2009). In the course of stabilization the government intended to rein the domestic demand through income policy restrictions on the flow of wages, by freezing the salaries in budget institutions and public companies. The inflation rate increased to over 26 per cent due to discretionary measures (devaluation, additional customs duty) of the stabilization package. Accordingly, the real wages were devalued by 10-12 per cent, thus competitiveness improved. The domestic demand orientation turned into export orientation which became decisive in the area, and the rate of welfare expenditures went diminished in proportion of GDP. Before the consolidation, the deficit was 5-7 per cent of GDP two years in a row, and this forced the government in 1995 to intervene through the introduction of a tuition fee in higher education, the application of needs-based principles in the social supply system. Furthermore, the maternity benefit (GYED) and the maternity leave (GYES) were bound to income limit; the retirement age was raised to 62 years and co-payment was introduced for some health services (e.g. dentistry, pulmonary screening) (HORVÁTH ET AL, 2006).

The stabilization in 1995 resulted in a remarkable, but merely provisional decrease in public expenditures. The increase in spending began afterwards, especially since 2000, and its growth rate became faster in 2002. The consolidation

could not be durable. By now we can claim with reasonable certainty that the temporary cut in the affluent welfare expenditures, without any notable structural changes, are counter-incentives of the successful long-run stabilization (TAGKALAKIS, 2009).

As a reaction to the pressure on the pension system, there was a wide-spread feeling among decision-makers that to solve the short- and long run problems of the pension system, it should also be partially privatised and prefunded. After long-standing debates the new three-pillar pension system was introduced in 1998 (SIMONOVITS, 2009) and maintained until January 2011 (ÉGERT, 2012). The first pillar is a traditional pay-as-you-go system, the second pillar was a fully-funded private pension fund scheme based on mandatory contributions until the reform in 2011. Now it operates as a pension fund only for the 3 per cent of the insured. The third pillar introduced in 1993 is a voluntary private pension fund (PARNICZKY, 2000). Hungary undertook significant reforms with the introduction of a funded second pillar in 1998 (and third pillar in 1993) in order to reduce pressures of the rather expensive social security system, but these changes have recently been reversed, making the prognosis for the future rather uncertain (OECD, 2012b). Currently the pension system seems to be unsustainable.

Hungary underwent a ‘cold shower’⁴¹ consolidation in 1999 (and another in 2003), however, every episode of fiscal tightening was followed by an even stronger fiscal expansion. Despite a so-called ‘cold-shower’ fiscal consolidation after the elections in 1998, the increase of expenditures was substantial, so the ‘cold-shower’ adjustment was an unsuccessful attempt. As for the revenue side, the tax brackets were halved and the government also mitigated the amount of the social security contribution paid by the employers. The reason behind the increasing expenditures was partially the dominance of domestic demand and consumption-driven economic policy with its already introduced measures (salary increase in the public sector, public transfers such as pension increase) (HASSETT ET AL., 2009).

⁴¹ Consolidation episodes are referred to as ‘cold shower’ consolidations to highlight the relatively strong tightening over a period of one calendar year (HASSETT ET AL., 2009).

In the later 1990s, early 2000s, more activating strategies, welfare to work programmes were introduced. In Hungary, the activation shift was part of the conservative government political agenda to encourage self-help. In order to reinforce activation unemployment assistance and social assistance programmes were downsized, but the minimum wage was doubled. The early welfare to work actions have put further impetus on divergence between unemployment insurance and social assistance. In 2006, unemployment assistance was redesigned by the social-liberal government as a minimum income scheme, with benefits measured in terms of equivalent family income, in order to allow for better targeting of families and child poverty (HEMERIJCK, 2013).

In Hungary, as far as the social insurance system is concerned, the local governments have been responsible for the provision of the services. Welfare services have been mainly provided by the local governments which resulted in the indebtedness problem of the local tier. The wide range of compulsory provision of local public services entails that local governments are obliged to provide primary education, basic health and social welfare provisions, waste disposal, safe drinking water, public lighting, and to maintain local public roads and cemeteries. They are also obligated to enforce the observance of rights of national and ethnic minorities. Other tasks, which are not all mandatory, include providing local mass transport, settlement development, snow removal, fire protection, and public security and the explicitly voluntary provision of cultural and sports facilities, housing, and public safety (DETHIER, 2002).

As part of the reform processes with the new Act on Local Governments 2011⁴² the voluntary tasks can be delegated to the local governments only if their maintenance does not endanger the mandatory tasks. Further limitation is that these voluntary tasks can be financed only by own revenues or by other financial sources especially assured for them. Another tool to handle the indebtedness problem of local governments is that education is operated by the central government since September 2012⁴³.

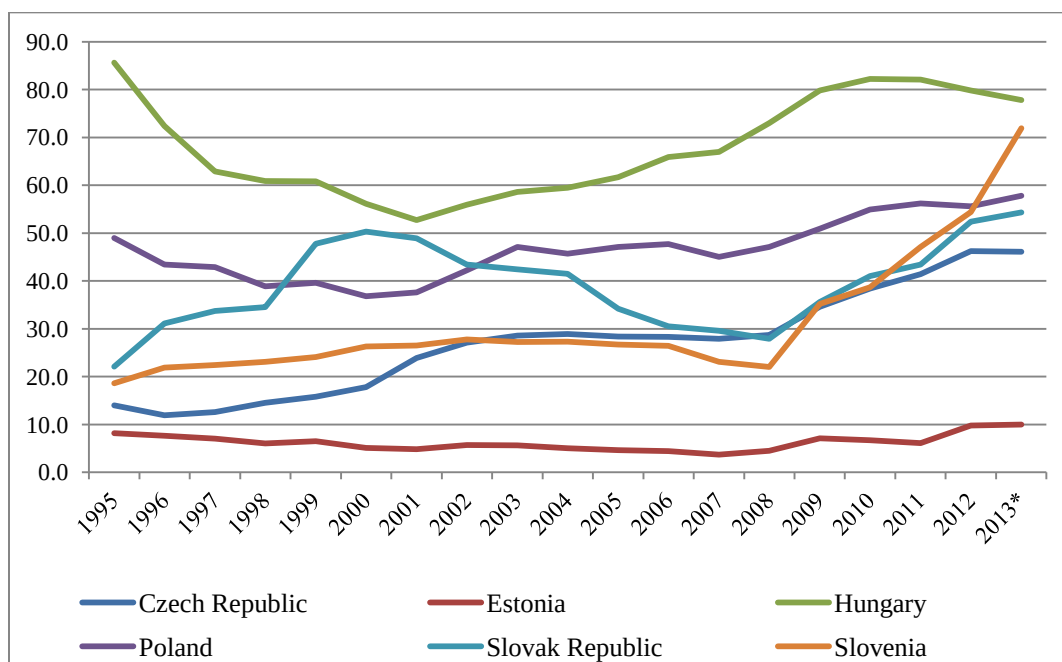
⁴² Available in Hungarian at <http://www.kormany.hu/download/b/1e/60000/%C3%B6tv.pdf>.

⁴³ The local governments are important economic actors, on the one hand the supply of public services influences the labour market and on the other hand they are significant debtors. Between 2001 and

Hungary is one of the worst-hit countries of the current financial crisis among the ECE countries. Financing external debt became a major constraint on policy in Hungary; in October 2008 the country received external financing from the IMF and EU under terms that implied budgetary restriction.

Figure 50 suggests that the high level of public debt in Hungary was an exception within the ECE, while in general the region was characterised by low debt levels in international terms. With the exception of Estonia, 2008 can be treated as a turning point in indebtedness processes of the region, debt levels started to rise considerably.

Figure 50 Evolution of general government consolidated gross debt (1995-2013)



Source: Eurostat statistics, online code: [teina225]

* EUROPEAN COMMISSION (2014b): Winter forecast 2014 - EU economy: recovery gaining ground

2007 government debt increased continuously, reaching 66 per cent of GDP, the general government deficit was the highest in this period, and it was accompanied by much slower GDP growth. At third quarter of 2011 government debt reached 82.6 per cent of GDP (based on Eurostat data). Special feature of this period is the debt-generating role of local governments. In 2001 the contribution to public debt of the local governments was 0.4 per cent of GDP, in 2005 it was 1.7%, and this share intensified further reaching 2.9% in 2007. It can be concluded that between 2001 and 2007 15 per cent of debt growth can be attributed to the local governments (GKI, 2011). The dynamic has continued, the total debt of the local governments between 2006 and 2009 doubled, increasing to 3.9% of the GDP (SZÉLL KÁLMÁN PLAN, 2011).

Due to the consolidation package, Hungary was able to maintain and reduce debt level from 2010 onwards. The only outlier of the region is Slovenia⁴⁴, where public debt increased dramatically in 2013, reaching almost 72 per cent and public debt is expected to increase further. Hungary requested a Stand-By Arrangement (SBA) from the IMF in October 2008, shortly after the culmination of the worldwide financial market crisis. The EU agreed and joined the IMF in providing Hungary additional financial support by using its Balance-of-Payments (BoP) Assistance Facility (total amount was to € 20 billion in which IMF: € 12.3 billion, EU: € 6.5 billion, World Bank: € 1.0 billion) (SEITZ – JOST, 2012).

In 2008, the focus of applied measures was on the expenditure side, including pay cuts for public-sector employees, equivalent to 1% of GDP, the elimination of the 13th monthly pension for early retirees and a cap on the 13th monthly pension for other pensioners, equivalent to 0.2% of GDP. The indexation of selected social benefits was to be postponed or eliminated (0.2% of GDP), and other spending was to suffer a general reduction (0.5% of GDP) (MYANT ET AL., 2013). In 2009 social spending cuts translated into cutbacks in universal provisions and social insurance (MATOS, 2013).

In 2009 and 2010 expenditures were reduced by the equivalent of 1.6% and 3.6% of GDP, respectively, including cuts in pensions, by various means, and cuts in various social benefits. Public-sector pay was frozen for 2010 and 2011 and cut through abolition of the 13th-month salary from 2009. The dominant features of crisis management in Hungary were to remain a shift towards a less progressive tax system, cuts in redistributive state spending, most notably on the unemployed (MYANT ET AL., 2013)

In late 2010, the government of Hungary decided to nationalize private pension funds, drifting away the Hungarian mixed pension system from private insurance, reinstalling the pay-as-you-go scheme (MATOS, 2013). Year 2012 brought large vulnerabilities and limited space to absorb shocks, financial pressures rose sharply in

⁴⁴ Public debt is set to have increased to 71.9% of GDP in 2013, from 54.4% in 2012, reflecting bank recapitalisations and the transfer of non-performing loans in December 2013, as well as negative output growth. The debt is forecast to increase to 78% in 2015, mainly due to primary deficits, including a further announced bank recapitalisation, subdued growth and higher debt servicing costs EUROPEAN COMMISSION (2014a).

the wake of growth and financial spillovers from the eurozone crisis, which exacerbated existing strains on the domestic economy. However, despite these pressures, the authorities managed to maintain macroeconomic stability. From 2012 onwards the authorities have placed job creation as a key policy objective and have adopted measures to stimulate employment, including by tightening unemployment and welfare benefits, expanding the public works program, and reducing tax rates and social contributions for some segments of the labour force (IMF, 2013).

MATOS (2013) summarized the evolution of the Hungarian welfare state that its decline was a “complex process in which different benefits exhibited different patterns and new components were combined with existing ones” (p. 867). Income support is mainly now means tested in Hungary, but guaranteed minimum income scheme is lacking in contrast to most EU member states. The welfare reforms were accompanied with a steady increase in poverty and income inequalities. Social provisions played a significant role in curbing poverty risks; however, this impact is unevenly distributed among the population.

There was no clear shift from social to individual insurance and from universal to means tested benefits; the Hungarian reforms recombined these elements. In general, family provisions and pensions were the most resilient to dramatic changes, whereas unemployment benefits were more easily downsized (MATOS, 2013).

10. Conclusions and theses

The dissertation analyses the evolution of welfare state regimes since the early 1990s. The topic is relevant as welfare states have been considerably reformed over the last two and half decades throughout the world. Retrenchment has been accompanied with comprehensive reforms, which is labelled in comparative welfare state literature: recalibration phase. Beside recalibration, the effects of the crises are of great importance. Most countries experienced (especially the Nordic) a deep crisis during the early 1990s, while the countries of the ECE region suffered from the transformational recession during that time. In the late 2000s all examined welfare states of the European Union experienced severe crisis which has affected the welfare systems, as well.

The main questions of the dissertation were whether the welfare state regimes converged across the European Union over the last two and a half decades; how have the European welfare models reacted to the current financial and economic crisis; and what are the distinct features of the welfare state model in East Central Europe. In order to answer these questions, I reviewed the theories of comparative welfare state literature, as well as the different typologies and ways how welfare states evolve.

In order to answer the first research question I reviewed the trends of general government expenditures linking to the level of economic development. Analysing the performance of EU21 in 1995 welfare state regimes can be differentiated and clustered, with one outlier, Luxembourg. As a ratio to GDP, the highest levels of general government expenditure among the examined welfare regimes were recorded in case of the Nordic model (approximately 60 per cent on average), approximately 10 percentage points higher than in the Continental countries and even higher than in case of the other models. Low levels of within model variation for the distinct welfare models suggest that welfare state models function well; countries within the model are relatively similar in their patterns of general government expenditure.

The peak of general government expenditures in 1995 was followed by a progressive decrease until 2007, when the distinct welfare state regimes with the exception of the Anglo-Saxon model can be differentiated and grouped again, however the level of general government spending of the distinct regimes became

relatively similar (44% on average with low standard variation). Noteworthy is the reduction of general government spending in the Nordic countries, largely due to drop of public social expenditures. Looking at the temporal evolution of general government expenditures of the models, it can be concluded that until 2009 a significant convergence process took place between the models as well as within the models.

In a recession, government expenditures tend to stay stable or increase because of the rising number of the population in need, being unemployed and relying on social security payments. As a consequence of the crisis, general government expenditures as share of GDP increased significantly in all models accompanied by growing deficits and debts. The Continental and Anglo-Saxon countries do not fit into the regimes in 2012. It is remarkable that the Mediterranean and Nordic levels of general government expenditures are really close to each other. The increase for the ECE countries was lower than for the other models, and a catch-up process within the ECE model can be observed.

The evolution of general government expenditures serves as a framework in order to understand how welfare states of the European Union might change. In the dissertation the main criteria for analysing welfare state performance was the evolution of welfare state generosity ratios. In the following the results on the convergence of welfare state models are summarized.

On the one hand there is a theoretical argument that welfare states might become more similar, on the other hand the European Union promotes closer social policy coordination, the need to reinforce, improve and preserve the European Social Model. Similar trends are observed for social policy spending as for the general government expenditures.

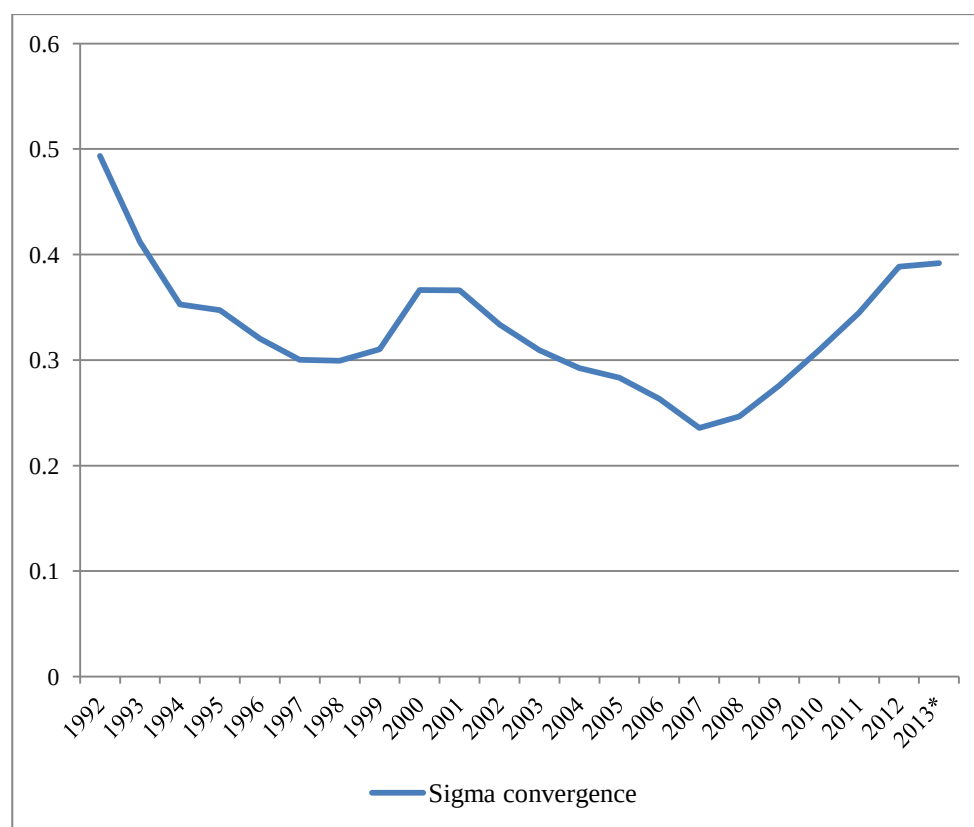
Analysing generosity patterns of the different welfare state models, it can be concluded that before 2008 all models were converging towards the mean. Coefficient variation of group means slightly decreased from 1992 to 2000. This convergence process was intensified especially during the early years of 2000s, coefficient variation of group means reached 24% in 2007. In this period, the countries of the Nordic and Continental models cut back social spending, while the

Anglo-Saxon model extended social policy expenditures as a reaction to favourable economic circumstances. The global economic crisis has had an extensive impact on the performance and service provision of the welfare states. In general, it can be observed for all welfare state models that the convergence of the generosity trends turned into a divergence in 2008, coefficient variation of group means started to grow again, reaching 40% in 2013.

Sigma-convergence, which refers to the reduction of disparities among welfare state models in time, can be used for the graphical interpretation of convergence in terms of generosity of the distinct welfare state regimes.

Let δ_t be the time t standard variation of log of generosity ratio of the given welfare state model, then “a group of economies are converging in the sense of δ if the dispersion of their” (Sala-i-Martin, 1996: 1020) generosity levels tends to decrease over time. That is, if $\delta_{t+T} < \delta_t$. *Figure 51* illustrates the convergence process of the welfare state regimes until 2008.

Figure 51 Convergence process of the five welfare state regimes (1992-2013)



Source: Based on own calculation of welfare state generosity ratios of the distinct regimes.

After the crisis of the early 1990s, the Nordic countries started to become more similar. Special feature of the Nordic models is that countries of the model continuously and gradually have become more similar in their generosity patterns. Coefficient variation within the model amounted to 31% in 1992, until 2007 the decrease of variation was moderate, reaching 22%. This convergence process has been intensified by the effects of the crisis, in 2013 generosity levels of the Nordic countries were relatively similar, and coefficient variation amounted to 8%.

During the two decades prior to the current financial and economic crisis, the Anglo-Saxon economies evolved in similar ways, both the real GDP growth and generosity ratios followed the same trend. During the whole examined period, the Irish generosity level was below the British, however until 2006 Ireland converged to the UK in its generosity. Until the outbreak of the financial crisis in 2007, generosity ratios in the United Kingdom and Ireland were converging, coefficient variation within the model decreased from 30% (in 1992) to 1.6% in 2006. In 2007, the convergence of generosity ratios turned into a divergence (*Figure 15*) first due to the financial crisis. As the crisis deepened, the divergence intensified. The divergence can be indicated by the growth of within model coefficient variation of the generosity ratios from 1.57 per cent in 2006 to 41 per cent in 2013.

The current crisis affected the similarity of the generosity trends within the Continental model, the countries started to become more similar. Coefficient variation within the Continental model remained stable around 35% during the period between 1992 and 2001. Within model variation started to decrease after 2002, however the generosity features of the countries have become considerably similar only after 2010. In 2012 and 2013, coefficient variation of the generosity ratios was approximately 19 per cent.

The initial within model variation was highest in the Mediterranean model compared to the other models, the coefficient variation of generosity ratios amounted to 50% in 1994 which started to decrease until 2007. The coefficient variation of generosity ratios within the Mediterranean model reached 15% in 2006. The convergence process has turned into a remarkable divergence after 2007, skyrocketing to 43% in 2013.

Within model convergence took place in case of the ECE model as well during the 2000s, coefficient variation of the generosity ratios of the ECE model decreased from 45% in 2000 to 25% in 2008. Due to the effects of the financial and economic crisis, after 2008 coefficient variation slightly increased in 2009 and 2010 but then returned the 25% level in 2012 and 2013.

Thesis₁ There is convergence of welfare efforts between welfare state regimes and between countries within regimes, as well. Welfare regimes are converging towards the mean values. Any economic crisis influences the convergence process due to the introduction of different social policy mixes.

Preceding the financial and economic crisis, countries within the distinct models became more and more similar. The crisis can be treated as a real turning points in generosity trends. Welfare state generosity started to decrease in 2008 in all models with the exception of the Continental. The reduction of generosity has been modest relatively modest in case of the ECE and the Nordic model, but the Mediterranean and Anglo-Saxon models have experienced a salient drop of their generosity levels. In terms of generosity trends, the Continental model is unique, because as a reaction to the crisis, generosity ratios started to increase from 2008 onwards in all countries⁴⁵. This reaction to the crisis verifies the special feature of the model, that it is possible to sustain employment and stabilise public finances simultaneously, so the drop in generosity is not an indispensable part of crisis management.

Any crisis has a significant influence on the operation of the welfare states, welfare regimes. Well-functioning systems of social protection increase spending in times of recession, and scale it back as the economy recovers, therefor the welfare state can operate as an effective “automatic stabiliser”.

To test the automatic stabiliser function *Table 14* collects data on change of GDP and real public social expenditures in 2012 compared to the level of 2007.

⁴⁵ Only France witnessed a slight drop in generosity after 2008.

Table 14 Cumulative change in GDP and real public social expenditures of welfare state regimes

	GDP change 2012/2007*	Change of real public social expenditures (2012/2007)
Nordic countries		
Denmark	-4.44%	10%
Finland	-3.49%	14%
Netherlands	-0.74%	10%
Sweden	4.49%	8%
Anglo-Saxon		
Ireland	-7.27%	11%
United Kingdom	-3.00%	9%
Continental		
Austria	2.99%	7%
Belgium	2.07%	13%
France	0.45%	7%
Germany	3.76%	4%
Luxembourg	-1.67%	17%
Mediterranean		
Greece	-20.60%	-17%
Italy	-6.81%	3%
Portugal	-5.43%	-3%
Spain	-4.71%	10%
ECE		
Czech Republic	1.67%	4%
Estonia	-3.84%	21%
Hungary	-5.06%	-14%
Poland	18.24%	18%
Slovak Republic	10.06%	15%
Slovenia	-5.42%	11%

Source: OECD Statistics, OECD SOCX database

* GDP (US \$) at constant prices, constant PPPs, reference year 2005.

Data show that Nordic, Continental and even the Anglo-Saxon model performed the automatic stabilising function well, expenditure on social protection went up in order to mitigate the negative consequences of the financial and economic crisis. Social spending in the countries of the Mediterranean model increased only in the early years, however in 2012 the level of real public social expenditures was significantly lower than in Greece, gently lower in Portugal, the increase was modest in Italy and average in Spain compared to the reference year of 2007. There is a need for cutting back social expenditures in the Mediterranean countries, even as unemployment still remains a dramatic problem in these countries.

The Mediterranean countries have been subject to an austerity regime, at varying degree and harshness. In Greece and Portugal fiscal adjustment is being supervised by the EU, ECB and the IMF. The governments have lost much control over national budgetary decisions. Spain's request for financial assistance was approved by the EU in July 2012, whose "conditionality" is less strict, while in Italy fiscal adjustment has been enforced by the market (large spreads on Italian bonds). The welfare states cannot perform as automatic stabilisers if budgetary decisions are subordinated to the harsh need for fiscal consolidation.

Within the ECE model, welfare states have been able to function as an automatic stabiliser with the exception of Hungary. In Hungary, as in case of the Mediterranean model, economic recession was accompanied by chronic and increasing current account deficit. Indebtedness and current deficits became unsustainable in 2008, when the country signed stand-by agreements with the IMF, being the first joint EU/IMF programme. The automatic stabilising function of the welfare state has been tied by the implemented harsh austerity measures.

<i>Thesis₂ In times of a crisis welfare state works primarily via the so-called automatic stabilisers if budgetary decisions are not subordinated to fiscal austerity.</i>
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Crisis in general enforces welfare state retrenchment in those countries in which economic recession has been dramatic and recovery has been slow and unsteady. In general, there is need for recalibration of the welfare state towards new social risks and in favour of less protected groups. Due to the current financial and economic crisis, in many cases deep and systematic cuts of social protection were made, these reforms were aimed at restoring financial stability. Reforms that restore equity as well as efficiency of welfare systems have been pursued less consistently and only in those cases where recalibration, rationalisation of the welfare state was conducted before the outbreak of the financial and economic crisis.

Thesis₃ Countries conducting welfare state reforms, recalibration before the crisis have been able to reach recovery faster than those welfare states where reforms have been enforced only by the crisis.

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Annexes

Annex table 1 Aggregated public social expenditures (% of GDP)

	1995	2000	2005	2009	2010	2011	2012	2013
Austria	26.50	26.60	27.10	29.10	28.86	27.89	27.94	28.29
Belgium	26.20	25.30	26.50	29.70	29.49	29.73	30.53	30.73
Czech Republic	17.40	19.10	18.70	20.70	20.82	20.78	20.99	21.77
Denmark	28.90	26.40	27.70	30.20	30.62	30.58	30.78	30.79
Estonia	..	13.90	13.10	20.00	20.08	18.24	17.63	17.74
Finland	30.70	24.20	26.20	29.40	29.55	29.22	30.00	30.53
France	29.30	28.60	30.10	32.10	32.39	32.02	32.52	33.02
Germany	26.60	26.60	27.30	27.80	27.12	25.89	25.86	26.18
Greece	17.50	19.30	21.10	23.90	23.33	24.41	24.12	22.00
Hungary	..	20.70	22.50	23.90	22.87	21.92	21.57	21.56
Ireland	18.10	13.40	16.00	23.60	23.72	23.35	22.41	21.59
Italy	19.80	23.10	24.90	27.80	27.75	27.50	28.03	28.44
Luxembourg	20.80	20.90	22.80	23.60	23.02	22.58	23.18	23.38
Netherlands	23.80	19.80	20.70	23.20	23.40	23.42	24.02	24.30
Poland	22.60	20.50	21.00	21.50	21.82	20.51	20.57	20.94
Portugal	16.50	18.90	23.00	25.60	25.43	25.02	25.04	26.38
Slovakia	18.80	17.90	16.30	18.70	19.14	18.10	18.28	17.95
Slovenia		21.80	21.10	22.60	23.64	23.74	23.73	23.78
Spain	21.40	20.20	21.10	26.00	26.69	26.41	26.78	27.43
Sweden	32.00	28.40	29.10	29.80	28.30	27.56	28.13	28.64
United Kingdom	19.90	18.60	20.50	24.10	23.84	23.56	23.87	23.77
EU21-average	23.16	21.63	22.70	25.40	25.33	24.88	25.05	25.20
OECD-average	19.50	18.90	19.70	22.10	22.05	21.69	21.79	21.95

Source: OECD SOCX database

Annex table 2 Real aggregated public social expenditures (2007=100)

	2008	2009	2010	2011	2012
Austria	102	107	109	107	107
Belgium	104	111	112	113	113
Czech Republic	99	108	108	108	104
Denmark	101	107	110	109	110
Finland	102	110	113	113	114
France	100	105	107	107	107
Germany	100	105	106	104	104
Greece	103	109	100	92	83
Hungary	101	96	91	89	86
Ireland	107	120	118	114	111
Italy	102	106	106	104	103
Luxembourg	104	112	114	115	117
Netherlands	100	106	109	110	110
Poland	107	115	120	118	118
Portugal	101	110	111	105	97
Slovakia	104	115	121	116	115
Spain	106	117	117	114	110
Sweden	100	105	106	105	108
United Kingdom	104	111	112	111	109
Estonia	114	123	123	123	121
Slovenia	103	111	114	115	111
EU21-average	103	110	111	109	108
OECD-average	104	111	112	112	112

Source: OECD SOCX database

Annex table 1 Welfare state generosity ratios of the models

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Nordic countries											
Denmark	2.55	2.49	3.12	3.45	3.53	3.99	4.07	4.01	4.47	4.44	4.40
Finland	2.45	1.82	1.76	1.77	1.85	1.94	1.96	2.12	2.09	2.24	2.29
Netherlands	3.85	3.57	3.09	2.70	2.78	3.04	3.56	3.97	4.15	4.82	4.37
Sweden	4.59	3.22	3.04	3.01	2.76	2.60	3.01	3.49	3.86	3.84	3.82
Group mean	3.36	2.78	2.75	2.73	2.73	2.89	3.15	3.40	3.64	3.84	3.72
Variation	1.04	0.78	0.66	0.71	0.69	0.86	0.90	0.88	1.06	1.13	0.99
Coefficient variation (%)	30.98	28.12	24.10	26.04	25.25	29.73	28.65	25.93	29.23	29.56	26.56
Anglo-Saxon											
Ireland	1.09	1.08	1.15	1.29	1.27	1.38	1.65	1.98	2.35	2.68	2.57
United Kingdom	1.69	1.68	1.78	1.91	2.00	2.14	2.35	2.39	2.56	2.83	2.79
Group mean	1.39	1.38	1.47	1.60	1.63	1.76	2.00	2.18	2.45	2.75	2.68
Variation	0.42	0.42	0.44	0.44	0.52	0.54	0.50	0.29	0.15	0.11	0.16
Coefficient variation (%)	30.07	30.62	30.23	27.50	31.57	30.59	24.92	13.06	6.00	3.90	5.81
Continental											
Austria	..	..	4.63	4.53	4.22	4.18	4.06	4.63	4.86	4.99	4.56
Belgium	2.63	2.39	2.12	2.15	2.22	2.19	2.18	2.35	2.69	2.86	2.65
France	2.28	2.17	2.09	2.30	2.23	2.21	2.28	2.35	2.54	2.77	2.82
Germany	2.99	2.66	2.49	2.57	2.45	2.24	2.29	2.51	2.67	2.72	2.47
Luxembourg	4.78	4.25	3.63	3.89	3.91	4.09	4.08	4.30	4.86	5.42	4.99
Group mean	3.17	2.87	2.99	3.09	3.01	2.98	2.98	3.23	3.53	3.75	3.50
Variation	1.11	0.95	1.11	1.06	0.98	1.05	1.00	1.14	1.22	1.33	1.18
Coefficient variation (%)	34.99	33.00	37.02	34.40	32.49	35.29	33.56	35.26	34.61	35.57	33.80
Mediterranean											
Greece	..	..	..	..	..	..	1.33	1.31	1.39	1.54	1.55
Italy	..	1.69	1.55	1.41	1.57	1.62	1.60	1.70	1.83	2.00	2.14
Portugal	4.02	3.19	2.61	2.45	2.46	2.56	2.78	3.05	3.11	3.31	2.91
Spain	1.16	1.02	0.93	0.95	0.99	1.02	1.12	1.30	1.43	1.54	1.47
Group mean	2.59	1.97	1.69	1.61	1.67	1.73	1.71	1.84	1.94	2.10	2.02
Variation	2.02	1.11	0.85	0.77	0.74	0.77	0.74	0.83	0.81	0.84	0.66
Coefficient variation (%)	78.04	56.52	50.16	47.94	44.49	44.69	43.23	44.90	41.65	39.91	32.96
ECE											
Czech Republic	..	..	..	..	..	..	2.17	1.78	1.79	1.92	2.19
Estonia	..	..	..	..	..	..	..	..	0.87	0.89	1.04
Hungary	..	..	..	..	..	..	..	2.28	2.33	2.51	2.66
Poland	..	..	..	..	..	1.72	1.73	1.40	1.13	1.09	1.02
Slovak Republic	..	..	..	..	..	..	1.25	1.02	0.87	0.83	0.87
Slovenia	..	..	..	..	2.40	2.45	2.29	2.31	2.47	2.66	2.65
Group mean	..	..	..	..	..	2.08	1.86	1.76	1.58	1.65	1.74
Variation	..	..	..	..	..	0.51	0.47	0.56	0.72	0.82	0.85
Coefficient variation (%)	..	..	..	..	..	24.68	25.50	31.79	45.79	49.92	49.06

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Nordic countries											
Denmark	4.01	3.92	4.24	4.78	4.74	5.02	3.83	3.18	3.11	3.10	3.10
Finland	2.40	2.45	2.54	2.66	2.77	3.13	2.78	2.94	2.98	3.06	3.11
Netherlands	3.68	3.17	3.01	3.58	4.01	4.33	4.33	3.74	3.72	3.31	3.34
Sweden	3.63	3.23	3.07	3.19	3.43	3.43	2.92	2.64	2.73	2.70	2.75
<i>Group mean</i>	3.43	3.19	3.22	3.55	3.74	3.98	3.47	3.13	3.13	3.04	3.08
<i>Variation</i>	0.71	0.60	0.72	0.90	0.84	0.86	0.74	0.46	0.42	0.25	0.24
<i>Coefficient variation (%)</i>	20.70	18.72	22.51	25.28	22.43	21.74	21.34	14.83	13.35	8.24	7.93
Anglo-Saxon											
Ireland	2.60	2.71	2.77	2.74	2.76	2.55	1.77	1.54	1.43	1.37	1.32
United Kingdom	2.89	3.11	3.08	2.80	2.86	2.97	2.57	2.46	2.35	2.40	2.39
<i>Group mean</i>	2.75	2.91	2.92	2.77	2.81	2.76	2.17	2.00	1.89	1.89	1.86
<i>Variation</i>	0.20	0.29	0.22	0.04	0.07	0.30	0.57	0.65	0.65	0.73	0.76
<i>Coefficient variation (%)</i>	7.41	9.84	7.57	1.57	2.52	10.81	26.25	32.51	34.37	38.84	41.00
Continental											
Austria	4.63	4.17	3.95	4.06	3.79	4.19	4.05	4.47	4.47	4.42	4.48
Belgium	2.54	2.50	2.48	2.47	2.69	3.04	3.08	2.90	3.19	3.12	3.14
France	2.75	2.66	2.68	2.68	2.87	3.10	2.86	2.80	2.76	2.66	2.71
Germany	2.26	2.08	1.97	2.02	2.18	2.44	2.65	2.92	3.20	3.39	3.43
Luxembourg	4.02	3.38	3.52	3.34	3.30	3.09	3.48	3.61	3.44	3.44	3.47
<i>Group mean</i>	3.24	2.96	2.92	2.91	2.97	3.17	3.23	3.34	3.41	3.41	3.44
<i>Variation</i>	1.03	0.82	0.80	0.80	0.61	0.63	0.55	0.71	0.64	0.65	0.65
<i>Coefficient variation (%)</i>	31.80	27.81	27.46	27.42	20.62	19.92	17.18	21.21	18.73	18.94	18.96
Mediterranean											
Greece	1.61	1.53	1.69	1.86	2.01	2.22	2.05	1.60	1.23	0.91	0.83
Italy	2.19	2.33	2.40	2.60	2.76	2.71	2.68	2.54	2.52	2.14	2.17
Portugal	2.44	2.24	2.00	1.97	1.82	1.96	1.74	1.84	1.68	1.39	1.47
Spain	1.53	1.60	1.91	2.09	2.21	1.72	1.33	1.22	1.12	0.99	1.02
<i>Group mean</i>	1.94	1.92	2.00	2.13	2.20	2.15	1.95	1.80	1.64	1.36	1.37
<i>Variation</i>	0.44	0.42	0.30	0.32	0.41	0.42	0.57	0.55	0.64	0.56	0.60
<i>Coefficient variation</i>	22.87	21.86	14.89	15.22	18.52	19.63	29.34	30.83	38.88	41.36	43.54
ECE											
Czech Republic	2.10	1.91	1.96	2.08	2.58	2.85	2.39	2.23	2.30	2.24	2.33
Estonia	1.06	1.12	1.26	1.55	1.85	2.07	1.24	1.06	1.29	1.49	1.50
Hungary	2.74	2.56	2.36	2.31	2.36	2.23	1.92	1.66	1.64	1.59	1.59
Poland	1.02	1.02	1.06	1.32	1.71	2.27	2.19	1.93	1.81	1.76	1.79
Slovak Republic	0.89	0.83	0.91	1.06	1.23	1.40	1.36	1.19	1.18	1.16	1.14
Slovenia	2.47	2.56	2.51	2.63	2.85	3.10	2.88	2.53	2.31	2.20	2.21
<i>Group mean</i>	1.71	1.67	1.68	1.83	2.10	2.32	2.00	1.77	1.76	1.74	1.76
<i>Variation</i>	0.82	0.78	0.69	0.61	0.61	0.60	0.63	0.58	0.48	0.42	0.45
<i>Coefficient variation (%)</i>	47.72	47.11	41.12	33.51	28.88	25.95	31.31	32.69	27.59	24.24	25.51

Notes and sources: Country groups are created based on Sapir (2006) adding the ECE model as the fifth country group. Methodology based on Castles (2004) pp. 37, Table 2.4. Welfare state generosity ratio is calculated by dividing social expenditure data (total public social expenditure as a percentage of GDP – OECD SOCX dataset) by the sum of the percentage of the population aged 65 and over (percentage of active population – Eurostat data) and the percentage of the civilian population unemployed (total unemployment rate as percentage of total labour force – Eurostat data). All calculated figures are subject to rounding errors.

Annex table 2 Patterns of general government spending of the models

	1995	2007	2012
Nordic countries			
Denmark	59.3	50.8	59.4
Finland	61.5	47.4	56.6
Netherlands	56.4	45.3	50.4
Sweden	64.9	51.0	52.0
<i>Group mean</i>	60.53	48.63	54.60
<i>Variation</i>	3.59	2.76	4.14
<i>Coefficient variation (%)</i>	5.93	5.69	7.58
Anglo-Saxon			
Ireland	40.9	36.7	42.6
United Kingdom	43.0	43.3	47.9
<i>Group mean</i>	41.95	40.00	45.25
<i>Variation</i>	1.48	4.67	3.75
<i>Coefficient variation (%)</i>	3.54	11.67	8.28
Continental			
Austria	56.3	48.6	51.7
Belgium	52.1	48.2	55.0
France	54.4	52.6	56.6
Germany	54.9	43.5	44.7
<i>Group mean</i>	54.43	48.23	52.00
<i>Variation</i>	1.75	3.72	5.28
<i>Coefficient variation (%)</i>	3.21	7.72	10.15
Mediterranean			
Greece	51.3	47.5	53.6
Italy	52.2	47.6	50.6
Portugal	41.9	44.4	47.4
Spain	44.5	39.2	47.8
<i>Group mean</i>	47.48	44.68	49.85
<i>Variation</i>	5.06	3.94	2.88
<i>Coefficient variation</i>	10.66	8.82	5.77
ECE			
Czech Republic	53.0	41.0	44.5
Estonia	41.3	34.0	39.5
Hungary	55.8	50.7	48.7
Poland	47.7	42.2	42.2
Slovak Republic	48.6	34.2	37.8
Slovenia	52.3	42.3	48.1
<i>Group mean</i>	49.78	40.73	43.47
<i>Variation</i>	5.11	6.20	4.46
<i>Coefficient variation (%)</i>	10.27	15.21	10.26
Welfare state models			
Nordic countries	60.53	48.63	54.60
Anglo-Saxon	41.95	40.00	45.25
Continental	54.43	48.23	52.00
Mediterranean	47.48	44.68	49.85
ECE	49.78	40.73	43.47
<i>Group mean</i>	50.83	44.45	49.03
<i>Variation</i>	7.04	4.04	4.63
<i>Coefficient variation (%)</i>	13.85	9.09	9.44

Source: Eurostat`

Note: Luxembourg is excluded from the sample.

Annex table 5 Old age pension expenditures as a percentage of GDP

	1990	1995	2000	2005	2009
Austria	8.9	10	10.4	10.8	12
Belgium	6.5	7	6.9	7.1	8.1
Czech Republic	5	5.6	6.8	6.6	7.8
Denmark	7.3	8.4	7.1	7.3	8.2
Estonia	..	..	5.9	5.3	7.9
Finland	7	8.5	7.5	8.5	10.2
France	9.2	10.6	10.5	10.9	12.3
Germany	9.4	7.8	8.6	9.1	9.1
Greece	9.4	9.2	10.2	11.1	10.9
Hungary	..	..	7	7.8	9.1
Ireland	4.1	3.6	2.6	2.9	4.5
Italy	8.2	9.3	11.1	11.5	13
Luxembourg	7.6	8.2	6.9	5.2	5.8
Netherlands	6.3	5.5	5.3	5.5	5.8
Poland	4.1	7.6	8.5	9.3	9.8
Portugal	4	6	6.6	8.9	10.6
Slovakia	..	5.5	5.7	5.7	6.4
Slovenia	..	..	10.1	9.5	9.2
Spain	7.2	8.3	6.8	6.5	7.7
Sweden	8.6	9.8	9.1	9.4	10.2
United Kingdom	4.8	5.5	5.5	5.9	6.7
EU21-average	6.9	7.6	7.6	7.8	8.8
OECD-average	6	6.4	6.4	6.6	7.3

Source: OECD SOCX database

Annex table 6 Survivors pension expenditures as a percentage of GDP

	1990	1995	2000	2005	2009
Austria	2.6	2.5	2.3	2.1	2
Belgium	2.6	2.4	2.1	2	2.1
Czech Republic	0.8	0.8	0.8	0.8	0.7
Denmark	0	0	0	0	0
Estonia	..	..	0.3	0.1	0.1
Finland	1	1.1	0.9	0.9	0.9
France	1.6	1.6	1.5	1.8	1.8
Germany	0.5	2.7	2.5	2.3	2.2
Greece	0.5	0.5	0.8	0.8	2.2
Hungary	..	..	1.1	1.3	1.4
Ireland	1.2	1.1	0.8	0.8	1.1
Italy	1.9	2.1	2.4	2.5	2.6
Luxembourg	0.8	0.8	0.6	2	1.9
Netherlands	0.9	0.7	0.4	0.3	0.2
Poland	1.1	1.9	2.1	2.1	2
Portugal	0.9	1.2	1.3	1.5	1.8
Slovakia	..	1	0.9	0.9	0.9
Slovenia	..	..	0.5	0.4	1.7
Spain	0.9	0.9	2.1	2	2.2
Sweden	0.7	0.7	0.6	0.6	0.5
United Kingdom	0.372	0.375	0.356	0.365	..
EU21-average	1.0	1.2	1.1	1.2	1.4
OECD-average	0.8	0.9	0.9	0.9	1

Source: OECD SOCX database

Annex table 7 Incapacity related benefits as a percentage of GDP

	1990	1995	2000	2005	2009
Austria	2.7	2.9	2.8	2.5	2.5
Belgium	2.6	3	2.8	2.3	2.5
Czech Republic	2.3	2.3	2.5	2.3	2.2
Denmark	3.3	3.7	3.6	4.3	4.9
Estonia	..	..	1.5	1.8	2.7
Finland	4.2	5.1	3.8	3.8	4.1
France	2.1	2.1	1.7	1.9	2
Germany	1.5	2.7	2.4	2.2	2.3
Greece	1.3	0.8	0.9	0.9	1
Hungary	..	..	2.6	2.8	2.7
Ireland	1.8	1.9	1.3	1.6	2.4
Italy	2	1.8	1.6	1.7	1.9
Luxembourg	2.9	3.1	3.1	3.2	2.7
Netherlands	6.3	5	3.9	3.5	3.1
Poland	3.4	5.7	3.5	2.7	2.3
Portugal	2.3	2.3	2.3	2.2	2.1
Slovakia	..	2	2.2	1.5	2
Slovenia	..	..	2.6	2.4	2.2
Spain	2.3	2.5	2.4	2.5	2.7
Sweden	5.5	4.9	5.1	5.5	5
United Kingdom	2.2	2.9	2.5	2.3	2.9
EU21-average	2.9	3.0	2.6	2.6	2.7
OECD-average	2.3	2.4	2.3	2.3	2.4

Source: OECD SOCX database

Annex table 8 Health expenditures as a percentage of GDP

	1990	1995	2000	2005	2009
Austria	5.4	5.9	6.5	6.8	7.3
Belgium	6.4	6.5	6.5	7.7	8.1
Czech Republic	4.4	6.1	5.7	6.1	6.7
Denmark	4.7	4.6	5.6	6.4	7.7
Estonia	..	..	4	3.8	5.2
Finland	6.1	5.5	5	6.3	6.8
France	6.4	8.3	8	8.8	9
Germany	6.3	8	7.9	8	8.6
Greece	3.6	4.5	4.8	5.8	6.5
Hungary	..	6.2	5.1	5.9	5.1
Ireland	4.3	4.8	4.6	5.8	7.1
Italy	6.1	5.1	5.8	6.8	7.4
Luxembourg	5	5.1	6.4	6.7	6.6
Netherlands	5.4	5.9	5	5.9	7.9
Poland	4.4	4	3.9	4.3	5.2
Portugal	3.7	4.7	6.2	7	7.2
Slovakia	..	5.7	4.9	5.2	6
Slovenia	..	..	6.1	6.1	6.8
Spain	5.1	5.4	5.2	5.8	7
Sweden	7.4	6.2	6.3	6.6	7.3
United Kingdom	4.9	5.6	5.5	6.6	8.1
EU21-average	5.3	5.7	5.7	6.3	7.0
OECD-average	4.7	5	5.3	5.8	6.6

Source: OECD SOCX database

Annex table 9 Family benefits as a percentage of GDP

	1990	1995	2000	2005	2009
Austria	2.6	3.1	2.8	2.8	2.9
Belgium	2.3	2.3	2.6	2.6	2.8
Czech Republic	2.4	1.9	1.9	1.7	1.8
Denmark	3.2	3.8	3.5	3.6	3.9
Estonia	..	..	1.7	1.8	2.6
Finland	3.2	4	3	3	3.3
France	2.5	2.7	3	3	3.2
Germany	1.6	2.1	2.1	2.1	2.1
Greece	0.7	1	1	1.1	1.4
Hungary	..	..	3.1	3.1	3.6
Ireland	2	2.1	2	2.7	4.1
Italy	0.8	0.6	1.1	1.3	1.6
Luxembourg	1.9	2.6	3.1	3.6	4
Netherlands	1.7	1.3	1.5	1.7	1.7
Poland	1.7	1.1	1.2	1.1	1.1
Portugal	0.7	0.7	1	1.2	1.5
Slovakia	..	2.5	2	1.9	2
Slovenia	..	..	1.2	1.1	1.3
Spain	0.3	0.4	1	1.2	1.5
Sweden	4.4	3.8	3	3.3	3.7
United Kingdom	1.9	2.3	2.7	3.2	3.8
EU21-average	2.0	2.1	2.1	2.2	2.6
OECD-average	1.6	1.8	1.9	1.9	2.3

Source: OECD SOCX database

Annex table 10 Active labour market programme expenditures as a percentage of GDP

	1990	1995	2000	2005	2009
Austria	0.3	0.4	0.5	0.6	0.8
Belgium	1.1	1.2	1.1	1.1	1.4
Czech Republic	..	0.1	0.2	0.2	0.2
Denmark	0.7	1.9	1.9	1.6	1.6
Estonia	..	0	..	0.1	0.2
Finland	0.8	1.4	0.9	0.9	0.9
France	0.7	1.2	1.2	0.9	1
Germany	0.9	1.2	1.2	0.9	1
Greece	0.2	0.4	0.2	0.1	0.2
Hungary	..	0.4	0.4	0.3	0.5
Ireland	1	1.3	0.8	0.6	0.9
Italy	0.2	0.3	0.6	0.6	0.4
Luxembourg	0.2	0.1	0.2	0.5	0.5
Netherlands	1.3	1.4	1.4	1.3	1.2
Poland	0.1	0.4	0.3	0.4	0.6
Portugal	0.5	0.5	0.6	0.7	0.8
Slovakia	..	0.8	0.3	0.3	0.2
Slovenia	..	0	0	0.3	0.3
Spain	0.8	0.4	0.8	0.8	0.9
Sweden	1.6	2.2	1.7	1.3	1.1
United Kingdom	0.6	0.4	0.2	0.4	0.3
EU21-average	0.7	0.8	0.7	0.7	0.7
OECD-average	0.5	0.6	0.6	0.5	0.5

Source: OECD SOCX database

Annex table 11 Housing spending as a percentage of GDP

	1990	1995	2000	2005	2009
Austria	0.1	0.1	0.1	0.1	0.1
Belgium	..	..	0	0.1	0.2
Czech Republic	..	0	0.1	0.1	0.1
Denmark	0.6	0.8	0.7	0.7	0.7
Estonia	..	..	0.1	0	0
Finland	0.2	0.5	0.4	0.3	0.5
France	0.7	0.9	0.9	0.8	0.8
Germany	0.1	0.3	0.3	0.6	0.6
Greece	0.4	0.5	0.7	0.5	0.5
Hungary	..	..	0.6	0.5	0.6
Ireland	0.6	0.6	0.3	0.3	0.3
Italy	0	0	0	0	0
Luxembourg	0	0	0.1	0.2	0.3
Netherlands	0.3	0.4	0.4	0.3	0.4
Poland	0.1	0.1	0.2	0.1	0.1
Portugal	0	0	0	0	0
Slovakia	..	0	0.1	0	0
Slovenia	..	..	0	0	0
Spain	0.1	0.2	0.2	0.2	0.2
Sweden	0.6	1.1	0.6	0.5	0.5
United Kingdom	1.3	1.8	1.4	1.4	1.5
EU21-average	0.3	0.4	0.3	0.3	0.4
OECD-average	..	..	0.4	0.5	0.7

Source: OECD SOCX database

Annex table 12 Other social policy areas as percentage of GDP

	1990	1995	2000	2005	2009
Austria	0.3	0.3	0.2	0.3	0.3
Belgium	0.5	0.7	0.4	0.5	0.8
Czech Republic	0.5	0.2	0.5	0.4	0.1
Denmark	1	1.4	1	1	0.9
Estonia	..	..	0.3	0.1	0.1
Finland	0.5	0.6	0.5	0.5	0.7
France	0.2	0.3	0.3	0.4	0.4
Germany	0.5	0.2	0.2	0.2	0.2
Greece	0.1	0.1	0.3	0.4	0.4
Hungary	..	..	0.2	0.1	0.1
Ireland	0.3	0.3	0.3	0.3	0.6
Italy	0	0	0	0	0
Luxembourg	0.2	0.2	0.2	0.4	0.5
Netherlands	0.3	0.6	0.5	0.9	0.9
Poland	0.8	0.7	0.6	0.6	1.4
Portugal	0.1	0.4	0.1	0.4	0.2
Slovakia	0	0.1	0.2	0.2	0.3
Slovenia	..	0.8	1.1	0.5	0.4
Spain	..	..	0.4	0.6	0.5
Sweden	0.1	0.1	0.1	0.2	0.3
United Kingdom	0.5	1	0.7	0.6	0.7
EU21-average	0.3	0.4	0.4	0.4	0.5
OECD-average	0.4	0.5	0.5	0.7	0.8

Source: OECD SOCX database