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**Global Challenges on the Welfare States:  
An Institutional Analysis**

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Debrecen, 2024

## DECLARATION

I, undersigned, (Narmin Baghirzade, 19/11/1991) declare under penalty of perjury and certify with my signature that the dissertation I submitted in order to obtain doctoral (PhD) degree is entirely my own work.

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- No dissertation which is fully or partly identical to the present dissertation was submitted to any other university or doctoral school for the purpose of obtaining a PhD degree.

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**Global Challenges on the Welfare States:  
An Institutional Analysis**

The aim of this dissertation is to obtain a doctoral (PhD) degree in the scientific field of  
„Management and Business”.

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# 1. Introduction of Goals and Objectives

Historical events have the potential to replicate themselves and set off future events. The past must be explored in order to learn lessons and reduce ambiguity about the future. In terms of the global economy, understanding the history of human reproduction and collaboration is critical to finding answers. Throughout history, tribes, ethnic groups, and later families have been the major caretakers for people. The kings' "parental role" was analogous to providing societal amenities, and previous assistance by kingdoms laid the groundwork for subsequent welfare states. This historical component allowed welfare states to appeal to populations as a secondary form of familial governance. Before the emergence of the welfare state, there was a scarcity of caretakers to confront everyday hazards.

At some point, welfare states were created because of the inability of markets to deal with economic shocks and imbalances. The primary welfare state characteristics include relatively high taxes, extensive government spending and intervention, welfare provisions, universal access to social services, a higher proportion of state-owned means, and a high degree of decommodification, which can be characterized by less reliance on markets. Furthermore, those characteristics are broad generalizations; the percentage of each attribute varies among regions and countries, depending on the type of welfare state in place.

Welfare state investigations are vital, and they should not be restricted to a single field. It is a vast and multifaceted phenomenon, not simply a confined idea. For this study, I have adopted the working definition that a welfare state is a macroeconomic coordinating structure employing market tools and state policymaking.

The history of a modern welfare state can be linked to the point when Bismarck declared insurance schemes, which had spread rapidly across countries and were partly or fully implemented, depending on the region. The high point for welfare states was the post-WWII period, when governments increased social welfare provisions rapidly and started to intervene in markets more intensively. Later, in the 1970s and 1980s, two oil shocks hit the global economy, and the golden years came to an end. After that period, a reorganization phase for welfare states began, continuing through the 1990s; later, one of the biggest global

economic events, the 2008 crisis, broke through, impacting welfare states as well. However, despite downturns, attitudes towards welfare states were still trending positively, and based on polls, the vast majority are not laying blame on the welfare state for the crisis; alternatively, it is seen as the remedy to the economy's problems. Since the crisis, citizens have appreciated the welfare state even more, given that it accomplishes exactly what it was designed to do: protect citizens from losing their livelihoods (Vis et al., 2011).

Esping-Andersen (1989, 1990) wrote one of the most referenced pieces of literature on welfare state benchmarks, in which he split them into three categories: Liberal, Social Democratic, and Conservative welfare states, and this categorization of the welfare state typology has guided my research. Low levels of de commodification, excluding the majority from social provisions, and private social services are factors differentiating liberal welfare states. A strong relationship between the state, the church, and earnings-related benefits can be recognized among conservative welfare states. In addition, a high level of de commodification, a high level of social trust, high government spending, high tax ratios, and a relatively equal community are crucial elements of Social Democratic or Nordic welfare states. Compared to other clusters, they have the highest ratios for welfare components.

The Nordic welfare states are the most popularly studied in welfare literature. The Nordic states have been able to differentiate themselves from other states with their positive aspects. One of them is harmony between the state and the market, which impacts labor relations, social relations, and policymaking. Moreover, this cluster has less income disparity and is characterized by relatively high equality. As for Nordic welfare states, I considered the following countries: Sweden, Norway, Denmark, and Finland.

Sweden is a typical example of the Nordic welfare state and, at the same time, unique among them. Throughout Swedish history, ruling parties prioritized and promoted welfare provisions; in addition, it was the first Nordic country to endorse the Prussian Chancellor's schemes. Moreover, earlier land reforms also helped lay the foundation for a modern welfare state, and the cessation of hostilities in two world wars increased prosperity for Sweden during the peak, peacetime golden years of welfare states. All of these factors make Sweden an ideal subject to gain initial insights into welfare states through qualitative analysis.

After WWII, welfare provisions were increased to boost state intervention and control over economies. However, there are few scholarly investigations on the impact of the 2008 crisis to determine how state intervention changed and the reasons behind that change. In addition, Esping-Andersen's typology was introduced decades ago, and conflicting views persist on the current categorization of welfare states. In general, the present and future of welfare states and their capability to deal with internal and external challenges remain controversial. Welfare states are changing, and new elements can be added or removed from the pure model, which has become especially true after significant economic events such as the global crisis of 2008. Therefore, with this research, I asked the following question:

How did state intervention change in Nordic welfare states in response to the 2008 global financial crisis, and what role did welfare components play?

Esping-Andersen's typology was central to my research; however, since that study was carried out decades ago, I sought to replicate Esping-Andersen's methods to compare his results with my findings. I subsequently built regression models to investigate the research question.

Moreover, it is worth mentioning that most of the changes and challenges to welfare states occurred from the late 19th century through the end of the 20th century. The literature and sources from the first decades of the 21st century were relatively insufficient for comparison with earlier periods, and until the global crisis, countries were still dealing with the impacts of the 1990s and early 2000s recessions. Since the topic's research had not been thoroughly explored for the post-2008 financial crisis, as it had been for earlier periods, I primarily examined earlier-period literature to expand my knowledge before investigating and determining whether the assumptions I constructed based on the review would hold truth for the period under investigation. Therefore, most of the literature and sources used in this research were based on the welfare state's early periods.

I argue that global events equivalently affect welfare states. That is to say, if after WWII government intervention increased because of a welfare state's characteristics, the 2008 financial crisis might have had an identical impact. Additionally, I explore how welfare states that had their "golden years" in the 1950s and 1960s were nevertheless able to change and overcome both internal and external obstacles decades later, landing on solid ground.

There was a dearth of investigations into welfare states during the global financial crisis; in addition, because no data could be obtained for some measurements or years, other variables were substituted to represent welfare components. Furthermore, scholars have come to no generally acceptable way of defining welfare “stateness”. As a result, academics have often employed tools that were previously used to study welfare measures in literature, including single indicators, composite measurements, and typologies of welfare states. I constructed regression models with an expenditure-based metric as an indicator, a technique with some disadvantages, such as the potential for a limited informative value and certain calculation discrepancies. However, these can be compensated for by widely available, frequently updated data sources on metrics. Additionally, the issue of limited informative value may be resolved by employing many indicators (Kunißen, 2019).

Furthermore, there are no definite or unambiguous recommendations on cluster analysis, so the results and techniques are diverse. One problem is related to the lack of data on different regions and countries; therefore, most of the analysis was done on Western-developed countries. Additionally, country scores based on cluster analysis are estimated using the deviation from the mean, which varies depending on the countries that were taken into account (Kunißen, 2019).

The potential outcomes of the present study may help generate relevant research questions, suggestions, and issues for subsequent investigations. To perform this analysis, it is important to understand the challenges welfare states faced and how they dealt with them, as well as how the global economy would respond to the same problem and how welfare states would reflect on it. In addition, institutional analysis of welfare states is crucial since lessons learned from the past can be applied in the future to avoid the same problems and more efficient policies can be adopted. Under this broad and theoretically based research, the aforementioned gap in the scholarly literature may be addressed (Kasper et al., 2012).

The dissertation consists of five major chapters: an introduction, a technical literature review, a methodology, a conclusion for findings, and a summary of recommendations, limits, and novel findings. Following the Introduction chapter, the main text body discusses the institutional variations of welfare states, long-term prospects, threats, historical paths, similarities, and differences between welfare states, the Scandinavian or Nordic welfare

states (Norway, Sweden, Denmark, and Finland), the reasons behind the Nordic miracle, and the Swedish welfare state, among others. And, in the following part, with the methodology, the main research question and problems were addressed.

The key findings of the present research are as follows:

Thesis 1: Welfare states do not react to external challenges the same way; out of three clusters from the initial typology, Social Democratic welfare states remained more stable compared to other welfare states in terms of typology and did not get closer to other welfare states by adopting policies typical of other clusters. However, the consistency of Nordic (Social Democratic) welfare states with their "typical components" was not demonstrated.

Thesis 2: Tax compliance costs had a negative impact on state intervention in both Nordic countries and economies across the board. Contrary to popular belief from the World War II period, taxes, tax compliance, or costs associated with them do not have a positive impact on state intervention in modern welfare states.

Thesis 3: Because of the 2008 global financial crisis, welfare states increased state intervention by increasing government spending; however, neither changes in overall regulations nor labor regulations had a significant impact on spending.

Thesis 4: State-owned assets have a negative correlation with government spending; welfare states with more state-owned assets appear to have weaker state intervention.

Some findings from the present investigation contradict earlier research. For example, it was suggested that coherence among the components and elements of the welfare state would not impede the new "warfare phase" (Scruggs and Alan, 2006, 2008; Rueda, 2015). However, this study has revealed that consistency is only associated with typology, with typical welfare state components shifting inside. As these changes and novel regulations take effect, so do views regarding "traditional welfare tools." It was also previously argued that both taxation and government interference aspects are typical of larger welfare states and that their collaboration may have a redistributive effect to help those in need. Further, taking the decommodification factor into account, scholars have predicted that, as a result of the crisis, the larger the welfare state, the higher the welfare state components and state intervention will be.

The results of this study are critical since the concept of a "Nordic miracle" has been widely recognized since WWII, and especially since the 1990s, as shifting political and global events focused people's attention on the Scandinavian nations. Even if sentiments toward welfare states remained favorable, their effectiveness was called into question in several circumstances. Furthermore, foreign organizational assistance to developing countries has historically justified its continued existence based on the state's inability to offer comparable services. And, while their initiatives were previously limited to underdeveloped countries to support these countries in the establishment of indigenous historical agencies, they are now expanding their efforts to Western countries with sophisticated cultural agencies (Arrhenius and Otero-Pailos, 2010). Furthermore, in the majority of cases, the primary advice for developing countries has been to spread the premise of a free market and reduce state involvement. In contrast, the intervening state and the role of culture in politics are especially significant in Scandinavian countries. As a result, the findings presented here are significant not only in the context of Scandinavian countries but also on a much broader scale; despite their drawbacks and obstacles, welfare states may be seen as responsive to external as well as internal difficulties, even if several variables contributed to responsiveness, such as Scandinavian countries' historical and cultural backgrounds, and so on. Not all policies and procedures that worked for these welfare states may be replicated in developing countries, but the lessons learned from the historical journey of developed welfare states could help to deal with, and eventually prevent, similar issues in developing countries.

Taking all of the foregoing into account, there is one additional reason why this research tends to be significant: the COVID-19 crisis. The COVID-19 crisis, which was one of the most major historical occurrences with ramifications for practically every sector of the global economy, adds to the study's relevance and provides a foundation for future research. It reintroduced welfare states to the discussion. Despite widespread belief that welfare states would collapse, state power was restored. Moreover, this particular crisis has shifted people's perspectives on many ongoing issues. While a sizable proportion of the public still supports providing benefits to retirees, voters are becoming more aware of the difficulties experienced by individuals of working age who are also in need (Curtice, 2020). More generous governments and more effective welfare systems helped to deal with it, allowing residents

to continue functioning as economic agents without dread of the future or uncertainty. More generous states can lessen the economic strain on residents, benefiting everyone.

Compared to other industrialized countries, the Nordic countries have implemented the fewest new measures to cope with the COVID-19 situation and support their residents. Because of their numerous social programs tailored to different conditions, these countries did not require dramatic measures to handle the ongoing crisis and assure the comfort of their citizens. Therefore, institutional research on welfare states is significant as it can help us learn from the past and use it in the future to create more effective risk-avoidance mechanisms.

Many governments followed politics, backing generous policies, from the beginning of the epidemic, and this is one lesson from the catastrophe. Efficient welfare states do not just view market involvement as the end of welfare provision; they also organize and employ the state's commodification authority through social services markets, which significantly expand claimant commodification (McGann, 2020). Typically, the welfare state determines the degree of risk that individuals in a given society face. Enhanced social policies reduce risk assumptions while improving population well-being. The speed with which a government imposes tough rules determines the welfare state's influence. The welfare state lessens risk concerns as the time it takes for the government to respond grows.

## **2. Literature Review**

### **2.1 Rethinking the Welfare State: Where to Begin?**

A welfare state is a complex phenomenon requiring a framework that brings together political economy, institutional economics, welfare economics, sociology, and other disciplines. As a consequence, studying welfare states requires a variety of approaches and methodologies. My research falls under the paradigm of institutional analysis.

Institutions, as well as their functions and guiding principles, are essential components of every system. In this particular instance, Hall and Soskice's (2001) approach gives valuable insights into the subject at hand. The Varieties of Capitalism method distinguishes between two types of market economies: Liberal and Coordinated, and takes a larger and more holistic perspective of welfare states and how changes in institutions, as well as their functions, may lead to varied results.

Welfare states, in a narrow sense, may similarly be distinguished. One of the most often referred pieces of literature is by Esping-Andersen (1989, 1990), which has been essential to my research. This typology divides welfare states into three categories: Social Democratic or Nordic, Liberal, Conservative, or Continental.

The Nordic welfare states are the most advanced or mature of these clusters, and they have received a lot of attention in the welfare literature. Sweden is a better example to use as a case study inside this cluster. There are numerous reasons, including, but not limited to, structural reforms in the final stages of the 18th century, which marked the beginning of a welfare state, being the cradle of Nordic welfare states because it was the first Nordic country to refer to the Bismarckian policies implemented in Prussia, exclusion from two world wars, natural resource wealth, a homogeneous population forming a foundation for solidarity, and so on. Exploring the Swedish welfare state, highlighting its historical course, obstacles, and successful assemblies, might help to learn lessons for the future of the global economy.

Beginning with the Prussian Chancellor, welfare states grew over the course of a century, peaking after World War II. The "Golden Years" were followed by two oil crises in the 1970s and 1980s, a recession in the 1990s, and a crisis in the early 2000s. As a result,

with the exception of the 2008 crisis, welfare states have been blamed for economic downturns and self-destructive features since their peak. In the next chapters, I will analyze the historical milestones of welfare states in greater depth.

As previously mentioned, a welfare state has been attributed to almost every economic downturn and crisis; nevertheless, there was one exception: the 2008 global crisis. It was the first time that a welfare state was considered a remedy rather than a cause of an economic depression. Sweden was already familiar with some of the insights from the early 2000s, making it simpler to adjust to the post-2008 period. Furthermore, Sweden's extensive social policy structure and interventionist past have helped the country adjust to changing situations far faster than other countries. The welfare state effectively allowed major social security systems to serve as built-in buffers. Furthermore, the government launched a nationwide wage replacement scheme to ensure that unemployed individuals had security. A significant feature of institutional adjustment in Scandinavian welfare states, notably in Sweden, was the increased engagement of the private sector in the financing of governmental social programs.

Investigating a welfare state prior to and following the 2008 crisis can shed light on the topic by establishing connections and giving viewpoints for the future. For instance, the COVID-19 crisis, which was a massive historical event with consequences for almost every sector of the world economy, supports the study's relevance and lays the groundwork for future research. Despite the common expectation that a welfare state would fail, it reintroduced them to the conversation.

### **2.1.1 Introduction to Welfare States**

As I mentioned above, I only used one definition for my research, but the notion of the welfare state may have been articulated in many other ways; for example, Therborn (1987) suggested that a welfare state is a system involving formal institutions for regenerating a population. It is also a governing tool, promoting the state's involvement to accommodate equality and solidarity. Welfare states have various forms and ways of

developing; in some cases, they are linked to successful policymaking. Esping-Andersen (1989) proposes four elements related to the welfare state: a class, a state, a market, and institutional logic, in order to establish welfare functions. Another approach states that the purpose of welfare states is to serve the interests of the meritocracy as much as those who benefit from social programs and redistribution (Heise and Khan, 2019).

A welfare state is a macroeconomic coordination structure involving market tools and state policymaking. The main characteristics are high taxes, intensive government intervention, a high level of welfare provisions, universal access to social services, a relatively higher level of state ownership, and a high level of decommodification. Welfare states may be the result of markets' failure to function properly. State intervention and higher taxes can be seen as disadvantages of the system. However, describing a welfare state as a tool for government intervention would not describe reality properly.

The linkage between the state and the market has been an object of analysis since classical economists. One of the main challenges is exploring the advantages and disadvantages of any scale of correlation between the two. A widely circulated argument maintains that a state is a last resort for citizens who are left to their own devices and are not supported by the market; therefore, a welfare state can bring a balance to this situation by harmonizing market and state functions; thus, a welfare state can be distinguished as a governing system consisting of tools to mitigate risks. Welfare states are a complex notion, and Therborn (1986) discussed the formulation of welfare states as a complex procedure involving not only the working class and landowners but also other important economic players, such as aristocrats, farmers, and other middle-class representatives. Therborn's idea is vital to this study, as the relationship not only between a state and a market but also between a state and its population can determine the size of welfare states (Bjørnskov and Svendsen, 2013).

One of the aspects of welfare states is decommodification, which should be added to the context, which means relying less on markets and getting support from the state in case of market shocks. Bergh (2004) emphasized that because of the inverse relationship between profit and risk, its redistributive impact can subsidize the low-income category of the population, as they are the most vulnerable to risks and relatively more dependent on

markets. With higher decommodification, governments can also increase social trust, as citizens will see the government as their last hope. Esping-Andersen (1989, 1990) explains decommodification as a tool that provides freedom from the potential shocks of markets that come with job losses, preventing welfare or income loss due to the necessities of personal and health expenses. In addition, as citizens rely on a government, it will increase social trust, which is a crucial feature for the size of a welfare state.

There are several scholars who have noted the relationship between risks, resources, and citizens. For example, Korpi (2006), with his investigation on the power resources approach, noted that there is a linkage between risks and resources, and the category with high risks in general has fewer resources to deal with them. Additionally, Neustadt and Zweifel (2015) noted that sometimes citizens who are well-provided with resources are not concerned about the huge difference between the poor and the rich, and they do not want to pay for the redistribution of income. A negative correlation was noted between social expenditures and the reinforcement of redistribution. However, according to the study by Jæger (2006), there is no clear correlation between them.

Welfare states can be classified according to a variety of criteria. Esping-Andersen and Korpi (1986) proposed one of them, stating that there are two welfare state models for economic interventionism: institutional and marginal. The first model is in favor of state interventionism, whereas the second model rejects the idea that any economy can benefit from an interventionist state. As per the institutional model, social policy is about providing basic human needs; solidarity is based on collective and equal treatment of each member; and decommodification is independence from the market. Together, the characteristics create the foundation of the model.

## **2.2 Impact of Social Relations on Welfare States**

The impact of social relations on governance and policymaking has been the subject of decades-long investigations. In general, there are two types of approaches: the first approach notes the importance of the power hierarchy; society can be an insurance policy for policy

implementation. In this view, there should be some purpose and goals for this social system. The other approach states that society is a coordination of relations; it is not important to have any reasons to formulate those relations (Niedzwiecki, 2015). The second approach explains how social capital reveals the face of a society in different countries. The key elements of welfare states are determined by social trust, which is why collaboration involving a government and the populace is critical for economic success. It can provide a solution to a variety of challenges, including: "How can the Swedish government tax so much?" and "Why are Swedish citizens much 'happier' than other nations?"; and lastly, "What are the main reasons that led to the economic prosperity in Sweden?"

Social relations and their coordination may impact the social system, and this impact may determine the level of social trust within a given society. Social trust is a crucial social and economic feature of welfare states due to the concept of solidarity. As the foundation of the welfare state relies on informal institutions, and informal institutions have the characteristics to turn into formal institutions, there is a high probability that social trust will impact the policymaking of the state. There are various measures of social trust; however, one of the most important is the World Happiness Index, which has been issued since 2012. The index can also be used as a development ratio, as it involves subjective well-being, policy implications, and other socioeconomic determinants.

Trust is one of the fundamental notions for the growth of the welfare state, and specifics such as a solid institutional framework and political confidence may protect trust. To begin with, trust aids in the fight against free-riding and budgetary concerns in the welfare state. But one point remains debatable: whether strong public trust makes a government less compromised, more universal, and more effective—or whether government conduct engenders more trust. In any event, trust is one of the main justifications for the welfare state's long-term viability.

Is there a link between trust and a welfare state? Kevins (2019) noted that the linkage between social trust and the welfare state can differ even within the same country, in addition to differing across countries and regions. The welfare state forms the impact of “outsiderness” on social trust, and the concept is associated with a low trust level that welfare policies may impact. Because of this, attitudes and opinions may vary across countries and

regions towards welfare states. However, Roosma et al. (2013) determined that attitudes are multi-dimensional. The authors found that people in Eastern and Southern countries are critical of efficiency and policy outcomes but, in general, are positive about welfare states. However, in the North and West, opinions partly depend on the negative or positive aspects of welfare states.

As welfare state policies affect people's preferences, the reverse is also true. For example, the difference between the Southern and Continental welfare states and differences in historical and cultural backgrounds affected their historical economic paths. In the southern countries, the foundation of welfare states was not just a response to modernization and industrialization but also to the huge number of people who were outsiders and needed a state's "social care." Moreover, major welfare foundational policies were accepted in these countries later than in other European welfare states, which is why the timing was also a challenge for Southern nations. Even today, problems occur quite often with the application of social policies. Ferrera (2003) discussed the following distinctive traits of the Southern welfare state:

- The first of these traits is the high relevance of transfer payments and especially the internal polarization of Southern European income maintenance systems.
- The second distinctive trait is an unbalanced distribution of protection across the standard risks and, more generally, the various functions of social policy.
- The third distinctive trait has to do with health care. While displaying high institutional fragmentation along occupational lines in their income maintenance systems, the Southern European welfare states are characterized by a universalistic approach in their healthcare systems. All four countries have legislated into existence a national health service inspired by the British model, though only Italy has implemented a fully-fledged universal service with no occupational distinctions.
- The fourth trait is constituted by a highly articulated (but occasionally collusive) mix between public and non-public actors and institutions. This trait is particularly evident in the fields of health care and social services.

- The fifth important trait has less to do with the formal or tangible architecture of the welfare state and has more to do instead with its concrete mode of functioning. I refer here to the persistence of "institutional particularism," if not outright clientelism, and, in some cases, the formation of fairly elaborated 'patronage' machines for the distribution of cash subsidies.
- The last two traits have essentially to do with the financing of welfare. Here the problem is constituted by (a) the highly uneven distribution of burdens across the various occupational groups due to legal disparities and (b) the high incidence of the 'black economy' and therefore of tax evasion. The black economy is estimated to produce between 15 percent and 30 percent of the total GDP in the countries in this area, and its presence has serious implications for the welfare state—not only its financial stability but also its overall effectiveness and legitimacy (Ferrera, 2003).

The welfare state is unlikely to face challenges from the European people in the foreseeable future, but one of the primary issues is redistribution benefits, which remain a concern in Eastern and Central Europe. Also, when an individual is economically disadvantaged, the role of the state and responsiveness to inequality become crucial principles. Individuals are in favor of state involvement if the nation at large is not in favorable economic conditions, given certain cultural and historical backdrops. Yet there are numerous situations that contradict these scenarios, such as in Eastern European nations where, according to recent research, people have become less receptive to disparities, or in France, which is considered one of the cradles of equality and is now gradually shifting its course. Still, while the positive attitude toward welfare states is growing throughout certain regions, this attitude is not consistent (Baghirzade, 2020).

Existing empirical research indicates that while there is comparatively much cross-national variation in citizens' attitudes towards the preferred scope of redistribution, there is much less variation in popular perceptions of state responsibility for providing for the needy. The relative share of social services as a proportion of public social expenditure, benefit generosity, and family benefit expenditure were all negatively correlated with citizens' support for redistribution. The empirical results arising from this study echo those in the

previous literature suggesting that no clear-cut relationship exists between welfare states and support for redistribution (Jæger, 2006).

In recent decades, there have been global changes that can be seen as threats to welfare states' structures. One of these changes is globalization, as changing values can decrease social trust within society and, by this effect, weaken welfare provisions. Individualism has acquired greater traction in the past few decades. It can have an impact on risk sharing as well as on the entire welfare state since the welfare state is built around the concept of solidarity. Globalization can also sever ties between diverse groups of people that are anchored in collectivist ideas. Furthermore, by lowering welfare values, a community risks increasing inequality. Goodhart (2001) noted a difference between poor and rich nations in terms of being impacted by globalization, arguing that welfare provisions are more democratic in developed economies than in ones historically impacted severely by imperialism. Investigations into globalization gained momentum, especially after World War II, and policymaking was impacted accordingly. As Myles and Quadagno (2002) noted, the direction and scope changed from manufacturers to service providers, and it may be one of the reasons for a decrease in productivity. Therborn (2001) noted that globalization is not just a one-factor argument but rather a broad, complex perspective. For example, in the United States of America, weakening social relations, decreasing social trust, avoiding participation in political life, and other arguments can be pieces of evidence for a shift in patterns in society. Whereas, we can observe totally contrasting patterns in Scandinavian countries, such as Sweden or Norway. The case of Scandinavian countries can be an example of how social trust may be a crucial factor for welfare states. It can even secure factors such as strong institutional infrastructure and political certainty, and social trust may sustain the long-term development of welfare states.

Korpi (2003) observes that throughout the first oil crisis, the majority of governments prioritized full employment over low inflation. On the reverse side, low inflation was the objective during the decade of the 1990s. One of the key causes of this was the founding of the European Union and its principal aims. As a result, economic success may be sustained in countries where workers, businesses, and the government have a strong connection and cooperate. The political system is equally crucial in this regard. In Sweden, for example, the

Social Democratic Party provided this type of partnership, which resulted in economic growth and stability (Baghirzade, 2020). And scholars who found out that globalization affected welfare states also have polarity in their opinions. Some scholars who defend the position that globalization will lead to the retrenchment of welfare states noted that one of the main symptoms of it is decreasing social trust. The welfare state shapes the effect of outsidership on trust, and the degree of outsidership is reliably associated with a decreased level of generalized trust. Social policy programs have the potential to mitigate the effect of that vulnerability on trust (Kevins, 2019). Cousins (2005) mentioned that the main measures of globalization are the volume of trade and foreign direct investment. In general, theories on globalization and welfare states can be categorized as follows:

- Globalization has no impact on welfare states.
- Globalization has a moderate impact.
- Globalization has had a significant impact.

Inequalities, like globalization, are plural; nonetheless, I cannot conclude that present-day circumstances and globalization aspects are one of the most significant causes of disparity. It may be used not just for local but also for global circumstances. Goodhart (2001) mentioned that even if, for the rest of the world, globalization is the new face of the Western market economy, citizens of Western democracies feel terribly aggrieved by it. “The erosion of the welfare state brought on by increased international competition can hardly seem undemocratic to poorer countries long chafed by a global system of inequality and domination in which generous social provisions (built on the backbone of conquest and empire) are seen as democratic entitlements only for citizens of wealthy Western states.” (Therborn, 2001)

According to Myles and Quadagno (2002), the cause of poor productivity is also partly tied to globalization, since a shift in employment from manufacturing to services contributes significantly to productivity loss. Additionally, gender equality was added to the current suggestions throughout the post-industrial period. Initial studies neglected women's economic roles, failing to account for the importance of the welfare state for human reproduction (Bolzendahl and Brooks, 2007). Nonetheless, scholars such as Therborn (1973) highlight not only class but gender connections within welfare states. He defines welfare

states as social reproduction systems. Investigations into women and the welfare state raise various problems and evoke fresh debates on gender parity. Women's mobilization affects the establishment of families, which decreases patriarchy in a social system, even if the policy impact is mixed. Furthermore, Therborn (1973) argues that the welfare state creates various post-industrial issues, such as an aging population and decreased fertility—relevant issues in most modern countries. To address these issues, the knowledge economy elevates the prominence of educational institutions, investigations, and research in general within the framework of economics.

Gender has also transformed class relations. In general, women support a welfare state and are more risk-avoidant than men. Most of them are employed by the government, and the idea of a bright future that the government can provide them with is attractive. Early economists made the mistake of excluding women's role in the economy and the welfare state's human reproduction. However, later studies showed that women's political mobilization can lead to a more cooperative society and can even increase the feeling of national identity and social trust. Women's labor participation was revolutionary and changed the gender equality debate in a different direction. But this participation created another problem vital for the future of a welfare state: low fertility, now one of the obstacles on the road to the prosperity of a modern welfare state. As women started to work, they decided to concentrate on their careers more than on family, and family sizes started to decrease. Swedish families today rarely have three or four children. As the age pyramid changes, the tax-paying population decreases, and pressure on pension funds increases. This problem can be compensated for with effective demographic policymaking, depending on the political party in power and the electorate's current needs. Congleton and Bose (2010) argued that the association between income and political opinions during the election cycle is good, and legislators should meet the requirements of the voters. According to Park and Shin (2019), welfare provisions and social support weaken the relationship between macroeconomic outcomes and the electorate's benefits. Further, the authors state, "The economy remains the most salient issue in elections, and this tendency makes citizens who are not protected by welfare programs ignore some other important democratic values such as tolerance, transparency, equality, etc. when making decisions" (Park and Shin, 2019;

Goodhart, 2001). Therborn (1989), too, noted a significant link between democracy and the sovereign state:

“What welfare states do is distinguished by social administration, social education, social reform, and social steering. As such, it is problematic both for integrative and aggregative theories of democracy; it can also include the possibility of calling forth more signals from the population than less ambitious democratic policies.” (Therborn, 1989)

Social administration, social education, social reform, and social steering characterize welfare states. Therefore, each of these factors is troublesome for both holistic and aggregative models of democracy; they may also elicit more signals from the people than shorter-term democratic programs (Therborn, 1989). According to some studies, a welfare state is not suitable for today’s democratic measures, and government intervention affects market activity, which is not acceptable for a capitalist society. Still, some surveys show that people would choose economic prosperity and stability over political freedom. Even in this case, I cannot conclude that welfare states hinder democracy. For example, in 2016, Sweden ranked as the most democratic country in the world, and many other indexes show that Sweden is doing better than other members of the Organization for Economic Cooperation and Development. Sen (1999) contrasted having political liberties with meeting economic demands, claiming individuals would always pick the latter. He also said that it is difficult to dismiss the premise that these rights and economic progress bear no relationship, either way. Because political liberty and freedom are important in their own right, arguments in their favor are unaffected (Sen, 1999).

## **2.3 Origins and Historical Path of Welfare States**

Prior to the development of the welfare state, there was a shortage of caregivers to face everyday risks. Therefore, the primary caregiver was the family. Providing public goods to citizens was an analog of the “parental role” of monarchs, and earlier support by monarchies was a preindustrial foundation for welfare provisions. This historical aspect made welfare

states more acceptable to communities in Western Europe as a second form of familial government (McDonagh, 2015).

Even today, there are different preferences among the European and American electorates, and the former citizens are more in favor of providing support to people in need. For some investigators, this distinction is directly related to ethnic backgrounds and differences across countries and regions (Aarøe and Petersen, 2014). Esping-Andersen (1989, 1990) observed that the move to form welfare states started before democracy had developed; in fact, their main purpose was to stop democracy's further development. Germany under Bismarck and France under Napoleon II contributed to this process. On the other hand, in countries such as the United States, where democracy developed earlier, welfare states remained underdeveloped for a long period of time. In the nineteenth century, when the conservative Prussian Chancellor declared his welfare schemes, the well-being of people, social order, and other welfare components were not state priorities, he used them to attract average citizens to his side and to prevent them from joining and supporting social movements. At this stage of the welfare state, Bismarck proposed insurance in exchange for votes and loyalty from workers.

Out of Bismarck's side-spread insurance schemes, compulsory accident insurance was the most famous after industrialization gained momentum. A sickness policy was a new idea, and most elites were in favor of it (Kuhnle, 1978). Furthermore, unemployment benefits were not included in Bismarck's legislation since, by that time, the economic uncertainties were too great. Still, other policies were more tangible and required decisions by policymakers. Consequently, starting with the Bismarckian changes, welfare policies gained momentum. The four major policies were old-age pensions, work accidents, unemployment, and sickness benefits. The beginning of our present stage in the development of the welfare state can be traced to Bismarck's large-scale social insurance schemes of the last quarter of the nineteenth century:

- Accident insurance was spread all over the world after industrialization accelerated.
- Protection against sickness was a more innovative concept. Many, and generally the elite, favored it.

- Taking into consideration that the risk of old age is the most universal and, by itself, governmental initiatives on this concept might be expected to be the most easily accepted, government unemployment insurance legislation did not exist before the 1880s and was not included in Bismarck's agenda for social legislation. The form and range of unemployment were hard to predict, and accidents, sickness, and old age were more tangible issues visible to a relatively larger number of people and experienced by more people, including decision-makers in legislatures and governments (Kuhnle, 1978).

No industrialized country with a GNP of at least 40% of the United Kingdom and at least one-quarter of the population employed in industry has failed to implement at least two welfare programs; only Switzerland has failed to implement at least three. Only four European nations did not satisfy these thresholds, and two of them were part of bigger nation-states: Ireland (which had a high GNP) was part of the United Kingdom, and Hungary was part of the Austro-Hungarian Empire. Only Spain and Romania had low levels of income and industrialization and were not yet consolidated; however, we lack information on the scale of each country's program to determine how widespread they were in actuality (Cousins, 2005).

In the post-WWII period, there were still nations that did not implement all welfare measures, such as Italy, France, and Switzerland, and their fundamental feature was that they had relatively modest levels of economic development and industrialization. Furthermore, no rich or industrialized European country lacked a well-established welfare system. Germany and Austria had the most developed welfare systems, with programs in all three areas—sickness, old age, and unemployment—with scope and benefit levels that were at or above average in all situations. The UK system typically had a relatively broad reach but average-to-low benefits (Cousins, 2005).

Before WWI, the most popular policy was the work accident benefit, and the least popular was the unemployment benefit. During the next period, between post-WWI and the 1950s, countries such as Italy, France, and Switzerland did not adopt all welfare policies due to low levels of economic development and industrialization. Of all the schemes proposed, Germany and Austria had the most developed welfare states. Starting in the 1950s,

government spending increased significantly; in addition, family allowances were introduced. In this period, Germany and Austria were recovering from the consequences of World War II (Cousins, 2005; Baghirzade, 2020).

After two world wars, the European economy as a whole was not in a good situation, and rapid changes were needed. Governments started to apply Keynesian ideas to their policies, initiating the golden period for the welfare state. The post-war settlement in many Western countries cemented the place of an extensive and comprehensive social policy in modern politics. Income, GDP, and government expenditure started to rise, unemployment was low, and the state became a reliable component of society and the system as a whole. Because people's trust in their governments started to increase, confidence in the state was seen as a crucial element in determining the range of a welfare state. Even higher taxes were not a problem.

The peak of welfare development occurred during the post-WWII expansion. High social spending, widespread welfare policies, and interventionist states were major elements of this period. The process of strengthening after World War II relied on allies of the new middle class, and by that time, the biggest challenge was to create harmony among all workers based on solidarity. However, later, the downturn tendency occurred: for two decades in a row, the global economy experienced consecutive oil crises (Esping-Andersen, 1989, 1990).

After WWII, public awareness of inequality was brought to the center of consideration. It is worth noting that, while inequality and poverty are distinct ideas, the idea of people being discriminated against in social situations arose from a lack of resources, which may connect the two. Monetary achievement, which came after World War II, resulted in an alteration in political inclinations as well as a rise in government spending on welfare initiatives. Throughout the decade of the 1970s, the initial oil price crisis was accompanied by stagflation, demonstrating the differing approaches to coping with this challenge.

While increased welfare state spending post-WWII was a result of the change in political preferences and the population's interest in new social policies (Lindbeck, 2004), in the mid-1970s, due to the changes in policymaking, social expenditures went down dramatically (Alber, 1988). However, attitudes toward the welfare state and its social

programs were still positive. Since the crisis, the welfare state's retrenchment has been subject to debate. Moreover, the significance of the factors that led to the welfare state's golden years is also uncertain, due to changing economic and political conditions. Welfare states exist where social policies serve capitalist society and the implications of both "means" exist in harmony, i.e., not hindering each other but supporting and creating circumstances for economic and social development. Following the initial oil price recession, economists have commonly claimed that the welfare state is in trouble. The key premise of this discussion is that a welfare state reduces the desire to work and benefits capital velocity. According to several analyses, the fundamental impediment to the 1970s crisis was the welfare state, which indicated that the theoretical concepts could not be fully fulfilled. In a nutshell, following WWII, the golden era of welfare state prosperity precipitated the subsequent slump. Keynesian concepts might be considered the primary causes, yet we may argue that these concepts can offer a theoretical basis for capital-labor compromise. The main aspect here is that a capitalist economy and a welfare state cannot exist separately without each other (Baghirzade, 2020).

Two oil-price crises hit welfare states hard. The first was not so crucial, yet after the second, governments began to decrease expenditures, and other social programmers' funding decreased. Many countries used the depreciation of their currencies to increase export-driven economies to exit the crisis. The most important factor at the time was the United States dollar, worsening the situation.

Widespread unemployment was one of the most serious issues, if not the primary one. To address this problem, industrialized economies expanded social spending. Nations began to boost their spending at the beginning of the second oil crisis, in the early 1980s, but the time frame was entirely distinct from the one before it, as it caused an unprecedented rise in real interest rates, creating an obstacle that was not a real issue throughout the previous decades. The world economy faced another slump in the 1990s. Government spending in Scandinavian nations increased at first, then fell; however, Nordic expenditures remained relatively high. Overall, those nations performed far better than other advanced countries. Sweden, for instance, had a surplus in its budget toward the end of the 1990s, and taxes were critical in creating that circumstance. Rueda (2015) distinguished the period from the mid-

90s to the crisis of 2008 as a workfare phase for welfare states. After the transition to this phase, social assistance would be eliminated, along with strengthened labor laws and incentives for individuals to work. Even if there seems to be a general trend in developed countries toward more citizens demanding welfare, there also seems to be a far more contested trend toward more encouraging workfare. More importantly, the function of social assistance policies in the workfare state era seems to be far less equitable in terms of earnings gaps and redistribution (Rueda, 2015).

At the beginning of the twenty-first century, the situation did not change much; countries were consistently recovering from the impacts of earlier recessions. The EU's support for the recovery came in the form of the Lisbon Agenda at the 2000 summit, which would promote social welfare and competitiveness by 2010 by reducing the unemployment rate, investing in research and development, protecting people in need, improving the European welfare state, etc. This agenda was not successful in many respects (Einhorn and Logue, 2010). Moreover, the global income disparity assessed in GNP per capita has consistently grown over the previous two centuries, yet if purchasing power is considered, the findings are more equitable (Therborn, 2001).

## **2.4 Different Types of Welfare States**

The literature suggests that European welfare states exhibit distinctive qualities. Primarily, overall, Europeans spend far more than non-European welfare nations, and expenditure is proportional to economic progress. In accordance with the OECD (Organization for Economic Cooperation and Development), European nations' expenditure ranged from 16.5 to 29.2 percent of GDP (GNP in the case of Ireland), whereas the rest of the OECD spent 6.1 to 18.5 percent. Except for Ireland, there is a much closer correlation between welfare expenditure and the level of economic development in Europe than there is outside Europe. The coefficient of correlation for OECD Europe is 0.65; for the remaining countries of the OECD, this is 0.45, and the association between economic growth and social spending for the more advanced OECD nations outside of Europe is severely negative (Cousins, 2005). However, if the level of social expenditures is high and is followed by a

high level of unemployment, these factors can lead to a relatively modest positive effect in the short run, which is crowded out by adverse medium- and long-run effects (Halla et al., 2010). At the same time, increased welfare state spending is the result of a change in political preferences and globalization; the population's interest in new social policies should also be taken into consideration (Kwiek, 2007). It is also likely that the demand for income protection and social services tends to rise more than income (an income elasticity greater than one) (Lindbeck, 2004).

Social services and welfare provisions are different across countries, depending on the welfare state classification. According to Esping-Andersen (1989, 1990), the typology of welfare states was noted as follows: 1) Liberal, which is characterized by low de-commodification (examples include the UK and the USA); 2) Corporatist, which is characterized by social services such as insurance and employee benefits being privatized (examples include Austria and Germany); and 3) Social Democratic, which is characterized by high decommodification (examples include Norway and Denmark). The link between the state and the religious community is critical for corporatist welfare states, in which market-labor incentives play a major role. Furthermore, this group is distinguished by equal treatment, wealth redistribution, low levels of unemployment, and women's strong labor force participation (Bagirzade, 2020).

Esping-Andersen (1989, 1990) proposed one of the most crucial classifications, subsequently re-examined by Scruggs and Allan (2006, 2008) and other scholars. Despite their criticism, they accepted Esping-Andersen's classification. Scruggs and Allan (2006, 2008) conducted an investigation based on the typology of welfare states in eighteen OECD countries, re-calculating the decommodification index, which consisted of old age benefits, unemployment benefits, and sickness benefits. According to Scruggs and Allan (2006, 2008), initial conservative welfare states, as a result, became more liberal. On the other hand, two liberal welfare states, New Zealand and Canada, according to their benefits scores, were closer to conservative welfare states France and Finland than to other liberal welfare states. Scores from the Netherlands and Switzerland were close to those of the Nordic welfare state of Sweden. Regardless of these differences, the Nordic countries were classified as Social Democratic welfare states. To see Nordic countries as a much broader notion rather than a

universal welfare state with high taxation is another most-debated argument in investigating the topic.

Furthermore, Van der Veen and Van der Brug (2013), by re-examining this typology, noted that these country scores as constructs are not valid. Welfare states can be distinguished in terms of welfare spending, income disparity, and decommodification, as these are crucial welfare components.

Residents of Liberal welfare states such as Australia, New Zealand, and the United States rely heavily on private corporations for social assistance. As Kuhnle (1978) stated, if liberalism is weak, compulsory insurance is likely, but the organizational solution is dependent upon the existence and strength of voluntary insurance organizations. If liberalism is strong, the principle of voluntary insurance can survive when an extensive network of private organizations exists, while compulsory insurance is more likely if such a network is missing. On the other hand, the Scandinavian welfare state is substantially more universal and institutional. Sweden's welfare state was and continues to be a key influence on economic progress (Esping-Andersen and Korpi, 1986). Moreover, observers may encounter some difficulty in understanding the different names for the types of welfare states, such as Social Democratic, Nordic, and Scandinavian, which all point to the same cluster. Welfare states can be distinguished based on social benefit factors, such as their basic principles and the programs' monitoring schemes. Based on these factors, the targeted, voluntary, state-subsidized, basic security, state corporatist, and encompassing models can be categorized. For the time being, the last three options are more relevant (Korpi, 2003).

Further, historical and political regimes may also be a reason for a denomination, and social policies can be developed as a response (Bergh, 2014). As Valocchi (1992) states, from the beginning stages, workers gained supporters from other socioeconomic groups to gain a greater share of the popular vote, and they were effective in forming the current welfare state from a universal perspective.

Welfare states do not rely on the same approaches to development but may change and acquire new characteristics over time. In particular, this is true for Bismarckian or Conservative welfare states that accommodate new social risks in various ways, while for Liberal welfare states, the process is relatively slow, depending on the country. Andreß and

Heien (2001) focused on comparing representatives of Conservative, Social Democratic, and Liberal welfare states in Germany, Norway, and the US, respectively, where specific characteristics for each country have found support: e.g., the class split in the United States, the labor-related split in Germany, and the gender-related split in Norway. Moreover, support for anti-egalitarianism or egalitarianism, support for the needy, healthcare, education, and many more also linked individual-level predictors with cross-country variation.

## **2.5 Characteristics and Development of the Nordic Welfare States**

Nordic countries fall into the category of Social Democratic welfare states, and these terms are interchangeable in most cases. One of the main characteristics is a high level of decommodification or less dependency on markets. The definition of the Nordic welfare state adopted for this research marks an extreme, with the highest government spending, welfare provisions, taxes, and the highest level of solidarity with universal access to social services.

In countries where the social system maintains substantial residual features, citizens rely heavily on private firms for social assistance, whereas Corporatist welfare states withhold subsidies and social assistance from a huge part of the general population. On the opposite end of the spectrum, the Nordic welfare state model is significantly more widespread and institutional (Esping-Andersen and Korpi, 1986).

The Nordic welfare states were able to differentiate themselves with high social provisions and generous benefits. Moreover, the crucial aspect was a harmonization of the labor market and relations among the involved economic factors that led to more efficient and productive outcomes. Nordic countries are also associated with a relatively higher level of social trust and a low level of inequality, which can directly affect the well-being of citizens and their attitudes toward the state (Gulbrandsen, 2018; Sachweh and Olafsdottir, 2012; Korpi and Palme, 1998). Because the distribution of resources and spending on welfare are strongly related, increased distribution may result in a higher welfare supply. Greater social spending also reduces reliance on markets, enhancing people's social protection. As a

result, taxation and welfare provisions contribute to redistribution by encouraging decommodification (Rueda, 2015).

The World Happiness Report (Helliwell et al., 2021) has produced questionnaire-based rankings since 2013, and the Nordic countries (Sweden, Norway, Finland, and Norway) have been in the top ten. Topics related to the level of social trust and social spending, welfare provisions, and others were among the questions asked of citizens. In 2021, Finland was in first place, followed by Iceland and Denmark. Table 1 compares the 2017–19 and 2020 results. Moreover, an interesting fact is that the Netherlands and Switzerland scored closer to the Nordics. As per the results, the changes at the top levels were not materially significant; approximately the same countries were at the top. In 2020, the global GDP level went down and unemployment rates increased; therefore, as per the report, generally, there was a negative tendency in the answers on well-being and decreased life satisfaction levels.

Table 1. World Happiness Report: Rankings

<b>Country</b>	<b>2020</b>	<b>2017-19</b>
Finland	1	1
Iceland	2	4
Denmark	3	2
Switzerland	4	3
Netherlands	5	6
Sweden	6	7
Germany	7	15
Norway	8	5
New Zealand	9	8
Austria	10	9

<b>Country</b>	<b>2020</b>	<b>2017-19</b>
Israel	11	12
Australia	12	11
Ireland	13	14
US	14	16
Canada	15	10
Czech Republic	16	17
Belgium	17	18
UK	18	13
Taiwan Province of China	19	24
France	20	21

Source: Helliwell et al. (2021)

Various studies and measures have assessed people's degree of happiness, or whether they feel content with their current circumstances. It is crucial for the Swedish welfare state, as this welfare state is more focused on citizens' well-being while at the same time providing free access to social services. Therefore, the level of people's happiness and social trust in a state can be seen as measures of the sustainability of welfare provisions and policies. Pacek and Radcliff (2008) employed self-reported happiness metrics, finding that Nordic nations, particularly Sweden, rank first. People are generally content with their current circumstances, which is one of the grounds for a nation's confidence in a governing body—crucial for the implementation of social programs. People are drawn to widespread and generally accessible services, such as medical care, schooling, and social security.

Although people have an interest in welfare states, their scale and magnitude vary among regions. Svendsen et al. (2012) performed research comparing Denmark and Germany, two examples of Social Democratic and Conservative welfare states, respectively, and found that universal access to public goods and the efficiency of institutions have an

impact on social trust. Historical background remains a crucial factor, however; for example, in Denmark, social trust grew steadily over time, while in Germany it did not. In the modern welfare state, and particularly in traditional Nordic countries, social trust continues to grow due to a stable political environment and allowances from the government. The formation of a unique Nordic welfare state began at the start of the 20th century, and the aftermath of World War II became the golden era when political parties in Nordic countries promoted social services and welfare provisions related to a wide range of services, from education to healthcare (Choe, 2011).

There are various investigations into the welfare state's components, such as the level of happiness. Gainer (2013) contributed the following results, confirming that the range and scope of a welfare state can positively impact the level of happiness, and not only the average level but also the least advantaged in society are getting benefits. For that, Nordic welfare states are obvious examples.

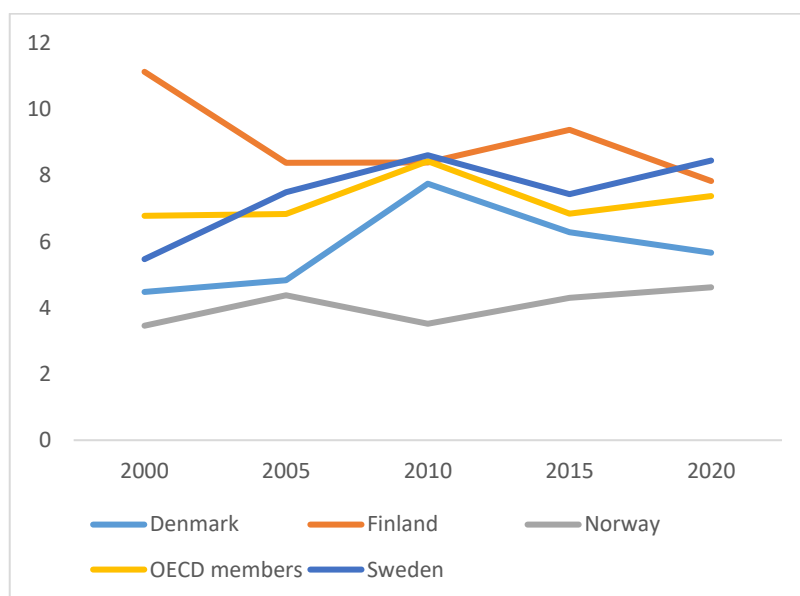
Table 2. Welfare State Characteristics

<b>Welfare State</b>	<b>Decommodification</b>	<b>Income Tax</b>	<b>Distribution of Resources</b>	<b>State Provisions</b>
Social Democratic	High	High	Mostly State	High
Conservative	Moderate	High and Moderate	Both	Moderate
Liberal	Low	Low	Mostly Market	Low

Source: Esping-Andersen (1989, 1990)

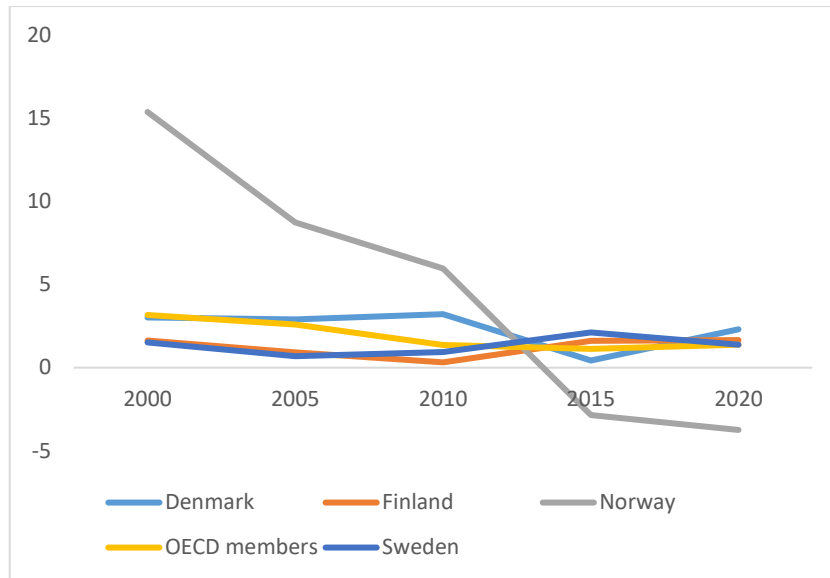
One of the significant components of policymaking for Nordic welfare states is a low unemployment rate. While comparing four Nordic countries with other OECD countries, it could be observed that rates were lower in Norway and Denmark from 2000 until 2020. In Sweden, the unemployment rate was lower than in OECD countries at the beginning of the

period and higher than in OECD countries at the end of the period. As per Figure 1, ratios for Finland were higher than those of OECD countries throughout the period. In 2020, Sweden, Finland, and OECD countries had similar rates, while Denmark's was 0.5 higher. Since the Phillips curve hypothesizes a negative correlation between inflation and unemployment rates, it would be more convenient to compare the above-mentioned Nordic countries with OECD countries in terms of inflation rates. Based on Figure 2, at the beginning of the 2000s, the inflation rate was higher in Norway when compared with others; in 2020, the rate was the lowest. However, from 2000–2020, ratios for Sweden, Finland, and Denmark had never been higher than 3.22, while for the OECD, the highest point was 3.17.



Source: OECD (2022)

Figure 1. Nordic Welfare States vs OECD Countries - Unemployment Rate (% of total force)



Source: World Bank (2022)

Figure 2. Nordic Welfare States vs OECD Countries - Inflation, GDP Deflator (annual %)

After WWII, governments began to increase social expenditures and other welfare provisions, ushering in the "Golden Age" of welfare states. Following the two oil crises, Nordic countries were able to recover, but the 1990s recession affected all countries, including Social Democratic welfare states. "Outmoded" policies that were incompatible with the new-age reality were among the primary causes of the recession and vulnerability. The Nordic welfare states, as well as other developed countries, were not ready and experienced serious downward trends for all economic ratios. However, when it came to the 2008 financial crisis, welfare states, in particular, stood out. The Nordic countries were less unprepared than in the earlier crisis.

Kuisma (2007) noted that in the case of Nordic welfare states, history and cultural background may provide insights into policymaking differences. Historically, the building, development, and maintenance of this welfare state were based on national identity, which, in the global age, can cause a welfare state crisis. Other scholars disagree, arguing that, on the contrary, globalization can be a crucial factor for modern welfare states to survive and adapt to the changing, dynamic environment. Therefore, "welfare state nationalism" can be transformed into "welfare state internationalism," which does not prevent but rather

accelerates the development of a welfare state (Baghirzade, 2020). Kuisma (2007) maintained that the process of changing Nordic welfare states had already begun, and in the 1990s, due to the impact of the recession, this cluster had to adapt to the changing environment. However, much more investigation is required to determine whether Nordic welfare states may deal with the changes by transforming. In addition, the consistent performance of Nordic welfare state economies relies on strong formal and informal institutions behind the “Nordic miracle”, as MacCarthy (2012) mentioned. There is not one reason, but rather a combination of reasons and factors; a combination of facilitating conditions rather than specific factors explains their resilience: a strong labor movement, a unique system of wage determination, institutional complementarity between this system and welfare state services and benefits, influential economists, a historically uncorrupt and efficient civil service, a strong rural counter-culture that is easily mobilized for “economic nationalism,” and widespread egalitarian values (MacCarthy, 2012).

While discussing the foundation of Nordic welfare states, the most frequent arguments occur over politics; however, one of the least mentioned but important factors is religion, which created the necessary conditions for the foundation of the welfare state in Nordic countries. While welfare researchers have not been actively involved in such discussions, historians have emphasized the church-state relationship and its impact on Nordic countries. They argue that the history of Lutheranism may explain the similarities among the modern Nordic welfare states. As mentioned by historians, Lutheranism has been one of the most influential factors in social and economic life in Nordic countries for centuries, yet its impact significantly decreased in the nineteenth century. Yet even before the Bismarckian policies started to gain momentum in Europe, the Lutheran Church created a few favorable conditions to implement a welfare state in Scandinavia. However, at the same time, churches across the Nordic countries threatened citizens’ rights and the future of the economy. Therefore, starting in the eighteenth century, people began to protest against the idea of an interventionist state and church, and even if Lutheran churches had a crucial historical role in starting the formation of welfare states, later movements against the church’s role completed welfare state implementation in Nordic countries.

However, even among Nordic countries, there are several differences specific to each country: first, on several occasions, national collective bargaining in Norway has involved the state, while the Swedish state is rarely ever engaged in national wage negotiations. Second, in Norway, unemployment benefits are administered by public authorities. In Sweden and Denmark, such benefits are administered by unemployment insurance funds, separate organizations that are, to a large extent, related to labor unions. Third, despite the increasing privatization of public companies and services, the private welfare sector in Norway is small. In contrast, the conservative government that ruled Sweden from 2006 to 2014 emphasized the privatization of welfare services. As a result, the private welfare sector in Sweden is significantly larger than in Norway and the other Nordic countries. Fourth, Norway is characterized by active policies to preserve the widely scattered spatial distribution of the population (a result of the strong position of the workers mentioned). Substantial economic transfers to rural areas are a significant element of these policies. In contrast, Sweden has no similar policies for rural areas (MacCarthy, 2012).

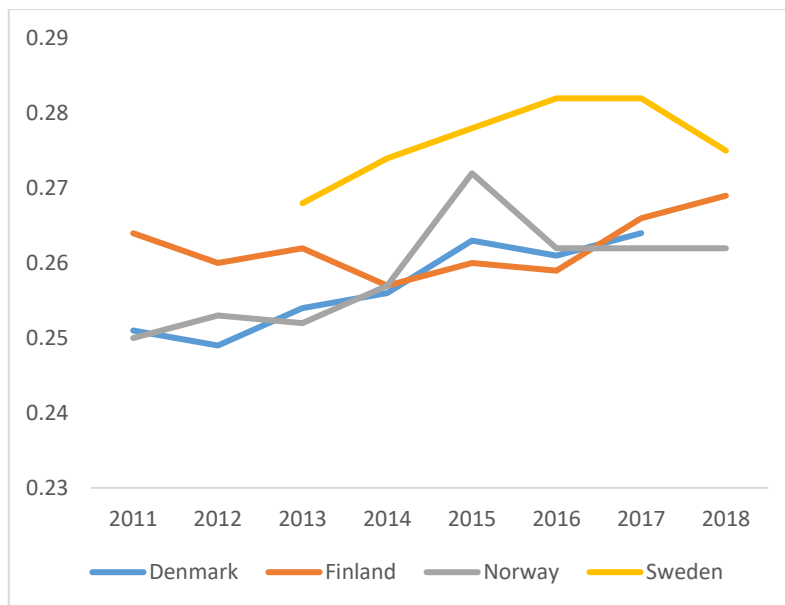
In addition to the differences mentioned above, Denmark is closest to the pure Nordic welfare state model, and Finland, as it was from the beginning, is closer to continental or Bismarckian in its approach. In recent years, both Sweden and Norway have approached the continental model by instituting more contributions from employers and employees, with Sweden proceeding the furthest through its introduction of a general supplementary pension scheme. The three dominant European social security systems—the Bismarckian, the Beveridgean, and the Scandinavian—have approached one another in the last two decades, yet their main features are clearly visible in social legislation (Anderson, 1984).

During the 1970s, important social changes in Denmark reinforced longstanding values of cooperative conduct and mutual trust, providing economic stability for single mothers, the disabled, disability pensioners, the uninsured, the unemployed, and others. These laws should be considered a further establishment and definition of prior regulations of civil rights in the nineteenth and early twentieth centuries, such as those found in the notably liberal Danish Constitution of 1849. These laws introduced voting rights, freedom of speech, the right to free assembly, and the world's first mandatory school system in 1814 (Svendsen et al. 2012).

In 1970s Finland, there were three years with no economic growth; in the 1980s, the nation was often described as Europe's Japan; and in the 1990s, all such talk vanished completely when the economy took a downward turn unprecedented in the history of measured GDP, excluding wartime (Sihvo and Uusitalo, 1995). Sweden and Finland suffered serious crises in the early 1990s, when Denmark also had to bail out the Faroe Islands. Norway has never stopped thinking about the sustainability of its oil wealth and has recently “studied” possible shocks from global interdependence. Lessons learned in the process helped Nordic leaders make rapid adjustments, while the Nordic people either saw the need for discipline or, cushioned by higher incomes and social protection, developed a higher patience threshold. The Nordic countries' apparent resilience to the storm attracted much admiration, and curious officials swamped the region, seeking elements they could poach (MacCarthy, 2012). In addition to these historical lessons, the consistency of Nordic welfare states relies on strong formal and informal institutions behind the “Nordic miracle.” The universal concept of welfare provisions, free access to health, education, and social services, and high levels of life satisfaction among citizens are the results of this strong institutional impact.

Furthermore, family history is an important feature for future reference. For example, Sirniö et al. (2013) investigated the association between family background and socioeconomic outcomes among Finnish adults. Despite its impact on personal income at all levels of academic achievement, a higher educational level greatly improves the chance of avoiding poor income, regardless of parental income. Sirniö et al. (2013) argued that intergenerational socioeconomic position research should focus on children's prospects and how their social status and job prospects in adulthood are tied to their familial history. When this association is weak and children occupy other socioeconomic positions than their parents, there is a high level of equality of opportunity: possessing a specific position is equally reachable for people with identical traits who put in the same amount of work. The findings revealed that, in addition to parental income, many socio-demographic characteristics influence adult social status and welfare, and that these factors interact (Sirniö et al., 2013).

For Nordic welfare states, inequality levels are lower than in other countries, so presenting the Gini index for Nordic countries may bring clarification. The Gini index represents income inequality; therefore, it could be expected that for Nordic countries, ratios would be closer to zero (0) than to one (1). As per Figure 3, for Denmark, Finland, Norway, and Sweden, ratios had been between 0.2 and 0.3, which indicated relative equality; among the four countries, Sweden had the highest rates throughout the period.



Source: OECD (2022)

Figure 3. Gini Index - Nordic Welfare States

## 2.6 Evaluation of the Swedish Welfare State as a Case Study

The Swedish success story starting after WWII initiated a high level of interest from scholars and policymakers. Sweden is the most frequently referenced welfare state in the literature. In addition to the availability of data resources, my previous research was related to the Swedish welfare state; therefore, I had specific knowledge about this welfare state in advance. In terms of universality, the Swedish welfare state is unparalleled. As Brady and

Bostic (2015) stated, “universalism is defined as homogeneity across the population in benefits, coverage, and eligibility”.

Sweden underwent structural reforms in the final stages of the 18th century, which marked the beginning of a welfare state. Due to agrarian reforms, economic growth began to distinguish itself from universalism, and the government began to intervene in markets more frequently. Disputes between the bureaucracy and the government, as well as compromises between rural laborers and the throne and cooperation between city merchants and those in authority, have accelerated the growth of institutionalized welfare services. As Therborn (1986) stated, the centralized issue of "state-building" is beneficial in understanding the earliest stages of the current welfare state, which began with the development of free schooling and broad healthcare systems. These institutions were accompanied by an acute awareness of the socioeconomic and various social contexts in which the eighteenth-century development of the state occurred and was implemented (Therborn, 1986). Also, exclusion from two world wars, richness in natural resources, a homogenous population forming a basis for solidarity, and other factors all played important roles in allowing Sweden to build a unique Nordic welfare state. Furthermore, Sweden was the cradle of Nordic welfare states because it was the first Nordic country to refer to the Bismarckian policies implemented in Prussia. The main characteristics of the Swedish welfare state are a high level of de commodification, high government spending, a high level of income tax, a favorable ratio of income disparity, and, as one of the measures of improvement and progress, high ranks for the happiness index.

Following initial Swedish protests in the nineteenth century, authorities resolved to implement Bismarck's social ideas at a time when Conservatives were in power. Following Conservatives and Liberals, Social Democrats took authority in Sweden at the turn of the century. Social Democrats began to establish welfare programs as a revolutionary party, and based on initial improvements, the party created new common, tax-supported government programs, infrastructure projects, and complete employment plans (Valocchi, 1992). Among Scandinavian nations, Sweden was the very first to refer to these welfare proposals (Kuhnle, 1978).

When the Social Democrats came into power in Sweden, they did not change the path that had been decided by the previous government. On the other hand, the country experienced hard times at the beginning of the period. Policies did not work, and farmers and workers were not happy with the situation. Then, the government started to consider everyone's needs in order to reach the golden middle.

Due to the powerful labor force, the party of Social Democrats became the focal point of interest, and beginning in the 1930s, emerging themes in social legislation emerged, such as equal treatment, generosity, compassion, and unity, as Social Democrats thought about welfare state policies in a class-based manner. Even though the world economy was in the grips of the Great Depression, Sweden had an unprecedented turnout. The right-wing groups were never unified in opposition to the welfare state, and the faction that was the most extreme opponent was frequently penalized by the electorate (Bergh and Erlingsson, 2009).

Moreover, while discussing insights from Sweden, Bergh (2004) noted that growth in raw material utilization was a common explanation for the prosperous times of 1870–1970. When manufacturing acquired traction in Britain, so did the need for Swedish lumber and ore. A different popular hypothesis is that Sweden benefited from remaining out of both world wars. However, this argument is insufficient and no longer appears to be appropriate for that time period. The phenomenon is often referred to as the curse of resourcefulness, and it describes the potential of natural resources to produce disputes, fraud, and harmful behaviors, impeding progress in the absence of appropriate institutions. State interference ought to be highlighted while discussing state functions in welfare states. However, welfare states do not constitute the sole issue.

Despite the underdeveloped Swedish economy in the latter part of the nineteenth century (and essentially in the latter part of the twentieth), the economy witnessed rapid expansion following World War II. Esping-Andersen and Korpi (1986) split this time span into two parts; in the first, the dominant concern was to establish a comprehensive system of universal social protection on the basis of the flat-rate benefit system. During the 1960s, the trend shifted towards earnings-related benefits and a stronger emphasis on adequacy. Furthermore, the intervention of the state also started to increase. Therborn (1987) defines the idea that the Swedish welfare system has a very long tradition that has not changed

dramatically in the new era. We might also point to the rather high increase between 1950 and 1960, which has to do with the enforcement of the new Social Security Act.

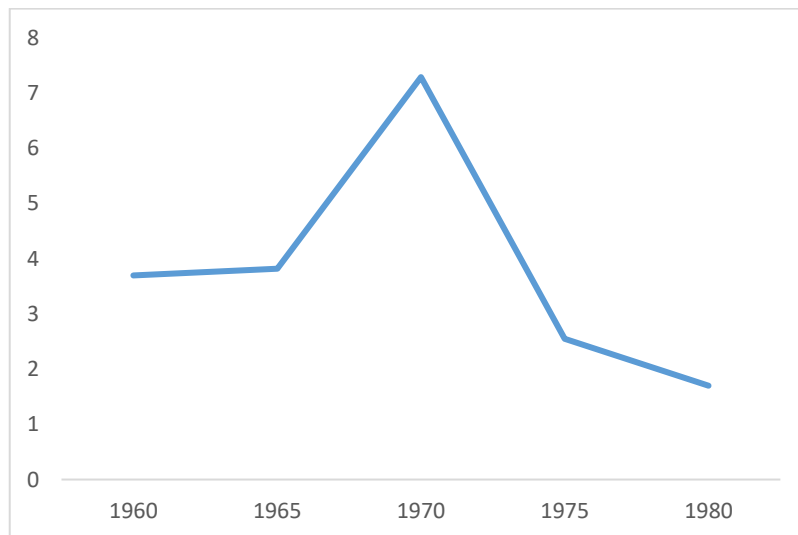
Later, many scholars criticized the welfare state for Sweden's lagging behind other industrialized countries since the beginning of the oil recession, which generated the predicament known as "Swedosclerosis—decades of decline after the golden years. According to this viewpoint, Sweden's situation prior to the 1970s seemed more appropriate, and in the decade that followed, economic development began to slow, and the main problem was the welfare state itself (Korpi, 2000). Einhorn and Logue (2010) added the following: "Sweden managed to smooth out the economic turbulence of the 1974–84 period through aggressive Keynesianism: countercyclical fiscal policies, the production for inventory scheme, active labor market programs, industrial policies to downsize the shipbuilding and steel industries, and currency devaluations."

Essentially, the structural basis for the welfare state in Sweden was entirely distinct from those of other nations, and Sweden had social democratic traditions dating back to the nineteenth century. Finally, alliances among diverse political groups were more solid. Bergh (2014) argued that the key to Sweden's success before 1970 was the combination of universal welfare state policies and a well-functioning capitalist economy. The welfare state and the market economy played different roles and worked well together, creating both prosperity and relative equality. During the 1970s, markets did not work well as policies created the wrong incentives: firms could hope for subsidies and devaluations rather than taking measures to increase productivity. Regarding the observations of Bergh by the end of the 1980s, Sweden seemed to be a remarkable example of the possibility of combining a high tax level with a very high employment rate: the average unemployment rate during the period between 1987 and 1990 was 1.6 percent, according to national statistics.

The post-WWII period was the "golden years" for welfare states. Governments around the world started to increase expenditures, and more welfare policies were implemented. The Swedish welfare state experienced one of the best phases of its history. From Figure 4 and Figure 5, we can observe that Sweden's GDP-based variables in the period 1960–1980 increased significantly. Even during the oil crisis, Sweden's annual GDP growth was

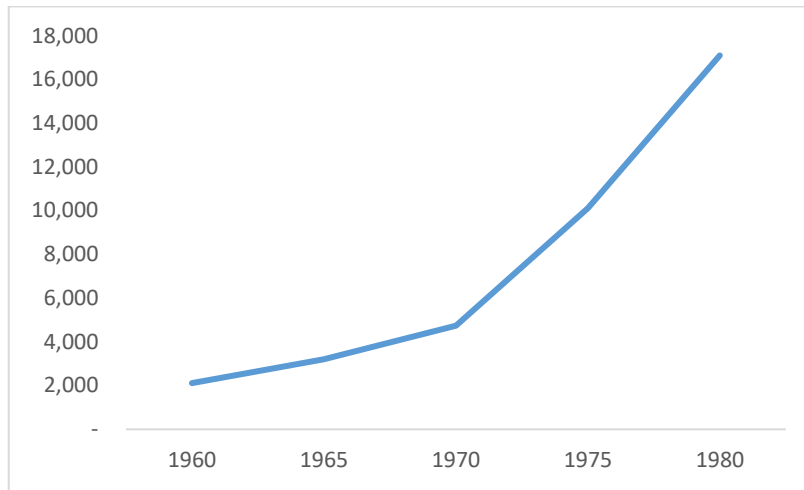
positive. Along with GDP, GDP per capita went up eightfold—even if, as in 1980, the GDP annual growth rate was 1.70%—since 1960, the GDP had already risen by 8.9 times.

The picture changed in the 1990s. In three years, the unemployment rate in Sweden increased from less than 2% to almost 10%, whereas the EU average increased from 8% to 11%. Nearly every country in the OECD continued to decrease their government’s social expenditure, but Sweden’s expenditure was still higher than others. Joining the EU also affected economic policy in Sweden; however, the country did not enter the Eurozone and kept its own currency. A free-market system was seen as counteracting and alleviating the pressures of interference. The European Union has made it simpler than ever before to conduct business and establish an open economy. Four freedoms—unrestricted mobility of commodities, services, labor, and money—sparked a budgetary race among member countries (Baghirzade, 2020).



Source: World Bank (2022)

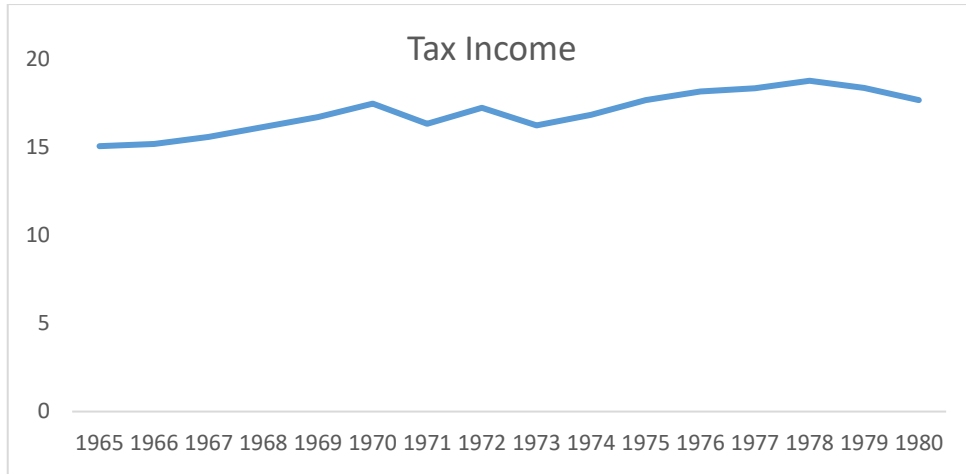
Figure 4. Sweden - GDP Growth 1960-1980 (annual %)



Source: World Bank (2022)

Figure 5. Sweden - GDP Per Capita 1960-1980

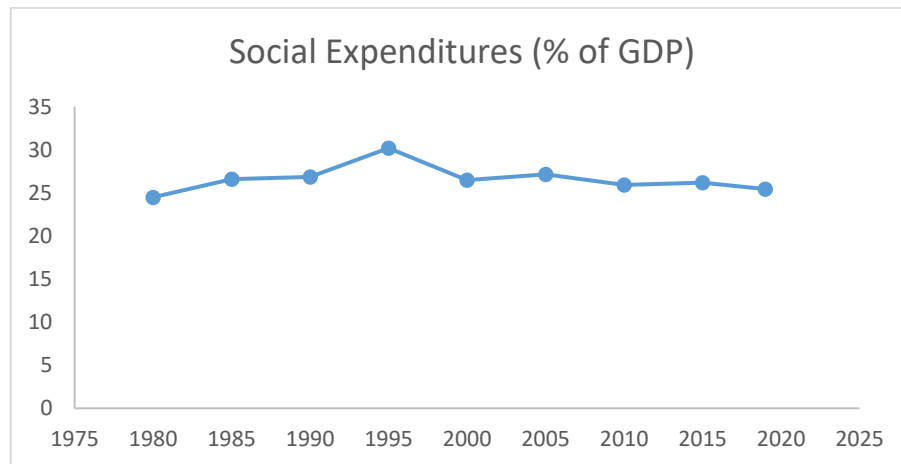
On the other hand, taxes have been the subject of various investigations related to welfare states' discussions. As illustrated in Figure 6 below, tax income in Sweden rose by 17% from 1965 to 1980, a growth that was specific to the Nordic welfare states. During this period, welfare states were expanded, government expenditures increased, and consequently, taxes went up.



Source: OECD (2022)

Figure 6. Sweden - Tax Income 1965-1980

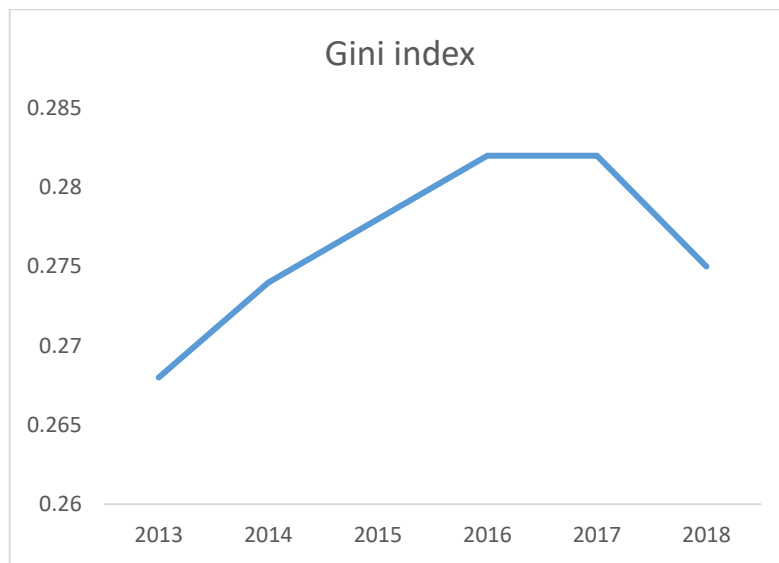
Moreover, as shown in Figure 7 below, even after the golden years of welfare states, social expenditures in Sweden never drastically decreased. The highest was in 1995, at 30.19% of GDP, and the lowest was in 1980, at 24.49% of GDP.



Source: OECD (2022)

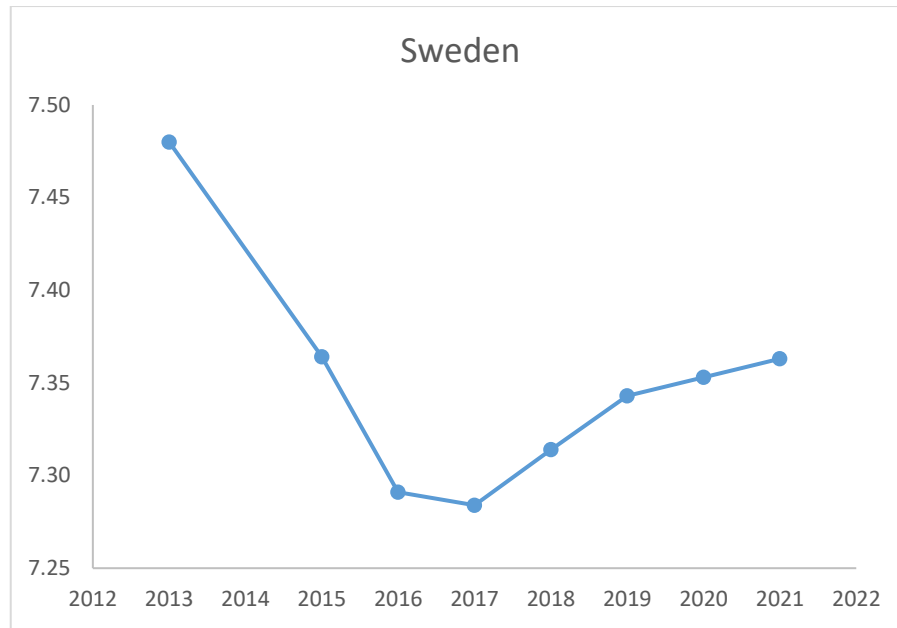
Figure 7. Sweden - Social Expenditures 1980-2019

As a representative of Nordic welfare states, Swedish inequality can be expected to score relatively lower than in other countries. In the data from the OECD database below, we can observe that Sweden's Gini index was between 0.2 and 0.3 from 2013 through 2018, which is evidence of relative equality within society. While discussing the level of equality, the life satisfaction level of citizens is also expected to be high in Sweden. For the period between 2013 and 2021, Sweden's ratio was an average of 7.349, which shows that citizens on average are more satisfied and better off, as per Figure 8.



Source: OECD (2022)

Figure 8. Sweden - Gini Index 2013-2018



Source: World Happiness Index (2022)

Figure 9. Sweden - The World Happiness Index 2012-2021

Moreover, Pacek and Radcliff (2008) performed research on the well-being of the population in Nordic countries, particularly Sweden, and found them among the top ranking, as per Figure 9. Additionally, welfare states deal with challenges more effectively than expected and can readjust continuously to future challenges. Moreover, Sweden was able to manage and successfully maneuver the economic shocks with effective policies and schemes (Einhorn and Logue, 2010).

But is it possible to apply all the rules that worked for Sweden to other countries to achieve the same results? The answer requires still further investigation; however, it should be mentioned that each country and nation has its own specific history and cultural background—in other words, its own unique informal institutions. Therefore, before adopting any policy, these concepts should be considered. Sweden has had favorable conditions for forming and developing a welfare state, has had a longer peaceful period than other countries on the continent, and enjoys solidarity among citizens at a high level due to the homogeneity of the population. Due to these factors, social trust is also very high. Running the Swedish welfare state is expensive; therefore, the state has higher taxes. Citizens

who see the state as a last resort due to decommodification pay higher taxes. The components mentioned above made the whole Swedish system work. Therefore, to adopt welfare policies from the Swedish welfare state, informal institution analysis, cultural and historical background, similarities, and differences should be investigated. As Therborn (1987) mentioned, to gain insight into how modern welfare states were built with the introduction of universal education and healthcare services, it is useful to check social relations and the state's involvement.

## **2.7 Lessons from the Past and Future of Welfare States**

More financial problems may arise when the number of people in need exceeds the tax-paying population. A rising standard of living carries with it one of the most serious challenges to the welfare state's future: a population that is getting older. In the future, life expectancy will increase to approximately 85 years for women and 83 years for men. Some studies suggest that a decline in fertility is a more important reason than an increase in life expectancy (Bengtsson and Scott, 2011). The Golden Age of the Welfare State began with more taxpayers than people in need of social support, taking into account that at that time aging was not a problem like today. In some countries, policymakers tried to solve the problem with effective immigration policies. In terms of the labor movement, migration is a result of economic development. A division of labor was required to realize the ambition of moving from a less developed economy to a more developed one. Today, Western countries need low-skilled immigrants for many reasons, including the aging population and local people's preferences in job-related matters. For example, local citizens do not work in jobs that immigrants can accept without any concerns because of worse living conditions in their home countries, factors like political instability, poor healthcare, pollution, discrimination, and wars with others.

Immigration may erode the principles of solidarity since Sweden has historically had a homogenous population. That is why the idea of welfare eugenics has always been the focus of this welfare state. Spektorowski and Mizrahi (2004) found out that Sweden was the only Nordic country where the idea of eugenics in society succeeded, even if eugenics is usually

linked with conservative ideologies. The main characteristic of eugenics in Sweden was productive reasoning. Put differently, a person could be excluded from society because of their productive capacity. National identity derived from eugenics has been the basis of many societies (Spektorowski and Mizrachi, 2004). In this view, sharing a sense of nationhood means accepting the sense that its citizens belong together in a community of shared fate and have moral obligations to their co-nationals that go beyond mere humanitarianism (Johnston et al., 2010). In this context, the “deservingness” of welfare provisions and social support may be a central argument: people who are working hard deserve to get assistance, and those who are not working may not receive it (Aarøe and Petersen, 2014). A growing immigration trend can affect this opinion and the development of welfare states as well. Because people coming outside of a community are strangers, local people in welfare states who pay higher taxes and work with high productivity may not want to pay taxes for the future of these “foreigners”. For those raised with a strong sense of national identity, belonging to the same nation and caring about each other are very important. They are less inclined to do the same for strangers. In these terms, immigration may be described as a threat to the future of the welfare state. However, to get more logical results, much more investigation is needed, not to mention the fact that timing is also crucial; when the final outcomes of the initial policies are obvious, insights into policy effectiveness may be derived. Historical events may cause immigration to be seen not as a cure for an aging population but as an obstacle on the way to realizing welfare functions. Welfare eugenics taught people solidarity, which is why, for locals, immigrants are “foreigners.” This kind of opinion can be perceived as destroying the value of national identity, which can lead to the retrenchment of a welfare state. Demographic policies can be seen as an alternate solution.

According to some scholars, the collapse of the contemporary welfare state is closer than we realize (Amable et al., 2006; Zylan and Soule, 2000), and they argued that the elements of the welfare state will cease to be a geographical notion but will transcend borders; as a result, the state-nation approach, which served as the foundation for contemporary welfare states following World War II, may change. On the other hand, Sweden is an outlier in this area. Because of the scope of the Swedish state, higher tax rates have an adverse relationship with economic progress, but a free market may make up for

these drawbacks. As a result of this premise, Bergh and Karlsson (2010) argued that globalization will not prohibit but rather aid in the attainment of economic growth.

Welfare states, based on Bismarck's principles, offered people socio-economic growth and financial security. It ultimately took almost a century to implement all the elements of the welfare state, but it bore fruit in the end. Recent polls reveal that the European public is interested in key elements such as equal opportunity for health care, schooling, and social security, among others. Despite several hypotheses regarding the retraction of the welfare state, it continues to grow and expand in scope. Sweden's institutional basis for economic development was very important to this expansion, and the country's prosperity today is mostly the result of those institutional changes that started in the late 19th and early 20th centuries.

## **2.8 Institutional Approach to Welfare States and the Crisis**

One of the purposes of institutions is to guide people. Additionally, as some scholars have stated (North, 1990a; Voigt, 2019), to minimize uncertainty by expanding individuals' perspectives on time and creating incentives to specialize, resulting in a more extensive level of specialization in employment, institutions can contribute to higher living standards. From this point of view, institutions can be defined as widely recognized rules utilized for recurring engagement scenarios that include a disciplinary procedure in the event of a violation. The rule generally constrains conduct; however, not all behavioral constraints are rules, such as the law of gravity (Voigt, 2019).

But what exactly constitutes an institution? In my study, I used North's (1990a) definition, which said that institutions are the set of rules in a society that determine the context in which interactions among individuals occur (North, 1990a).

A welfare state is an institutionalized conception that comprises components working together to achieve societal objectives. There are several ways to define a welfare state, as well as various viewpoints on its ultimate objective. Why is the welfare state required? Is the welfare state stable? Is there any specific goal to achieve with it? Other related questions,

including those involving political economy, sociology, institutional economics, and other disciplines, require much more inquiry and analysis. My study is within the scope of institutional analysis. The institutional approach is a powerful tool for connecting disparate features to comprehend multifaceted, complicated concepts such as welfare states.

The institutional approach to social policy highlights that all through historical events, people have established regional, neighborhood-based groups and societies that boost individual and household assets to advance the wellness of society as a whole, in addition to helping collaborate on supplies and promote collaboration to achieve monetary, cultural, and social objectives. This initiative is driven by the conviction that governmental action is most capable of enhancing people's well-being. While states have been active in institutionalizing social assistance for centuries, their engagement has typically been limited to assisting the most vulnerable using income-related schemes. However, this approach (institutional) mandates that state services serve all residents, regardless of financial resources, and safeguard them from the hazards of contemporary living. The latest communal methods for attaining social wellness were revolutionary social laws that controlled job opportunities and conditions of employment and developed various social welfare services, livelihood preservation, and assistance initiatives. The Nordic nations, specifically, implemented large social care systems that serve the entire community, and they were effective in modifying the economic system in order to blend capitalism's gainful potential alongside societal aspirations and discover an appropriate medium course between an uncontrolled market and a dictating state (Midgley and Livermore, 2009). Caminada et al. (2010) researched social security measures including expenditures, unemployment, assistance, benefit replacement rates, and poverty indicators. They discovered convergence in social expenditures and benefit replacement rates, but not in social assistance; moreover, social expenditures have been excessive and steady from twenty-five to thirty percent throughout the turn of the century to the second decade, which can be viewed as evidence that welfare states are typically incapable of adapting to challenges. Following the oil crisis, poverty rates and inequalities have converged, while the magnitudes of both measures have shifted in the other direction (Caminada et al., 2010; Hemerijck, 2011).

“The stability of institutions should not be taken for granted because it rests on a highly political process of mobilization marked by conflict and experimentation through which informational issues are resolved and distributional issues contested.” (Hall and Thelen, 2008)

Institutional economics' central theory is that existing institutions have a significant impact on expansion and advancement. The inclination and capacity to develop particular expertise and consequently add to a further specialization of employment, as well as to undertake future financial expenditures, are dependent on the stability of private property rights. Property rights are critical elements in institutions. The structure and substance of private property rights, together with the potential costs of executing them, are critical factors in understanding whether expansion and advancement occur or not. A number of the public sector's obligations are designed to defend private property rights. According to this viewpoint, they encourage the segregation of employment. A powerful state is essential for the market to operate properly, yet it may also inhibit progress. This issue is analogous to a moral hazard. States might commit to protecting private property to encourage greater private funding, and afterward, they might seek to confiscate or devalue businesses (Voigt, 2019). Moreover, as North (1990a) mentioned, the major cause of instability and lack of development in third-world nations is civilizations' incapacity to create efficient, affordable contractual enforcement.

Recent studies by academics such as Bergh (2014) strongly support the notion that communities with certain conventions, such as property rights and open economies, along with welfare state programs, organized labor, and a non-corrupt governmental sector, promote a proportionate and equitable allocation of economic development (Bergh, 2014).

One of the factors contributing to positive attitudes toward welfare states can be noted as higher public interest than private interest; in some countries, the ownership of assets in the public sector may be higher than in other ones. These cases can lead to negative opinions toward property rights. However, Alchian (2008) pointed out a misunderstanding about property rights, as for a long period, property rights were criticized because they took precedence over human rights, which may lead to inequality. Alchian (2008) argued that there is no conflict between them, even noting that property rights are human rights. Further,

social critics of property rights may be in favor of transferring private property into government ownership if such a transfer can make the economic system more efficient. The researcher also noted that strong welfare states, where the main components of effectiveness are taxes, high expenditures, and high government ownership, among others, may be vice versa, depending on the region. Alchian (2008) highlighted the following components:

“One of the most fundamental requirements and misunderstood concepts of a capitalist economic system is a strong system of property rights. For decades, social critics have complained that property rights too often take precedence over human rights, with the result that people are treated unequally and have unequal opportunities. Inequality exists in any society. Nevertheless, the purported conflict between property rights and human rights is a mirage. Property rights are human rights. For the most part, social critics of property rights do not want to abolish those rights. Rather, they want to transfer them from private ownership to government ownership. Some transfers to public ownership make an economy more efficient.” (Alchian, 2008)

Hayek (1944) argued that if capitalism refers to a system of competition built around the free transfer of private property, it is far more important to recognize that democracy is only feasible within this system. Democracy will always destroy itself when ruled by a collectivist philosophy. Alternatively, Friedman (1962) claimed that the latter part of the nineteenth and early twentieth centuries were characterized by political freedom, the free market, and the establishment of capitalist institutions. State and class analyses are relevant to evaluating welfare states. Government intervention and majority state ownership, some of the chief characteristics of the welfare state, can be the main drivers of prosperity. Economic prosperity is dependent on the quality of economic institutions. Countries can change and adopt more productive economic institutions, but the public choice process that leads to those changes has yet to be addressed by scholars (Boudreaux and Holcombe, 2017).

As previously stated, the welfare state consists of institutions. Institutions may be solid; however, the essence of their reliability is not stable. It encompasses every form of social security and coverage rules, the governance framework that provides them, the relationships between people, businesses, and the state, and the efficacy of these programs in delivering well-being. As welfare state agencies integrate so thoroughly and for a while in various

endeavors, they could affect the way individuals perceive and anticipate. As a result, the fundamentals and path of welfare states may influence general sentiment. According to some scholars, gaps in earnings between the rich and the poor are typically not an objective of welfare states. Their emergence and development were largely based on sharing the cost of common societal hazards. The expense of covering or settling life-threatening cases is sometimes beyond the means of any citizen or legal person. As a result, when the potential stress risk was distributed, everyone benefited in terms of well-being and growing economies (Roosma and Laenen, 2023). Decommodification is a key feature of welfare states, but it also applies to the institutions involved. Historically, viewing the state as a last resort boosted the support mechanism of welfare states, which also works in reverse. However, the institutions in charge of these elements have recently taken on a new function that involves the private sector far more closely, which may be referred to as corporate welfare.

Over the past few decades, welfare states have evolved and constantly changed to meet new requirements, and states have adhered to suitable social investment initiatives with substantial variety (Vis et al., 2011). Policymaking, according to historical and social approaches, produces path dependencies on social legislation. As political leaders anticipate getting more by providing current or prospective voters with significantly more, legislative pathways gravitate toward increasing earnings, connecting regulations, and consumer backing for new policies. Other variables eventually cause the growing profit cycle to stagnate and deteriorate. This results in a fast increase in welfare state security precautions along with popular assistance, then levels off and ultimately declines in both of them (Roosma and Laenen, 2023). As stated in earlier chapters, as long as welfare states enjoy broad public endorsement, governance and policymaking remain consistent with their core tenets. Contrary to this, the electorate penalizes political players if they go against them, particularly in mature and sophisticated welfare states such as Nordic welfare states.

The long-term viability of an institution can be determined in large part, if not entirely, by the extent to which it meets the needs of its key participants. When an institution struggles to fulfill those objectives well, it becomes weak and vulnerable to rule-breaking. However, participants' assessments regarding whether an institution supports their interests are complicated and based on a variety of factors. In short, the narrative of shifts in political

economies doesn't need to be presented as several reactions to external shocks, but instead more like an unfolding event that is somewhat internal to the characteristics of the institutions established in every country and triggered by the unforeseen effects of those institutions (Hall and Thelen, 2008).

Moreover, the vast majority of researchers disregard essential social deliveries such as governance, taxation, employment laws, schooling, and professional development, all of which influence people's opportunities in an equally significant way compared to social security. Social security, alongside medical services, is the most important spending component of the welfare state, but noticing social security as the welfare state's major indicator conceals a major prejudice, which might be especially troublesome when attempting to determine if welfare states are adaptive to changing financial conditions and societal needs. Mature welfare states are extraordinarily solid when it comes to social spending (Hemerijck, 2013).

Uncertainty can stimulate breakthroughs in social policymaking. Regarding Esping-Andersen, one of the main differences among welfare states is risk management (1989, 1990). The welfare state is an institutional tool for risk-sharing within society, involving collectivism, universalism, and other fundamental values of welfare states, including risk as a vital feature of economic agents' behaviors. As Veen et al. (2012) emphasized, in an industrial economy, a welfare state with its social programs copes with worker risks such as disability, job loss, and old age. A risk can be defined as an object of probability and consequence, a repercussion of a choice, activity, or event. It can be related to both internal and external factors in the environment that we are investigating. Risk and uncertainty can be seen as the same notion, but some economists make distinctions on the finer points (Moselle et al., 2007; Achterberg et al., 2012). For example, Ferrari-Filho and Conceição (2005) asserted that the main difference between risk and uncertainty is the probability distribution of an event. Risk, they emphasized, is known, but uncertainty is a condition under which probability cannot exist.

In the recent decade, interest in research on behavior under uncertainty has increased. Along with the concepts of risk and uncertainty, decision-making behavior can occur in a static or dynamic framework. The research cannot be limited to one field. Economic,

political, and social aspects should also be taken into account for further investigations. Using specific theoretical perspectives will help to obtain an accurate assessment of patterns for institutional analysis and explore complex concepts of risk.

Uncertainty is one of the core factors, if not the first, in Keynesian economics. To “defend” economic actors from uncertainty, the concept of “state” is vital. The Keynesian belief is that government spending encourages economic growth. Because uncertainty leaves economic agents with no idea about the future (from a monetary perspective), they cannot calculate the probability (Keynes, 1937). Even if the welfare state can be seen as a solution to the issue of everyday life risks, the welfare state itself is the fruit of industrial society. Industrial societies produce risks such as occupational disability and unemployment, and at the same time, existing risks such as poverty, old age, or sickness are seen through a new lens of institutions associated with an industrial society, such as factories and cities. Social insurance is one of the tools for dealing with risk. In this sense, risk-sharing can create a foundation for solidarity.

Nordic countries are pioneers when it comes to mature welfare states as a whole, and they are superstars in welfare literature. However, there are notable disparities between Nordic nations' formal and informal institutions. Because of the popularity and success following World War II, welfare scholars have had a huge interest in Nordic welfare states; however, this interest has been mostly generalized at a regional level rather than evaluating North countries individually, for which the literature is limited. In addition, regarding the significance of Esping-Andersen's (1989, 1990) typology, most of the literature focused on high-level typology-specific measures, indicators, and institutions, which may be biased as, despite regional similarities, each country has its own specific welfare history and progress. Moreover, according to Herrigel et al. (2012), from an institutional viewpoint, there is no united Nordic market system, largely due to the Nordic version of the emerging welfare state. Each of the Nordic nations follows a separate course in its continuing attempts to address the societal, economic, and labor market issues brought about by widespread, multidimensional globalization. In Nordic states, new institutions acquired new responsibilities, were integrated to form new synergies, and redefined the guidelines (Herrigel et al., 2012).

The Nordic nations invest considerably more in welfare policies that promote the development of human resources and usages, such as education, healthcare, labor regulations, and additional assistance, than the majority of the countries in the OECD. Sweden has become known as the birthplace of welfare development programs; expenditure on welfare capital outweighs expenditures on wage replacement payments and accounted for more than half of overall expenditure on social services in 2010. The spread of financial resources in Nordic nations stays less uneven than in other OECD countries, and incidences of poverty are similarly lower; nonetheless, Sweden has lately grown progressively unequal when it comes to the distribution of earnings and has changed with decreased total expenditure, a greater focus on services and welfare spending, and rising income disparities and impoverishment (Pierson et al., 2022).

### **The Global Crisis of 2008**

The economic downturn has drastically changed the relationship between a state and a market. Banking liberalization, including lax fiscal regulation, liquidity issues, and business disparities, as well as reduced social safety nets, all contributed to the perpetuation of stress and financial leverage, which eventually proved insufficient, resulting in the 2008 financial crisis and subsequent economic crisis (Hemerijck, 2013).

Authorities responded to the debt crisis of 2008 in unforeseen ways. Every aspect of those events occurred notwithstanding the "free hands" defenders' claim that the state constituted the issue and the market was the answer. As the debt collapse damaged the global economy, countries resorted to assertive intervention initiatives, accompanied by reductions in taxes. Following 2010, monetary authorities lowered interest rates to near-zero levels while concurrently injecting money into fragile markets. Nordic countries' efficiency, prior to and following the 2008 financial crisis, is gradually becoming acknowledged as a result of these costly, functioning, and enabling comprehensive services in the fields of labor, medical assistance, and social security (Hemerijck, 2013).

In the earliest days of the 2008 market collapse, the Scandinavian countries were robust in mitigating the implications of a declining economy and alleviating socioeconomic turmoil.

To suggest that the contemporary welfare state is robust would not be equivalent to implying that it's in excellent form. Generous welfare programs and salary replacements, combined with exceptional social assistance, successfully guaranteed employees on temporary benefit packages were able to retain their pool of talent using novel educational opportunities and successful employment regulations (Hemerijck, 2013). In addition, this crisis is very different compared to the crises of the seventies and eighties, when the welfare state was considered to be the reason for the crisis. Polls reveal that most people do not blame the welfare state for this crisis; rather, it has been regarded as an answer to the economy's challenges. Due to the crisis, citizens appreciate the welfare state particularly highly considering that it succeeds in the very thing it was meant to accomplish: safeguard citizens from losing their livelihoods (Vis et al., 2011).

That being said, Sweden had previously learned a few of the lessons from the early 2000s; therefore, it was easier to adapt to the post-2008 era. In addition, Sweden's large social policy system and interventionist past have also contributed to the country's ability to respond to changing conditions significantly quicker than other nations. The Swedish krone declined against the euro in 2008, enhancing the comparative advantage of Swedish exports. Moreover, in Sweden, the right-wing administration responded quickly to the economic downturn with a large budgetary stimulation plan. With its financial standing in satisfactory condition going into the turmoil, the authorities supplied tax incentives, and numerous sectors obtained assistance to help with rearranging and closing strategies. Concerning the welfare state, the state effectively permitted substantial social security programs to function as built-in buffers. Furthermore, the government established a national salary replacement program to make sure those who were not employed had security. A critical aspect of institutional adjustment in the Scandinavian welfare states, particularly in Sweden, involves the expanded involvement of business sector financing of state welfare programs. While outsourcing of these programs has been limited in various regions, subsidized operation by the business sector rose significantly in sectors like schooling, healthcare, etc.; moreover, market-driven government processes expanded as well (Hemerijck, 2013, Farnsworth, and Irving, 2011).

Typically, the welfare state determines the degree of risk that individuals in a given society face. Enhanced social policies reduce risk assumptions while improving population well-being. The speed with which a government imposes tough rules determines the welfare state's influence. The welfare state lessens risk concerns as the time it takes for the government to respond grows.

When governments fail to adopt effective crisis mitigation measures, the welfare state becomes critical. If the government acts promptly during a crisis, it can help alleviate people's concerns and fears. When the government does not intervene, subsequent crises become more serious. As a result, the welfare state develops as the next line of defense for protecting individuals (Breznau, 2020).

### **2.8.1 Institutional Variations of Capitalism and Welfare States**

The capitalist system has been investigated based on the three most prevalent approaches: modernization, which views institutions as socializing agencies; corporatism, which connects power and institutions to examine their impact on financial performers; and the social system of production, which implies that the response of economic agents can be predicted and is more or less automatic due to the characteristics of those institutions. Still, the most crucial feature remains unexamined: strategic exchanges that are central to economic players' conduct. The firm is an essential component of the many approaches to capitalism. In this sense, two distinct kinds of market economies may be distinguished: Coordinated market economies and Liberal market economies. Competitive market contact is essential in Liberal market economies, and non-market ties might be critical in Coordinated market economies (Hall and Soskice, 2001).

In the decades following WWII, researchers began to pay more attention to these two forms of market economies. The main aspect was to determine if and to what degree the government intervened or could intervene in market issues. We must also consider that the primary variances may be differentiated depending on coordination characteristics and variables influencing them. As a result, the interaction involving a state and a market might

be critical in this case. According to Rueda and Pontusson (2000), the primary three distinctions between social market and liberal market economies are as follows:

- State-funded social welfare programs;
- State oversight to regulate employment circumstances and provide a high level of job stability;
- There is a significant degree of institutional collective bargaining and wage formation cooperation (Rueda and Pontusson, 2000).

When analyzing a country's economic and political structure, we must remember that it is intertwined with its history and traditions. As a result, when evaluating industrialized nations to propose answers for emerging economies, applying all laws or norms without taking into consideration individual cultural and historical characteristics is insufficient. In this setting, the institutional architecture of the political economy for Liberal and Coordinated market economies differs as well; for example, skills being invested can be noted, and as in Coordinated market economies, they are more specific.

Mariotti and Marzano (2019) noted that “state-owned enterprises internationalize more than private-owned ones in the Coordinated market economy and exhibit inconstant behavior in state-influenced market economies.” Until recently, comparative politics researchers concentrated primarily on the macro-level interactions between various welfare states and collective bargaining structures, ignoring problems at the micro-interaction level—in a nutshell, questions about how different social welfare provisions promote and maintain the structure of employment relationships within organizations (Hall and Soskice, 2001). Micro-level determinants constitute the foundation for macro-level variation, as seen in both Liberal and Coordinated market economies. Therefore, varieties of capitalism are also varieties of welfare states, but on a different scale. Depending on the typology and clusters, welfare states may have features of both economic structures.

The primary component of that study’s method is how economic actors may react to policymaking. Sweden is a model of a coordinated market economy, yet workers in the past were not expected to have the same rights they have today, since owners were opposed to enhancing employees' legal rights. The equilibrium that was reached with those structures was then critical to the construction of a contemporary welfare state. In this context, not only

economic and political variables but also heritage should be considered. One of the most typical errors made by legislators is not factoring in a nation's heritage and informal cultural structures. Informal institutions send information and assist in monitoring and correcting errors that may occur throughout the process of evaluating this information, which, when combined with formal institutions, can serve to preserve stability and social balance. As noted by Ménard and Shirley (2022), formal institutions are norms that are documented, accessible, and transferable. They are frequently established and upheld by authorized organizations, like governmental judiciaries or independent dispute resolution tribunals.

Both forms of market economies require a trade-off between inflation and unemployment. There is no optimum ratio; each nation or country follows policies that are beneficial to their fulfillment. In broad terms, central bank independence and coordinated wage-price negotiations are replacements for and complement low inflation. Central bank independence has the potential to reduce inflation without incurring additional expenditures, which is practicable for most social democratic administrations since a low unemployment rate is more essential to them than low inflation.

Korpi (2003) argued that unemployment should be seen as one of the primary elements of the welfare state. However, depending on the type of regime, the preference may change as well; for example, in Coordinated economies, unemployment is lower, and in Liberal economies, inflation is higher. Central bank independence reduces inflation less when the remainder of the economic system becomes more anti-inflationary (Franzese, 1999). Furthermore, wage-price negotiation should be understood as a vital connecting structure between the welfare state and the industrial regime, not only as a restricted idea. According to Korpi and Shalev (1979), collective bargaining is frequently seen as the "industrial" analog of political democracy. Further, the theory of social policy preferences by Iversen and Soskice (2001) emphasized that "individuals who have made risky investments in skills will demand insurance against the possible future loss of income from those investments; a critical point is that risk exposure is inversely related to the portability of skills." By averting failures in the market, social protection may safeguard the market from itself. Inefficiencies in the market are one of the most fundamental causes of welfare state emergence, but much more remains to be said.

Therborn (1987) described welfare states as social systems of human reproduction that provide public and private goods, including regulations and/or provisions or prohibitions of market externalities; provisions or promotion of merit goods following problems of market choice with regard to certain goods for human reproduction; extra state wages (special payments for services rendered to the state, including struggles because of state actions, such as wars); and state supply of other private goods. More concretely, welfare states consist of state institutions and state arrangements for the simple and expanded human reproduction of a given state population. Nevertheless, extensive government interference can block the development of free-market tools. Lessons may be drawn from Sweden's lengthy road to success in this setting. The welfare state and the market economy can play diverse roles while not impeding each other, and in fact, they can work effectively together to provide well-being for the entire system.

Therborn's idea is vital to the purposes of the present study, as he suggests that a conception of state structure is the most important to start with to obtain logical results. Bergh (2004) holds the position that, in a society where all individuals are subjected to the risk of temporarily losing their income and assuming that the risk is higher for those with lower incomes, the idea of social insurance with income protection is to tax everybody and to provide income replacement benefits to those who lose their income. If the tax and replacement rates are the same for all, there will still be a redistributive effect because of the inverse relationship between income and risk: people with high income and low risk will subsidize people with low income and high risk. Esping-Andersen (1989, 1990) explained it as follows: decommodifying welfare states is, in practice, a very recent development. A minimalist definition must entail that citizens can freely, and without potential loss of jobs, income, or general welfare, opt out of work under conditions when they, themselves, consider it necessary for reasons of health, family, age, or even educational self-improvement; when, in short, they deem it necessary for participating adequately in the social community.

There are many approaches to explaining welfare states, but Esping-Andersen (1989, 1990) indicates two of them: a systemic theory and an institutional explanation. The first one

seeks to capture the logic of development holistically. The point is that the state, as an actor, is positioned in such a way that it will serve the collective needs of capital.

A theory of the rise of the welfare state can be found in the economic theory explaining the dysfunctionality of markets in ensuring human reproduction. The theory may be expressed as a fundamental contradiction between the forces of human reproduction and the market relations of production (Therborn, 1986). As Bergh and Erlingsson (2009) concluded, it seems clear that welfare states tend to be more resilient than expected, but the prerequisite for this has been their capacity to gradually adapt to internal and external challenges.

### 3. Material and Methods

This research began with the intention of opening black boxes, with each black box revealing additional insights into the topic. With the technical literature and by examining Sweden as a case study, I formulated the foundation and identified the research problem. In this chapter, I go further into the quantitative analyses.

In Sweden, the welfare state enjoyed support from the majority due to its policies, and any political actors or parties who would go against it used to be punished by the electorate (Bergh and Erlingsson, 2009). Moreover, Sweden is a representative of the “Nordic miracle” and is therefore frequently mentioned in the literature as an example of a welfare state with high standards of living, where the population’s interest in social policies led indirectly to an increase in welfare provisions (Lindbeck, 2004). This generous approach may be seen in the broad expenditures on social programs, but it might also suggest that more individuals are reliant upon social assistance (Bergqvist et al. 2013). Studies have shown that welfare spending has a detrimental impact on attitudes, contradicting the expectation of policy feedback (Kunißen, 2019).

Welfare states are known for high taxes, high government spending, a relatively high level of state-owned means, and more efficient regulation systems, among others. After WWII, to increase state intervention and control over economies, governments increased their welfare provisions. Numerous investigations have focused on the golden years of welfare states, but few investigations have delved into the topic of the post-2008 crisis period to explain how and why state intervention changed. It is worth noting that the 2008 crisis is significantly different from the crises of the 1970s and 1980s, when the welfare state was thought to be the cause of the financial meltdown. According to polls, most people aren't pointing fingers at the welfare state for the crisis; rather, it is seen as a solution to the economy's problems. Since the crisis, people have valued the welfare state even more since it accomplishes what it was designed to do: protect citizens from losing their livelihoods (Vis et al., 2011).

Subsequently, this research asks the following question: how did state intervention change in Nordic welfare states as a result of the 2008 global financial crisis, and what role did welfare components play?

This study builds on literature from welfare states' earlier periods to build knowledge, since research dedicated to the period in question (post-2008) was insufficient. Additionally, in the earlier periods, there were no similarly impactful events on welfare states. My central argument is that global events impact welfare states in the same way. I also endeavor to explain how welfare states, which had golden years in the 1950s and 1960s, can still adapt to adjustments and deal with internal and external challenges.

Because my research focuses on institutional analysis, I first identified a research problem and then used appropriate econometric tools to provide an answer to the problem (a research question) (Bergh and Bjørnskov, 2011). To answer the research question, I combined qualitative and quantitative methods. I collected the data from international databases. I used the data for 15 OECD countries, starting with cluster analysis to check and compare results; later, I built two regression models reporting Pooled OLS and Fixed Effects models to extend the analysis for 16 OECD countries.

The literature related to the topic has not generated a generally acceptable way of defining welfare "stateness." As a result, academics often employ tools that were previously used to study welfare measures in literature. These tools include single indicators, composite measurements, and typologies of welfare states (Kunißen, 2019). Multiple studies (Eger and Breznau, 2017; Jordan, 2013) have used the method of employing indicators as variables to measure welfare states. Additionally, the majority of research utilizing these strategies has employed expenditure-based metrics as their primary indicators (Kvist, 2011), such as the data collected on government or social spending. According to the studies mentioned above, the strategy that uses a single indicator is also more advantageous.

Still, the single-indicator technique has disadvantages, such as the potential for a limited informative value and certain calculation discrepancies. These can be compensated for by widely available, frequently updated data sources on metrics. Furthermore, the issue of limited informative value may be resolved by employing more indicators (Kunißen, 2019).

### 3.1 Cluster Analysis

The typology adopted in this research was suggested by Esping-Andersen (1989, 1990); however, as that research was performed decades ago, I re-examined it, comparing it with my own results. Moreover, numerous studies were inspired by Esping-Andersen's typology; for example, Scruggs and Alan (2006, 2008), who decided to replicate the previous scholar's data despite the differences in outcomes, accepted its main foundations, among others. (Additional investigations include Rice, 2013; Van Kersbergen and Vis, 2015; Ferrera, 1996; Castles and Obinger, 2008). Due to the lack of data for other regions and countries, most of these studies focused on Western-developed countries. Additionally, country scores based on cluster analysis are estimated using the deviation from the mean, which varies depending on the countries taken into account (Kunißen, 2019). The results and techniques are diverse since there are no definite and unambiguous recommendations on this topic.

Welfare states are evolving and embracing new risks and policies, which is especially true for conservative welfare states; however, this transition was delayed for liberal welfare states. According to Scruggs and Allan (2006, 2008), conservative welfare states are moving closer to the liberal cluster, and the Netherlands and Switzerland are moving closer to the Nordic welfare states of Sweden and Norway. Anderson (1984) found that Denmark is a symbol of the "pure Nordic model," while Finland is moving closer to conservative welfare states; Sweden and Norway are embracing new liberal ideas.

In the present research, I first used hierarchical cluster analysis to check the cluster numbers, followed by K-mean cluster analysis with the determined number of clusters. The analysis was performed for two years, 2009 and 2018, on the data gathered for 15 developed welfare states. As in K-mean cluster analysis, hierarchical cluster analysis was conducted with the Euclidean distance to measure the similarity or dissimilarity of the observations. In calculating the similarity between two clusters, a range of alternative methods are available, but the centroid method was adopted for this research (James et al., 2013). It was assumed that each observation belongs to at least one of the K clusters and that no observation belongs to more than one cluster. The K-means cluster analysis was based on the principle that the observations are classified into clusters in such a way that within-cluster variation is

minimized. Hierarchical cluster analysis is an alternative to K-means cluster analysis, which does not require a pre-determined value of K and is based on an iterative procedure.

### **3.1.1 Data, Classification, and Results**

Esping-Andersen's (1990) research was based on an analysis of advanced welfare states, mostly based on the data from the Social Citizenship Indicator Program (SCIP); however, this data was available only through the year 2005. Contrarily, the present study explores the post-2008 period. Therefore, I used the Social Assistance and Minimum Income Protection Interim Dataset (SAMIP) from the same source (Stockholm University, 2022), which consists of information on the benefit position of low-income households in 15 welfare states:

“The Social Assistance and Minimum Income Protection Interim Dataset (SAMIP) includes detailed information on the benefit position of low-income households in industrialized welfare democracies. The variables in the dataset are based on a type-case approach, where benefit levels have been calculated for three typical households: a single person, a lone parent, and a two-parent family. SPIN involves efforts to measure the “hidden” welfare state of fiscal policy.” (Stockholm University, 2022)

Brady and Bostic (2015) investigated “the relationship between three welfare transfer dimensions—transfer share (the average share of household income from welfare transfers), low-income targeting, and universalism—and poverty and preferences for redistribution.” They found no correlation between redistribution preferences and transfer share or universalism and a positive correlation between universalism and transfer share (Brady and Bostic, 2015). Moreover, as reviewed in the above literature, additional indicators from the World Bank were included as well. While analyzing the theoretical background, it was found that these indicators might correlate within the dataset and could identify clusters for welfare states, which can be crucial in identifying the countries' place in the typology.

Table 3. Cluster Analysis – Data

<b>Variable</b>	<b>Content</b>	<b>Dataset</b>
Government Effectiveness	It captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, policy formulation and implementation, and the credibility of the government's commitment to such policies.	Worldwide Governance Indicators (2022). World Bank
Regulatory Quality	It captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.	Worldwide Governance Indicators (2022). World Bank
Rule of Law	It captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.	Worldwide Governance Indicators (2022) World Bank
Social contributions (% of revenue)	They include social security contributions by employees, employers, and self-employed individuals, and other contributions whose source cannot be determined.	World Development Indicators (2022) World Bank
Taxes on income, profits and capital gains (% of revenue)	They are levied on the actual or presumptive net income of individuals, on the profits of corporations and enterprises, and on capital gains.	World Development Indicators (2022) World Bank
SAsi	Social assistance standard rates for a single adult person below retirement age and without children. Average monthly amounts. Excluding housing costs, special needs benefits and occasional payments.	Social Policy Indicators Database (2022) Stockholm University
SAlp	Same as SAsi but for a lone parent type-case with two children.	Social Policy Indicators Database (2022) Stockholm University

<b>Variable</b>	<b>Content</b>	<b>Dataset</b>
SAfa	Same as SAsi but for a two-parent family with two children.	Social Policy Indicators Database (2022) Stockholm University
MIPsi	Minimum income protection for the single person household without children. Average monthly amounts.	Social Policy Indicators Database (2022) Stockholm University
MIPlp	Minimum income protection for the lone parent type-case. Average monthly amounts.	Social Policy Indicators Database (2022) Stockholm University
MIPfa	Minimum income protection for the two-parent family type-case. Average monthly amounts.	Social Policy Indicators Database (2022) Stockholm University
MIPavey	MIPavey - The average of single person, lone parent and two-parent cases	Social Policy Indicators Database (2022) Stockholm University
FAIp	Family Assistance for the lone parent type-case. Same as Minimum income protection but less housing supplements. Average monthly amounts.	Social Policy Indicators Database (2022) Stockholm University
FAfa	Family Assistance for the two parent family type-case. Same as Minimum income protection but less housing supplements. Average monthly amounts.	Social Policy Indicators Database (2022) Stockholm University

Source: World Bank (2022); Stockholm University (2022)

Esping-Andersen's (1989, 1990) work influenced the welfare state typology adopted for the present study. Esping-Andersen (1989, 1990) classified welfare states as follows: 1) the Liberal welfare state, which is defined by low decommodification benefits and restricting a significant portion of the population from social advantages (examples are the United

Kingdom and the United States); 2) the Conservative welfare state, which is distinguished by the privatization of public services such as insurance and employee benefits (instances are Austria and Germany); and 3) the Social Democratic or Nordic welfare state, which is referred to by excessive decommodification and universal access to social services (examples are Norway and Denmark). The data for 2009 represents the situation right after the global financial crisis, when all advanced economies were still recovering from the crisis and implementing a range of new policies. My cluster analysis for 2009 formulated four clusters. In the initial liberal welfare states (as per Esping-Andersen), the UK and the US were clustered together with the initial Conservative welfare states, and Belgium was classified as a separate cluster, not as a Conservative welfare state as it was in the initial typology.

Table 4. Cluster Analysis - Comparison of Results

Countries	1990	2009	2018
Australia	Liberal	Liberal	Liberal
Canada	Liberal	Liberal	Liberal
Ireland	Liberal	Liberal	Conservative
New Zealand	Liberal	Liberal	Liberal
UK	Liberal	Conservative	Conservative
US	Liberal	Conservative	Conservative
Austria	Conservative	Conservative	Conservative
Belgium	Conservative	New Cluster	New Cluster
Netherlands	Conservative	Conservative	Nordic
France	Conservative	Conservative	Conservative
Switzerland	Conservative	Conservative	Nordic

<b>Countries</b>	<b>1990</b>	<b>2009</b>	<b>2018</b>
Germany	Conservative	Conservative	Conservative
Denmark	Nordic	Nordic	Liberal
Finland	Nordic	Nordic	Nordic
Sweden	Nordic	Nordic	Nordic
Norway	Nordic	Nordic	Nordic

Sources: Esping-Andersen (1990); my results.

The data for 2018 represents the post-recovery period, whereas most of the countries have more stable economic conditions. Denmark was clustered as a Liberal welfare state; at the same time, Ireland, following the UK and the US, moved from the Liberal cluster to the Conservative cluster. Moreover, the Netherlands and Switzerland were clustered together with the initial Nordic welfare states.

Furthermore, dissimilarities between Sweden and the rest of the Nordic cluster increased from 2009 to 2018, from being closest to the cluster center to its furthest point, increasing the distance by 67% from the cluster center. For Finland and Norway, the distances went down by 21% and 48%, respectively. Moreover, in 2018, Denmark was clustered together with Liberal welfare states, and the Netherlands and Switzerland moved into the Nordic cluster from the Conservative cluster, as Figure 10 shows.

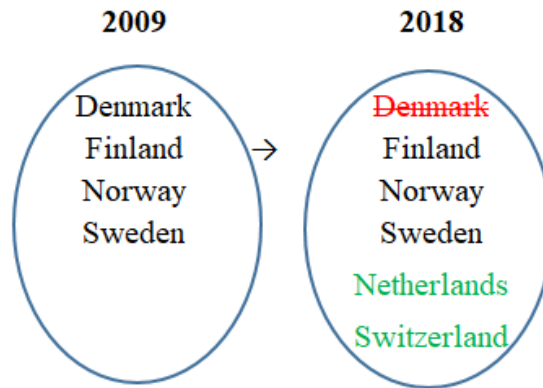


Figure 10. Nordic Cluster - Composition Change 2009 vs 2018

The Nordic welfare states in 2009 were identical to the initial typology; however, in 2018, in addition to the existing typology, the Netherlands and Switzerland were clustered as Nordic welfare states, and Denmark was clustered as a Liberal welfare state, having the most dissimilarities with Sweden, which remained a Nordic welfare state.

Based on the earlier investigations, Conservative welfare states started to adopt functions from Liberal welfare states and integrate with them. Liberal welfare states are mostly stable, adapting small adjustments; the Netherlands and Switzerland are getting closer to the Nordic welfare states; Finland is becoming more conservative; and Sweden and Norway are adopting new liberal policies. When I compare them with my results, it can be seen that these changes are mostly in line with post-recovery period results. However, Denmark, which was noted as a pure Nordic model, was clustered as a Liberal welfare state.

Table 5. All Clusters - Composition Change 1990/ 2009/ 2018

	<b>Liberal</b>	<b>Conservative</b>	<b>Nordic</b>	<b>New Cluster</b>
<b>1990</b>	Australia	Austria	Denmark	
	Canada	Belgium	Finland	
	Ireland	Netherlands	Sweden	
	New Zealand	France	Norway	
	UK	Switzerland		
	US	Germany		
<b>2009</b>	Australia	UK	Denmark	Belgium
	Canada	US	Finland	
	Ireland	Austria	Sweden	
	New Zealand	Netherlands	Norway	
		France		
		Switzerland		
<b>2018</b>	Australia	Ireland	Netherlands	Belgium
	Canada	UK	Switzerland	
	New Zealand	US	Finland	
	Denmark	Austria	Sweden	
		France	Norway	
		Germany		

Sources: Esping-Andersen (1990) and my results.

Some academics believe that the current welfare state's retrenchment is far closer than we think (Amable et al., 2006; Zylan and Soule, 2000). They argue that the welfare state will soon be phased out for a number of reasons. The state-nation approach, which served as the basis for modern welfare states after World War II, has the potential to be transformed as aspects cease to be geographical concepts and instead transcend borders. Sweden, on the other hand, stands out in this regard. Higher tax rates have a negative association with economic growth because of the size of the state. And the free market might compensate for these shortcomings. Due to this assumption, globalization will not prevent but rather assist in the achievement of economic growth (Bergh and Karlsson, 2010; Kwiek, 2007).

Moreover, since the start of the oil crisis, several scholars have criticized the Swedish welfare state for its economic performance falling behind in the industrialized world, leading to the situation described as “Swedosclerosis” – decades of downfall following a golden era. The Sweden situation before this crisis seemed better suited to the scenarios of the time, while in the subsequent decade, economic development started to stall, with the welfare state itself serving as the primary issue (Korpi, 2000). In line with Einhorn and Logue's (2010) analysis, Sweden used aggressive Keynesianism, including countercyclical fiscal policies, the production for inventory scheme, active labor market initiatives, industrial policies that reduced the shipbuilding and steel industries, and currency devaluations, in order to smooth out the economic turbulence of the 1974–84 period.

Researchers who investigated how globalization impacted welfare states came to differing conclusions. According to experts who argue that globalization will lead to the decline of welfare states, one of the key indicators is a decline in social trust. Social policy initiatives have the potential to lessen the impact of that vulnerability on trust. The welfare state alters the relationship between “outsiderness” and trust, and an increase in “outsiderness” is consistently associated with a decrease in generalized trust (Kevins, 2019).

There are many opposing views on welfare states, as well as on their future and retrenchment. However, according to my study, in 2009, social contributions for Nordic welfare states were lower than those for the Conservative cluster (slightly higher than Liberal welfare states), and taxes were at the lowest level. Further, as per the 2018 analysis, taxes went down while social contributions increased, accompanied by slight decreases for all other variables. In general, in 2018, for the Nordic cluster, most of the variables showed a downward tendency, except social contributions.

Therefore, based on the aspects mentioned above, I put forth the following thesis:

- Welfare states do not react to external challenges the same way; out of three clusters from the initial typology, Social Democratic welfare states remained more stable compared to other welfare states in terms of typology and did not get closer to other welfare states by adopting policies typical of other clusters. However, the consistency of Nordic welfare states with their "typical components" was not demonstrated.

### 3.2 Regression Analysis

Welfare states are the result of market failures, and state intervention along with higher taxes is noted as one of the options to deal with them. Heise and Khan (2019) argued that “welfare states comprise social policies to collectively insure against systematic risks to life, as well as employment regimes covering labor markets, collective bargaining, worker participation systems, and macroeconomic policies designed to maintain high levels of employment”. Higher taxes in welfare states may have a redistributive impact, which would eventually compensate the less fortunate citizens. If the tax and replacement rates are the same for all, there will still be a redistributive effect because of the inverse relationship between income and risk: people with high income and low risk will subsidize people with low income and high risk. Moreover, Rueda (2015) emphasized that resource distribution and welfare spending are positively correlated, and higher distribution may lead to a higher welfare supply. More social spending also decreases reliance on markets, increasing the social protection of citizens. Esping-Andersen (1989) explains it as follows:

Decommodifying welfare states is, in practice, very recent. A minimalist definition must entail that citizens can freely, and without potential loss of jobs, income, or general welfare, opt out of work under conditions when they consider it necessary for reasons of health, family, age, or even educational self-improvement; when, in short, they deem it necessary for participating adequately in the social community (Esping-Andersen, 1989).

However, some studies argue against this assumption; for example, Bergh and Karlsson (2010) noted that higher tax rates have an adverse relationship with progress in the economy. And a free market may make up for these drawbacks. Another approach is that most political parties in power get benefits by increasing welfare spending; however, if political preferences are much closer to the far right, with higher taxation, benefits decrease because they have less voter support (Shin, 2016).

Another point to note is that the welfare spending share of the global total for the European Union is about forty percent and will potentially rise as people require more social and welfare services (Begg, 2015). There are differences across regions on this matter; however, to meet the expectations of electorates, governments, especially under stress,

increase their spending on social support and provisions. For example, after WWII, governments dramatically increased welfare provisions in order to have more control over markets and the economy.

Furthermore, if one of the tools for governments to intervene in the economy is to increase welfare, the other can be seen as a higher level of state-owned assets. Mariotti and Marzano (2019) noted that state-owned enterprises internationalize more than private-owned ones in the coordinated market economy and exhibit inconstant behavior in state-influenced market economies (Mariotti and Marzano, 2019). Until recently, comparative politics researchers concentrated primarily on the macro-level interactions between various welfare states and collective bargaining structures, ignoring problems about the micro-level interactions between firms in a political economy and different welfare states (Hall and Soskice, 2001). If the linkage between micro- and macro-level aspects of welfare states is maintained, it can lead to more effective governance and better policy outcomes. According to Roosma et al. (2013), people are generally content with welfare programs, and while they support their aims, the key issue is their effectiveness and efficacy. Furthermore, MacCarthy (2012) noted that historically, the reasons behind the success of Nordic welfare states were a mix of wage bargaining systems, welfare spending, and effective government. According to Therborn (1987), the typical characteristic of welfare states is social contributions of more than fifty percent of government spending, and there is a strong relationship between social expenditures and development (in this case, GDP per capita) (Cousins, 2005).

As noted in the literature review above, there are specific features of welfare states, such as higher levels of taxation, high government expenditures, a fairly substantial amount of state-owned assets, and more effective regulatory frameworks, among other features. My main argument here is that global events affect welfare states in the same way and that external challenges lead to internal challenges. That is to say, I assume that if, after the Second World War, government intervention increased because welfare component characteristics and ratios improved, the Global Crisis of 2008 would have had the same effect.

To investigate the research problem, I built regression models on the panel data to note how welfare components impacted state intervention, as well as the pattern of this impact.

Moreover, as mentioned, after WWII, governments increased spending to enhance state intervention; however, there were not enough investigations in the post-crisis period (2008). Welfare components have been cited as the reasons for the Nordic miracle. However, what if, due to changing economic conditions and time periods, these components were reasons for the retrenchment of welfare states? Further, might their impact be different across welfare states? Taking into account similar spending levels would not always indicate that two (or more) countries offer comparable advantages. (Kvist 2011).

### 3.2.1 Data, Models, and Results

My regression analysis consists of two methods: Pooled OLS and Fixed Effects models. My secondary data covers 16 advanced welfare states for a period of 20 years.

The Pooled OLS model equation can be written as follows:

$$G_{it} = \alpha + \beta_1 G_{it-1} + \beta_2 GDP_{it} + \beta_3 Own_{it} + \beta_4 Bargain_{it} + \beta_5 LabReg_{it} + \beta_6 Tax_{it} + \beta_7 Reg_{it} + u_{it}$$

Where  $G_{it}$  is the government expenditure for country  $i$  at time  $t$ ,  $Reg_{it}$  is the regulation,  $LabReg_{it}$  is the labor market regulation,  $Tax_{it}$  is tax compliance,  $Bargain_{it}$  is the centralized collective bargaining,  $Own_{it}$  is state ownership of assets,  $GDP_{it}$  is the GDP growth, and  $G_{it-1}$  is a lagged  $G$  variable. The latter is an additional control since there can be a relationship with the outcome, but this effect may occur gradually. It is assumed that the error term  $u_{it}$  is a white noise process that follows a normal distribution with zero mean and constant variance.

The Fixed Effects model equation can be written as follows:

$$G_{it} = \alpha + \beta_1 Reg_{it} + \beta_2 LabReg_{it} + \beta_3 Tax_{it} + \beta_4 Bargain_{it} + \beta_5 Own_{it} + \gamma_i + \delta_t + u_{it}$$

Where  $\gamma_i$  represents the country-fixed effects and  $\delta_t$  the time-fixed effects.

Table 6. Regression Analysis – Data

Variable	Stands for:	Content	Dataset
Own	State ownership of assets	The degree to which the state owns and controls capital (including land) in the industrial, agricultural, and service sectors.	Economic Freedom Dataset (2022). Fraser Institute
Bargain	Centralized collective bargaining	Whether wages in a country are set by a centralized bargaining process (= 1) or up to each individual company (= 7)	Economic Freedom Dataset (2022). Fraser Institute
LabReg	Labor market regulations	Hiring, firing, hours regulations, minimum wage etc.	Economic Freedom Dataset (2022). Fraser Institute
Tax	Tax compliance	Cost of tax compliance; data on the time required per year for a business to prepare, file, and pay taxes on corporate income, value added or sales taxes, and taxes on labor	Economic Freedom Dataset (2022). Fraser Institute
Reg	Regulation	Credit market regulations, business regulations etc.	Economic Freedom Dataset (2022). Fraser Institute
GDP	GDP growth (annual %)	Annual percentage growth rate of GDP at market prices based on constant local currency	World Development Indicators (2022). World Bank
G	General government final consumption expenditure (% of GDP)	All government expenditures for purchases of goods and services, including compensation of employees.	World Development Indicators (2022). World Bank

Taking into account the above-mentioned characteristics, I intended to investigate how welfare components such as effective government, a wage-bargaining system, and high de-commodification impacted state intervention, which would be identified by government expenditures. At the same time, it should be noted that focusing solely on government expenditures may also lead to forfeiting other features. Considering the above mentioned arguments, for my research design, these variables were seen as adequate. Moreover, there

were some studies noting a negative correlation between growth and government spending (Gemmel and Au 2013; Barro 1990), as well as studies observing a positive correlation (Ghose and Das 2013; Ghali 1999). As it could have an impact on the results of my model, I decided to limit the influence of this variable.

As both methods can be justified, for the sake of the robustness of my models, I used both OLS and FE, comparing the results.

### **Nordic Welfare States**

In Stepwise OLS selection, two variables were removed: Bargain and Reg, and these variables' coefficients were not statistically significant in other models. Statistically significant coefficients are consistent across different models, and all three models have consistent coefficient estimates overall: a 1% increase in GDP growth has a negative impact on G around -0.13%, a 1% increase in Own has a positive impact on G of around 0.5%, and a 1% increase in Tax has a negative impact on G of around -0.35% to -0.55%.

Furthermore, according to the F-test, there is evidence of individual effects at the 5% level of significance, indicating that the FE model should be preferred. The Durbin-Watson (DW) test shows evidence of autocorrelation for the pooled and stepwise models, but no evidence of autocorrelation is found for the FE model at the 5% level of significance. The Breusch-Godfrey (BG) test shows no evidence of autocorrelation at the 5% level of significance. The Breusch-Pagan LM test for cross-sectional dependence shows evidence of dependence only for the FE model. According to the Goldfeld-Quandt (Hetero) test, there is no evidence of heteroscedasticity.

### **All Welfare States**

In Stepwise OLS selection, three variables were removed: Bargain, LabReg, and Reg; these variables' coefficients were not statistically significant in other models. Statistically significant coefficients are consistent across different models, and all three models have consistent coefficient estimates overall: a 1% increase in GDP growth has a negative impact

on G of around -0.04%, a 1% increase in Own has a negative impact on G of around -0.27%, a 1% increase in Tax has a negative impact on G of around -0.23% and a 1% increase in Bargain has a negative impact on G of around -0.14%.

Furthermore, according to the F-test, there is strong evidence of individual effects at the 5% level of significance, indicating that the FE model should be preferred. The Durbin-Watson (DW) test shows strong evidence of autocorrelation in all models at the 5% level of significance. Similar results are evident from the Breusch-Godfrey (BG) test, where strong evidence of autocorrelation is found at the 5% level of significance. The Breusch-Pagan LM test for cross-sectional dependence shows strong evidence of dependence for all models. According to the Goldfeld-Quandt (Hetero) test, there is no evidence of heteroscedasticity.

### **Comparison**

The model diagnostic results show that for both Nordic and All countries, the FE model should be preferred in the presence of individual effects. With evidence of strong autocorrelation, the t-test was conducted using the Newey-West standard error estimators, which are robust to the presence of autocorrelation. However, the t-test outcomes did not change, which may suggest that the results are robust to the presence of autocorrelation. As for the evidence of non-normality, care should be taken in interpreting the t-test results because the non-normality may adversely affect the validity of the t-test. The analysis should be conducted with a focus on the effect size, not the outcome of the t-test.

As per the diagnostics, I found that for both Nordic and All welfare states, FE should be preferred; therefore, the results of the FE model were considered for further discussion. GDP growth was added as a control variable to decrease the potential bias, and a negative impact on state intervention was observed. The results were statistically significant. Tax compliance had a negative impact on state intervention for both Nordic and All Countries, whereas, for the Nordic welfare states, it would be expected (per the literature review in Chapter 2) to have a positive impact. Because high taxes are significant for Nordic welfare states, and due to the high social trust, citizens see the government as a last resort to increase

de-commodification. Therefore, tax compliance would be high; however, according to the present study's results, the opposite was true: coefficients were statistically significant.

Table 7. Comparison of Results – OLS vs FE

	Nordic Welfare States			All Welfare States		
	Pooled OLS	Stepwise OLS	FE	Pooled OLS	Stepwise OLS	FE
<b>Constant</b>	4.659 (4.732)	1.585 (1.913)	NA	2.024 (1.439)	2.361 (0.966)	NA
<b>G1</b>	0.849*** (0.074)	0.875*** (0.066)	0.775*** (0.077)	0.963*** (0.012)	0.965*** (0.011)	0.843*** (0.034)
<b>GDP</b>	- 0.131*** (0.045)	- 0.141*** (0.042)	- 0.134*** (0.043)	-0.041** (0.016)	-0.041** (0.016)	- 0.048*** (0.018)
<b>Own</b>	0.516** (0.23)	0.475** (0.214)	-0.585 (0.489)	-0.076 (0.068)	-0.096 (0.061)	-0.269** (0.146)
<b>Bargain</b>	0.034 (0.12)	NA	-0.116 (0.191)	-0.043 (0.031)	NA	-0.135** (0.066)
<b>LabReg</b>	0.383 (0.341)	0.192 (0.117)	0.097 (0.351)	0.025 (0.065)	NA	0.023 (0.121)
<b>Tax</b>	-0.382** (0.162)	-0.352** (0.152)	- 0.549*** (0.185)	-0.085 (0.063)	-0.102* (0.061)	- 0.230*** (0.082)
<b>Reg</b>	-0.475 (0.671)	NA	0.167 (0.686)	0.018 (0.48)	NA	-0.008 (0.241)
<b>R2</b>	0.9042	0.9032	0.7544	0.9741	0.9739	0.7451

<b>F-test</b>	3.07 (0.03)	2 (0.09)	NA	2.54 (0)	2.36 (0)	NA
<b>DW</b>	1.68 (0.02)	1.69 (0.04)	1.81 (0.1)	1.6 (0)	1.58 (0)	1.64 (0)
<b>BG</b>	22.97 (0.24)	20.62 (0.35)	33.42 (0.02)	49.05 (0)	49.33 (0)	70.4 (0)
<b>BP</b>	11.62 (0.07)	12.26 (0.06)	14.43 (0.03)	603.82 (0)	596.58 (0)	551.18 (0)
<b>Hetero</b>	0.54 (0.09)	0.53 (0.08)	0.54 (0.09)	0.91 (0.55)	0.9 (0.55)	0.91 (0.55)

G1: lagged value of G; \*\*\*: statistically significant at 1%; \*\*: statistically significant at 5%; \*: statistically significant at 10%.

Standard errors are in brackets.

As mentioned above, there is no universally accepted definition or measurement of welfare components in the literature on the subject. Consequently, researchers frequently apply the methodologies that were previously employed to investigate welfare metrics in the literature. Several studies have employed indicators as variables to quantify welfare systems (Eger and Breznau, 2017; Jordan, 2013). Furthermore, the vast majority of studies employing this technique rely on expenditure-based metrics as their primary indicators (Kvist, 2011). According to these investigations, a single indicator technique is more advantageous than others. Furthermore, the single-indicator method of using welfare state indicators has drawbacks, such as the possibility of a restricted informative value and possible calculation problems. These can, however, be mitigated by using generally available, constantly updated measurement data sources. Furthermore, the issue of restricted informative value can be addressed by using more indicators (Kunißen, 2019). For the regression analysis, I chose an expenditure-based indicator as the dependent variable, representing state intervention.

According to Marica and Piras (2018), contemporary theoretical arguments in favor of a significant link between government spending and long-term economic development

influence the inclusion of fiscal policies in endogenous economic growth scenarios, including linear and non-linear models. One of the ways a state can have an impact on markets and, more broadly, on an economy is through taxes and expenditures. This occurs since they can influence private-sector decisions about making investments in human capital, or research and development, which is considered the driving force for development within the endogenous development paradigm. On the other hand, from an empirical standpoint, research appears to produce mixed and contradictory results. The public sector in developing countries is typically small, and the relationship between government size and growth is positive; in developed countries, the public sector is large, and the relationship is less positive and possibly negative than in developing countries (Marica and Piras, 2018).

Furthermore, effective and efficient governance and policies are tools in the context of development and progress; thus, in a welfare state where state intervention is relatively higher, we can expect that this is due to a positive impact of intervention through effective regulation. The estimates for both Nordic Welfare States and All Welfare States in the model were not statistically significant but were mostly consistent.

Furthermore, in a stronger welfare system, public interest often triumphs over private; asset ownership in the public sphere is greater than in comparable regimes. Because of the crisis's increased impact on markets, it was expected that more state-owned assets would lead to more intervention in Nordic welfare states, but the results show that the impact is negative and statistically significant.

Taking into consideration the aforementioned aspects of the discussion, I developed the following:

- Tax compliance costs had a negative impact on state intervention in both Nordic welfare states and across the board. Contrary to popular belief, taxes, tax compliance, or costs associated with them do not have a positive impact on state intervention in modern welfare states.
- Because of the 2008 global financial crisis, welfare states increased state intervention by increasing government spending; however, neither changes in overall regulations nor labor regulations had a significant impact on the crisis.

- State-owned assets have a negative correlation with government spending; welfare states with more state-owned assets appear to have weaker state intervention.

## 4. Summary and Conclusion

Historical events have the ability to repeat themselves and trigger future events. The past must be investigated in order to gain lessons and lessen uncertainty about the future. In terms of the global economy, knowing the history of human reproduction and collaboration is crucial to finding solutions. Throughout history, individuals have been cared for primarily by tribes, ethnic groupings, and, subsequently, families. The monarchs' "parental role" was akin to giving society amenities, and earlier royal support paved the way for succeeding welfare governments. This historical component enabled welfare governments to appeal to communities as an alternative form of familial control. Prior to the development of the welfare state, there was a lack of caregivers to confront everyday risks.

A welfare state is a multifaceted phenomenon that necessitates a framework that integrates political economy, institutional economics, welfare economics, sociology, and other disciplines. As a result, understanding welfare states necessitates a range of techniques and methodologies. My study is based on the institutional analysis paradigm. Institutions, together with their activities and guiding concepts, are critical components of all systems.

To recapitulate, welfare states may represent the outcome of markets failing to work effectively. There are various definitions of welfare states; nevertheless, in my research, I took the perspective that a welfare state is a macroeconomic coordination framework integrating market instruments and government oversight. High taxation, intensive government intervention, a high level of welfare expenditures, universal access to social services, a substantially higher level of ownership by the state, and a high level of de-commodification are some of the main features. State intervention and higher taxation can be viewed as systemic flaws. However, defining a welfare state as a weapon for government intervention is inaccurate. The range and breadth of the functions' linkage, as well as the magnitude of their association, may reflect how strong or weak welfare states are. In this context, a state and a market can play their respective roles without clashing with one another, benefiting the overall system. Because of this feature, welfare states were able to gradually react to internal and external challenges.

Indications of the welfare state may be noticed in any society. A welfare state is made up of institutions, which are also a framework or structure of orders. Earlier studies were associated with three major approaches: 1) modernization, which saw institutions as socializing agents; 2) corporatism, which linked power and institutions to analyze the effect on economic actors; and 3) social system of production, which assumed that economic agents' reactions could be predicted and were more or less automatic because of institutions. The welfare state can also be defined as a socialistic experiment characterized by high taxation and extensive government intervention in which the state determines citizens' fates from birth to death.

State and class analyses are critical when evaluating welfare states. Government involvement and majority state ownership can be important drivers of prosperity and are some of the fundamental characteristics of a welfare state, but traditional socialist tools should be compatible with capitalist instruments, as in the Scandinavian countries. The quality of economic institutions determines economic prosperity by establishing more productive ones.

Welfare states are characterized by high government spending, and in most cases, the higher the spending, the higher the state intervention becomes. Because of the limitations of free market functionalities, state intervention has been emphasized on numerous occasions as one of the drawbacks of welfare states. As the relationship between a state and a market is not the same in every country, the characteristics of different welfare states and levels of measures would differ.

The allocation of resources and the provision of social services are inextricably intertwined. If a state has more say over resource allocation, its welfare benefits will be more generous. Higher welfare provisions indicate more generous welfare states, which influences decommodification levels and implies less reliance on the market. A more extensive welfare state will lower these losses by having a high rate of income substitution and by providing social security to a large section of the population. Social benefits are a means of transferring resources to the poor and shielding them from the risks of the job market (Rueda, 2015). Decommodification is strong in welfare states where the state plays a dominant role; low and intermediate levels are found in welfare states where the market is significant and shares

more "responsibilities" with the state. Moreover, decommodification is a critical component of a welfare state. Citizens will be less reliant on the market if they have no dependence on their places of employment and do not foresee future concerns in the event of job loss. Individuals will also have faith in the government, which will increase social trust in a welfare state, which is a key determinant of its size. Furthermore, solidarity may promote collectivist values, which is the fundamental solution to the dilemma of how a welfare state can levy such large taxes. First and foremost, people have will faith in their government, believing that it will provide a better future than the market.

There is a link between the degree of welfare state provisions and the quality of life, which influences social trust and citizen well-being as well. Scandinavian Social Democratic Parties, such as Norway's Labor Party, have established a distinct welfare state with extensive social security and protection networks, including a distinct child and elderly care system, unemployment benefits, free school education up to university with financial subsidies, and medical and health care.

The period following World War II was regarded as a Golden Age for welfare states. Government spending increased considerably during these golden years of welfare states, and family allowances were established. There were, however, considerable differences between Southern and Continental Europe, as well as Northern and Southern Europe. Welfare states were well-established in nations with a high level of economic and industrial development (that is, with an average per capita income of \$4,000 in 1985 dollars and a workforce that was 33% or more industrialized). Germany and Austria were the outliers, with economies still recovering from the effects of WWII but welfare systems that were (relatively) resilient. Finland and Italy, both of which employed roughly 28% of their labor force in industry, had a slower rate of welfare state development. Switzerland was an exception to this overall trend (particularly in terms of welfare expenditure), with lower levels of spending than would be expected given its richness and industrialization (Cousins, 2005). According to Lindbeck (2004), while rising welfare state spending is a result of shifting political choices and globalization, population interest in new social programs must be taken into account as well. Income protection and social service demand may potentially outpace income growth (income elasticity greater than one).

Following World War II, globalization became more common and influenced the policymaking approaches of leading nations. Globalization is a concept that might be considered an imminent threat to the framework of welfare states due to their collectivist nature. According to Therborn (1986), the centralized issue of "state-building" appears beneficial if accompanied by an in-depth understanding of the classes as well as other interpersonal interactions through which states were established. To understand the early stages of the current welfare state, we must begin with the creation of free public schools and broad healthcare systems. The beginning of the present stage in the development of the welfare state can be traced to Bismarck's large-scale social insurance schemes of the last quarter of the nineteenth century. It took decades for welfare states to improve in terms of effectiveness and efficiency.

Following economic success, there was a change in political inclinations and a spike in welfare provisions after World War II. The first oil price shock occurred in the early 1970s, highlighting the gap in response capabilities. Mass unemployment has become one of the economy's most problematic aspects. To solve this problem, developed economies increased their social spending. The 1970s were notable in terms of worldwide economic problems. During this time, some countries, such as the United Kingdom, saw their social programs shrink, while others, such as Scandinavian countries, saw their economies thrive. Nonetheless, no substantial alterations were seen overall. Following the oil crisis, the next phase continued until the end of the twentieth century. However, some researchers saw this period as one of retreat, while others saw it as one of rebuilding welfare states.

Scholars have been warning that the welfare state is in trouble since the first oil crisis. The main issue is that the welfare state diminishes capital velocity, intent, and benefits. Several evaluations contend that the crucial impact of the oil crisis occurred in the welfare states since theoretical assumptions could not be successfully implemented. In other words, the success of welfare states after WWII caused a subsequent decline. Excessive taxes, government expenditure and interference, and social security all contributed to this tendency. However, the most crucial point to grasp is that a capitalist market and a welfare state are not mutually exclusive.

The first oil crisis was followed by a second oil shock in the 1980s, which slowed the development and expansion of welfare states. Furthermore, the global economy experienced another downturn in the early 1990s. Government spending surged initially, even though it later declined, particularly in Scandinavian nations, yet their expenditures remained higher. Overall, these countries outperformed the rest of the OECD. Sweden, for example, experienced a budget surplus at the end of the 1990s, with taxes playing an important role. States were unable to implement a broad social provision based on collectivist principles at the time, and many developed countries began to cut government spending and reject Keynesian ideas. Even while GDP increased, social spending went down. However, the problem was mostly under control until the early 2000s, when the global economy was hit by the financial crisis. That crisis has affected every country, developed or not.

The period from the mid-1990s until the 2008 crisis was a workfare phase for welfare states. Upon the transition to this stage, social assistance, as well as strengthened labor regulations and incentives for individuals to work, would be phased out. Even though there appears to be a general trend in industrialized countries toward more demanding benefits, there appears to be a far more contentious trend toward promoting workfare. More crucially, in terms of wage gaps and redistribution, the role of social assistance policies in the workfare state era appears to be far less egalitarian (Rueda, 2015).

The situation did not change significantly during the early years of the twentieth century (up to the point of the crisis); countries continued to recover from the effects of the previous recession. The Lisbon Agenda, adopted at the 2000 summit, pledged the EU's support for the recovery by decreasing unemployment, investing in research and development, safeguarding those in need, and enhancing the European welfare state by 2010. In many ways, this plan of action was not successful (Einhorn and Logue, 2010).

To summarize the path, following WWII, governments began increasing social expenditure and other welfare benefits, bringing in the "golden years" of welfare states. The Nordic countries were able to recover after two oil crises, but the global recession of the 1990s affected all countries, even Scandinavian welfare states. One of the primary issues, according to scholars, was "out-of-date" regulations that were incompatible with new-era realities. Furthermore, Scandinavian welfare states, like other wealthy countries, were

unprepared, with significant downward trends in all economic ratios. Still, the Scandinavian welfare states were relatively better prepared for the 2008 financial crisis than for previous crises.

As mentioned above, welfare states are often described as products of post-industrial society, where a free market failed to deal with economic imbalances. This study adopted one of the most-referenced welfare state typologies: “Three Worlds of Welfare Capitalism” by Esping-Andersen (1990). Sweden was classified as a Nordic welfare state, alongside Norway, Finland, and Denmark. The other two clusters were Liberal and Conservative welfare states. These welfare states are different from one another in terms of decommodification levels (their level of protection from markets); for Nordic welfare states, due to high welfare provisions, the level is high, whereas for Liberal welfare states it is low.

Liberal welfare states are not as popular as Nordic welfare states, and the vast majority of the former system’s citizens are denied social benefits. For example, the United Kingdom’s welfare state initially provided equal access to health care, education, and other forms of support, but the situation changed after the two oil price shocks. In corporatist welfare states, the church used to have significant power. In this welfare state, gender equality, universalism, and class equality are not key factors, but market-labor benefits are critical. As a result, Germany has emerged as a significant labor market for low-skilled foreigners.

The Nordic welfare states are famous and stable. The combination of equal provision of social services and advancement in the economy piqued people's interest in these types of welfare governments. Nordic welfare states also distinguish themselves through equal treatment, income redistribution, a low unemployment rate, and significant female employment. Unlike other Western nations, the Nordic countries have maintained high levels of employment and welfare, offering universal and overall significant economic advantages to their citizens. Furthermore, the Nordic countries are distinguished by their industrial ties and close cooperation among the primary labor market partners. At the same time, it increased output and investment. Nordic economic inequalities are among the lowest in the world.

Variants of the basic system are specific to each Nordic country. To begin with, the state has participated in national collective bargaining in Norway on several occasions, whereas the Swedish state is rarely involved in national wage negotiations. Second, the Norwegian government manages unemployment benefits. Unemployment insurance funds, which are separate corporations with close ties to labor unions, govern such payments in Sweden and Denmark. Third, despite the increasing privatization of government firms and services, Norway's private welfare industry is still modest. In contrast, the conservative government that ruled Sweden from 2006 to 2014 supported welfare privatization. As a result, Sweden has a far larger private welfare system than Norway and the other Nordic nations. Fourth, because workers play such an important role in Norway, deliberate efforts to maintain a widely distributed geographical distribution of the population characterize the country. Significant economic transfers to rural areas are an important component of these programs. Sweden, on the other hand, lacks similar policies for rural areas (McCarty, 2013).

Aside from the differences mentioned above, Denmark was the most like the pure model, while Finland had traditionally taken a more continental, or Bismarckian, approach. In recent years, both Sweden and Norway have moved closer to the continental model by raising employer and employee payments, with Sweden going the furthest by implementing a comprehensive supplemental pension scheme. In the last two decades, the three major European social security systems—Bismarckian, Beveridgean, and Scandinavian—have moved closer together, but their fundamental characteristics remain in their social policies (Anderson, 1984).

To summarize the study of Nordic welfare states and the reasons for their success, the robustness of the model may be explained primarily by a unique combination of favorable conditions rather than specific factors: a strong labor movement, a unique wage determination system, institutional complementarity between this system and welfare state services and benefits, an influential economic profession, a historically uncorrupt and efficient civil service, a strong rural counter-culture that is easily mobilized for "economic nationalism," and widespread egalitarian values (MacCarthy, 2012).

The Nordic countries invest far more in welfare policies that encourage human resource development and use, such as education, healthcare, labor rules, and supplementary aid, than

the rest of the OECD countries. Sweden is renowned as the home of welfare development programs; spending on welfare capital outnumbers expenditures on salary replacement payments, accounting for more than half of total social service expenditures in 2010. The distribution of financial resources in Nordic nations remains less uneven than in other OECD countries, and incidences of poverty are similarly lower; however, Sweden has recently grown progressively unequal when it comes to the distribution of earnings (Pierson et al., 2022).

I chose to analyze Sweden as a case study to obtain initial insights through qualitative analysis. The Swedish welfare state is unique because early agricultural reforms helped distance the economic system from others with universalist views, and a governing body began to intervene in markets. Sweden experienced structural improvements in the late eighteenth century that marked the foundation of the Swedish welfare state. Despite their inability to comprehend it at the time, land reforms aided in the implementation of future social programs. Furthermore, Sweden was the cradle of Nordic welfare states because it was the first Nordic country to refer to the Bismarckian policies implemented in Prussia. The main characteristics of the Swedish welfare state are a high level of decommodification, high government spending, a high level of income tax, a favorable ratio of income disparity, and, as one of the measures of improvement and progress, high ranks for the happiness index. According to Bergh and Erlingsson's (2009) perspectives on Sweden, the center-right parties have never united in opposition to the welfare state, and voters have repeatedly punished the party that was most radically opposed to its features. One of the significant reasons for the Swedish welfare state's advancement was a combination of welfare provisions and market means (Bergh, 2014). Both played a distinct role in attaining prosperity and relative equality, and they worked well together. Markets were ineffective in the 1970s because policies created the wrong incentives: corporations could hope for subsidies and devaluations rather than pursue productivity-boosting initiatives. According to Bergh (2014), at the end of the 1980s, Sweden looked to be a prominent example of the viability of having a high tax rate with a very high employment rate (the average jobless rate between 1987 and 1990 was 1.6 percent). Furthermore, when discussing lessons from Sweden, Bergh (2014) stated that export-led raw material development is a common explanation for the golden years of 1870–

1970 because demand for timber and other materials increased due to manufacturing development.

High taxation is one of the characteristics of a strong welfare state because it is costly to maintain. Tax hikes were necessary during the postwar "Golden Years". Between 1965 and 1980, tax income in Sweden grew by 17 percent, a trend that is characteristic of Nordic welfare states: as they expanded, government spending increased, and taxes increased accordingly. Even though Sweden lagged behind on the route to economic progress in the mid-twentieth century, policymakers addressed it in the ensuing decades.

Even though shifting economic conditions and oil crises raised numerous concerns about the long-term viability of a welfare state, its recovery from difficulties largely resolved some of the most serious concerns. According to Einhorn and Logue (2010), "Sweden managed to smooth out the economic turbulence of the 1974–84 period through aggressive Keynesianism: countercyclical fiscal policies, the production for inventory scheme, active labor market programs, industrial policies to downsize the shipbuilding and steel industries, and currency devaluations." However, according to some scholars, the contemporary welfare state is nearing its end. Furthermore, its components may no longer be limited to physical boundaries; as a result, the state-nation model that served as the foundation after WWII would be changed, potentially ending the welfare state's existence." (Amable et al., 2006; Zylan and Soule, 2000)

Due to the economic downturns, interest in studies on uncertainty-induced behavior increased. Along with the ideas of risk and uncertainty, decision-making behavior might take place in either a static or dynamic framework. The research cannot be restricted to a single field. Economic, political, and social elements should also be included in future research. Using certain theoretical views will aid in the appropriate evaluation of patterns for institutional analysis as well as the exploration of complicated risk concepts. Uncertainty is a key aspect, if not the first, in Keynesian economics. To "defend" economic players against uncertainty, the idea of "state" is critical. The Keynesians believe that government expenditure promotes economic growth. Economic agents cannot compute probability because uncertainty prevents them from knowing what the future will be (from a monetary standpoint) (Keynes, 1937). Even if the welfare state might be viewed as a solution to the

problem of everyday hazards, it is a product of industrial society. Industrial societies generate hazards like occupational injury and unemployment, while existing risks like poverty, old age, or disease are viewed through a new lens of institutions connected with an industrial society, such as cities. Social insurance is one of several risk-management methods. In this way, risk-sharing may lay the groundwork for unity.

And when it comes to the global crisis, Sweden has already learned a few lessons from the early 2000s, making it simpler to adjust to the post-2008 age. This crisis differs significantly from the crises of the 1970s and 1980s, when the welfare state was blamed for the financial issues. According to polls, the vast majority do not blame the welfare state for the crisis; rather, they see it as a solution to the economy's problems. Since the global financial crisis, citizens value the welfare state even more since it does exactly what it was designed to do: protect residents from losing their livelihoods.

Furthermore, Sweden's extensive social policy structure and interventionist past have helped the country adjust to changing situations far faster than other countries. In 2008, the Swedish krona fell against the euro, giving Swedish exporters a competitive edge. Furthermore, Sweden's right-wing government responded immediately to the economic collapse with a major budgetary stimulus plan. With its financial standing in satisfactory condition going into the turmoil, the authorities supplied tax incentives, and numerous sectors obtained assistance to help with rearranging and closing strategies. The welfare state effectively allowed major social security systems to serve as built-in buffers. Furthermore, the government launched a nationwide wage replacement scheme to ensure that individuals had security. A significant feature of institutional adjustment in Scandinavian welfare states, notably in Sweden, is the increased engagement of the private sector in the financing of governmental social programs. While outsourcing of these programs has been limited in certain places, subsidized operations by the corporate sector have increased dramatically in sectors such as education, healthcare, and others. Market-driven government procedures grew as well (Hemerijck, 2013, Farnsworth, and Irving, 2011).

Some scholars (e.g., Gulbrandsen, 2018) cited high social provisions and generous benefits as typical Swedish welfare state characteristics. High welfare spending and resource distribution are positively correlated, and more social spending also decreases reliance on

markets, increasing citizens' social protection; thus, taxation and welfare provisions aid in redistribution by increasing decommodification (Rueda, 2015). Furthermore, harmony in the central bargaining system among employees, employers, and the state led to more efficient and productive outcomes; Sweden was able to build a strong welfare state, so its social policy traditions date back to the nineteenth century, and coalitions among various political groups have been more solid than in other OECD nations. The Swedish welfare state experienced intensive growth after World War II, and the state started to intervene more intensively. One of the tools was to increase government spending. Although investigations and research provided some information on the post-WWII period, the post-crisis period was not adequately covered. As a result, this study revisited the subject of the 2008 global financial crisis in the context of welfare states, which still requires extensive research.

I began my investigation with the goal of uncovering black boxes, each of which would provide a new perspective on the subject. I identified the research problem through technical literature and by evaluating Sweden as a case study, and then proceeded further with quantitative analysis.

As previously stated, welfare states are distinguished by high levels of taxation, a significant amount of government spending, a relatively high level of state-owned means, and more efficient regulatory systems, among other characteristics. Governments boosted welfare payments after WWII in order to increase governmental interference and control over economies. Further, while there have been several studies focusing on the golden years of welfare states, few have focused on the topic of the post-crisis period (2008), asking how and why state intervention changed. As a result, the following question was addressed through this research: How did state intervention change in Nordic welfare states as a result of the 2008 global financial crisis, and what role did the welfare components play?

It is worth noting that the 2008 crisis is significantly different from the crises of the 1970s and 1980s, when the welfare state was thought to be the cause of the financial meltdown. According to polls, most people aren't pointing fingers at the welfare state for the crisis; rather, it is seen as a solution to the economy's problems. Since the crisis, people have valued the welfare state even more since it accomplishes what it was designed to do: protect citizens from losing their livelihoods (Vis et al., 2011).

Given that the period in question has been understudied in comparison to prior eras and there were no essential influential events on welfare states, I relied heavily on literature from earlier periods to inform this research. My study's primary premise was that global events have the same impact on welfare states. It would also demonstrate how welfare states that experienced golden years in the 1950s and 1960s can still respond to changes and deal with internal and external obstacles.

The typology for this research was adopted from the one suggested by Esping-Andersen (1989, 1990); however, as the study was performed decades ago, I re-examined and compared it with my study's results. Moreover, there were numerous prior studies that were inspired by Esping-Andersen's typology; for example, Scruggs and Alan (2006, 2008), who decided to replicate the data despite the differences in outcomes, accepted the main foundations. (Additional investigations include Rice, 2013; Van Kersbergen and Vis, 2015; Ferrera, 1996; Castles and Obinger, 2008). Also, most of these studies mostly focused on Western-developed countries, due to the lack of data for other regions and countries. Additionally, country scores based on cluster analysis were estimated using the deviation from the mean, which varies depending on the countries that were taken into account (Kunißen, 2019). The results and techniques are diverse since there are no definite and unambiguous recommendations on this topic.

There are many opposing views on welfare states, as well as on their future and retrenchment. However, according to my study, in 2009, social contributions for Nordic welfare states were lower than those for the Conservative cluster (slightly higher than liberal welfare states), and taxes were at the lowest level. Further, as per the 2018 analysis, taxes went down while social contributions increased, accompanied by slight decreases for all other variables. In general, in 2018, for the Nordic cluster, most of the variables showed a downward tendency, except social contributions. Therefore, based on the aspects mentioned above, I put forth the following thesis:

- Welfare states do not react to external challenges the same way; out of three clusters from the initial typology, Social Democratic welfare states remained more stable compared to other welfare states in terms of typology and did not get closer to other welfare states by adopting policies typical of other clusters. However, the

consistency of Nordic welfare states with their "typical components" was not demonstrated.

As per the literature reviewed here, there are specific features of welfare states, such as higher levels of taxation, high government expenditures, a fairly substantial amount of state-owned assets, and more effective regulatory frameworks. My study's main argument is that global events affect welfare states and that external challenges lead to internal challenges. That is to say, I assume that if, after the Second World War, government intervention increased because of welfare components, the Global Crisis of 2008 would have had the same effect.

To dig deeper into the research question, I developed regression models on panel data to examine how welfare components influenced state intervention and the pattern of this impact. Furthermore, as previously stated, governments boosted spending to strengthen state intervention after WWII; yet, there have been insufficient investigations in the post-crisis period (2008). Welfare factors are cited as explanations for the Nordic miracle. However, what if, due to changing economic conditions and time periods, these components were reasons for the retrenchment of welfare states? Further, might their impact be different across welfare states? Taking into account similar spending levels would not always indicate that two (or more) countries offer comparable advantages (Kvist 2011).

In addition, social spending and growth are linked (Cousins, 2005), and the Scandinavian countries' success was owed in part to a combination of centralized wage bargaining, social spending, and efficient governance (MacCarthy, 2012). They also have a higher level of decommodification, which can be explained by higher taxation. Taxation and tax benefits support the low-income group because they have a redistributive effect (Bergh, 2004). Furthermore, I considered controlling GDP growth to reduce the model's bias, given that studies have found both positive and negative associations between growth and government spending (Gemmell and Au 2013; Barro 1990; Ghose and Das 2013; Ghali 1999). Taking the aforementioned aspects into consideration, I intended to check how welfare components affected state involvement, as measured by government spending.

As mentioned earlier, there is no universally accepted definition or measurement of welfare components in the literature on the subject. Consequently, researchers frequently

apply methodologies previously employed to investigate welfare metrics in the literature. Several studies have employed indicators as variables to quantify welfare systems (Eger and Breznau, 2017; Jordan, 2013). Furthermore, the vast majority of studies employing this technique rely on expenditure-based metrics as their primary indicators (Kvist, 2011). According to these investigations, the single-indicator technique is more advantageous than others. However, the single-indicator method of using welfare state indicators has drawbacks, such as the possibility of a restricted informative value and possible calculation problems. These can be mitigated by using generally available, constantly updated measurement data sources. Furthermore, the issue of restricted informative value can be addressed by using more indicators (Kunißen, 2019). For the regression analysis, I chose an expenditure-based indicator as the dependent variable, representing state intervention.

According to Marica and Piras (2018), contemporary theoretical arguments in favor of a significant link between government spending and long-term economic development influence the inclusion of fiscal policies in endogenous economic growth scenarios, including linear and non-linear models. One of the ways a state can have an impact on markets and, more broadly, on an economy is through taxes and expenditures. This occurs since they can influence private-sector decisions about making investments in human capital, or research and development, which is considered the driving force for development within the endogenous development paradigm. On the other hand, from an empirical standpoint, research appears to produce mixed and contradictory results. The public sector in developing countries is typically small, and the relationship between government size and growth is positive; in developed countries, the public sector is large, and the relationship is less positive and possibly negative than in developing countries (Marica and Piras, 2018).

Furthermore, effective and efficient governance and policies are tools in the context of development and progress; thus, in a welfare state where state intervention is relatively higher, we can expect that this is due to a positive impact of intervention through effective regulation. The estimates for both "Nordic welfare states" and "All countries" in the model were not statistically significant but were mostly consistent.

As per the regression results, statistically significant coefficients are mostly consistent across different models, and all models have consistent coefficient estimates. For both

Nordic and All Welfare States, the variables for the Central collective bargaining and Regulation were removed in the stepwise selection of Pooled OLS models. For all other models, the variable for Labor Regulation also removed. Moreover, GDP growth was added as a control variable to decrease the potential bias, and across all models, the negative impact on the state intervention was noted, and the results were statistically significant.

Taking into consideration the aforementioned aspects of the discussion, I developed the following:

- Tax compliance costs had a negative impact on state intervention in both Nordic welfare states and across the board. Contrary to popular belief, taxes, tax compliance, or the costs associated with them do not have a positive impact on state intervention in modern welfare states.
- Because of the 2008 global financial crisis, welfare states increased state intervention by increasing government spending; however, neither changes in overall regulations nor labor regulations had a significant impact on it.
- Government spending and state-owned assets have a negative correlation; welfare states with more state-owned assets appear to have weaker state intervention.

Some of the present investigation's findings contradict previous studies. For example, it was stated that consistency among the elements and components of the welfare state would not be an obstacle in the new warfare phase. However, my results revealed that only consistency was related to typology, with typical components of welfare states changing internally. As these changes and new policies are implemented, so are attitudes toward "traditional welfare tools." Another point to be mentioned concerns taxes and government intervention; it was previously stated that both of these components are typical of stronger welfare states, that working together may create a redistributive effect to benefit people in need, and that taking into account the decommodification aspect, it would be expected that, due to the crisis, higher levels of these components will lead to a higher level of state intervention and that governments will intervene in markets more intensively (Rueda, 2015; Esping-Andersen, 1989; Gonthier and Matthews, 2015).

These findings are crucial, as the notion of a "Nordic miracle" has been very popular since WWII and was particularly influential in the 1990s, when, due to changing political

and global situations, people's interest in Scandinavian countries spiked. Even though attitudes were still quite positive toward welfare states, their efficiency was questioned in some cases. Furthermore, international organizations' help with the development and improvement of developing countries historically justified their continuation on the foundation of state inability. Their actions were previously restricted to developing nations, with the goal of assisting these nations with the formation of indigenous historical agencies; they are presently broadening their efforts to connect Western nations with developed cultural agencies (Arrhenius and Otero-Pailos, 2010). In most instances, the fundamental advice for emerging nations has been to disseminate the concept of a free market and reduce state intrusion. In contrast, both the interventionist state and the function of culture in politics are particularly prominent in Scandinavian nations. As a result, my findings are significant not only in the context of Scandinavian countries but also on a much broader scale; at some point, despite the drawbacks and challenges, welfare states could respond to external and internal challenges, even if various factors contributed to this response, such as the historical and cultural background of Scandinavian countries, not being involved in two world wars, and so on. It is obvious that not all policies and rules that worked for these welfare states should be applied in other nations, but the lessons learned from the historical path of developed welfare states may help to deal with the challenges and, eventually, prevent them in developing countries.

One of the limitations of the present study was the lack of data for other regions and countries, in particular for the Eastern and Central European countries, which prevented an analysis of cases in those countries. However, future researchers may choose to focus more on these countries in terms of both cluster analysis and regression models. For example, for the cluster analysis, country ratings based on cluster analysis are calculated using the deviation from the mean, which changes depending on the countries under consideration. Because there are no firm and unambiguous guidelines on this topic, the results and strategies vary, as do the results.

Moreover, the single-indicator technique of using welfare state indicators has disadvantages, such as limited informative value and probable computation issues. These can be reduced by employing widely available, frequently updated measurement data

sources. Furthermore, utilizing more indicators helps address the issue of limited informative value (Kunißen, 2019).

The prospective outcomes of this study can serve to produce important research questions, ideas, and issues for future studies on topics such as the 2008 Global Crisis, developing welfare states, and welfare state retrenchment, among others. To conduct this research, it is necessary to understand the issues that welfare states experienced and how they coped with them, as well as how welfare states might respond if the global economy faced a similar situation in the future. Furthermore, the institutional study of welfare states is critical, as lessons learned in the past can be applied to the future and more efficient policies can be implemented to reduce risks. An existing gap in the literature can also be overcome through a comprehensive and theoretically grounded study.

## 5. Novel Findings, Limits, and Recommendations

The institutional analysis of welfare states is critical not only for the region or countries under investigation but also for other prospective beneficiaries, e.g., for developing countries, so the research findings can be applied. By adopting this approach, the research problem is identified first, and then an answer to the problem is studied using relevant econometric instruments. I used cluster analysis followed by regression analysis for this study.

For the cluster analysis, I used the typology proposed by Esping-Andersen (1989, 1990). Because the study was conducted decades ago, I re-examined and compared its findings with my own. Another disadvantage of this kind of investigation was that it was largely focused on Western-developed countries due to a lack of data for other regions and countries, such as Eastern and Central European countries. Furthermore, country ratings based on cluster analysis are calculated using the deviation from the mean, which changes depending on the countries considered (Kunißen, 2019). Because there are no firm and unambiguous suggestions on this topic, the results and strategies vary.

This cluster analysis yielded the novel conclusion that the consistency of Nordic welfare states with their "typical components" was not demonstrated. Most importantly, Nordic welfare states have changed, and the characteristics that distinguished these welfare states are no longer specific. Welfare state components of this model are not as stringent in the modern era as they once were. It is critical to find out how welfare states have evolved because the Nordic welfare states have attracted public attention since their golden years. The lessons learned from Nordic countries (or from specific members such as Sweden) can be applied to other developing countries to achieve economic progress, or the "Nordic Miracle." However, these specific components from the golden age are no longer significant, and the distinctions between different welfare typologies are becoming less strict.

As previously stated, there is no commonly recognized definition or measurement of welfare components in the existing literature. As a result, researchers frequently employ approaches that have already been used to explore welfare indicators. Several studies have

used indicators as variables to evaluate welfare systems (Eger and Breznau, 2017; Jordan, 2013). Furthermore, the vast majority of studies that employ this method use expenditure-based metrics as primary indicators (Kvist, 2011). However, the single-indicator technique of using welfare state indicators has disadvantages, such as the likelihood of a limited informative value and probable computation issues. These can be reduced by using widely available, frequently updated measurement data sources. Additionally, the problem of limited informational value can be addressed by using more indicators (Kunißen, 2019).

The regression analysis's novel findings were that, as a result of the 2008 global financial crisis, welfare state components such as tax compliance, regulation effectiveness, and more state-owned assets, which were critical during the golden age, did not have a positive impact on state intervention; in other words, typical welfare state characteristics did not create conditions for more state intervention as they did in previous periods.

To sum up, interest in Scandinavian countries increased during transition eras due to shifting political and global events. And, as in previous decades, questions such as "How can the Nordic welfare state tax so much?" and "What are the reasons for the Nordic miracle?" were investigated. The goal was to determine what worked and what did not work for this region and then apply those lessons to policymaking. Furthermore, foreign aid to developing countries has historically justified the continued existence of international aid organizations on the basis of state inability. While their initiatives were previously limited to underdeveloped countries (with the purpose of supporting these countries in the establishment of indigenous historical agencies), such organizations are now expanding their efforts to Western countries with sophisticated cultural agencies (Arrhenius and Otero-Pailos, 2010). In the majority of cases, the primary advice for developing countries has been to spread the concept of a free market and decrease state involvement. In contrast, the interventionist state and the role of culture in politics are especially significant in Scandinavian countries. As a result, these findings are significant not only for Scandinavian countries but also on a much broader scale; despite their flaws and obstacles, welfare states can cope (as they have historically) with external and internal challenges, even if a number of factors contributed to this success, such as Scandinavian countries' historical and cultural backgrounds, their absence from two world wars, and so on. Although not all policies and

procedures that worked for these countries should be replicated in developing countries, the lessons learned from the historical path of developed welfare states may help to deal with and, eventually, prevent issues in emerging countries.

The COVID-19 crisis, which was one of the significant historical events having repercussions for nearly every sector of the world economy, is another element reinforcing the relevance of this study and providing a platform for future research. It reintroduced welfare states into the debate. Despite the common perception that welfare states would collapse, there was a revival of government control. Many governments reduced taxes and used emergency money to assist firms and residents (Sinyavskaya, 2020).

A few years ago, most individuals would not have been in favor of the government granting increased welfare benefits to working-age people in most countries. However, the recent crisis has changed people's views on this matter again. While there is still a significant portion of the population in favor of providing benefits for retirees, there is a growing recognition among voters of the challenges faced by those who are of working age and also in need (Curtice, 2020). More generous governments and more efficient welfare policies aided in dealing with it and enabled citizens to continue acting as economic agents without fear of the future or uncertainty. States that are more generous can reduce economic pressure on citizens, which benefits everyone. Many governments pursued politics, supporting generous policies, from the start of the pandemic, and this is one lesson learned from the crisis. Efficient welfare states not only see market participation as the end of welfare provision; they also organize and deploy the state's commodification power through social services markets, which extend the commodification of claimants in significant ways (McGann, 2020). Typically, the welfare state defines the level of risk people in a particular society experience. Enhanced social policies lower risk assumptions and increase population well-being. The impact of the welfare state is determined by how quickly a government enacts stringent regulations. The welfare state reduces risk concerns as the time it takes a government to respond increases. Whenever governments cannot implement successful mitigation actions during a crisis, the welfare state is of the utmost significance. If the government acts quickly during a crisis, it can help reduce people's worries and fears. When the government doesn't step in, the problems that could happen in the future are worse.

Subsequently, the welfare state emerges as the next line of defense for protecting people (Breznau, 2020). Compared to other developed nations, the Nordic countries have introduced the fewest new measures to deal with the COVID-19 crisis and assist their citizens. Because of their many social programs catering to various circumstances, these nations did not require drastic measures to manage the ongoing crisis and ensure the comfort of their population. Their resilience and aptitude to confirm have served as a safeguard against unexpected circumstances (Sinyavskaya, 2020).

When conducting future research, it will be vital to recognize the problems that welfare states have historically confronted and how they have responded to them, as well as how welfare states might react if the future global economy encounters a similar predicament. Institutional research on welfare states is important because it can help to learn lessons from the past and use them for the future to establish more effective measures to avoid risks. Future insights from my study could generate key research queries, concepts, and issues for future studies on topics such as "the 2008 Global Crisis," "Developing Welfare States," and "Welfare State Retrenchment," amongst others. To carry out this research, it is critical to understand the problems that welfare states faced and how they dealt with them, as well as how welfare states might respond if the global economy faced a similar situation.

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### List of publications related to the dissertation

#### Articles, studies (4)

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