Edited by Stephen McBride,
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AFTER ’08

Social Policy and the Global Financial Crisis

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Introduction

RIANNE MAHON, GERARD W. BOYCHUK, AND STEPHEN McBRIDE

This book reflects on the impact on social policy of the global financial and economic crisis that began in 2007 and probes the extent to which the prospects for progressive social policy might have shifted since the onset of the crisis. In doing so, it asks two basic questions. First, to what extent has the neo-liberal landscape surrounding social policy shifted since the onset of the financial crisis? Second, is the direction that social policy has taken since the crisis sufficiently similar across countries and regions such that a typical trajectory of response can be identified, or has diversity in national experiences of the crisis produced a diversity of policy responses?

This volume examines whether neo-liberalism as an ideational paradigm has been challenged and whether alternatives to it are indeed emerging. We need to understand not only diverse crisis-driven policy responses but also how the crisis itself has been defined and understood by various actors (Farnsworth and Irving 2011). However, the volume also examines social policy "on the ground." In doing so, it looks at international organizations and nation-states, both of which are identified here as key actors determining whether, and to what degree, social policy stances, and social policy as delivered, have been changed by the crisis. Finally, the volume examines social policy developments in the "emerging" countries of the South as well as in advanced capitalist countries of the North from which the crisis originated. It thus speaks to the impact of the crisis and social policy responses in diverse parts of the world.

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The Great Recession: Overarching Trends, Diverse National Experiences

The trajectory of the crisis that struck the global economy in 2007–8 is now well known. The sub-prime mortgage market in the United States collapsed, and defaults became common, revealing that banks and other financial institutions had lent vast sums backed by dubious or toxic assets of unknown value. In these circumstances, banks feared further defaults, lending to consumers, businesses, and other banks dried up, and economic activity slowed dramatically. Buyout and bailout measures were put in place to enhance liquidity in the economy, but in September 2008 Lehman Brothers filed for bankruptcy. The crisis in the financial sphere was then transmitted into the real economy. It soon emerged that European banks were also heavily exposed, and most countries entered recessions from which some have still to emerge.

Global recession soon followed. Despite its global reach, the crisis has had varied effects by country and region (Farnsworth and Irving, this volume). The Great Recession began at the centre, and the industrialized countries have been among the slowest to recover (Kahler and Lake 2013). Some summary statistics illustrate the variations within the group. Between 2007 and 2012, unemployment in the OECD area as a whole increased by 41 percent and for the eurozone by 49 percent. Yet, even within Western Europe, the range of unemployment change spanned from –37 percent (Germany) to +214 percent (Ireland). Similarly, the government debt-to-GDP ratio increased by 50 percent across the OECD and 47 percent within the eurozone but ranged from –27 percent for Norway to +351 percent for Ireland. The economies on the southern, western, and eastern peripheries of Europe were hard hit (Haggard 2013, 60–66), but for the most part the main Asian and Latin American countries were less severely affected, with the exception of countries heavily dependent on the United States (Mexico and Thailand). As we shall see, it is in these areas that governments have been increasing social expenditures.

To combat the approaching Great Recession, interest rates were reduced to historical lows, money creation through "quantitative easing" was pursued aggressively in some countries, notably the United States, and most countries engaged in Keynesian-style stimulus spending to help ease economic woes and jump-start recovery.[1] Thus, the initial reaction of states and international organizations to the crisis was to suspend practice based on the prevailing neoliberal theory and, instead, to engage in emergency reactions that included

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bailouts and de facto nationalization of banks and financial institutions coupled with significant spending to sustain demand.

Shortly following the initial response, however, the situation became much more complex. To illustrate, at the 2010 G20 meetings, there was a shift toward fiscal consolidation, deficit reduction, reducing debt-to-GDP ratios, structural labour market reforms, and measures to enhance investor confidence. Yet, in May 2012, G8 leaders called for a growth-led, rather than an austerity-induced, path to economic recovery. After the meeting, Germany's finance minister made it clear that Germany continued to position austerity as an essential precondition for growth (*Globe and Mail*, 23 May 2012). Indeed, within much of the European Union, a new Treaty on Stability, Coordination, and Governance in the Economic and Monetary Union had already been signed, requiring, when ratified, national budgets to be in balance or in surplus. If a member state deviates from this rule, then an automatic correction mechanism will be triggered. Those countries signing agreed to incorporate the "balanced budget rule" into national legislation, preferably at a constitutional level.[2]

If the technique of locking-in policy preferences to make them less susceptible to political change prevails, then the implications for social policy are ongoing budgetary stringency, program redesign to better reflect market principles, and disciplining of beneficiaries to reattach themselves to a (depressed) labour market.

Crisis, Continuity, and Change: Neo-Liberalism Reconstituted or a Polanyian Moment?

There is agreement that deep crises can be associated with fundamental (or paradigmatic) policy changes. Various concepts have been advanced to capture the moment at which such change occurs or at least seems possible. These concepts include "paradigm shift" (Hall 1993), "policy window" (Kingdon 1984), "critical juncture" (Hogan 2006), and "Polanyian moment" (Jenson, this volume). Typically, in these accounts, some exogenous shock creates the crisis in which a battle between competing solutions to the crisis ensues.

Crises are likely to generate both dynamics favouring innovation and dynamics reinforcing existing routines. The uncertainty endemic to a crisis can thus serve to "open politics to new possibilities while encouraging some political actors to return to older scripts based on a limited repertoire of political ideologies" (Kahler and Lake 2013, 22). However, there is no way to predict a priori

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the final balance between these contending sets of forces. The result might be significant change, or the pre-existing orthodoxy might be reconstituted and consolidated, representing an ideational path dependency that is resilient in the face of external shocks even if its hold is weakened and somewhat discredited as a result of them (Blyth 2001).

Neo-Liberalism Reconstituted

The neo-liberal paradigm has dominated policy making for decades at least in the global North and in the practice of international organizations such as the International Monetary Fund (IMF) and World Bank. In general, neo-liberalism consists of a number of mutually reinforcing policy goals, underpinned by a theory that emphasizes individualism, the sanctity and efficiency of private property rights, the rule of law, and a free market with a minimal but strong state (Gamble 1988; Harvey 2007). The neo-liberal program includes policies promoting these aims, such as privatization and deregulation, capital mobility and free trade, anti-inflation rather than full employment, and a limited and fiscally constrained state. Applied to social policy, it is defined by measures such as promotion of individual responsibility, including user-pay mechanisms, private delivery of services, attachment of strict conditions and obligations to receipt of benefits (e.g., workfare), and tougher qualification requirements and lower benefit levels for recipients of social programs.

Beyond these common themes, the neo-liberal package exhibits considerable variety by jurisdiction and over time.[3] Some argue that whole regions of the world, notably the East Asian developmental states (Evans and Sewell 2013), China (Cook and Lam 2011), and Latin America in the 2000s (Huber and Stephens 2012), either did not fully embrace, or later moved to abandon, the neo-liberal paradigm.

A considerable literature suggests, however, that the neo-liberal paradigm retains its dominant position post-crisis, most emphatically in its heartlands of North America and Western Europe. The implications for social policy are inherent in the austerity policies advocated by domestic elites and by some international organizations and are either imposed on states, as in the case of the peripheral states of Europe, or self-imposed, as with the United Kingdom, Canada, Germany, and other leading states. Sarah Babb's review of the attachment of international financial institutions to the Washington Consensus concludes that it might have been weakened, but no serious rival has emerged (Babb 2013). The chapters in this volume examine the degree to which, and the manner in which, neo-liberalism has survived the crisis.

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A "Polanyian Moment"? Financial Crisis as a "Turning Point" in Social Policy?

An alternative view, while not denying the crisis-prone nature of markets, emphasizes the capacity not of markets but of market societies to self-correct. Perhaps the most notable example is the work of Karl Polanyi. Since the financial crisis, there has been renewed interest in his work and its applicability to current conditions (Fraser 2013; Frerichs 2013; Kelsey 2013; Martin 2013; Özgür and Özel 2013; Polanyi Levitt 2013). As Kelsey (2013, 289) notes, Polanyi's analysis "resonates too closely with current conditions" to be easily dismissed, while Fraser (2013, 119–20) asserts that, "given these structural similarities, it is no surprise that many analysts of the present crisis are now returning to Polanyi's *magnum opus*." From the standpoint of this volume, then, a "Polanyian moment" involves an economic shock of the magnitude of the Great Recession that could alter the ever-shifting balance between societal forces in favour of further expansion of the free market and forces opposed to it.

Certainly, for Polanyi, nothing about the market is exogenous – the ostensibly "free" market is created by and embedded in society. Market societies are constituted by two opposing movements – one in favour of expanding the scope of the market and the other opposed to such an expansion. This opposition and the inextricable linkage between the market and society comprise the basis of his thesis of the "double movement," by which initiatives to expand the scope of the market simultaneously (and almost inevitably) generate a protective social reaction against the social dislocation thus created. As Block argues, for Polanyi, "it is inevitable that people will mobilize to protect themselves from these economic shocks" (2001, xxxiv).

For Polanyi, social policy was central in both preventing and facilitating development of the free market. It thus reflected the competitive dynamics among, and the shifting balance between, the laissez-faire movement and diverse protective societal responses. Given the capacity for social policy to constrain or expand the scope of the market, it was not a question of more or less intervention but the manner in which and the degree to which social policy served to either constrain or expand operation of the market.

Given that social dislocation arising from economic fluctuations is an important element in generating the tension between the free-market movement and protective social responses, it seems reasonable to ask whether the dislocation resulting from the Great Recession has shifted this balance. Since social policy has been a crucial venue in which these dynamics have played out, one can ask whether social policy shows any signs of a shift toward becoming more

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or less market conforming and whether there is a greater potential post-crisis that social policy will serve to constrain the role of the market.

Social Policy Ideas and Actors: International Organizations and Nation-States

The outcome of the competition between forces of change and forces of consolidation will be determined less by the quality of the ideas advanced and more by the ability of the actors supporting them to shape the narrative of the crisis (Jessop 2012; Utting, Razavi, and Varghese Buchholz 2012). In this volume, the key actors involved in shaping narratives and identifying solutions are international organizations and nation-states. Behind them, of course, lie a variety of social forces and interests.

Interactions among international organizations and nation-states in shaping policy responses to the crisis are complex; however, both are potentially important. International organizations played an important role in helping to establish the hegemony of neo-liberal ideas in the wake of the 1970s–early 1980s crisis. In particular, the international financial institutions (IFIs) – the IMF and World Bank – contributed to the imposition of the Washington Consensus on much of the global South as well as the "transition" countries of Eastern Europe. To the extent that social policy figured in the advice of the IFIs, it "favoured a residual or targeted approach to spending more reminiscent of the USA model" (Deacon 2007, 25). In contrast, the International Labour Organization (ILO), which had championed the extension of the Bismarckian social insurance model during the postwar period, sought to challenge the IFIs. It was able to use the occasion of the 2008 crisis to obtain UN sanction for its global social protection floor initiative, built on the principle of universality (see Deacon 2013 for more detail). One issue addressed in this volume is whether the ILO will be able to use the opportunity to alter the position of the IFIs.

Although, unlike in the 1930s, responses to contemporary economic crises thus have been, and are being, worked out in a transnational ideational context, policy decisions remain the preserve of states (Weyland 2009). Thus, though the international financial institutions with coercive powers can bring considerable pressure to bear on vulnerable countries (Ayhan and McBride, this volume), the ILO can use ratified conventions to apply moral pressure but is not in a position to counter national retrenchment policies. Starke, Kaasch, and van Hooren (2013) in fact suggest that the main contribution of international organizations such as the ILO and Economic Commission on Latin America

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and the Caribbean is to the construction of a transnational political-intellectual climate.

The social policy situation on the ground in individual states is complex, and significant differences emerge when the industrial states of the OECD area are compared with the emerging economies of Asia and some parts of Latin America and Africa. Thus far, some studies of the impact of the crisis on social policies in Western Europe – particularly peripheral European countries but also core states such as the United Kingdom and Germany – indicate that neo-liberal austerity has led to retrenchment. At the same time, various scholars have argued that social policy restructuring goes beyond expansion versus retrenchment to include qualitative shifts from "passive" to "active" – that is, from protection from market-generated instability to a pro-employability stance – as well as from encompassing to selective programs (Bonoli and Natali 2012).

The "passive/active" distinction overlaps with the concept of "social investment" (Jenson 2010). Both terms can mean workfarist policies designed to push (or draw) the unemployed and marginalized into an increasingly polarized labour market. At the same time, they can involve a combination of social investment in human capital (for all) plus social protection, as outlined by Morel, Palier, and Palme (2012).These distinctions are important, especially in light of the claim that, since the 1990s, most Western European states have been following a common trajectory of "active" reform (Crouch and Keune 2012; Hemerijck 2012; Hudson and Kühner 2011; Kosonen 2011).

The impact of previous crises can be seen most clearly in the developing world. In Asia, the situation is different partly as a result of learning from the financial crisis of 1997–99, which had a major effect on the region. The emerging economies of the region sanctioned relatively large fiscal stimulus packages. Of particular import was China's massive stimulus, which provided "a crucial public good to the entire region and unquestionably influencing its rapid recovery" (Haggard 2013, 73).; there was also a strong social component to the stimulus programs (Haggard 2013, 73, 70).

Moreover, in contrast to Western European trends, social policy in key Asian countries, such as Korea, India, and China, has become more encompassing since the Asian financial crisis of 1997–99, even if, as Lee-Gong (2011) argues, the measures adopted fall short when it comes to social protection for "non-regular" workers. Korea has also embraced the idea of social investment, most notably in the expansion of child care (Peng 2011, 2014). Social policy development in China has moved it in the direction of the ILO's global social protection floor to the extent that it has encompassed formerly excluded groups, notably

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migrants, while also recognizing the potential contribution of social insurance to economic flexibility (Cook and Lam, this volume; Hong and Kongshøj, 2014). Nevertheless, social programs in both countries still fail to deal with the insecurity faced by a large "non-regular" labour force, which only serves to underline the importance of combining social protection with social investment while also developing measures to tackle the deepening problem of precarity that afflicts both North and South.

In the first decade of this century, the emerging countries of Latin America became important sites of social policy innovation in response to socio-economic and political impacts of the lost decade and crises of the 1990s. Most attention has been focused on the conditional cash transfer (CCT) programs pioneered by Brazil (Bolsa Familia) and Mexico (Oportunidades), noted for their marked social investment profiles. Huber and Stephens (2012) chart a similar pattern in the five countries – Brazil, Argentina, Chile, Costa Rica, and Uruguay – whose social policies they examined. The 2008 crisis did not halt the expansion of social policies in the region. As Cohen, Isaacman, and Cook (2012, 180) argue,

> in sharp contrast to both the stabilization period in Latin America and the implementation of austerity policies in the US and Western Europe more recently, a central assumption of policy reform has been a return to an expanded role of the state, which has been a crucial factor in the re-design and degree of active policy experimentation in Latin America. This role of the state has been emphasized by many observers, with the United Nations Economic Commission on Latin America and the Caribbean being the most consistent and well-grounded spokesman for this perspective in the region.

Although much remains to be accomplished if the deep inequality that has long plagued the region is to be overcome, it appears that, while most OECD countries are embracing austerity, key countries of the region are actively putting flesh on the kind of "inclusive growth" model discussed by Jenson (this volume).

The Volume

The chapters of this volume examine the degree to which the crisis has opened up significant opportunities for progressive social reform. The opening chapters frame the debate throughout the volume between those who argue that neo-liberalism is capable of ongoing renewal, and are thus skeptical about the degree

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to which the crisis has generated significant opportunities for social reform, and those who are more optimistic about the possibilities for new social policy initiatives to address deepening problems of inequality and poverty within and between countries.

Stephen McBride's opening chapter argues that, though neo-liberalism has been questioned more intensively than in the past, its predominance has not been successfully challenged. As a result, it remains relatively unshaken as the guide to action of important states and global institutions with important implications for all policy areas, including social policy. In contrast, Jane Jenson posits that we have reached another Polanyian moment in which a significant change of policy direction is occurring. Alongside the undeniable austerity-induced social policy cutbacks, coherent arguments for state spending in the name of social investment and inclusive growth have emerged from diverse sites – from northern-based international organizations such as the OECD to states in the global South.

Kevin Farnsworth and Zoë Irving suggest that "the" crisis is in fact best understood as a series of related crises that have hit different countries at different moments and with varying degrees of severity. In part, each country's response depends on a mix of the extent of financial integration, hence vulnerability; prior configurations of social policy, with more generous systems more capable of mitigating the impact; and current political alignments. Overall, they conclude, there are instances of expansionary social policy development in crisis responses; however, though the crisis has exposed the weaknesses of neo-liberalism, a credible alternative has yet to be established.

The second section focuses on international organizations and the role that they have played, and are playing, in establishing the parameters of the debate. Antje Vetterlein's chapter examines the stance taken by the IMF, which emerged as a key actor charged with forging a response to the crisis. Vetterlein shows that, contrary to its role in the Asian financial crisis, when the IMF was prepared to take social questions quite seriously, a recharged IMF moved to reassert its traditional approach. This means that it is prepared to leave social policies to the World Bank while it focuses on promoting macroeconomic stability and balance-of-payment problems even when doing so involves imposing austerity.

The IMF is not the only international organization that has seized the opportunity provided by the crisis. As Bob Deacon's chapter argues, the ILO was able to use its position within the UN system to advance its alternative to narrowly targeted social safety nets, the global social protection floor. The ILO envisages the global adoption of (nationally based) universal, tax-financed,

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social protection systems from birth to old age. Deacon recapitulates the story of how the ILO captured the global agenda after 2008 such that the social protection floor became the policy not only of the ILO but also of the G20, UNICEF, and even the World Bank. Deacon suggests that the ILO might be able to regain its lost role and contribute to a shift in global social policy in a progressive direction, but he concludes that such a shift will depend on a number of factors.

Nigel Haworth and Steve Hughes also argue that, in the longer term, the ILO's agenda might enjoy a resurgence. Their chapter focuses on the ILO's intervention in Greece as an example of the organization's importance in promoting employment and wage-led growth, social dialogue, and social justice. Nevertheless, a combination of factors challenges the short-term adoption of the ILO's preferred alternative: the orthodox economic and institutional underpinnings of neo-liberalism remain strong, and the willingness, let alone ability, of nation-states to commit to the ILO agenda can by no means be assumed.

Although the ILO might have gained some capacity to influence the World Bank's broad social policy perspective, a key question remains: what does the World Bank promote in practice? Anthony Hall's chapter suggests that it has used its financial and technical assistance programs to promote a policy idea pioneered by Mexico and Brazil: conditional cash transfers, which have also proven to be popular with client governments. Although CCTs can be seen as a prime example of social investment, they have caught on in a way that reinforces the emphasis on piecemeal programs focused on poverty, at the expense of the kind of universal and comprehensive approach advocated by the ILO.

Rianne Mahon's chapter marks the shift from global to regional and national scales and opens the section that examines social policy responses in key "emerging" countries. It focuses on a key think tank in Latin America, the Economic Commission for Latin America and the Caribbean (CEPAL). Mahon compares CEPAL's response to the crisis of the 1930s with the "lost decade" of the 1980s. In the present as in the past, the original concern was to develop the theoretical justification for the state's role in promoting domestic development. Over the past decade, inspired in part by UN rights-based discourse and European social democracy, and emboldened by the "pink tide" of electoral victories in the region, CEPAL, however, has developed a social policy perspective based on the principles of universality and comprehensiveness.

Although CEPAL's discourse parallels developments in Brazil, Costa Rica, Chile, Argentina, and Uruguay, as the analysis by Huber and Stephens (2012) suggests, Mexico – another major country in the region that has been actively involved in social policy innovation – has charted quite a different course from that championed by CEPAL. Lucy Luccisano and Laura Macdonald argue that

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Mexico's initial response to the peso crisis of 1980 was to adopt a neo-liberal social policy model. In the 1990s, however, it developed its CCT program, Oportunidades, which combined a social investment orientation with a neo-liberal focus on the very poor. Its response to the 2008 financial crisis, however, involved a weakening of the social investment dimension of Oportunidades in favour of experimentation with a new social program focused on combatting hunger. The latter represents a return to clientelistic social policy as well as partial privatization through the involvement of multinational corporations.

Marlea Clarke's chapter argues that the end of apartheid in South Africa did open up a period of social policy innovation in that country but that the post-apartheid government's economic policy model gave rise to an employment crisis that existed long before the global economic crisis of 2008–9. The Great Recession has not only exacerbated these long-standing structural problems in the economy but also put the existing social security system under strain, exposing the gaps and limitations of the country's social assistance system. Clarke concludes that systemic reform is needed but likely impossible as long as the country retains its current economic model.

In China, the repercussions of the 2008 financial crisis are still being felt, though without the intensity experienced by many established welfare states. China's social policy "regime" is undergoing major transformations in response to changing economic, social, and political conditions. Sarah Cook and Wing Lam suggest that there are less direct ways in which the crisis might be influencing the direction of welfare reform as well as other drivers of reform. Overall, they argue, China's reforms are driven principally by the demands of its domestic structural transformation, including the management of inevitable social tensions. The financial crisis in effect was a significant hurdle, rather than a turning point, along a path that is still far from being clearly mapped out but on which the general direction is becoming clearer.

The final section returns to the original site of the Great Recession, the global North. Ayhan and McBride's chapter looks at three of the hard-hit European countries – Ireland, Greece, and Portugal – whose limited room for manoeuvre was further constrained by the severe conditions imposed by the "troika": the IMF, the European Central Bank, and the European Commission. Ayhan and McBride argue that their predicament, pre- and post-crisis, is best explained by the core-periphery relationship in the eurozone. In other words, the crisis and the conditions imposed by the troika exacerbated existing imbalances between the core and peripheral states and exposed the weaknesses in the constitution of the eurozone. As a result, in these three states, social policy has been sacrificed on the altar of austerity.

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Australia, Canada, and the United Kingdom constitute the focus of Heather Whiteside's chapter. Whiteside argues that, though these countries could have opted for expansion, they chose austerity. Her central argument is that, in these three countries, austerity is strongly seen as a "common-sense" approach – albeit one that is non-hegemonic and highly contested and plays out in distinct national political contexts. Ron Labonté and Arne Ruckert's in-depth analysis of the Canadian case corroborates Whiteside's argument. Labonté and Ruckert argue that in Canada austerity does not represent a radical departure but reinforces neo-liberal trends existent before the onset of the crisis. The crisis simply provided a new justification for the deepening of neo-liberal social policy reforms. They then show how such policy choices have contributed to deepening health inequities.

The United States has charted a different course, opting for fiscal expansionism and shifting the overall US system of unemployment insurance benefits to a higher level of generosity than the Canadian system. Gerard Boychuk argues that the US social policy response to the crisis might not appear as a radical departure from the existing policy equilibrium since it can be seen as a strategy of social policy expansionism through stealth that has been significant nevertheless. Boychuk assesses the degree to which this can be seen as indicative of ideational and institutional shifts and considers the potential for future political coalitions that could sustain and deepen this turn in US social policy.

These chapters begin to answer the key questions outlined above. Has the broad neo-liberal landscape shifted as a result of the crisis? Is there a broad commonality across countries and regions in terms of the trajectory of policy responses, or are different national experiences and responses more accurately characterized by their degrees of diversity? It is to a consideration of the initial answers that the chapters collectively provide that we return in the conclusion.

Notes

1 A central bank implements quantitative easing by buying financial assets from commercial banks and other private institutions with newly created money. This increases the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity, thus stimulating the economy.
2 All members except the United Kingdom and Czech Republic signed the treaty.
3 As did the previously dominant Keynesian paradigm; see Esping-Andersen (1990).

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