Klaus Schubert
Paloma de Villota
Johanna Kuhlmann *Editors*

Challenges to European Welfare Systems

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Editors
Klaus Schubert
Institute of Political Science
University of Münster
Münster, Germany

Paloma de Villota
Faculty of Political Sciences and Sociology
Department of Applied Economics V
Complutense University of Madrid
Madrid, Spain

Johanna Kuhlmann
Institute of Political Science
University of Münster
Münster, Germany

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Preface

This book provides the first encompassing inventory of how European Welfare Systems (EWS) have developed since the outset of the financial crisis in 2007. In contrast to its predecessor, "The Handbook of European Welfare Systems" (edited by Klaus Schubert, Simon Hegelich and Ursula Bazant in 2009), it does not give a general overview on current EWS, but focuses on three aspects, i.e., (1) the financial crisis, (2) the demographic change, and (3) how EWS deal with these challenges by adopting social policies of risk prevention and opening up opportunities.

The first part of this book consists of in-depth national country studies of all member states of the European Union (excluding Slovakia) as well as EU candidate countries (excluding Albania and Montenegro). The structure of the chapters is basically the same, thereby focusing on the three aspects named above while at the same time also leaving room for national specifics. In order to ensure comparability, with very few exceptions, the same Eurostat data will be used.

Building on the country studies, the second part consists of comparative chapters on (1) the balance of preventing risks and opening up opportunities, (2) the demographic change, (3) public debt, and (4) the role of the European Union in the context of EWS.

In sum, 59 (!) experts from all countries under investigation contributed to this volume. It is self-evident that a huge project like this cannot be undertaken without the support of many colleagues. First of all, we would like to thank the authors of this book for their high commitment and cooperation during the 2 years of this project by contributing not only individual country chapters but also by participating in our internal review procedure. Their patience and willingness to respond to our often far-reaching suggestions are also greatly appreciated. Simon Hegelich of FOKOS, Siegen/Germany, hosted our kick-off conference "Challenges to European Welfare Systems" in Siegen (Germany) in March 2013 which paved the way for the present volume. Special thanks go to Manuel Clemens, Lukas Jerg and Johannes Keil for valuable support, especially for their editorial work. Last but not least, we would like to thank Cathryn Backhaus for continuously helping to move this project ahead and particularly also for her indispensable language assistance.

Münster, Germany — Klaus Schubert
Madrid, Spain — Paloma de Villota
Summer 2015 — Johanna Kuhlmann

Contents

Recent Developments of European Welfare Systems: Multiple Challenges and Diverse Reactions

Johanna Kuhlmann, Klaus Schubert, and Paloma de Villota

1 Welfare After the 'Golden Age'

Since the 1970s, the so-called golden age of the welfare state has come to an end. Events such as the oil crisis in 1973 changed the economic situation of welfare states and gave rise to the question how the welfare state could maintain its tasks in the context of a changing economy (Castles et al. 2010: 9). Furthermore, European enlargement since the 1990s, the deepening of the European integration and the increasingly supranational character of the European Union call into question the conceptualization of the welfare state: "Instead of the one welfare state, we must assume a diversity of welfare states in a state of complex interdependence and with limited sovereignty" (Schubert et al. 2009a: 20). Moreover, modern welfare is—to different degrees—produced by private, market and state activities. Thus, modern welfare is the result of a changing mixture of private and family efforts, market and business supplies and state regulation, state financing and sometimes also state or quasi-state provision. Since it is necessary to "include *all* welfare arrangements relevant to secure social risks and to open up new social possibilities" (Schubert et al. 2009a: 20 f.), it is reasonable and much more appropriate to use the term and concept of a welfare system than that of a welfare state.

Also apart from political and economic changes to European Welfare Systems (EWS), the list of challenges is long. The tertiarisation of employment and changes in traditional family structures call the appropriateness of traditional institutional

J. Kuhlmann (✉) • K. Schubert
Institute of Political Science, University of Münster, Münster, Germany
e-mail: johanna.kuhlmann@uni-muenster.de; klaus.schubert@uni-muenster.de

P. de Villota
Faculty of Political Sciences and Sociology, Department of Applied Economics V, Complutense University of Madrid, Madrid, Spain
e-mail: pvillota@anit.es

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welfare arrangements into question (Bonoli 2005). Especially the demographic change puts welfare systems in Europe to the test. Apart from very few exceptions (e.g. Iceland and Ireland, see also Ainsaar and Rootalu 2016), most countries are confronted with population ageing due to low fertility rates and expanded lifespan that challenge the financial sustainability of (especially insurance-based) welfare systems (Hinrichs and Lynch 2010: 361). Although awareness of the process of demographic change has existed for a long time—and the demographic change can thus be considered as a rather old challenge to European Welfare Systems—only few countries began dealing with the demographic change at an early stage, while most ignored it for a long time. Against the background of a higher lifespan, among the most popular measures for shaping the demographic change is an increase in the retirement age in many European countries in recent years, thus adopting national pension systems to changing demographic conditions. On the other hand, politicians in many countries try to overcome low fertility rates by means of a family policy that strongly promotes a better life-family-reconciliation such as improvements in child care. It is, however, important to note that the exact timing and design of the policies can strongly vary from country to country. Migration also changes the demographic structure of a country. While it can be observed that migration is in most countries increasing, the migrants' origins and motives differ broadly. The free movement of workers in the EU enables employees to work in principle throughout the whole European Union and indeed, in many countries, immigrants are building a strong basis for the functioning of the welfare system, e.g. in terms of looming shortage of skilled workers or care work. At the same time, however, research in public attitudes reveals that immigrants are perceived as a threat to welfare systems by some parts of the public (van Oorschot 2006).

With the onset of the financial crisis[1] in 2007, a new challenge of so far unforeseen extent entered the stage. Whether since then the pressure to restructure welfare states across Europe has intensified is a question that many social policy scholars have been controversially dealing with. An early attempt to analyse the impact of the crisis on welfare state developments has been made by Farnsworth and Irving (2011). In their edited volume, they state that the impact of the crisis depends on two factors: "the objective 'facts' of the extent of economic collapse, and the more ideological dimensions of crisis management, which concern the ways in which the crisis has been defined, understood and responded to" (Farnsworth and Irving 2011: 1). Against this background, the book offers both theoretical reflections as well as (partly comparative) case studies, covering countries such as South Korea, China, Canada and the United States as well as some European countries such as e.g. UK, Ireland and Germany. The authors conclude that generally crisis can trigger change, but more specifically the direction of change is

[1] To be precise, when analysing the financial crisis, several phases can be distinguished: The banking crisis (2008) was followed by an economic recession (2009) which consequently resulted in a fiscal crisis of the state (since 2010) and, in turn, also in a monetary crisis of the euro (since 2011) (Hemerijck 2012: 69).

heavily dependent on the politics of national welfare states and can take the forms of both welfare expansion and retrenchment.

The question how the crisis has influenced welfare states is also the subject of two special issues from ‘Policy and Administration’. The respective issues cover a wide range of European countries as well as Australia (Greve 2011) and particularly small European Welfare States (Greve 2014). Greve considers both the high level of public deficit and the demographic change an “explosive cocktail” (2011: 34) and observes a tendency towards retrenchment, although—again—national peculiarities do certainly matter.

Especially quantitative studies on the impact of the crisis on welfare states point to retrenchment (e.g. Obinger 2012; Armingeon 2014). Van Kersbergen et al. (2014) deal with the retrenchment argument from a qualitative perspective, asking if retrenchment really is “the only game left in town” (van Kersbergen et al. 2014: 2). Analysing social policy between 2010 and 2012 in four countries, i.e. the UK, Germany, Denmark and the Netherlands, they find that both retrenchment and expansion can be found during the crisis (see also Borosch et al. 2016).

Van Hooren, Kaasch and Starke analyse the influence of different economic crises on welfare states in Australia, Belgium, the Netherlands and Sweden. They find that crises open no windows of opportunity for fundamental change. Rather, incremental “shock routines” (van Hooren et al. 2014) are dominating in this policy field. The authors argue in another contribution that welfare state development in times of crises is rather dependent on the distribution of powers in the national party system, but also on automatic stabilizers at work (Starke et al. 2014: 228). While in welfare states with low benefits and few automatic stabilizers, crisis responses are shaped by partisan politics, the partisan effect on change is limited in generous welfare states with robust automatic stabilizers. The authors’ findings of “shock routines” are compatible with observations from other authors: Chung and Thewissen (2011) argue that welfare policies in times of crisis tend to fall back into ‘old habits’, indicating that mainly such policies are adopted that ‘fit’ the respective country’s welfare institutions.

Mayes and Michalski (2013) take a broader approach: Instead of focusing exclusively on the economic crisis, they also have a look at challenges that build the “backcloth against which the drastic changes in welfare state provisions were brought in the wake of the financial crisis and the sovereign debt crisis” (Mayes and Michalski 2013: 18), such as e.g. rising inequality and social services, thereby also focusing on multilevel governance. Again, one of the major findings is that the outcomes of the crisis differ considerably in European countries.

2 The Purpose of This Book

This book provides the first encompassing inventory of how European Welfare Systems have developed since the outset of the financial crisis in 2007. Unlike many other studies that have been dealing with this time span, it thereby acknowledges that *multiple challenges*—beyond the financial crisis—have been contributing to the recent restructuring of national welfare systems. Against this background, the volume focuses on the question how multiple dominant challenges (and the interplay of these) have changed the structure of national welfare systems, thereby focusing especially on (1) the demographic change, being an 'older' challenge to European Welfare Systems, and (2) the financial crisis, constituting the more recent challenge. However, the volume also leaves room for national specifics.

It is undeniable that the financial crisis constitutes a distinct factor for welfare state development. Focusing not exclusively (exclusively in italics) on the financial crisis is especially for two reasons: First, the financial crisis the financial crisis has hit single European Welfare Systems at different times and in different ways. As will be shown in the country chapters, some countries have been especially hit by the crisis—in these cases, a focus on the crisis seem perfectly appropriate—while in other countries, the crisis has been of minor importance compared to other challenges. Second, our argument is that also other challenges remain virulent. Even if we take for granted that the financial crisis is a serious challenge to EWS, evidence shows that in many welfare systems, it is not the current crisis but earlier financial, organizational or institutional deficiencies and national idiosyncrasies that put welfare systems under pressure. In other words: Frequently, earlier domestic problems turn up again, get accelerated by the current crisis and then appear in harsher form. Sometimes these effects can be directly studied, like the up and down of inequality in a society (e.g. Eydal and Ólafsson 2016). Sometimes surprising effects can be shown, e.g. that in some countries the gender gap on the labour market has slightly been diminished (Bettio and Varashchagina 2014; Greve 2016). In any case, challenges to EWS cannot simply be reduced to one single challenge such as the financial crisis.

What is more, it is self-evident that political reactions, strategies and decisions to tackle these challenges are always adopted in the context of national conditions and circumstances (see also Farnsworth and Irving 2011). Bonoli and Natali (2012) state that "countries have adopted policies that broadly go in the same direction, but maintain substantial differences" (Bonoli and Natali 2012: 14), a process which they call "contingent convergence" (ibid.). We would like to point out an additional aspect: As challenges hit European Welfare Systems in different ways, the single EWS' policy reactions to these challenges differ considerably and sometimes even point in opposite directions. Regarding the financial crisis, while some countries have switched to strict "austerity policies", other countries introduced, at least temporarily, so-called "Stimulus Packages" that some consider as being a Keynesian approach. More generally, while social policy in the "golden age" consisted mainly of risk prevention, meaning basically 'traditional' social policy in terms of passive monetary transfers, e.g. pension or unemployment benefits, social policy in recent years cannot be restricted to risk prevention any more. Especially since the 1990s, scholars have been trying to capture changes and new strategies of policy makers in national welfare systems with different concepts among which, to name only a few, especially popular are the concept of retrenchment (Pierson 1994; Starke 2006), the concept of new social risks (Esping-Andersen 1999; Taylor-

Gooby 2004; Bonoli 2005) and the concept of social investment (Morel et al. 2012; van Kersbergen and Hemerijck 2012) (for details, see Borosch et al. 2016).[2] While all of these concepts differ considerably, they all share the assumption that a (partly fundamental) restructuring of welfare has been taking place.

In this context, policies that take a preventive character and that aim at opening up opportunities are becoming increasingly important. They are often also labeled as 'activation policies' or 'social investment policies', aiming to strengthen human capital by focusing for example on measures for fostering employability and work-family reconciliation. As will be shown in this volume, while all EWS are somehow designed to deal with traditional risks, policies of opening up opportunities have only been established in some EWS, while they are only slowly evolving in others.

3 The Structure of the book

The present volume consists of two parts:

The **first part** brings together 31 country studies of all member states of the European Union (excluding Slovakia) as well as EU candidate countries (excluding Albania and Montenegro) and Iceland (that used to be an EU candidate since 2009 but dropped its EU membership application in 2015). All country chapters have been written by authors who know the countries like the back of their hands, thereby providing detailed up-to-date descriptions of reform processes in the respective countries. The chapters all follow the same structure while also leaving room for national specifics. Taking into account that challenges to EWS are multiple and complex, the country chapters aim to answer the following questions:

1) *Which challenges are relevant within the respective European welfare system?*, thereby putting special emphasis on the common challenges of the demographic change and the financial crisis,
2) *To what degree do these challenges result in national policy-making?* And, as far as it is possible at this point of time:
3) *What effects have been achieved?*

Thus, in contrast to its predecessor, "The Handbook of European Welfare Systems" (Schubert et al. 2009b), the volume does not give a general overview on European Welfare Systems but focuses especially on current challenges they are facing. The volume can therefore also serve as a good starting point for future research. However, what the country chapters show at first glance is that peculiarity and plurality can be regarded as distinctive features of European Welfare

[2] Some of them have also entered the political debate, such as the concept of social investment that is also pushed forward as an EU strategy (Nolan 2013).

Systems—a finding that has already been dealt with in the context of "politically limited pluralism" elsewhere (Hegelich and Schubert 2009).

This argument is strengthened in the second part of the book, consisting of comparative chapters that strongly rely on the findings of the first part of the book.

Nikola Borosch, Johanna Kuhlmann and Sonja Blum analyse how EWS have adapted their social policies since the outbreak of the crisis. They distinguish between (1) policies directed at an expansion or retrenchment of risk protection, and (2) policies directed at an expansion or retrenchment of opening up opportunities. Although their policy mapping shows that EWS' pathways remain to be characterized by a high diversity, they can identify three major dimensions of change in EWS: (a) retrenchment and (b) activation policies, while being increasingly adopted for decades, turn out to remain important drivers of reform processes during the crisis. Especially universal risk prevention programmes suffered cutbacks in many EWS. Moreover, the authors observe a growing number or extensity of (c) selective measures. More specifically, they argue that a great share of these measures is targeting narrowly defined social groups or special needs.

In a comparative chapter on the demographic change, Mare Ainsaar and Kadri Rootalu show to what extent demographic processes affect EWS. As a result of their research, they construct seven country clusters ranging from (1) high population risk, (2) moderate population risk, (3) future population risk, to (4) minor concern, (5) moderate population growth, (6) intensive immigration, and (7) high population growth. What is more, the authors give an overview on how changes in population structure and demographic processes are linked to political views and rhetoric about social policy at the start of the twenty-first century in EWS.

In his comparative study, Simon Hegelich uses a Eurostat COFOG dataset on budgetary behaviour to demonstrate in a quantitative perspective how EWS reacted towards the crisis. Notably the sharp increase of welfare expenditure to immediately counter-act the crisis shock and subsequently the different ways of turning down the rapid budgetary increase prove the concept of 'politically limited pluralism' (Hegelich and Schubert 2009) as rather valid, thus showing that the concept remains a useful approach to also explain crisis behaviour of EWS.

Finally, Nicole Kerschen and Sweeney Morgan analyse European social integration policies by showing how European institutions since 2007 focused on economic coordination to respond to the crisis and postponed further European social model construction. In this contribution, they also consider a specific field of tension of the European Union: On the one hand, the EU aims towards more convergence in welfare issues and social policies and supports especially the new member states. On the other hand, it only has few instruments of rather weak nature at its disposal. Currently the member states are acting under crisis-driven constraints, especially those countries that are subject to macroeconomic adjustment programmes (ECB, EC and IMF) and/or subject to excessive deficit procedures. As a result, the differences within the EU and between the Member States are increasing tremendously.

As the onset of the financial crisis in Europe in 2007 was our impetus (but, as has been developed above, not our only analytical focus throughout this book), we would also like to finish with a brief remark regarding the crisis: When we started working on this volume in spring 2013, we knew that the end of the crisis was still not in sight—but we surely would not have been able to anticipate what would happen and how fast things would change. While we are writing this introduction in summer 2015, on the current peak of the financial crisis in Greece, the impact of the financial crisis across European Welfare Systems still cannot be foreseen. Future pathways of EWS will to a large extent continue to depend on socio-economic boundary conditions. Further research is therefore indispensable.

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Part I

Country Studies

Reforming the Austrian Welfare System: Facing Demographic and Economic Challenges in a Federal Welfare State

August Österle and Karin Heitzmann

1 Introduction

Across Europe, the financial crisis has deeply shaken the economy and created enormous challenges lasting up until today. The Austrian economy, in particular the banking sector, has been hit considerably by the crisis; even though to a smaller extent than in many other countries. Measures to support the Austrian banking sector and to prevent bankruptcy of at least three of them, a substantial drop in exports, a decline in tax revenues and measures to alleviate the negative consequences of the crisis led to sharply increasing public debts (from 60.2 % in 2007 to 74.0 % in 2012). At the same time, Austria is still doing comparatively well in terms of unemployment, increasing from 3.8 % in 2008 to 4.8 % in 2009 (compared to 5.2 % in 2005), and decreasing again to 4.3 % in 2012 (see Table 4). In 2013, Austria had the lowest unemployment rate among all EU-27 member states. This chapter will examine the development of the Austrian welfare state and of social security for the population in this country. It focuses on the changes since 2007, and studies the impact of the fiscal and economic crisis and of demographic shifts, but also particular risks and opportunities for the Austrian welfare system. Following the respective reactions and debates in this country, the chapter finally discusses current and potential future pathways of the Austrian welfare system.

1.1 A Brief Characterization of the Austrian Welfare System

The roots of the modern Austrian welfare system can be traced back to the 1880s, when work accident and sickness insurance were introduced as the first two

A. Österle (✉) • K. Heitzmann
Department of Socioeconomics, Institute for Social Policy, Vienna University of Economics and Business, Vienna, Austria
e-mail: august.oesterle@wu.ac.at; karin.heitzmann@wu.ac.at

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branches of the social insurance system (Tálos 1981). Mandatory insurance, self-administration and close employment links were established as key principles of the Austrian social insurance model, features still valid up until today. With old-age insurance in 1907 and unemployment insurance in 1920 the third and fourth branch of the Austrian welfare system was established. But, it was only in the 1960s when the social insurance system was extended to farmers and the self-employed. With the economic crisis in the 1970s, the issue of financial sustainability of the welfare state slowly became an issue in debates. Until the 1990s, however, there were still important extensions in welfare programmes, including material extensions in health insurance coverage, the introduction of a comprehensive long-term care scheme in 1993 or the extension of social insurance coverage to new forms of atypical employment (Österle and Heitzmann 2009). From the mid-1990s, issues of cost-containment increasingly dominated social policies (Obinger and Tálos 2010). Respective changes included cuts and non-adaptation to inflation, but also structural modifications. Developments in family policies and long-term care policies, for example, have emphasized a universal approach rather than the social insurance principle. With this, an already existing emphasis on cash benefits in family policies was also extended to long-term care policies: an approach that involves both the opening of choices for recipients and also cost-containment. In the past decade, demographic challenges, limitations to public funding or issues of competitiveness have repeatedly been put forward in calls for welfare retrenchment or a restructuring of the welfare state, a debate that has further intensified with the fiscal and economic crisis that has hit Europe in the recent past.

In the comparative welfare state literature, Austria is characterized as a corporatist, conservative, continental or male breadwinner welfare state (e.g. Esping-Andersen 1990; Sainsbury 1999). It is built on the main pillar of a social insurance system covering pensions, health care, unemployment and accidents. Here, financing is based on income-related contributions from employers and employees, with larger shares of tax funds used in health and pension schemes. In addition to the employment nexus, there is also a close family nexus in Austrian social insurance schemes, as, for example, with the existence of non-contributory benefits for family members in health and pension schemes. Universal programmes as the second pillar of the Austrian welfare model dominate specific areas, most notably care related policies (family and long-term care policies). Finally, poverty relief is organized in a third pillar following the social assistance principle (Badelt and Österle 2001; for details see Sects. 4.2–4.7).

In terms of expenditure, public social protection spending in Austria amounts to 29.5 % of GDP in 2011, compared to 29.0 % in the EU-28 average (see Eurostat 2014a). From a European perspective, social expenditure in Austria is lower than in the Nordic welfare states or in France, but far beyond the levels in the Central Eastern European member states. From a historical perspective, social expenditure has been on rather stable levels since the mid-1990s (28.8 % of GDP in 1995 and 28.5 % of GDP in 2008), but then saw a substantial increase from 2008 to 2009 (30.7 %). This increase is due to a beyond average increase in social protection expenditure, but even more to a shrinking GDP in that period (Statistik Austria

2014a). In 2011, social protection expenditure was again below 30 % of GDP (see Table 1).

With regard to social protection expenditure by function, pensions (including survivors' pensions) account for 50 % of total social protection expenditure, a level only exceeded by few other EU member states. This large share and the demographic developments discussed below make the pension system a major target for expenditure containment considerations. Health, with about a quarter of total social expenditure, is the second largest policy field, also targeted by cost containment considerations. All other areas account for the remaining quarter of total social expenditure. It includes expenditure for families and children (about 10 % of total social expenditure), followed by disability and unemployment. Policies addressing housing and social exclusion account for less than 1.5 % of total social expenditure.

1.2 Structure of the Chapter

After this brief characterization of the Austrian welfare state, the following two sections examine two major concerns shared by all European welfare systems, the demographic changes (Sect. 2) and the economic and fiscal crises that hit Europe from 2008 (Sect. 3). Both sections present facts and figures on the extent of the challenges and discuss the implications for the welfare system. Section 4 then studies the developments in specific welfare sectors. It first analyses the context for welfare reform, addressing policy-making in a federal country as an additional major challenge, before proceeding to problem perceptions, developments and responses in policies of the labour market, pensions, health care, long-term care, family and child care as well as policies to combat poverty and social exclusion. As will be seen, Austria has seen significant reforms since 2007, changes that are mostly a response to specific challenges and actor constellations, but far from paradigmatic. This is not least because of the still relatively strong welfare state consensus and broad public support for the existing welfare system. In the concluding Sect. 5, a summary of challenges and responses will lead to a final discussion of the sustainability of and of potential future pathways for the Austrian welfare system. All data, unless otherwise stated, are derived from Eurostat (2014f) and Statistik Austria (2014f) databases.

2 The Demographic Challenges

2.1 Status-quo and Forecasts

With regard to demographic changes, Austria is no exception to European wide trends. The total population increased from 7.7 million in 1990 to 8.4 million in 2012 and is expected to increase to almost 9 million in 2030. More importantly for welfare systems, the population structure has considerably changed since 1990. The proportion of those 65+ has increased from 14.9 % in 1990, to 15.4 % in 2000 and to

Table 1 Social protection expenditure by function

	2000	2005	2006	2007	2008	2009	2010	2011
Total (% of GDP)	28.3	28.8	28.3	27.8	28.5	30.7	30.6	29.5
€ per inhabitant	7364.94	8592.92	8869.46	9189.74	9661.76	10,123.10	10,385.69	10,511.54
By function (% of total)								
Old age	39.63	40.67	41.37	41.94	42.33	42.52	43.01	43.96
Survivors	8.33	7.44	7.32	7.21	7.02	6.79	6.67	6.63
Health	25.88	25.67	25.53	26.11	26.42	25.80	25.42	25.23
Unemployment	4.89	5.79	5.82	5.31	4.98	5.77	5.66	5.25
Family/children	10.69	10.62	10.35	10.10	10.19	10.22	10.33	9.86
Disability	9.48	8.42	8.12	7.82	7.53	7.46	7.44	7.57
Housing	0.38	0.39	0.42	0.42	0.41	0.39	0.37	0.34
Social exclusion	0.73	1.01	1.07	1.10	1.12	1.05	1.09	1.15

Source: Eurostat (2014a)

17.8 % of the total population in 2012, while the share of those below 20 years of age has decreased from 24.2 % in 1990 to 23.2 % in 2000 and to 20.3 % in 2012 (see Table 2). These changes are determined by various factors. Life expectancy at birth for women, between 1990 and 2012, increased from 78.9 years in 1990 to 82.8 years in 2012. For men, life expectancy increased from 72.2 years in 1990 to 77.7 in 2012. Total fertility rate is 1.44 in 2012 and has remained on very moderate levels with only slight ups and downs since 1990 (1.46). This is on similar levels with other Central European countries and some of the Southern European countries, but on lower levels than the EU average (1.57 in 2011). A major fact contributing to a growing population despite low fertility rates is a migration balance that has been positive, even though with significant ups and downs, every year since 1990.

The ageing of the population will become even more significant in the coming decades. A 2013 projection of Statistik Austria (2014c) expects the population to grow from 8.4 million in 2012 to 9 million in 2030 and 9.3 million in 2050. The age structure of the population will change even more substantially than it did in the past two decades. The proportion of those 65+ will increase from 17.9 % of total population in 2012 to 28.2 % in 2050, while the proportion of those aged 20–64 will decrease from 61.8 % to 53.4 % in the same period (see Table 3). The most significant changes are taking place between 2020 and 2035, when the proportion of those 65+, e.g., will increase by 6.4 % points. A major factor contributing to this development is that the strong birth cohorts of the 1950s and 1960s are moving into the age group 65+. At the same time, life expectancy at birth is expected to grow for another 4 years for men and 3.5 years for women between 2012 and 2030 (Statistik Austria 2014c).

2.2 Implications for the Welfare System

The ageing of the population and the change in the relative proportion of older people and those in the employment age are regularly cited as endangering the sustainability of the existing welfare system. For example, the population of those aged 65+ as a proportion of the total population aged between 15 and 64 is expected to increase from 26 % to 48 % in Austria between 2010 and 2030 (compared to an increase from 26 % to 50 % in the EU-27) (Eurostat 2008). Simply speaking, as those in the employment age contribute the largest share of taxes and social insurance contributions, it is today four persons in the employment age bearing a substantial part of the required funding for pensions, long-term care or health care for those 65+, while it is expected to be just two in 2030. Welfare policy debates regularly refer to the demographic pressure, but it is mostly pension policies, and to a much smaller extent long-term care policies and health care policies, where demography becomes a more obvious driver of reforms and reform debates. Otherwise, demographic changes are a major factor contributing to current and future budgetary pressures that are put forward in defining the room for welfare extensions or welfare restructuring.

Table 2 Demographic indicators, 2000–2012

	2000	2005	2006	2007	2008	2009	2010	2011	2012
Total population, million	8.00	8.20	8.25	8.28	8.32	8.36	8.38	8.40	8.41
% Aged −19	23.2	22.1	21.9	21.6	21.4	21.1	20.8	20.6	20.3(*p*)
% Aged 65+	15.4	15.9	16.4	16.9	17.1	17.4	17.6	17.6	17.8(*p*)
% Aged 80+	3.4	4.2	4.3	4.5	4.6	4.7	4.8	4.9	4.9(*p*)
Old age dependency ratio	22.9	23.5	24.3	25.0	25.4	25.7	26.1	26.0	26.2(*p*)
Life expectancy women	80.6	81.6	82.0	82.3	82.5	82.5	82.8	83.1	82.8
Life expectancy men	74.6	76.0	76.5	76.7	77.1	76.9	77.2	77.6	77.7
Fertility rate	1.36	1.41	1.41	1.38	1.41	1.39	1.44	1.43	1.44
Migration balance[a]	17.272	44.332	24.103	25.470	24.650	17.053	21.316	30.705	43.797

Source: Eurostat (2014b), Statistik Austria (2014b)
Notes: [a]National data
(*p*) Provisional data

Table 3 Population projection, 2012–2050

	2012	2020	2030	2040	2050
Total population, million	8.4	8.7	9.0	9.2	9.3
% Aged −19	20.2	19.3	19.2	18.8	18.4
% Aged 20–64	61.8	61.0	56.9	54.1	53.4
% Aged 65+	17.9	19.7	24.0	27.1	28.2

Source: Statistik Austria (2014c)
Notes: The projections build on the assumption that the fertility rate will remain on very moderate levels and on the assumption of a continuously positive migration balance. (For details see Statistik Austria 2014c)

The budgetary implications of the demographic changes have recently been explored in the 2012 Ageing Report (European Commission 2012) with a focus on pensions, health care, long-term care, education and unemployment. Significant increases in public expenditure are projected for pensions, health care and long-term care. For Austria, in a reference scenario (for details see European Commission 2012), it is projected that public pensions as per cent of GDP will increase from 14.1 % in 2010 to 16.1 % in 2060, that is an increase of 2 % points in Austria compared to 1.7 % points in the EU-27. In health care and in long-term care, projected increases amount to 1.6 and to 1.2 % points, respectively. The projections have to be dealt with extreme caution given the long view into the future and given that a variation in the assumptions leads to considerable variations in public expenditure increase. But, the study clearly indicates that demographic changes will create substantial economic pressure over the coming decades.

3 The Challenges Arising with the Economic and Fiscal Crisis

Across Europe, the financial and economic crisis of 2008 and 2009 has deeply shaken the economy and created enormous challenges that are still noticeable. The negative impact of the crisis made many nation states react with two successive types of fiscal policy interventions: First, governments attempted to stabilize the economy by allocating public money. Second, and as a consequence of enormously risen public debts, austerity packages have been—and still are—implemented. In this section, we illustrate the development of main “crisis indicators” for Austria and focus on both the welfare state’s reaction to the economic crisis and its responses to the resulting fiscal crisis, characterized by tight budgetary constraints.

The impact of the global economic crisis on Austria is reflected by key economic indicators. For example, an economic growth rate of 3.7 %, evidenced for 2006 and 2007, has not been achieved since. In 2008, GDP growth amounted to 1.4 %. In 2009, the economy shrunk by 3.8 %: this was the first decline since 1981 (when GDP shrunk by only 0.1 %, though). In 2010 and 2011, economic growth appeared to have recovered with rates amounting to 1.8 % and 2.8 %. However, its speed has become moderate since. GDP growth amounts to 0.9 % in 2012 and to 0.3 % (projected) in 2013 (see Table 4). The growth rates forecasted for 2014 and 2015

Table 4 GDP, public debt and unemployment

	2000	2005	2006	2007	2008	2009	2010	2011	2012
GDP at current prices, PPP per inhabitant	25,100	28,200[a]	29,800	30,900	31,200	29,500	31,100	32,400	33,300
Real GDP growth rate	3.7	2.4	3.7	3.7	1.4	–3.8	1.8	2.8	0.9
General government deficit, % of GDP	−1.7	−1.7	−1.5	−0.9	−0.9	−4.1	−4.5	−2.5	−2.5
General government gross debt, % of GDP	66.2	64.2	62.3	60.2	63.8	69.2	72.3	72.8	74.0
Unemployment rate									
Total	3.6	5.2	4.8	4.4	3.8	4.8	4.4	4.2	4.3
Men	3.1	4.9	4.3	3.9	3.6	5.0	4.6	4.0	4.4
Women	4.3	5.5	5.2	5.0	4.1	4.6	4.2	4.3	4.3
Aged >25	5.3	10.3	9.1	8.7	8.0	10.0	8.8	8.3	8.7

Source: Eurostat (2014c, d, e)
Notes: [a]Break in time series

(1.7 %) continue to be way below the level achieved before the crisis hit Europe—thus suggesting that the negative effects of the crisis are still tangible.

In terms of economic sectors, the banking industry was among the first affected. And similar to many countries, the Austrian government stabilized the industry by transferring considerable amounts of public funds (*Partizipationskapital*) to the banks. Moreover, three banks were nationalized either fully (Hypo-Alpe Adria, Kommunalkredit) or partly (ÖVBA) to prevent them from bankruptcy, thus enhancing public expenditure even further. Alongside the banking sector, the export industry was hit by the economic crisis. In 2009, Austrian exports shrunk by more than 20 % as compared to the previous year. The resulting reduction of production not least enhanced the pressures on the Austrian labour market. And the Austrian government reacted at once—aiming at maintaining employment high and keeping unemployment low. This has mainly been achieved by massive interventions of active labour market policies (Kopf 2013).

The most important instrument in this respect was the facilitation of short-time work (Mandl 2011). Its duration has been prolonged to 24 months and it was made available for temporary agency workers (a large part of the workforce in the export industry). The instrument has been widely used: In 2009, and thus at the peak of the crisis, more than 66,500 workers were on short-time work and received related benefits, in 2010 the number already shrank to 23,700 (Mandl 2011: 303). In addition to short-term work, further measures to reduce the workforce while keeping unemployment low were amended and utilized. For example, it has been made easier for employees to go on educational leave for a minimum of 2 months and a maximum of 1 year. The number of employees using this option achieved a peak in May 2009 with 5300 (Hochrainer et al. 2011: 41). In addition to these and other labour market related measures (Hochrainer et al. 2011; BMASK 2013b), Austria's long tradition of annual wage bargaining processes between social partners helped to keep both rises of minimum wages and real wages comparatively moderate—thus keeping labour costs low.

The mix of these measures allowed Austria to dive through the crisis without too many troubles for the labour market. Indeed, the country managed far better than most other member states of the European Union to keep unemployment low. In 2012, it had the lowest unemployment rate within the EU-28 (4.3 %). Concerning youth unemployment, the rate of 8.7 % is—after Germany—the second-lowest of all member states and indeed far below the EU-28 average of 23 %. Austria also scores more favourably than all other European welfare states in terms of long-term unemployment. In 2012, the rate amounted to 1.1 %, which compares to an EU-28 average that is more than four times higher. However, more recent data indicate that the situation of the Austrian labour market is deteriorating—not least due to the still more than sluggish GDP growth. It is expected that unemployment will continue to rise in 2014 and 2015.

Labour market measures have not been the only interventions set by the government to tackle the economic crisis. In October 2008 and December 2008, it implemented two programmes to activate the economy. The first addressed small and medium sized enterprises by improving infrastructure, facilitating access to capital and extending opportunities for state guarantees. In the second programme, the government made attempts to strengthen the economy, e.g. through investments in the construction industry. Moreover, to keep private consumption levels high, an income tax reform originally planned for 2010 was implemented earlier. For those with a taxable income between € 15,000 and € 50,000, it led to a reduction in the overall tax burden of about 2 %.

The interventions set by the government were rather successful in keeping unemployment low and employment levels high. However, the price for this stabilization was an increase of public debts from a low of 60.2 % of GDP in 2007 to 74 % in 2012 (see Table 4). Even though this is a less drastic development as compared to the EU-28 on average (where public debts increased by 26.3 % points in the same period), it is mainly the development of this indicator that evoked considerable concerns both in politics but also in public debates. Not least due to the dual development of sluggish GDP growth and enhancing public deficits, the country's economic perspective was downsized from a triple-A rating to AA+ by both Standard and Poor's and Moody's in January 2012; a downgrading that received broad attention in public media. This also applied to the attempts of the European Union, and most notably the member states of the euro area, to stabilize both the common currency and the various risk countries within the euro area. A large part of the public feels that deteriorating economic development is not predominantly "homemade", but rather imported as a result of Austria's membership in the EU and the euro zone.

Since the financial and economic crisis entered Europe in 2008, several amendments have also been made to the Austrian social security system. However, as will be shown in more detail in the next section, changes in that period include retrenchment as well as extensions and restructuring and many of the changes to welfare programmes are part of longer term developments rather than just ad hoc responses to the crisis. Given the increase of public debts in Austria, reducing the public deficit became a major government's concern from 2009/2010 onwards. Social security and health related expenditures make up 57 % of all public expenditures in 2009—thus making these branches obvious candidates for budget cuts. And indeed, a first austerity package implemented in 2010, led to changes in pension policies (e.g. deteriorations for a specific pension form, *Hacklerpension*, for people with long employment records), long-term care policies (making it more difficult to qualify for long-term care benefits by raising minimum hours of necessary care needs) as well as family policies (e.g. a reduction of the duration of family benefit for children in full-time education from a maximum of 26 years to a maximum of 24 years).

It soon became evident that the measures implemented by this first austerity package did not suffice to overcome the fiscal problems. Therefore, the government introduced a second austerity programme in 2012, which eventually should lead to a substantial reduction in public debt and allow for a debt brake (*Schuldenbremse*). Over the period of 2012–2016, the proposed package envisaged a cost containment volume of € 26.5 billion. About 30 % of this amount should be financed by new taxes and the rest by reducing expenditures. Reforms within the pension and labour market system were projected to save up to € 7.3 billion, and reforms of the health care sector up to € 1.4 billion until 2016 (Bundeskanzleramt Österreich 2012). The target is to achieve a balanced budget by 2016.

Meanwhile, however, a failed realization of some of the proposed measures of the second austerity package (including, for example, the implementation of a transaction tax at the level of the European Union, which should have contributed € 1.5 billion up until 2016), sluggish economic growth as well as a negative growth prospect together with higher expenditures than envisaged for the banking sector (especially to the already nationalized Hypo Alpe-Adria), led to an adaptation of the cost containment volume: the government recently agreed that the cost containment volume over the period of 2014–2018 amounts to € 24.24 billion; if the target of a balanced budget in 2016 is to be maintained.

4 Reforms, Risks and Opportunities

4.1 The Context for Welfare Reform

Demographic changes and the economic context have become major context variables for reform debates and for reforms to the welfare system, even more importantly with the global crisis of the past few years. But developments in the Austrian welfare system are also strongly shaped by the federal structure of the country (Obinger 2005). Austria's welfare state has a long tradition of regionalism. For many welfare sectors, there is shared responsibility between the state level and the provincial levels. This is the case for health care (Sect. 4.4), long-term care (Sect. 4.5), family policy (Sect. 4.6) or poverty relief programmes (Sect. 4.7). The split between national and provincial roles in welfare policies, and, more importantly, often shared responsibilities in specific welfare sectors not only contribute to differences in the structure of benefits and coverage. With a view to welfare reforms, this federal structure can either work as a major hurdle in implementing novel approaches because initiatives from one level receive blockade from the other level. Or, it might allow for innovation in single provinces which then might have the potential to diffuse across the country. There are examples for both developments in the past. In the more recent past, conflicting lines between the national level and the provincial levels often have been stronger than those between political parties on the national level. Treaties of state-provinces have therefore commonly been used to resolve problems arising from this split and to agree on reform plans.

In what follows, major welfare reforms and reform debates in the 2007–2013 period will be discussed for selected welfare state sectors. The discussion attempts to identify the relative importance of demographic and economic challenges driving the respective reforms and to identify the risks and opportunities connected to the respective developments. As will be shown, labour market policies together with broader economic policies formed the main response in the initial stage of the economic crisis. Major changes that occurred in other welfare sectors are