Four articles on the Political Economy of the Welfare State

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Declaration

I hereby declare that this dissertation contains no materials accepted for any other degrees in any other institution. The dissertation contains no materials previously written and/or published by another person, except where appropriate acknowledgment is made in the form of bibliographical reference.

Martino Comelli

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Acknowledgments

…Im übrigen mag uns ein Dichter (Rückert in den Makamen des Hariri) über die langsamen Fortschritte unserer wissenschaftlichen Erkenntnis trösten:

“Was man nicht erfliegen kann, muß man erhinken.
Die Schrift sagt, es ist keine Sünde zu hinken.”

Sigmund Freud, *Das Unbewußte*

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Abstract

Taken together, these four articles examine the impact of social policies on economic dynamics, focusing on how social spending is not only about redistribution, but also influences demand, reorganizes production, affects market outcomes and the financial sector - suggesting a broader role for welfare in current political economy debates.

The first two articles argue that comprehensive welfare systems like those in the Nordic countries may inadvertently lead to higher levels of personal debt. Universalist welfare systems provide a sense of financial security that encourages individuals to take on significant long-term financial commitments, such as mortgages. This finding challenges the conventional wisdom linking personal debt to reductions in welfare spending. Instead, it shows that expansive welfare provision can be a catalyst for greater private borrowing. The second article enriches this argument with a case study of Italy, showing how the country's specific welfare orientation-characterized by non-inclusive, pension-focused spending-encourages financial conservatism among citizens, thereby limiting personal debt. This case study highlights the relationship between the extent of welfare coverage and its impact on household financial behavior and shows how welfare orientation can shape financial outlooks and behaviors, ultimately influencing national debt patterns.

The third article shifts the lens to examine the interplay between welfare spending and capital controls, finding that welfare policies have a significant impact on financial regulations. It shows that countries with generous welfare systems tend to have more liberalized capital control regimes, suggesting a symbiotic relationship between welfare policies and economic openness. This analysis extends the discourse on capital controls by positioning welfare policies as crucial determinants of a country's financial regulatory approach.

The fourth article examines the persistence of conservative welfare models in Europe, with a particular focus on the impact of European integration and Christian democratic values. It argues that these influences have pushed Central and Eastern European countries toward a conservative welfare paradigm that emphasizes employment-based entitlements. This exploration of the ideological undercurrents of welfare policy in the European Union reveals the complex interplay of political, social, and economic factors that shape the welfare systems of CEE countries.

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Introduction

This collection of independent but related articles aims to highlight the central influence of the welfare state on economic dynamics, going beyond the conventional areas of social policy. Research on the welfare state tends to focus on health, education, and industrial relations, or on redistributive policies, whereas the articles in this collection aim to show that a universalist welfare state and more inclusive social spending not only correct market outcomes but also contribute to the organization of production by influencing the economy and the financial sector more broadly.

Susan Strange already had the intuition that welfare state arrangements have an important impact on the structure and organization of political economy (Strange, 1971; Strange, 1985), and that the failure of welfare to deal with the distributional aberrations of capitalism is part of what exacerbates financial instability (Strange, 1999). In this collection, we use the same perspective, which has a strong Polanyian undertone, to show how economic dynamics are embedded and influenced by other social spheres, and, in this case, specifically by social policy. In this sense, welfare is one dimension among many that influences the organization of growth and production.

In particular, Strange perceived limitations imposed on internal policies by globalization as indicative of the Westphalian state's failure ('Westfailure'), highlighting how these constraints have curtailed the state's capacity for action. However, I contend that the state, especially through the realm of social policy, can leverage these limitations to effectively address and surmount external constraints imposed by globalization. Contrary to Strange, I regard welfare not merely as a mechanism for stabilization but also as a tool that can potentially increase the level of financialization on a broader scale, thereby influencing financial instability.

More specifically, I argue that inclusive welfare, as implemented in the Nordic countries, unwittingly stimulates private indebtedness and allows for a more permissive regime of capital controls. More conservative welfare states, on the other hand, push their citizens to prioritize the present over planning for the future, making them pessimistic and discouraging long-term activities such as borrowing.

To introduce the four articles and the topic, it is necessary to make a brief acquaintance firstly with contemporary welfare models, which function as the main independent variable in most of the empirical papers in this collection, and secondly with growth models or the strategies that countries use to manage their growth.

The history of contemporary welfare states begins in the postwar period, in an economic environment characterized by capital-intensive industrial labor. With the end of Bretton Woods, welfare states adopted two main ideal-typical strategies to deal with the challenges of globalization: either the marketization of welfare, delegating welfare to finance, or the social investment perspective. This ideal-typical distinction will be presented in the next section (Section I) and will function – in various aspects – as the main independent variables of the articles collected here.

The second framework that might help position these papers is the literature on growth models. Recently, scholars in political economy have revisited post-Keynesian and Regulation theories and begun to examine factors that sustain aggregate demand and growth, creating another ideal-typical distinction between export-led and debt-led growth models. While the role of government is usually understated in growth models, my paper shows the extent to which social spending affects a country's growth models. This is the subject of Section II of this introduction.

After discussing the broader framework of welfare and growth models, I introduce the papers that make up this collection, highlighting key findings and contextualizing my own contributions in relation to the established literature. In Section III, I examine the relationship between welfare and the amount and type of household debt, and how welfare affects the degree of financial pessimism (my first and second articles); and in Section IV, I examine how welfare can complement or substitute for the use of capital controls (my third article). The first three articles provide theoretically grounded empirical work, while the fourth article examines the historical and political background that has underpinned the persistence and growth of conservative welfare in Europe, along with its socio-political implications, and will be the subject of Section IV of this introduction. I conclude this introduction by suggesting ways in which this line of research might be extended.

Section I : Postwar Welfare: The Social Investment Paradigm vs. Market Liberalism

In the pre-World War I era, the gold standard allowed for the unrestricted movement of capital. This lack of regulation led to significant economic volatility, which was a major factor in triggering the Great Crisis of 1929 and the economic depression that followed.

The post-World War II era marked a dramatic shift in economic policy and global financial structures. The Bretton Woods Conference of 1944 laid the foundations for a new global financial regime. This regime was characterized by strict controls on capital movements, a more restrained approach to global banking, and a focus on achieving monetary stability. These changes helped create an environment of global economic stability that, along with the rise of industrial labor and extensive government regulation, played a crucial role in the development of the welfare state in Western countries. This shift reflected a move away from the laissez-faire attitudes of the pre-war period to a more managed and regulated postwar economic approach.

In the post-World War II period, marked by the peak of industrial growth, household incomes were generally sufficient for subsistence. As a result, the welfare system was largely focused on protecting those who could no longer participate in the formal labor market, especially the elderly and the unemployed. Much of the welfare assistance was provided within families, supported by gendered caregiving roles.

The economic landscape changed dramatically in the 1980s with the end of the Bretton Woods system. This transition led to increased economic instability and intensified global competition for labor. Capital was free to move to areas with lower labor costs, changing the nature of job creation in Western societies. The high-productivity, capital-intensive industrial jobs that characterized the postwar economy were replaced by low-productivity, labor-intensive service-sector jobs; and labor protection was reduced to increase labor-market flexibility. These transformations created new instabilities, resulting in younger generations facing lower living standards than their predecessors (Chauvel & Schröder, 2014).

As a result of these changes, the welfare state faced several new challenges (Bonoli, 2005; Bonoli, 2007). Given the increasing instability of the labor market, the mere act of earning an income was no longer a consistent guarantee of a stable lifestyle. This was exacerbated by the growth of low-quality employment and working poverty, which resulted in inadequate contributions to social welfare systems. At the same time, difficulties in reconciling work and family responsibilities, combined with declining fertility rates, contributed to the destabilization of traditional, family-based welfare. In this context, the ability of states to provide welfare services capable of coping with these variable conditions became an essential component of ensuring both economic and social stability.

At this stage, countries had to adopt new strategies to deal with emerging social risks. In addition to traditional social protectionism, two ideal-typical strategies emerged: market liberalism and social investment.

The first strategy outsources welfare to the financial sector, with financial markets becoming the main provider of social policy. Governments that found traditional welfare to be financially unsustainable for the community began to privatize it, often through finance and insurance, to support or even replace old social security systems. This approach, which was particularly pronounced in Anglo-Saxon countries, changed the nature of pensions, for example, from government-run funds to privately invested funds. In addition, people began to use their homes as assets to secure their financial future (Prabhakar, 2013; Hay, 2011; Montgomerie & Büdenbender, 2015). Governments further promoted home ownership by providing tax incentives (Prasad, 2012). These changes led to an increase in private debt and higher house prices in many countries. Moreover, by linking household finances to private pensions and complex mortgages, the average household became more vulnerable to the risks of financial crises (Fligstein & Goldstein, 2015). This welfare strategy aims to reduce government involvement in social spending and traditional social safety nets. Its goal is to increase efficiency by encouraging the transfer of risks to the private sector, thereby providing incentives for the privatization of social risks.

The second strategy is social investment, which aims to strengthen human capital through education, training, health care, and related areas, thereby enhancing individual capabilities with a view to promoting long-term economic growth. It benefits the working population, as opposed to traditional social protectionism, which has primarily provided cash benefits to marginalized groups without formal employment. This approach includes measures such as promoting employability, supporting work–life balance, and adapting to changes in the labor market. Its guiding principle is "prepare rather than repair," focusing on equipping people with the necessary skills and education to proactively manage life risks (Morel & Palier, 2011). The goal of social investment is to improve individual capabilities and promote self-sufficiency through a combination of social protection and active labor-market policies such as employment counseling, training and education programs, and support for entrepreneurship. Nordic countries such as Sweden, Denmark, and Finland are leaders in implementing these policies. Within this framework, social policies contribute to the creation of a competitive and productive workforce capable of performing complex tasks in the knowledge economy. Welfare thus becomes an integral part of a broader growth strategy.

Both market liberalism and social investment are productivist in nature, in that they aim to create strong incentives to work, but seek to achieve this goal through different strategies. The former attempts to use the market to coordinate every aspect of life and welfare by removing sources of friction, whereas the latter instead decommodifies the most, allowing the system to tolerate higher levels of dynamism and, paradoxically, enhancing the market. Consequently, an unexplored but central theme of both approaches is their relationship to growth. In particular, the social investment approach places a strong emphasis on innovation and education. Technological change leads to higher returns for higher-skilled groups in both services and industry, creating a "race between education and technology."

Although the literature on the social investment paradigm focuses on the political constituencies that enable social investment and its nature – essentially the inputs to the system – it has spent less time analyzing the outputs of the system or its impact on growth. This lack of focus on outcomes, though paradoxical, is likely due to intra-disciplinary boundaries. The field of growth and innovation policy has typically been studied by comparative political economy.

Section II : Comparative Political Economy of Growth

Conversely, much of the recent literature on growth and innovation regimes tends to overlook the significant impact of the welfare state on economic and growth dynamics. This oversight represents a critical gap in our understanding of how government policies and welfare systems intersect with and shape growth strategies. My research addresses this gap by integrating the role of welfare into the analysis of growth models, thereby providing some examples of the interaction between government intervention and economic development.

The development of the field of comparative political economy of growth has been marked by significant shifts in focus. Historically, the postwar period of the 1950s and 1960s was dominated by the modernization approach, which emphasized the central role of the state in directing economic outcomes. This perspective evolved through the neo-corporatist political economy of the 1970s and 1980s, which was concerned with the state's ability to negotiate with employers amid inflationary pressures. In the late 1990s and early 2000s, there was a notable shift toward the study of how firms compete in a global marketplace.

This latter shift to competitiveness and innovation guided the emergence and dominance of the varieties of capitalism (VoC) approach in comparative political economy. Focusing on firms, innovation, and the supply-side organization of the economy, the VoC approach marked a departure from earlier frameworks by depoliticizing the field and somewhat marginalizing the roles of politics, class, and the state.

The VoC approach adopts a meso-firm-centered perspective that has had significant implications for the study of political economy. This perspective places a strong emphasis on the role of firms in driving innovation and economic growth, often at the expense of considering direct involvement of the state. Industrial relations within this framework are viewed primarily through the lens of agreements between unions and firms, analyzing their impact on innovation, corporate governance, and the functioning of inter-firm relations.

The VoC distinction between coordinated market economies (CMEs) and liberal market economies (LMEs) elaborates on this point. In CMEs, innovation is gradual, and labor relations are coordinated, in contrast to the more radical innovation and uncoordinated labor relations in LMEs. This approach repositions firms at the center of the political economy, emphasizing their crucial role in shaping economic dynamics outside the direct purview of the state.

At the same time, the VoC framework underplays the role of the state in shaping what Korpi calls "democratic class conflict." In contrast to traditional institutional analysis, the VoC approach places greater emphasis on tacit knowledge and unwritten norms for coordination. This perspective views institutions as "necessary preconditions" but argues that a shared culture resulting from ongoing interactions among different actors is equally important (Hall & Soskice, 2001). The economic crisis of 2008 triggered a period of Kuhnian instability within the political economy. This period posed significant challenges to the VoC framework.

The crisis revealed the limits of this framework in explaining the causes of economic downturns, the exponential growth of global finance and credit, and the sharp rise in inequality. The 2008 crisis was largely attributed to factors such as credit problems, the over-indebtedness of subprime American households, rising inequality, and increased financialization, all of which were outside the epistemological radar of VoC. This changing landscape led to a resurgence of interest in economic sociology, particularly influenced by Polanyian perspectives. Scholars in the field delved deeper into the dynamics of financial markets, the growing impact of debt on households and the economy, and the widening gap between the rich and the rest. This marked a shift in both academic and public interest from previous years, when inequality had not been seen as a major concern. This renewed focus highlighted the limitations of the VoC approach, which had focused primarily on coordination and stability, often overlooking state intervention, financial and credit systems, and societal inequalities.

Within comparative political economy, two paradigms have emerged more or less simultaneously, each attempting to explain the post-2008 world while integrating new contributions on the role of credit, finance, and inequality. These are the growth models and the electoralist approach.

The growth model paradigm focuses on understanding how demand is created and maintained; it can be seen as similar to VoC, but with ga specific emphasis on the demand side. The Growth model approach posits that in the post-World War II period, growth in Western economies was driven primarily by industrial wage dynamics. However, this wage-driven growth has been challenged by the rise of globalization, offshoring, the expansion of service-sector jobs, and inflation.

To sustain aggregate demand in response to these challenges, the growth model approach identifies two ideal-typical strategies: export-led growth, which underscores the importance of international markets, and debt-led growth, which highlights the role of credit and borrowing in sustaining demand.

The growth model approach parallels VoC in one important respect: the marginalization of the role of the state in the economic framework. The growth model approach deliberately chooses the term "government" over "state" to avoid Marxist connotations (Baccaro, 2017). Initially, like VoC, the growth model perspective neglected the essential role of public spending and investment in stimulating economic growth. However, this oversight was subsequently addressed and elaborated by other authors, reflecting an evolving understanding of the complex relationship between government actions and economic outcomes (Hassel & Palier, 2021).

The second paradigm is presented in the book *The Politics of Advanced Capitalism* (Beramendi et al., 2015). It offers an approach to understanding variations in capitalist regimes by focusing on the interplay between social spending and state action. While the growth model approach shares some features with VoC, this approach is rooted in the Power Resources Theory tradition, which emphasizes the importance of partisan politics in distributive conflicts in democratic societies. Beramendi and colleagues are particularly interested in the political coalitions and social constituencies that facilitate and open pathways to different institutional opportunities, in what they call the "constrained partisanship" model.

In their analysis of policies across countries, the authors distinguish primarily between "investment" and "consumption." Investment includes initiatives aimed at future improvements, mostly in kind, such as higher education, childcare, proactive employment policies, or research and development. In contrast, consumption expenditure consists mainly of cash social benefits, including old-age pensions, unemployment insurance and disability benefits. These are seen as compensation for income losses that do not increase the productive capacity of the economy. This analytical approach is obviously rooted in the existing body of research on the social investment paradigm that we illustrated earlier.

This focus on social spending is crucial in defining the nature of a capitalist regime, as it directly affects the economic and social fabric of a society. State action, another key component of the model, varies in its market orientation, leading to a quadripartite definition of state capacity. This definition outlines four distinct types of capitalist regimes: equality-oriented, competitiveness-oriented, status-oriented, and capture-oriented.

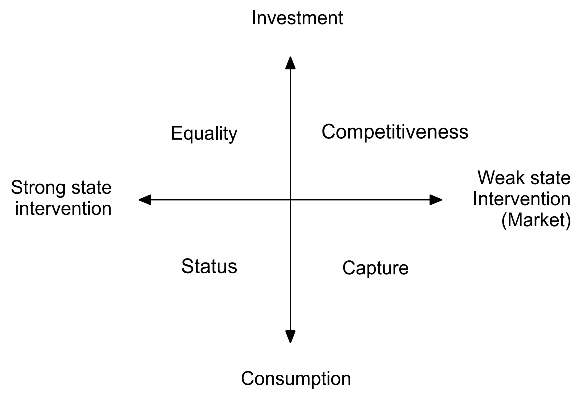

Figure 1. Beramendi's Dimensions

Each of these regimes is underpinned by unique coalition arrangements that play a central role in shaping economic activities and political possibilities within these societies. The interaction between social spending and state action thus provides a framework for understanding the complex dynamics and variations in capitalist systems.

My research lies at the intersection of two paradigms. In line with the work of Beramendi et al. and the recent literature on social investment, I recognize the critical importance of the quality of social spending as a key dimension in economic analysis. However, my primary interest is not in the electoral politics that make social investment possible. Instead, like the growth model approach, my focus is on the mechanisms of demand creation in economies.

At the heart of my study is an examination of the impact of public spending on the dynamics of private debt. While the role of private debt is a central theme in the literature on growth regimes, my approach differs significantly from that of growth models. I theorize that countries that are more committed to social investment paradoxically have higher levels of private debt. This challenges the common narrative of the growth model approach, which sees an increase in household debt as a compensatory mechanism for welfare cuts.

At the same time, I mention that the social investment approach is far from universal. Bismarckian approaches are the most politically convenient and have often been chosen by Central and Eastern European countries after their integration into the European Union.

In the following sections, I will outline my papers and their findings, taking into account the existing literature, identifying both convergences and divergences, and highlighting novel contributions to the field. In the next section, I discuss the first two chapters, in which I explore the relationship between the nature of welfare spending, private debt, and economic perspectives. I then turn to the third chapter, which examines the interplay between welfare and globalization and highlights the dynamics between welfare and capital controls. Finally, I review the history of conservative welfare in Europe and consider why, rather than evolving toward more universalist models, it remains dominant in Eastern Europe and unchallenged in Southern Europe.

Section III : Two Articles on Household Debt

One of the greatest contributions to understanding the 2008 economic crisis has come from economic sociology. This perspective is found in the work of Krippner, Prasad, and Trumbull. In their seminal books, these American authors showed how the economic crisis of private debt was exacerbated by the lack of welfare. They postulated that in the United States, in the absence of public provision, credit took over the role of supporting families. In other words, they posited the existence of a welfare–debt trade-off: countries without social spending must resort to credit to get through hard times (Krippner, 2011; Prasad, 2012; Trumbull, 2012).

Similarly, on the other side of the Atlantic, Colin Crouch observed that after the golden age of industrialism, social spending and fiscal stimulus fell out of favor, largely because they required higher taxes and larger deficits that could no longer be afforded. With this shift, the responsibility for maintaining aggregate demand moved from public provision to private debt, especially mortgages. He called this period "Privatised Keynesianism" (Crouch, 2009). By analogy, Prasad called it "Mortgaged Keynesianism." Other social scientists have worked with the idea of asset-based welfare, a form of welfare based on the accumulation of assets, primarily housing, as seen in the US, the UK, and Australia. Assets are central to this accumulation strategy, because they can be leveraged to borrow for pensions or rented out to generate passive income (Montgomerie & Büdenbender, 2015; Prabhakar, 2013).

The debt–welfare trade-off theory has attracted considerable attention, because it is not only theoretically elegant but also politically relevant, highlighting the consequences of welfare retrenchment. This theory has been integrated as a cornerstone of the new growth models perspective. It shows how Anglo-Saxon countries have stimulated domestic demand through extensive use of private credit (Reisenbichler & Wiedemann, 2022; Wiedemann, 2022). In the work of Baccaro et al., the use of private debt has emerged as a method of sustaining aggregate demand, with the alternative being an export-oriented economy.

Despite its elegance and compelling political narrative, the reality of debt is more complicated. The theory of the debt–welfare trade-off has often been empirically tenuous. As is often the case in social science, what may be true in the context of the United States does not necessarily apply to the rest of the OECD, let alone the world. Indeed, in the aftermath of the 2008 crisis, much of the scholarship focused on private debt, emphasizing its significant role in the United States. However, as the article "The Impact of Welfare on Household Debt" points out, total private debt is not particularly high in the US. Paradoxically, private debt is much higher in countries with extensive welfare protection, such as the Scandinavian countries. This paradox is the focus of my first two chapters.

In the first article, I showed that debt does not necessarily indicate a lack of welfare. On the contrary, it may actually signal that welfare is well established by providing a safety net that encourages people to borrow more. This is especially true for long-term debt such as mortgages. A comprehensive welfare system that does not focus solely on cash transfers and that protects workers throughout the life cycle – not just the elderly – creates a stable environment in which people feel encouraged to borrow. Conversely, a welfare system that focuses primarily on the elderly and cash transfers tends to make the working population more conservative and cautious about the future, making them reluctant to take on debt. Northern Europe, in particular, has the highest debt levels, well above those in the United States. This contradicts not only the trade-off hypothesis but also the literature on growth regimes, which sees private debt as one of the main pillars of debt-led regimes. Interestingly, total private debt in the United States, a country often characterized as debt-led par excellence, matches that of Germany, a country considered to be export-led.

Another aspect overlooked in many studies of welfare and debt is the nature of the debt. Consumer credit and other forms of short-term debt are rare in Europe, but common in the United States. In this context, the theory of the welfare–debt trade-off may apply primarily to short-term debt. In general, however, the importance of mortgage debt is much greater, especially when considering financialization processes or the importance of housing. In other words, a comprehensive welfare system encourages long-term commitments, such as mortgage debt, and promotes risk-taking over longer periods of time. In contrast, short-term debt is more prevalent in societies with limited welfare provision, such as the US (and to some extent Eastern Europe). It could be argued that stable welfare affects investment, while inadequate welfare affects consumption.

A novel contribution of my paper is to examine the relationship between age and welfare. With a few notable exceptions, age has often been overlooked in macro welfare research (Lynch, 2006; Vanhuysse, 2013), yet it is crucial to understanding debt dynamics. People typically incur debt when they are young and repay it as they age; this micro-level pattern holds universally (Ando & Modigliani, 1963). Testing for age bias in social spending, I have found that societies with more youth-focused social spending also have higher levels of debt. The use of an age framework to understand macro welfare redistribution is instrumental in examining the interplay between macro, institutional, and individual dynamics. In essence, I discuss the macro foundations of individual behavior.

In this context, the second paper, which can be seen as an extension of the first, focuses on people's financial expectations, in particular their perceptions of future financial risk. Focusing on the Italian case as a paradigmatic example of non-inclusive welfare, the goal is to demonstrate a correlation between the quality of welfare spending (its directionality) and poor future perceptions, household debt, and debt default.

Structural equations are used to model the relationships between these variables as a system. One of the more interesting results is that there is no correlation between general debt levels and debt delinquencies, which should be clear in light of the previous paper. But more importantly, the key findings concern the relationship between the directionality of welfare spending and financial pessimism. A more inclusive welfare system that allocates more to the working population rather than focusing solely on pensioners reduces both the incidence of debt distress and overall pessimism about future financial prospects.

The paradigmatic example is Italy, where the familialist, patriarchal, and sectoral welfare framework established during the Fascist era still underpins the current welfare system. This system emphasizes support for families and pensioners, and while it offers generous cash transfers and tax breaks, it has not effectively developed services, which remain predominantly in the hands of private providers or often private institutions using public funds. In the Italian context, household debt is low, because a combination of distorted public spending and an unprotected labor market leads both individuals and, presumably, banks to adopt a financially conservative stance. This, in turn, fuels a general pessimism about the future by amplifying perceived risks.

Of course, the theory of the influence of wealth on debt discussed in the first and second chaptersdoes not fully explain all cross-country differences in household indebtedness. Several factors contribute, including the nature of the housing market, interest rates, and the quality of the labor market. The underlying argument, however, is that debt is not inherently a driver of growth. In the case of the Nordic countries, the main driver of growth may be public spending, which in turn encourages general debt. This should be seen as a development within the growth model perspective. This paper shows how welfare, intentionally or not, is used as collateral: instead of decommodifying, welfare inadvertently promotes the expansion of financialization.

While this observation is not entirely new, it has mostly been understood in the context of the Global South: how welfare based primarily on cash transfers can discipline individuals and expand the use of financial products (Lavinas, 2018; Lavinas et al., 2019; Lavinas, 2020). This study sheds light on similar processes unfolding in the Global North and challenges some prevailing narratives about debt.

For one thing, the distinction between debt-led and export-led economies becomes a little less clear. It is the Nordic European countries that seem to be debt-led, while the US maintains a standard level of indebtedness. Although my research focuses on households only, similar conclusions could be drawn for corporate debt.

Such research paves the way for a deeper exploration of how welfare functions as collateral. The implications for our understanding of financial instability are significant. While a robust welfare system can mitigate financial volatility and serve as a macroprudential backstop, it can also potentially lead to Minsky moments, as recently witnessed in Sweden. In essence, debt is relational: when welfare protects large segments of the population, debt becomes an investment, whereas when welfare targets only specific groups, debt, especially short-term debt, can become a heavy burden.

Section IV : Capital Controls and Welfare

The third article is devoted to the study of welfare and capital controls, again with the aim of showing how the nature of welfare spending has implications well beyond the realm of social policy.

It is interesting to note that the golden age of the welfare state and the golden age of capital controls ran in parallel, at least in OECD countries, yet not many in political economy or political sociology have analyzed the interaction between the two. With the end of the Bretton Woods system, capital controls, along with other forms of state intervention such as welfare, have often been considered obsolete in favor of open markets and a more liberal approach to governance.

The intersection between welfare and capital controls has been studied primarily in the context of globalization. Many studies have attempted to understand how the free movement of goods and capital has affected the welfare state. Two main hypotheses have been tested: either the welfare state has been reduced to increase the efficiency of the system (by reducing taxation and other frictions), or expanded to compensate those adversely affected by globalization. The empirical evidence is mixed and inconclusive. However, there is a broad consensus on the design of these studies: welfare is treated as the dependent variable, while the presence or absence of capital controls acts as the independent variable, as a proxy for financial openness. In other words, these studies postulate that globalization affects welfare.

The history of capital controls can be divided into three phases: the liberal era, the Bretton Woods era, and the neoliberal era. In the nineteenth century, the gold standard supported international trade but was highly unstable. After World War II, the Bretton Woods era established currency hierarchies and relied heavily on capital controls for stability, promoting growth in Europe and South America. The neoliberal era began with the end of Bretton Woods in 1971, returning to liberal dogma and promoting open trade and capital flows. This era saw a surge in global trade, the rise of China and India, and the stagnation of the Western middle class due to offshoring. After the 2008 crisis, there was renewed interest in capital controls, with China's success contrasting with Russia's struggles. This period also saw discussions of re-shoring and regional trade blocs.

The contribution of this paper is to recognize that capital controls and welfare have historically shared a symbiotic relationship, yet they have not been studied as a cohesive system. While many studies focus on the impact of globalization on welfare, my goal is to reverse causality and examine the influence of the welfare state on capital controls. This Copernican shift in perspective encourages us to see capital controls in a new light, as an integral part of the welfare mix.

Since Bretton Woods, capital controls have been tolerated, but only as a means of stabilizing economic fluctuations. Most studies of capital controls use the Mundell trilemma as an epistemological basis for understanding the relationship between monetary policy and capital controls. While this framework is insightful, it tends to portray capital controls purely as a macroprudential mechanism to stabilize financial flows. However, as analyzed by Eric Monnet, the role of capital controls has historically been aimed at achieving different goals (Monnet, 2018). These goals have sometimes been completely outside the scope of the Mundell trilemma, such as protecting and promoting the development of local industries or creating a single market. Recognizing this broadens our understanding of capital controls as one of many tools a state uses to manage economic activity.

The same can be said of welfare, and exploring the intersection between the two can therefore be illuminating. Korpi and Palme have emphasized that welfare states emerge from "democratic class struggles" with different spending orientations and objectives (Korpi & Palme, 1998; Korpi, 2018). Esping-Andersen's work also showed that welfare states can either bridge or deepen market divisions (Esping-Andersen, 1990). How can this democratic class struggle use capital controls? To answer this question, we examine how the directionality of welfare spending, a by-product of democratic class struggle, interacts with the use of capital controls. As noted above, capital controls are not only tools of macroprudential regulation but also used, among other things, to promote soft forms of protectionism.

Early evidence suggests that countries that spend more on welfare are also those with the least capital controls. Instead, countries that cannot afford a generous welfare system – either for political or developmental reasons – use capital controls to protect both local workers and local capitalists.

Spending alone does not tell the whole story. Another important finding concerns the inclusiveness of welfare. Preliminary evidence suggests that the more inclusive the welfare system, the less reliance there is on capital controls. High-welfare societies, where public spending covers most of the population, tend to be more open to markets. Conversely, countries that target welfare spending to a specific segment of the population and have limited coverage tend to use capital controls more frequently.

Like social assistance, capital controls are often perceived as a progressive measure, but this is not always the case: they can be used to serve the interests of the local capitalist class. Rather than promoting comprehensive worker protection, they can be used primarily to protect specific sectors and industries within an already segmented welfare state. Like welfare, they can accentuate pre-existing divisions in the labor market.

Moreover, the cost of implementing capital controls is typically much lower than the cost of implementing broad welfare protection. This makes it a viable strategy for countries that either cannot afford or do not want to invest in more substantial measures. In conclusion, the direction and nature of government spending plays a key role in influencing economic integration and financialization processes, as already suggested by Susan Strange.

Section V : European Integration and the Diffusion of Conservative Welfare

In previous articles, we have noted that the direction of welfare spending, whether intended or not, has consequences that affect broader economic dynamics. More inclusive welfare spending creates an environment conducive to free capital markets and encourages private borrowing. Protection that is both individualized and widespread changes the population's risk behavior and provides a buffer against global market volatility. In essence, it is a case of macro fundamentals shaping micro behavior.

What, then, can explain the persistence or potential expansion of conservative welfare? The final chapter of this dissertation examines the resilience of welfare systems that either follow corporatist principles (redistributing within rather than between classes) or prioritize employment status (redistributing based on age and work contributions) over universalist principles. Drawing on the European experience, I argue that welfare is not becoming more inclusive. In fact, conservative welfare is on the rise, especially in the newest, post-socialist members of the EU.

I argue that the new, post-socialist members of the EU are converging toward a social and political model inspired by Christian democracy and a conservative welfare system with a higher degree of targeting based on the idea of "deservingness" typical of Western Europe. The EU itself has exacerbated these processes by inadvertently promoting an authoritarian equilibrium in Central and Eastern Europe (CEE) states (Kelemen, 2020) and proposing a set of blueprints for acceptable policies. Thus, over the course of two decades, the image of CEE has shifted from one of a triumph of liberal democracy to one of democratic regression. While many have attributed this shift to factors such as populism, weak civil societies, elite corruption, and communist legacies, the economic and political convergence that these countries have achieved with the EU's self-imposed standards, which sometimes surpasses their Western counterparts, is often overlooked.

This balance was supported by Christian democracy, the dominant political culture that underpinned postwar European integration. While it facilitated integration, I argue that it also inadvertently supported democratic regression. I argue that Christian democracy and liberalism bear a morphological resemblance, as both seek to insulate certain spheres from social intervention. Liberalism seeks to separate the economy from society, while Christian democracy seeks to enshrine a pre-political "natural law." Their mutual aversion to democracy has made them unlikely allies. Politically, both have worked to tame and present a new version of democracy that is much more restrained in its limits, goals, and possibilities.

Historically, Christian democracy emerged from the tension between Christianity and popular sovereignty in the aftermath of the French Revolution (Invernizzi Accetti, 2019; Müller, 2020). While the Revolution disrupted the political order anchored in aristocracy and divine right, Christian democracy sought to reconcile Christianity with democratic principles. This became especially relevant after World War II, when the Right was defeated, and the Left was seen as dangerous.

The Christian democratic synthesis proposed a limited version of democracy, distancing itself from socialist tendencies. Similarly, political and economic liberalism pursued a parallel synthesis. The term "authoritarian liberalism," introduced by Hermann Heller in the 1930s, encapsulates this vision of free economic initiative within a state defined by a restrictive rule of law and limited democratic governance (Heller, 2015). Thinkers such as Alfred Müller-Armack and Friedrich Hayek expanded on this concept, which resonated with postwar Christian democracy (Solchany, 2016).

Political science, largely influenced by Anglo-Saxon perspectives, often overlooks the subtleties of Christian democracy and its ramifications. This oversight is crucial, because Christian democracy has had a profound impact on welfare and redistribution policies. Three features of Christian democratic thought stand out:

- The role of gender: Conservative welfare is fundamentally familialist, placing the responsibility for care, especially for the elderly and the young, on families, often disproportionately burdening women (Duman & Horvath, 2013).
- Corporatist social contributions: Welfare revolves around institutionalized associations and the role of subsidiarity (between public and private, emphasizing the role of families) rather than individual rights and the role of subsidiarity.
- Christian identity politics: Anchored in religious values, it introduces an exclusionary and identitarian perspective on citizenship.

These principles formed the basis of welfare systems in Western European countries such as Germany, Belgium, Austria, Italy, and France. This study argues that the European Union, steeped in Christian democratic ideals and terminology, has extended these principles to Eastern Europe, a region that historically emphasized equality in its more redistributive welfare models during its socialist period.

The role of Christian democracy has been crucial to European integration. It sought to cultivate a common European identity based on Christian values, emphasizing the traditional family as the cornerstone of social order and eschewing class politics.

This vision was subsequently embraced by CEE countries, with leaders such as Hungary's Viktor Orbán using Christian identitarian politics to both invoke European values and promote national unity while aligning with the EU's liberal agenda.

The interplay between gender and welfare underscores this trend. The decline of the welfare state and the shift of household responsibilities to individuals have put additional pressure on women and families, and Christian democratic social policy, with its emphasis on the family, reflects this shift. The EU's austerity measures have led to a marked decline in welfare in CEE countries, pushing them toward a "Bismarckization" of welfare that favors heteronormative families and employment.

In summary, CEE politicians have skillfully used the Christian democratic political toolkit. The narrative of the "dysfunctionality" of democracy in CEE may have inadvertently overshadowed the democratic challenges in Western Europe, where the roots of democratic backsliding were planted. Framing this political convergence as divergence has only reinforced the rhetoric of an East–West divide, obscuring the reality that all European democracies face analogous challenges.

Conclusions

The social investment paradigm has become central to welfare studies. This paradigm examines how the welfare state has adapted to a world of technological change and job instability. The paradigm seeks to extend social protection from traditionally marginalized groups, such as those who cannot work, to the broader working population. The goal is to improve the capabilities of this broader population.

Using the "Constrained Partisanship Model," Beramendi and his colleagues, in the tradition of the Power Resource Theory, examine the political alliances and constituencies that make different welfare arrangements possible. They distinguish between strategies that promote social investment and those that promote classical social protectionism based on consumption and cash transfers. Another strand of political economy that studies the post-Bretton Woods world is the growth model approach. This approach focuses on identifying factors that sustain economic demand, primarily through exports or debt accumulation.

In this dissertation, I integrate elements of both theories: I am interested in social investment, but my goal is to investigate how social investment strategies affect demand and the economy as a whole. In other words, unlike the electoralist approach, I focus more on the economic outputs of these policies rather than the political inputs and constituencies that make these policies possible (which is the classic object of power resource theory). More specifically, I focus on how inclusive and residual public spending affects demand creation and, in particular, private debt creation. Complementing the growth model perspective, which sees a debt-led and export-led dynamic of aggregate demand, my papers argue that public spending is equally important in sustaining aggregate demand and promoting private indebtedness. In particular, I argue that debt should be understood as an epiphenomenon, a secondary phenomenon that is a consequence of and closely related to public spending.

Within the social investment paradigm, I emphasize the age dimension, which has been overlooked. Investment, especially in productive forces, is a commitment to the future, and this commitment shapes perceptions of social risk. In my research on debt, I have shown an age-related pattern: countries that invest more in their working population tend to have higher levels of debt. Conversely, countries that focus social spending on pensions often have lower levels of personal debt, regardless of their spending levels.

This opens up new ways of thinking about the relationship between public investment and the creation of aggregate demand. Contrary to many within the growth model approach or economic sociology, I show that it is precisely high social spending on the working population that creates the conditions for higher private debt as an unforeseen consequence.

Questions related to this dynamic need to be explored in depth: Are societies with high social investment more prone to risk-taking? Would this affect the emergence of Minsky moments, where too much stability can be destabilizing? Is the development of bubbles more likely? Or, precisely because welfare is more universal, is there both greater equality and financial stability? The studies presented here can be a very tentative first step in a research agenda that examines the relationship between welfare and macroeconomic stability.

Another point worth exploring in future work would be the use of the welfare state as collateral for financial development. The idea of collateralizing social policy has been explored in the case of developing countries, but research in core countries is extremely limited. The paper here seems to suggest that inclusive welfare spending encourages indebtedness, but is this also the case for other financial investments? Can welfare be seen as collateralization of last resort?

A third point that could broaden research and which also encompasses the previous two points is how our macro ideas about the future affect our present. Expectations are, of course, very important elements in economic and social analysis, but often they have not been used systematically and integrated into a theory of action. In this case, it would be interesting to systematically analyze how macro-institutional factors such as welfare influence future orientation. The link between perceived risk and social policy is the underlying theme of all the papers presented here. Our perceptions of the future influence our actions in the present; our fears, or lack thereof, can either spur us to action or hold us back. When we are living paycheck to paycheck, our approach to planning would be very different from when we have a more stable outlook. This principle also applies at the macro level, where the society of the future is already affecting that of the present.

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1. The Impact of Welfare on Household Debt

Abstract

This article aims to advance the theoretical understanding of how welfare affects household needs and willingness to take on debt across OECD countries. Previous sociological literature has attempted to explain indebtedness through the quantity of welfare spending, by searching for a trade-off between the lack of welfare and the increase of household debt. Based on the "life cycle" hypothesis, where people take on debt when they are younger and pay it off as they age, this paper argues that divergence in household debt across countries is a function of the welfare state's orientation towards old-age provisions and the insider/outsider cleavage in the labor market. A welfare state that is generous towards youths, facilitates the possibility for people to plan ahead in life and, by stabilizing financial expectations, makes people less risk averse. Higher debt ratios are more common in northern countries as social protection is more extensive, while in continental countries, where welfare benefits are narrower and tend to target the already employed and the elderly, people are more risk-averse towards debt. The proposed theory is supported by an illustrative empirical analysis using data from the OECD SOCX, the Comparative Welfare Entitlements Dataset (CWED2) and the ECRI statistical package.

Keywords: household debt, private leverage, welfare state, directionality of welfare, age orientation of welfare, new social risks.

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Introduction: From a Private Trouble to a Public Issue

Over the last twenty years, household debt relative to income has increased significantly in all Organization for Economic Co-operation and Development (OECD) countries, peaking around the 2007-2008 economic crisis. Since then, deleverage has been limited and, in many countries, household debt has continued to accumulate. Despite some common trends, differences between countries remain significant. Before the crisis of 2008, household debt was considered a private trouble, and received little sociological attention (Ritzer, 2011). The crisis in the United States shifted the perception of household debt in the eyes of scholars and public institutions from a private to a public issue (Turner, 2017). Personal debt has been seen as one of the leading causes of the crisis, not only because people were unable to repay their debts, but also because economic activity was absorbed in repaying any existing debts, thereby slashing growth (Jordà et al., 2015; Mian & Sufi, 2015).

Sociologists and political economists have begun investigating the relationship between credit and welfare spending. Many authors, especially Anglo-American scholars, have argued that the rise of debt was the effect of welfare retrenchment or lack of welfare protection (Crouch, 2009; Montgomerie, 2013; Montgomerie & Büdenbender, 2015; Prasad, 2012; Soederberg, 2013; Trumbull, 2012). In other words, they hypothesized that there was a trade-off between welfare and household debt. The welfare-debt trade-off theory implies that, in countries with a more generous welfare state people do not need to borrow money, whereas with less generous welfare, people tend to borrow to cope with life necessities.

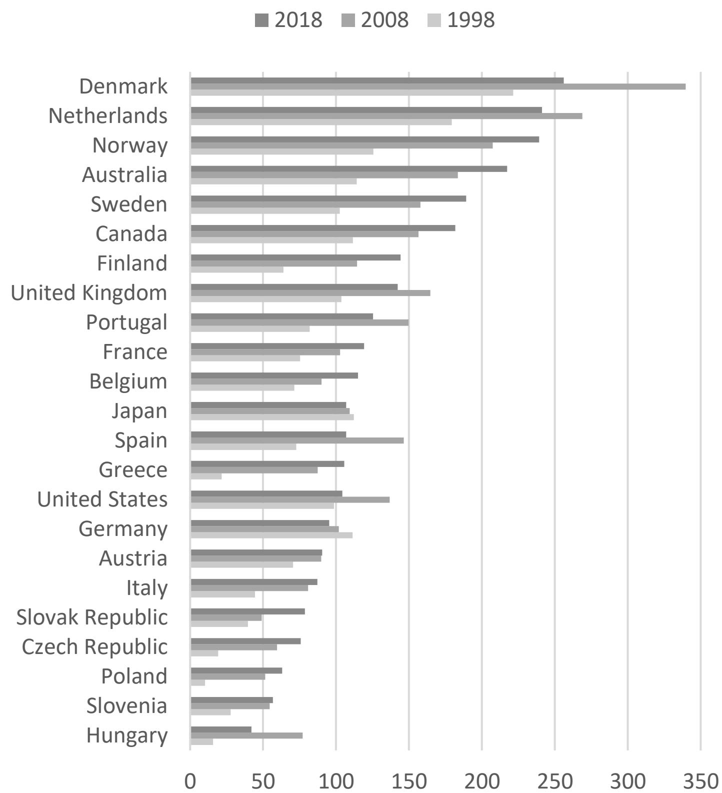

Figure 1. Household debt – % of Net Disposable Income, Selected countries. OECD Data.

In this article, I highlight the limits of the welfare-debt trade-off theory. As Figure 1 presents, when we consider a broader set of countries, the highest household debt is in countries that traditionally have had the most extensive welfare protection, such as Denmark, the Netherlands, and Norway. While we may be tempted to see a complementarity between welfare and debt; countries with significant welfare spending, such as Austria, Belgium, Germany or Italy, do not show particularly high levels of private indebtedness. How can we explain this paradox?

Welfare retrenchment, or lack of welfare, does not promote high private leverage. The current paper formulates a theory that may explain these counterintuitive facts: it is the *age-orientation of welfare,* and how welfare contrasts the insider/outsider dynamics in the labor market (and in benefits provisions) that influences the different rates of debt that we can see across countries. Household debt is intrinsically related to age. Based on Modigliani's observations on the "life cycle" - which demonstrates how people take on debt when they are young and pay it off as they age, this paper postulates household debt divergence across countries is a function of the welfare state's orientation toward young-age provisions and the insider/outsider cleavage in the labor market. Different welfare regimes socialize risks in different ways, and this correlates with the aggregate level of household debt: in northern countries, higher debt ratios are more common as social protection is more extensive, thus creating a safer environment, especially to the young and precarious population; in continental countries – where welfare benefits are scarcer and tend to target those who are already employed, families and the elderly – there is more risk-aversion towards debt. In other words, it is not the quantity of welfare spending that explains indebtedness, but its 'quality': its institutional arrangements and direction. Another issue that previous studies have ignored is the nature of debt itself; mortgages and consumer credit exist for different - often opposite - reasons. One is a long-term investment, whilst the other is for short-term needs. While most worldwide debt is mortgaged, consumer credit is important in several contexts. With cluster analysis, this study will present how different welfare regimes create different macro-sociological patterns in private indebtedness. In this sense, welfare-debt trade-off theory can be true, but only when considering consumer debt in Anglo-liberal countries.

Numerous studies on the determinants of household debt and its drivers focus on particular national contexts. Instead, this paper studies how different welfare regimes might impact household debt in 30 OECD countries[*] between 1995 and 2017, using time series cross sectional methods. The results will be also triangulated with a cluster analysis, considering the interaction between total household debt and consumer credit. By analyzing the macro-sociological correlation between the age orientation of welfare, temporary labor protections and household indebtedness, it is possible to provide a better picture of the patterns of household debt. The paper is structured as follows: in Section 2, an examination of the sociological literature on the welfare-debt trade-off and it is limits. The theoretical underpinning will then be defined, underlining which variables the literature has not yet considered—called the *directionality of welfare*. Section 3 discusses the variables that are employed and the hypotheses. Section 4 discusses the results and introduces the "*three worlds of debtfare capitalism*", and Section 5 offers concluding remarks.

The welfare debt trade-off hypothesis and its limits.

Economists studied the determinants of household debt by focusing on national contexts using survey data and focusing mainly monocausal explanations, such as interest rate dynamics, housing market prices, financial literacy and self-control, and development of financial technologies such as securitization, etc. In other words, "[t]here is a shortage of unifying explanations but no shortage of theories that focus on important pieces of the puzzle" (Zinman, 2015). Sociological

[*] Austria, Belgium, Canada, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Japan, Latvia, Lithuania, Netherlands, New Zealand, Norway, Poland, Portugal, Slovakia, Slovenia, South Korea, Spain, Sweden, Switzerland, United Kingdom, United States.

literature instead attempts to explain the increase of household debt as part of a system of relations[†]. A lot of attention has been given to the rise of financialization, and the relation between welfare and debt. Crouch first identified the welfare debt trade-off hypothesis, dubbing it "privatized Keynesianism" (Crouch, 2009). When the Fordist compromise between capital and labor stopped delivering the constant salary increases that characterized the post-war period, it was replaced by a new regime of anti-inflationary policies and the progressive disengagement of the state from public interventions (Krippner, 2005; Krippner, 2011; Streeck, 2014). In this new regime, Crouch argues that what used to be the traditional public role of the state in stimulating and coordinating aggregate demand, has now become a task for private households, hence the name of "privatized Keynesianism". In this new regime, private debt is said to provide the economy the stimulus that is needed to sustain aggregate demand. Similarly, Prasad, talks of "mortgage Keynesianism" (Prasad & Deng, 2009; Prasad, 2012) to describe how the American growth regime pursues a consumption-oriented growth. A loose financial credit policy is then necessary to narrow the income gap and stimulate demand, and a booming housing market and mortgages filled the gap. Another strand of the welfare debt trade-off theory, points to how this trade-off is particularly tangible in Anglo-liberal countries where, rather than relying on state-managed social transfers, the state encouraged people to invest in financial products and property assets that are supposed to augment in value over time: an 'asset-based welfare' (Prabhakar, 2013; Hay, 2011; Montgomerie & Büdenbender, 2015).

Other scholars have indicated shortcomings of the welfare-debt trade-off hypothesis, showing how, instead of a trade-off, there may be a complementary relationship between welfare and household debt (Sparkes & Wood, 2020). As argued by Fligstein and Goldstein, in the US it is the upper-middle class (those who should be less affected by welfare state retrenchment), and not the poorest, who tend to borrow more. (Fligstein & Goldstein, 2015). Second, Gerba and Schelkle, while acknowledging that "the Western welfare state prevented a repeat of the Great Depression," argue that the welfare state might have contributed to the rise of indebtedness and the overall process of household financialization (Gerba & Schelkle, 2013; Gerba & Schelkle, 2014). It has also been shown that the quantity of household debt increased not only in liberal countries but also in coordinated market economies — demonstrating that there is not a specific Anglo-liberal pattern to debt growth (Barnes, 2016). These arguments imply that the welfare state is complementary to, rather than substitutive of, credit: "high rates of borrowing may, in fact, correlate with generous welfare provisions" (Rona-Tas & Guseva, 2018).

Trade-off and complementary theories, while describing strong trends, come with several limitations. The welfare-debt trade-off theories focus too heavily on the Anglo-liberal experience

[†] For a broader survey of the literature on the sociology of debt, I recommend two recent articles in the *Annual Review of Sociology* (Dwyer, 2018; Rona-Tas & Guseva, 2018) and another in *Sociology Compass* (Kus, 2015).

and fail to acknowledge the high indebtment of northern European welfare states (Figure 1). Likewise, the complementarity hypothesis does not clarify why some generous continental welfare states do not show higher levels of private debt, such as in Germany (Mertens, 2017a; Mertens, 2017b) or France, despite having the highest welfare spending out of all OECD countries. While welfare-debt trade-off theories might explain the rise of private debt in Anglo-liberal countries, they fail to explain rising indebtedness in Europe. Similarly, complementary theories might explain phenomena in northern Europe (Anderson & Kurzer, 2020), but they fail to account for the moderate levels of private debt in Bismarckian-conservative countries. Another set of problems arise with the empirical formulation of the problem. For many of the welfare debt trade-off or asset-based welfare studies, they consist of historical case studies focused on the political history of one country, or they lack broad comparative ambitions (Krippner, 2017), or they focus exclusively on consumer credit (Soederberg, 2013; Trumbull, 2012). In this contribution, those puzzles will be addressed and another interpretation, that may help to clarify the link between welfare and household debt, will be proposed.

Beyond the welfare-debt trade-off hypothesis: the directionality of welfare.

The apparent mixed results trade-off hypothesis and the complementary hypothesis can be clarified, by building on previous literature and clarifying the nature of both debt and welfare. It is important to understand how household debt is closely linked to the life cycle and its implications: planning and expectations. While most of the debt is mortgaged, consumer credit is mostly used for more immediate necessities. Distinguishing between the two is necessary to understand the dynamics of debt. The second step is to clarify welfare. While previous theories saw the quantity welfare spending as equivalent, this is far from true. Recent literature underlined how different welfare regimes target different people and they have different redistributive goals. In particular, the age-orientation of welfare, while seldomly studied, is important to understand in order to examine the directionality of welfare.

1) **Debt**: My theory begins by drawing a parallel to Modigliani's life-cycle theory. Modigliani provides an explanation of personal indebtedness based on age (Ando & Modigliani, 1963): young adults at the beginning of their working life must sustain important expenses while their salaries are low, such as buying a house or raising children. For this reason, they tend to borrow money in order to minimize the gap between their expenses and their disposable income, with the expectation that their economic situation will improve over time. Consequently, they are less risk-averse than the rest of the population and tend to borrow more than older people.

Table 1. Probability of holding debts by age, income, size (Probit estimations)

	Model 1		Model 2		Model 3		Model 4		Model 5	
Age										
35-44	0.171	(***)	0.177	(***)	0.168	(***)	0.06		0.061	
45-54	0.048	(**)	-0.007		0.013		-0.121	(***)	-0.122	(**)
55-64	-0.42	(***)	-0.472	(***)	-0.362	(***)	-0.421	(***)	-0.404	(***)
>65	-1.03	(***)	-1.029	(***)	-0.823	(***)	-0.892	(***)	-0.789	(***)
Education										
Secondary	0.225	(***)	0.102	(***)	0.13	(***)	0.023		0.044	
>= Tertiary	0.324	(***)	0.091	(***)	0.151	(***)	0.117	(**)	0.128	(**)
Income Quintiles										
2			0.311	(***)	0.307	(***)	0.153	(***)	0.132	(**)
3			0.57	(***)	0.556	(***)	0.334	(***)	0.311	(***)
4			0.673	(***)	0.656	(***)	0.477	(***)	0.451	(***)
5			0.869	(***)	0.845	(***)	0.691	(***)	0.568	(***)
Relative Poverty										
Poor			-0.311	(***)	-0.269	(***)	-0.368	(***)	-0.306	(***)
Household Size										
2					0.034		0.2	(*)	0.18	(*)
3					0.093	(**)	0.182	(**)	0.161	(*)
4					0.303	(***)	0.398	(***)	0.395	(***)
5 or more					0.293	(***)	0.382	(***)	0.387	(***)
Household type										
Single Parent					-0.013		-0.023		-0.028	
Couple, No Children					0.315	(***)	0.117		0.121	
Couple, With Children					0.407	(***)	0.252	(***)	0.236	(***)
Immigration										
Immigrant							-0.162	(**)	-0.16	(**)
Health										
Disabled							-0.038		-0.05	
Working Status										
Employed									0.027	
Mainly employed									0.016	
Unemployed									-0.18	(**)
Constant	-0.791	(***)	-1.13	(***)	-1.581	(***)	-1.217	(***)	-1.229	(***)
No. Of Observations	183101		182479		182479		88103		61554	
Pseudo R^2	0.197		0.224		0.244		0.22		0.119	

Source: LIS dataset 2004. "Mortgage interest paid" + "Interest paid on other loans".
Country dummies are included. (***) Coefficient is significantly different from zero at the 1% (**) 5% (*) 10%.

Polled data from Austria, Estonia, Finland, Ireland, Italy, the Netherlands, Slovakia, Switzerland, and the United Kingdom
Model 3 and 4: Austria, Estonia, Ireland, Italy, Norway, and Slovakia.

As theorized by Modigliani, data from the Luxembourg Income Study in Table 1 displays that families holding household debt on average tend to be younger, wealthier and to have children. There is also a significant and increasing probability for families to hold debt at higher levels of education, as education boosts job expectations (Riddell & Song, 2011). As discussed earlier, debt is mostly a prerogative of the upper-middle class (Fligstein & Goldstein, 2015). Statistically, poorer and less educated families encounter more obstacles in finding institutions willing to lend to them in the first place (Nau et al., 2015; Krippner, 2017). Household debt, and especially long-term debt such as mortgages, is intrinsically linked to age and the future financial expectations of individuals and families.

As indicated earlier, another limitation of previous literature on the welfare-debt trade-off is that most studies have mainly considered consumer credit, while the larger share of all household debt is represented by mortgages, and their incidence varies across countries between 60% and 90% of total household debt (Table 5). Prasad, for example, while comparing multiple counties, operationalizes private debt as household debt minus the assets: this subtraction gives us a non-standard measure of debt, kind of *non-mortgaged* debt, also related to consumer credit, which is problematic if the object of study is "mortgage Keynesianism" (Prasad, 2012). The need to focus on a broader definition of debt also has policy relevance: policymakers, including central banks, governments, and international organizations, have begun to consider the aggregate measure of household debt as an to be an important factor of economic (in)stability. The European Commission's *Macroeconomic Imbalances Procedure* now considers private indebtedness to be one of the factors that should be monitored when it comes to internal imbalances in countries in the EU, setting an upper threshold for debt to 133% of GDP (Eurostat, 2019). Both the International Monetary Fund (IMF, 2017) and the Bank for International Settlements have recently pointed out how debt "impairs household consumption when negative shocks hit" and increases "the probability of future banking crises" (Alter et al., 2018), making monetary policies less effective, since "in a high-debt economy, interest rate hikes could be more contractionary than cuts are expansionary" (Zabai, 2017).

2) **Welfare**: While most welfare spending concentrates on pension schemes and the elders (see Table 2), some countries have broadened protections to the active population with active labor market measures and a focus on education. This specific institutional character of welfare regimes and labor markets shapes the different structures of social risk. To understand the different private indebtment ratios, we must look at the *directionality* of the welfare state, rather than simply correlating the ratios with welfare spending. Previous work on the welfare-debt trade-off has not considered a key factor discussed in comparative social policy literature: different welfare states tend to focus on the protection of distinct social groups based on age and employment status (Bonoli et al., 2000; Chevalier, 2016; Lynch, 2006; Taylor-Gooby, 2004). In this respect, one must also consider the primary recipients of welfare state services and transfers to unveil the relationship between the welfare state and household debt. In the last few decades, the

adjustment to a post-industrial labor market and to new, unstable family structures has substantially changed the types of risks that both individuals and governments have to face. New social risks have emerged, such as female unemployment, reconciling work and family life, single parenthood, long-term unemployment, technological-skill mismatch, little demand for low-skilled workers due to delocalization, being part of the working poor, and inadequate social security coverage (Bonoli, 2005; Bonoli, 2007). Welfare directionality is central: if the labor market *creates* social risks, the welfare state's task is to *redistribute* them; if the labor market stratifies, welfare decides how (and if) it counter-stratifies. Since household debt is fundamentally related to age, it is important to understand how welfare redistributes at the prisms of age.

Indeed, Lynch was the first to argue that age orientation is a fundamental, but overlooked, dimension of how a welfare state redistributes risks (Lynch, 2006). She distinguishes between welfare systems where welfare protection is tied to work, and systems where protection is tied to citizenship. With a complex historical analysis, she shows that "countries that have universal, citizenship-based provisions for old age, unemployment, and child rearing tend to be more youth-oriented" (p. 56). This happens because, in citizenship-based welfare regimes, "the core of the welfare state is made up of programs designed to complement, rather than replace, benefits provided by mutual associations for their members (…) As a result, state welfare programs in citizenship-based regimes cover labor market outsiders: people with weak ties to unions and mutual organizations, such as children, abandoned mothers, or the indigent." In occupationalist regimes, instead, "the state takes over from mutualist organizations the job of protecting people with tight links to unions and the labor market: people with long-term, stable employment in insured sectors of the economy, as well as retired workers (…) In other words, state welfare provision focuses on social insurance programs for labor market insiders" (p.60). European continental countries are traditionally occupationalist regimes, while liberal and Nordic countries enjoy a citizenship-based welfare.

Continental welfares have encountered difficulties in adapting to mutations of the Fordist paradigm. The quantity of temporary contracts increased by 15% annually in the EU from the 1980s, and by 2007 they represented 14% of employment statuses of the european workforce (Eurofound, 2013). While the liberalization of labor is a global phenomenon, in most of Europe and particularly the south of Europe, it has taken on a *partial and selective* nature, being concentrated mostly in the younger population, substantially for political convenience (Barbieri, 2009; Barbieri & Cutuli, 2015). This results in a polarization of the labor market between the stably employed and the precariously employed, where "policies increasingly differentiate rights, entitlements and services provided to different categories of recipients" (Emmenegger et al., 2012). This polarization leads to defining a group of insiders, who have social rights, and a group of outsiders, who do not, mainly on the basis of age and/or precarious job situations. For those reasons, while Esping-Andersen's welfare regime theory is very insightful on the nature of welfare protection, applying the decommodification framework based on pensions, health and unemployment generosity, might miss those specificities produced by the recent polarization in the job market and in benefit provision. Decommodification might be substantial, but it does not evenly apply to all citizens, insiders get more of it. Previous studies have shown that the overall welfare state generosity does not have any systematic effect on whether workers hold feelings of security: there is a need to understand each measure of welfare spending within the dynamics of its welfare regime, it's not "how much" protection welfare states offer but "what kind". (Anderson & Hecht, 2015; Anderson & Pontusson, 2007). For example, the money spent on family or unemployment can have radically different meanings and impacts depending on the welfare regime: it might reinforce polarization between stable or unstable jobs as is the case in conservative welfare regimes, or level the gap in universal welfares.

In summary, my hypothesis stems from Modigliani's observation that debt is connected to age and people's financial expectations. Building on Lynch's research, it is argued that the welfare state can play an important role in influencing those expectations. While most welfare spending is traditionally focused on the elderly, a welfare state that counterbalances that with spending and services oriented towards the young and precarious population facilitates the possibility of planning ahead in life. By stabilizing financial expectations, welfare should make people less risk-averse and, as a consequence, encourages the willingness to borrow. On the other hand, when the welfare state is purely occupational, or concentrated exclusively o protecting seniors, workers are more exposed to different new social risks, and, accordingly, are more risk averse. Their ability to plan ahead is reduced, fostering more conservative financial behavior, such as borrowing less, relying on families or, in case of lack of better protection, they must resort to consumer credit. In order to study the directionality of welfare, the direction of welfare provisions will be analyzed using both qualitative policy indicators and quantitative spending indicators. The size and the protection of temporary labor will be controlled for, as a proxy to labor market conditions. Then a cluster analysis will show what is the relation between general indebtedness and consumer credit, showing three different macro patters of private debt.

Regression Analysis: Data and Hypothesis

The sample used consists of a panel of 30 OECD countries[1] over the period 1995-2017—all of which are also members of the European Union, with the exception of Canada, New Zealand, Norway, South Korea, the United Kingdom and the United States.

The ***dependent variable*** is household debt as a percentage of net disposable income. All OECD countries compile their data according to the 2008 System of National Account (SNA), which harmonizes data between countries and makes comparisons possible. OECD's household debt data mainly consists of home mortgage loans, but also encompasses other types of liabilities such as credit lines, credit cards, and other consumer credit, including automobile loans or student loans. There is no agreement among scholars about the best way to measure household debt (Coletta et al., 2018). However, we saw in the literature review how some scholars like Prasad (Prasad, 2012) created customized measurements, preferring measures that are close to consumer credit, but in omitting mortgaged debt lost the most an important dimension of household indebtedness—the one with more macroeconomic relevance, no less. Many other studies use household debt over GDP. In this paper, the choice of household debt as percentage of national income is used to avoid circumstances where variations in GDP, relative to other sectors, distorts the ratio.

Two sets of **independent variables** are used to understand the directionality of welfare. First, an index of decommodification is used in the spirit of Gøsta Esping-Andersen: The Comparative Welfare Entitlements Dataset (CWED2) (Scruggs, 2014) measures "the degree of generosity of the welfare state." It is a 'qualitative' policy indicator that measures welfare state generosity according to eligibility rules and restrictions of entitlements, such as the replacement rate, the length of the qualification period of a given welfare measure, the duration of the benefit, the waiting period before access, and the percentage of the population covered by the measures. The three main components of the index are tested: *pensions*, which includes only mandatory public programs; *unemployment benefits*, which includes all non-mean tested unemployment programs; and finally, *sick pay insurance,* which covers short-term non-occupational illness. Unfortunately, CWED2 data covers only 22 countries of the 30 in the full sample[‡], excluding all post-socialist countries: Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia. It is also limited in temporal scope, ranging from 1995 to 2010. As far as I am aware, the working version of this present paper is the first trade-off study that has used policy rather than spending indicators.

Hypothesis 1 **(H1):** It is expected that household debt will be positively correlated with *unemployment benefits* and *sick pay insurance,* but negatively correlated with *pension generosity.*

In order to overcome the spatial and temporal limitations of the CWED2, a set of quantitative measures are used to understand the directionality of welfare when it comes to spending. The nine main variables of OECD's Social Expenditure Database (SOCX) are examined, investigating specifically the quantity of public spending as a percentage of Gross Domestic Product (excluding

[‡] Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, South Korea, Spain, Sweden, Switzerland, United Kingdom, United States.

private contributions, voluntary or compulsory). The variables listed in Table 2 provide an overview of welfare money allocation.

Following the path of Lynch, Vanhuysse developed the Elderly Bias Indicator of Social Spending (EBiSS), by separating spending between elderly-oriented spending and non-elderly-oriented spending (Vanhuysse, 2013). Here, a categorization similar to the one proposed for the EBiSS is used:

- Elderly-oriented spending entails primarily in-cash spending: *Old Age* spending is by far the biggest portion of spending for any country, with an average of 8.42% of GDP (and a maximum of 17.13%, in Italy). The larger share of old age spending is cash transfers in the form of pensions, but it also includes services to the old population, such as day care, home help services, and other benefits in kind.

- Non-elderly-oriented spending: As seen in Table 1, educated households tend to have a higher share of indebtedness, as they might possess confidence in educational returns. This will be tested at the macro-level: in this sense, a broader idea of social welfare is held, not limited only to pensions, unemployment, and family policies, but also relative to human capital formations. Data on education is from the World Bank, for which average spending is 5.3% of the GDP in OECD countries. Non-elderly-oriented spending is mostly on services with an in-kind nature: *health* spending, which averages 5.56% of GDP, then family spending (0.8%) and housing benefits (0.3%). The OECD groups most cash benefits to low-income households and/or other social services, such as *Food Stamps* in the United States, under the label *Other Programs* (0.5%). For the purpose of this study, one of the most important variables concerns *active labor market programs* (0.6%), which almost substitute unemployment benefits with in-kind assistance in some countries, such as employment services, training, employment incentives, direct job creation, and start-up incentives.

***Hypothesis 2* (H2):** Household debt is anticipated to be negatively correlated with elderly-oriented spending and positively correlated with non-elderly-oriented speeding.

Following Modigliani's intuition, I expect an unstable labor market to discourage risk and private leveraging. In order to evaluate this hypothesis, the study uses three main indicators. First, the study will examine whether the employment rate of the population between 14-65 has an encouraging effect on household debt. Societies with a higher rate of employment are expected to be more willing to borrow money overall, because more people would have the means to access bank loans, while low-employment societies might have a higher share of people whose access to borrowing is restricted. Second, an index to measure the degree of employment protection legislation (EPL) for temporary employment is adopted. Third, the research will investigate whether the share of temporary jobs has an influence on debt. Previous research has shown that while temporary jobs can be a stepping-stone towards entering the labor market and training the labor force, in conservative countries with a deep division in privileges between job market insiders and outsiders, temporary jobs might be traps that keep people in underpaid menial labor (Barbieri & Cutuli, 2015; Scherer, 2004). A high EPL for temporary employment helps bridge the gap between outsiders and insiders of the labor market, creating a more stable work environment.

Hypothesis 3 **(H3):** A higher EPL on temporary employment is expected, with a higher share of temporary employment and overall employment rate to have a positive effect on household debt.

The second set of ***control variables*** includes macro-sociological research. Following the controls used by Prasad in her model (Prasad, 2012), GDP and the saving rate are tested for. Finally, the demographic structure of a society is examined by looking at the ratio of people aged 65+ over the total population. Following the intuition of Modigliani, an older society is less indebted, because as we saw before, debt concerns mostly the active population. An index of household prices will be added to these variables. Since most of the debt in OECD countries is on account of real estate, there should be a positive connection between the movement of house prices and the quantity of household debt.

Table 2. Mean of spending indicators (1995-2017). OECD SOCX Data.

COUNTRY	***OLD AGE + SURVIVORS (TOTAL)***	***INCAPACITY-RELATED BENEFITS (TOTAL)***	***HEALTH (KIND)***	***FAMILY (KIND)***	***UNEMPLOYMENT (CASH)***	***ACTIVE LABOR MARKET PROGRAMS (KIND)***	***HOUSING (KIND)***	***OTHER PROGRAMS (TOTAL)***	***EDUCATION (KIND)***
AUS	4.968318	2.418864	5.513909	0.6913636	0.7379545	0.3506364	0.2992727	0.1953182	5.043259
AUT	12.80457	2.457619	6.152182	0.4947619	1.036095	0.6204545	0.1212381	0.4018571	5.504715
BEL	9.521667	2.48	6.847905	0.824	3.144762	0.805619	0.1535	0.6899524	4.797555
CAN	4.330048	0.9185714	6.486727	0.1841429	0.7499048	0.3358636	0.4513333	2.445095	5.208871
CHE	6.386706	2.443235	2.645	0.3190588	0.7652941	0.5721765	0.1245294	0.5897647	5.047241
CZE	7.522857	2.15781	5.551476	0.4519048	0.5773333	0.2208095	0.1110952	0.2652857	4.098623
DEU	10.61281	2.070571	7.575286	0.822381	1.39	1.003381	0.470381	0.1700952	4.661852
DNK	8.90019	4.385524	5.681	2.082952	0.0029048	1.750095	0.680381	1.074286	8.000198
ESP	9.418529	2.410294	5.840765	0.7140588	2.295059	0.7339412	0.1641765	0.1947059	4.348261
EST	6.283529	1.972765	4.152118	0.3845294	0.2735625	0.0950952	0.0519412	0.1551176	5.481816
FIN	9.808571	3.881476	4.813429	1.409667	2.193048	0.9965714	0.3981905	0.6385238	6.372726
FRA	12.6991	1.763429	8.092143	1.399476	1.564333	1.036238	0.8307619	0.4947143	5.593661
GBR	5.846619	2.123667	5.876667	0.9742857	0.3434286	0.288381	1.347857	0.175	4.917712
GRC	12.31329	1.425286	5.108095	0.108	0.6101905	0.2102381	0.157381	0.053	3.374983
HUN	9.350471	2.491	5.076857	1.147294	0.6167143	0.4955238	0.4919412	0.1328824	4.845169
IRL	4.286	1.814867	6.504933	0.6478	1.6896	0.744	0.4797333	0.3074	4.922555
ITA	14.43	1.590714	6.131571	0.5507619	0.6239048	0.4842857	0.0176667	0.1448571	4.358305
JPN	9.164	0.7881905	6.207381	0.4104286	0.3623333	0.2194762	0.069381	0.2027619	3.486973
KOR	2.5396	0.5773	3.8111	0.8374	0.2885	0.3357	0.0533333	0.6231	4.980099
LTU	6.8044	1.8888	4.3365	0.69325	0.22175	0.1641	0.0020526	0.43955	5.067696
LVA	6.714143	1.480524	2.834429	0.457619	0.4777143	0.1443333	0.1115263	0.1204286	5.418751
NLD	5.711333	3.475905	4.22319	0.7515238	1.58519	1.152333	0.3622857	0.8867619	5.082423
NOR	7.157476	4.406143	5.081	1.438381	0.5012381	0.6712857	0.1541905	0.6746667	7.064063
NZL	4.660556	2.567778	7.460444	1.083667	0.3968889	0.3052222	0.8077778	0.4386667	6.464443
POL	10.7537	3.42945	4.1007	0.3471	0.61505	0.4309	0.11105	0.21285	5.086495
PRT	10.19438	2.085619	5.947095	0.4110476	1.036238	0.575619	0.0029048	0.2151905	5.090327

COUNTRY	OLD AGE + SURVIVORS (TOTAL)	INCAPACITY-RELATED BENEFITS (TOTAL)	HEALTH (KIND)	FAMILY (KIND)	UNEMPLOYMENT (CASH)	ACTIVE LABOR MARKET PROGRAMS (KIND)	HOUSING (KIND)	OTHER PROGRAMS (TOTAL)	EDUCATION (KIND)
SVK	6.723286	1.888762	5.213143	0.378619	0.4611429	0.3371429	0.0301429	0.6199048	4.029373
SVN	10.57825	2.34155	5.903957	0.57	0.6649	0.2917692	0.00835	0.52515	5.438754
SWE	9.56981	4.676	6.091762	1.82881	1.033095	1.411714	0.5705238	0.7035714	6.874306
USA	6.257957	1.231136	6.935727	0.5729091	0.4006364	0.1405217	0.2925652	0.6503043	5.154408
AVERAGE	8.421484	2.351315	5.560804	0.763738	0.8991278	0.5731412	0.2989211	0.4877299	5.252639

Methods and findings

A pooled time series analysis of the determinants of household debt was conducted. Panel-correct standard errors were employed, as it is very likely that macroeconomic factors tie each country to the economy as a whole, and so it is reasonable to allow for a correlation of the disturbances across countries. Jackknife post-estimation was conducted through the exclusion of individual data points and countries to ensure that results are robust, preventing problems related to outliers.

Beck and Katz have argued for the inclusion of country dummies in order to deal with omitted variable bias (Beck & Katz, 1996), but this comes with several problems. Most prominently that it eliminates any variation in the dependent variable due to time-invariant factors such as difference in constitutional structures, therefore reducing the coefficient factors that vary between countries. Due to this, neither a country nor a two-way fixed-effect model is appropriate for the current analysis; as the variation in several of the independent variables—including policy variables—is primarily cross-sectional (between countries), so the inclusion of country dummies does not fit the study purpose. As Kropko and Kubinec pointed out, the "FE model unhelpfully combines within-unit and cross-sectional variation in a way that produces un-interpretable answers" (Kropko & Kubinec, 2020).

For this reason, only time point fixed-effect methods will be employed, as "time point fixed-effect coefficients can be interpreted as the average change in the dependent variable for each one-unit increase in the explanatory variable between cases" (Hill et al., 2019). Previous welfare-debt trade-off studies used the fixed-effect model and did not address potential trade-offs in a cross-sectional way, "making these studies implicitly tests of the social insurance/welfare retrenchment hypothesis, rather than the classic trade-off view" (Van Gunten & Kohl, 2019). I tested my core independent variables without any control variables first to avoid multicollinearity issues.

Table 3. Baseline models

	MODEL 1		***MODEL 2***	
	Household Debt (b/se)		Household Debt (b/se)	
Public Pensions	-10.4023	***		
	(1.35)			
Unemployment Insurance	5.9763	***		
	(0.95)			
Sick Pay Generosity	1.6781	**		
	(0.60)			
Old Age			-9.9247	***
			(0.85)	
Incapacity-Related Benefits			1.1389	
			(3.11)	
Health			1.9538	
			(2.09)	
Family			-26.2921	**
			(9.70)	
Unemployment			-4.8961	
			(3.34)	
Active Labor Market			110.0464	***
			(10.43)	
Housing			13.1149	
			(8.17)	
Other Programs			4.7481	
			(4.72)	
Education			10.1569	**
			(3.43)	
Constant	144.4951	***	18.0425	
	(20.51)		(23.82)	
R2	0.3818		0.6330	
N	312		462	

*Note. + p<0.1, * p<0.05, ** p<0.01, *** p<0.001.*

In *Model 1*, we can see that in accordance with expectations (H1), the *policy* generosity of public pensions is negatively correlated with the quantity of household debt, and the correlation is statistically significant. Partially in line with expectations are also the results of the two other components of the CWED2: a more generous, non-means-tested, unemployment coverage is correlated with an increase in household debt, and, in a similar fashion, sick pay generosity is correlated with an increase in household debt. In other words, countries that focus their generosity on pensions are less likely to have a higher household debt, while countries that protect the active population in a universal way tend to have higher household debt.

Along with those policy results, *Model 2* tests how the 9 variables of welfare spending correlate with household leverage, 4 of which return statistically significant results. Following expectations, and mirroring policy results, there is a significant and negative correlation between old age spending and the quantity of household debt (H2). Spending in education has a positive and significant correlation with household debt, mirroring what we saw at the microlevel in Table 1: countries that invest more in human capital have citizens that are overall better positioned in the labor market. The most interesting result comes from countries that employ active labor market policies—these policies, especially widespread in Denmark, Sweden and the Netherlands, have a high and significant impact on household debt.

Against H2 expectations, spending on unemployment and families has a negative impact on debt. The nature of welfare spending can explain this. One must remember that those spending items mean different things in different countries, so it is better to see welfare as a regime (Esping-Andersen, 2013; Ferragina & Seeleib-Kaiser, 2011). As discussed earlier, in conservative, continental European welfare regimes, unemployment often does not help or cover temporary workers, precarious workers, or the self-employed, but rather is a measure that protects more robustly the insiders of the system, who already have stable jobs. In this sense, unemployment spending, instead of being an equalizer, reiterates the cleavage between those who have stable jobs and those who muddle through temporary and precarious occupations, creating outsiders and insiders in benefits provision as well. While age is not the causal mechanism in itself, the fault lies between insiders and outsiders are often parallel to generational fault lines (Chauvel, 2010), since unstable occupations are now commonly the entry point to the labor market, and jobs that should be stepping-stones to more stable occupations often become job traps (Scherer, 2004). As Table 2 illustrates, spending in unemployment is driven mainly by Belgium (3.14%) and Spain (2.30%), followed by other continental countries.

The same goes for family spending. Conservative welfare regimes in continental and post-socialist countries funnel much more money to family policies, with the side effect of deepening and propagating insider/outsider fault lines. Chesnais distinguished between 'nations of individuals' and 'nations of families' (Chesnais, 1996). In the latter, the family resides at the center of crucial life decisions, and family members help with the welfare tasks related to reproductive work, such as childcare and elder care. Family networks are *de facto* the only provider of those essential services. Bismarckian/Christian-democrat social policies try to assist families in those tasks by offering assistance, but as they stop short of offering an alternative to family care, they burden women with a 'second shift' after work (Hochschild & Machung, 2012), or push women out of the labor market. On the other hand, in a nation of individuals, social policies do not reiterate or reinforce the traditional role of women—at least within families—but they rather prioritize social policies that make the choice between family and career less exclusionary. This is achieved through focus on the individual, through active labor policies (Esping-Andersen, 2009).

While the results in Table 3 are theoretically noteworthy, some of these results may be driven by underlying demographic structures—an older population might drive spending in pensions, while a younger population might drive spending in education or labor market specificities. In the next table, demographic factors, economic factors, and labor market characteristics are tested for.

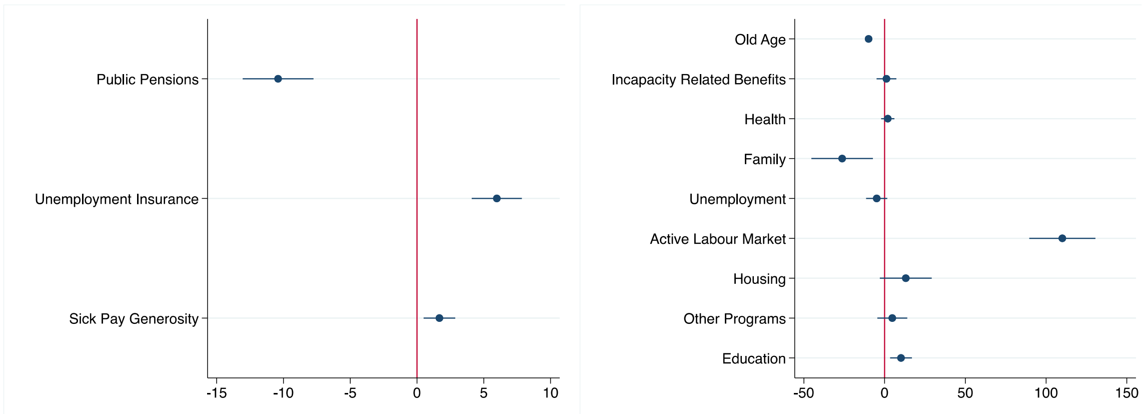

Figure 2. Regressions coefficients plots (model 1, model 2)

A number of controls were used to test the validity of the precedent results, including controls relative to employment-protecting legislation. Again, *Model 3* tests policy generosity, *Model 4* tests spending, and *Model 5* observes the behavior of the control variables without the main independent variables.

Table 4. Controls

	MODEL 3		MODEL 4		MODEL 5	
	Household Debt		Household Debt		Household Debt	
	(b/se)		(b/se)		(b/se)	
Public Pensions	-3.3499	*				
	(1.37)					
Unemployment Insurance	-5.0468	***				
	(1.49)					
Sick Pay Generosity	7.2896	***				
	(1.21)					
Old Age			-14.5897	***		
			(1.41)			
Incapacity-Related Benefits			0.5100			
			(4.36)			
Health			-2.5448			
			(2.38)			
Family			-10.4380			
			(9.92)			
Unemployment			-17.2793	***		
			(4.41)			
Active Labor Market			83.9352	***		
			(8.08)			
Housing			-9.5267			
			(7.44)			
Other Programs			-9.3405	+		
			(4.93)			
Education			17.5040	***		
			(5.20)			
Temporary Employment	1.7025	**	1.0872	**	1.4815	***
	(0.59)		(0.39)		(0.35)	
Temporary EPL	4.7969	+	3.4195	+	1.4051	
	(2.80)		(2.04)		(2.08)	
Employment Rate, 15-64	5.9539	***	-0.6488		4.7089	***
	(0.79)		(0.52)		(0.62)	
Housing Prices Index	0.5105	***	0.3810	***	0.3801	***
	(0.08)		(0.11)		(0.09)	
Saving Rate	-3.3042	***	-3.8054	***	-1.6390	**
	(0.81)		(0.72)		(0.50)	
People Aged 65+	-11.9101	***	3.5900	*	-6.8729	***
	(1.25)		(1.41)		(0.83)	
Log GDP	90.1541	**	156.8218	***	109.7789	***
	(32.29)		(14.05)		(11.71)	
Constant	-1071.7940	***	-1480.5285	***	-1264.7318	***
	(307.55)		(120.64)		(108.72)	
R2	0.7513		0.8532		0.5913	
N	217		270		321	

*Note. + p<0.1, * p<0.05, ** p<0.01, *** p<0.001.*

With controls, the policy generosity index in *Model 3* reveals an interesting discovery: while pension is still negative and significant, and sick pay insurance is positive and significant, unemployment generosity changes signs. This resolves the contradiction shown in Table 3, when unemployment generosity had a positive sign and unemployment spending a negative sign. Here, both unemployment generosity and spending have a negative correlation with household debt, and both results are statistically significant. This should not come as a surprise—as explained earlier and as shown in Table 2, unemployment benefits are particularly generous in typical Christian-democratic and conservative Bismarckian welfare states. Unemployment benefits are indeed more a protection for insiders—those with stable jobs—and fail to protect outsiders, who are mostly young self-employed workers or those with precarious jobs.

In the spending model (*Model 4*), old age spending has a negative and significant impact on private leverage, confirming the previous results. The most impactful social policy on debt is, without a doubt, active labor market policies: these kinds of policies are an alternative to unemployment benefits and are motivated by the need to upgrade the skills of workers and their long-term employability, with a positive impact on employment rate and income. These programs also act as an *employer of last resorts* that often targets youth and other disadvantaged groups by creating a sponsored employment and “a more secure and prosperous financial outlook” (Rovny, 2011). The countries that enact such programs are highly correlated with higher levels of household debt. The effects of education also remain prominent, as discussed before. The primarily means-tested “Other Programs” have a negative impact on household debt, confirming the idea that universal programs instill more security than means-tested solutions (Korpi & Palme, 1998). However, it should be noted that the result is only significant at $p = .1$.

A more dynamic labor market and more robust protections for temporary work stabilize conditions for precarious workers, which correlates with higher indebtedness and confirms hypothesis H3. Among the controls, we have a predictable negative and significant correlation between saving rates and debt in both models. Housing prices are a driver of household debt, but they do not absorb the effect of welfare spending. The same can be said for GDP: good macro-economic performance encourages household indebtedness. Again, unsurprisingly, older societies tend to have less debt; nevertheless, this control does not invalidate previous results.

Cluster analysis: The Three Worlds of Debtfare Capitalism

In the previous section, it was shown that countries spending more toward youth-oriented welfare, and especially active labor market policies and education tend to have a higher level of aggregate household debt. This mirror, at the macro-sociological level, the classical observation of Modigliani: debt is mostly taken at the beginning of the working life, when income is low, but future income expectations are high. By alleviating precarity and financial vulnerability of the active population, the age-orientation of welfare influences Modigliani's dynamic, stabilizes financial expectations, and encourages borrowing.

However, debt comes in many forms, and not all debt is a long-term investment. While considering the aggregate level of household debt is important – as shown by the interest of the EU, IMF, BIS and WB for the overall private indebtment ratio, for the sake of financial macro-prudential policies – looking the share of consumer credit is equally important. While mortgages are a marker of privilege, consumer debt is often a marker of need. Mortgages need planning and stable financial gains; they are future oriented. Consumer credit, instead, responds to a more immediate need (Traub, 2014). In consumer credit intensive societies, like the United States, it has been shown that most of the family bankruptcies are a result of consumer credit, particularly medical debt (Himmelstein et al., 2009; Sullivan et al., 1999).

Table 5. Share of consumer credit in 2015

CHE	**NLD**	**LUX**	**DNK**	**SWE**	**JPN**	**LVA**	**ESP**	**LTU**	**EST**	**AUS**	**PRT**	**DEU**	**GBR**
1%	4%	5%	5%	5%	7%	8%	9%	9%	9%	9%	10%	12%	12%
FIN	**IRL**	**AUT**	**FRA**	**BEL**	**CZE**	**ITA**	**SVK**	**USA**	**SVN**	**GRC**	**POL**	**CAN**	**HUN**
12%	12%	13%	14%	14%	16%	16%	19%	23%	23%	27%	29%	29%	44%

Note: Consumer credit (as % of disposable income of households) as a ratio of total credit to households (% of disposable income of households). European Credit Research Institute (ECRI) data, 2019.

Table 5 shows that the range of consumer credit goes from 44% in Hungary, to 1% in Switzerland, with an average of 14%. Long term, mortgaged debt is the main form of debt everywhere, but consumer credit is nevertheless very important in some contexts. How does this relate to the age orientation of welfare? With a cluster analysis, based on four parameters, an exploratory classification of the interactions between welfare, household debt and consumer credit was created, with a goal of illustrating different patterns of indebtedness. The parameters are total household debt (% of disposable income of households), consumer credit (% of disposable income of households), share of NEETs (not in employment, education or training) between the age of 15-29 and finally the share of welfare spending for older people versus welfare for the active population. Credit data is from the ECRI statistical package 2019. NEETs data is from OECD and the welfare age-orientation index is computed with OECD SOCX data[§]. K-means clustering was used, aggregating data based on the nearest mean (centroids), using normalized data to avoid introducing distorting differences in the ranges of values. The goal is to observe if there is any patter can be found in the interaction between overall indebtedness and consumer credit, and

[§] See Annex 2 for details about the computation.

how this relate to the age orientation of welfare spending and the quantity of young people that are excluded from work or education. Three clusters are identified:

Table 6. Centroids of clusters (normalized)

	N. of countries	Consumer Credit	Household debt	NEET 15-29	Welfare age-orientation index
Cluster 1	10	0.1971	0.49064	0.17474	0.09888
Cluster 2	15	0.20777	0.15705	0.64216	0.32672
Cluster 3	3	0.64505	0.43583	0.43117	0.23739

Figure 3. Map of the clusters

- In cluster number 1: The level of consumer credit is very low, but overall household debt is high. The NEET population is low, and welfare is the most balanced between the elderly and youth spending. Northern European social-democratic countries are part of this cluster (Denmark, Finland, Sweden), but Australia, Austria, Ireland, Luxembourg, the Netherlands, Slovenia and Switzerland also share similar characteristics.

- In cluster number 2: The overall level of consumer credit is slightly higher than in cluster 1, but it is still low overall. The aggregate level of household debt is very low. The number of NEETs is the highest in our sample, and also welfare spending is mostly concentrated on pensions. All European continental conservative-corporatist countries (western, eastern and southern Europe) are part of this cluster, and Japan as well.

- In cluster number 3: The use of consumer credit is high. The aggregate level of household debt is also high. The number of NEETs is high, but not as high as in conservative countries. Welfare is mostly targeted to older people, although not as much as in conservative countries. Only Anglo-liberal countries are part of this cluster: Canada, the United States and United Kingdom.

The results of the cluster analysis help to triangulate and wrap the results of the regression: societies where welfare spending is not exclusively targeted to the elderly population is correlated with a higher level of household debt in general, and this is true particularly for countries with universal welfare, such as the Nordics. However, as Lynch underlined, the age orientation of social policy transgresses through the boundaries set by Esping-Andersen division of the world of welfare, as “it is not enough to ask how much welfare states decommodify; we must also ask whom they commodify” (Lynch, 2006). We therefore see countries like Slovenia, considered corporatist, or Ireland or Australia, usually considered liberal, score high in the targeting of young people, and also show important levels of long-term household debt, and low use of consumer credit.

In general, the dynamics presented in this cluster analysis show that the youth-oriented welfare is accompanied by long-term borrowing and higher youth occupation rates. Continental and liberal countries show a high share of NEETs and a welfare spending that is mostly oriented towards elders, although they differ on debt profiles: in liberal countries the lack of welfare is picked up by consumer credit, as many studies of the welfare-debt trade-off pointed out - trying to fight inequality using market solutions in a highly polarized society, between the have and the have-nots (Ahlquist & Ansell, 2017; Atkinson, 2020). In conservative European countries (and Japan), families deal with the high level of NEETs, but they also discourage indebtment of any kind. Previous literature suggests that polarization in the job market is happening exactly on the generational fault line, between older workers retaining all the traditional jobs right and a younger generation impoverished and precarious (Chauvel, 2016).

Conclusion

In this paper, a new theory has been developed about the sociological determinants of household debt, and correlational evidence has been presented. This theory fills the gaps of previous formulations on welfare and debt. Substitutive theories postulate a trade-off between welfare and debt, with debt seen as a means to patch a weak welfare state. These theories fit the experience of Anglo-Saxon countries well, but they fail to account for the high level of indebtedness of many European welfare states, such as the Scandinavians countries. “Complementary” theories, on the other hand, suggest that welfare, and not the lack of it, encourages leverage; these theories, however, are not able to explain why some very generous welfare states, such as Germany and France, do not have high levels of household debt.

The theory presented in this paper opens the welfare “black box” and shows that welfare may either have an encouraging or discouraging effect on household indebtedness; what really matters is where, and to whom, welfare money goes. This is dubbed the *directionality of welfare* in this paper. If welfare protects the insiders of the labor market, and focuses most of its action on old age, it will have a discouraging effect on household debt. Building on the work of Lynch, it is argued that the age-orientation of welfare in this situation is fundamental: as a consequence of welfare focus on the older population, those who are typically more likely to borrow—the younger or active population—will be much more prudent and conservative in their financial behaviors if they don’t have a safety net. On the other hand, when welfare is less family and pension-oriented, when it is not linked to occupational status, and when it operates more through universal policies with a social investment perspective, welfare has a positive effect on household debt.

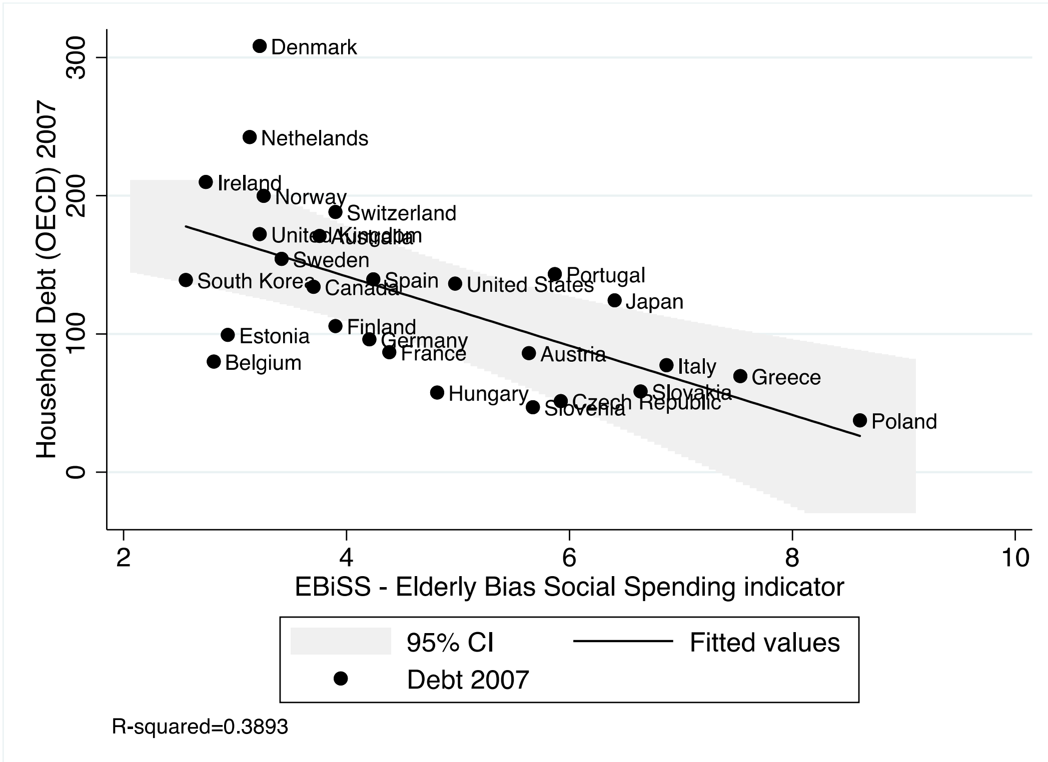

Figure 4. Quantity of household debt by the age orientation of welfare spending in OECD countries

Note: The figure illustrates an inverse relationship between the elderly orientation of social spending (EBiSS, on the x axis), and the quantity of household debt as % of net disposable income (on the y axis). The EBiSS (Vanhuysse 2014) is calculated as a rate between social spending for the active population (at the numerator) versus spending oriented toward the elderly population (at the denominator), using data from the OECD SOCX database. A higher value on the EBiSS index means that a greater share of social spending is going to the elderly population. For example, In Poland an EBiSS of 8,6 corresponds to 37,5% of household debt as a % of net disposable income. The grey area represents a confidence interval of 95%. The model suggests that the 38% of the variation in household debt levels across countries can be explained by the elderly bias orientation of welfare spending. Data: National Accounts at a Glance, https://data.oecd.org/hha/household-debt.htm, OECD.

To illustrate this theory, evidence has been provided using both a policy generosity index, the CWED2, and spending data from the OECD SOCX database, as well as a series of TCSC multivariate regressions using panel-corrected standard errors. Correlational evidence suggests that countries that focus their spending on pensions and unemployment benefits are less likely to encourage risk taking by the active population. However, when countries empower people through education, active labor market policies, and to some degree, through strong employment protections for temporary contracts, the active population becomes more confident about its financial decisions.

It may be postulated that household debt is an unintended consequence of the directionality and age-orientation of welfare. Welfare should not just be valued by the quantity of spending or by its generosity but deserves to be studied also by the examination of its effects on the lifetime perspectives of the people under its umbrella. How people plan their futures is greatly dependent on the societal structures of support in which they are situated. In more family oriented, Bismarckian systems, welfare depends on the willingness and the financial possibilities of families, and this leaves social protection open to a high degree of arbitrariness. Such circumstances encourage a conservative and prudent approach to future planning, resulting in behaviors such as abstaining from borrowing money, which can be for reasons such as it being seen as potentially dangerous, in case of unemployment. However, if people are protected with universal coverage due to their rights as citizens, and not because their rights are linked to their employment status, they are empowered to plan their futures in a more effective way, and can engage in major, decades-long life commitments, such as borrowing money in order to buy homes. In particular, countries that invest in human capital formation through education, active labor policies, and better protection of temporary employment show higher degrees of indebtedness.

A cluster analysis proved this further, considering the association between the age orientation of welfare spending, the share of NEETs, the overall level of household debt, and the use of consumer credit. The analysis showed that countries which spend welfare money more equally between generations are grouped with countries with low NEETs and a show low use of consumer credit, but a very high overall indebtedness, consisting mainly of mortgages. Instead, countries that focus welfare spending exclusively on the elderly are clustered together with high NEETs. Here the strategies diverge: Anglo-liberal countries show a higher level of consumer credit (welfare-debt trade-off), while conservative countries show a general low indebtment.

This research offers advances to two different strands of literature. First, it is a look into the effects of the age-orientation of welfare, which is a very under-explored domain in social policy literature. People plan their lives according to their expectations about the future, and this shapes major financial decisions including taking out mortgages or having children. Social policy must better understand the 'macro-foundations' of those micro-decisions. The second contribution is to economic sociology and political economy: the rise of household indebtedness has been customarily interpreted as a sign of welfare retrenchment, or the development of an asset-based welfare based on the rise of financialization. While this might be the case in the Anglo-Saxon context for consumer debt, the current research points out how this is not the case in other OECD countries. Rather, it is a case of equifinality: while the outcomes may be the same (more household debt), the inputs are different, creating varieties of financialization or different financial regimes (Dosi et al., 2016). State action and welfare are behind different growth regimes, and still very central. These are ideas which are only now beginning to be explored by economic sociologists.

As a caveat, this study has several limitations. Firstly, it cannot identify a precise causal mechanism, and can only offer correlational evidence. These are limits that are intrinsic to macro-sociological studies. Further studies are needed to understand the nexus between consumer credit, mortgages, and welfare, housing, interest rates and their interrelations. Despite these limitations, this research opens a new and previously under-explored link between social security and (potential) financial instability. As Minsky said, “stability is destabilizing”; highly indebted Scandinavian countries, however, were surprisingly stable during the last crisis, and this suggests that welfare works as a macro-prudential policy.

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Appendix 1: Regression analysis.

Table 7. Mean of spending indicators (1995-2017). OECD SOCX Data.

	MEAN	***STD. DEV.***	***SD BETWEEN***	***SD WITHIN***	***MIN***	***MAX***	***N***	***N***
HOUSEHOLD DEBT (PERCENTAGE VS NDI, OECD)	109.2	66.9	61.8	26.5	2.7	339.8	642	30
POLICY GENEROSITY (CWED 2)								
PUBLIC PENSIONS GENEROSITY (INDEX)	12.1	1.9	2.0	0.5	7.3	15.5	312	22
UNIVERSAL UNEMPLOYMENT GENEROSITY (INDEX)	9.9	2.6	2.8	0.5	3.6	14.5	333	22
SICK PAY GENEROSITY (INDEX)	10.1	4.1	4.4	0.4	0.0	17.3	333	22
WELFARE SPENDING (OECD SOCX)								
OLD AGE + SURVIVORS (TOTAL)	8.4	3.0	2.9	1.1	0.0	17.1	585	30
INCAPACITY-RELATED BENEFITS (TOTAL)	2.4	1.1	1.0	0.4	0.0	5.7	584	30
HEALTH (KIND)	5.6	1.4	1.3	0.7	0.0	8.9	593	30
FAMILY (KIND)	0.8	0.5	0.5	0.2	0.0	2.3	584	30
UNEMPLOYMENT (CASH)	0.9	0.8	0.7	0.3	0.0	3.8	587	30
ACTIVE LABOR MARKET PROGRAMS (KIND)	0.6	0.4	0.4	0.2	0.0	2.3	588	30
HOUSING (KIND)	0.3	0.3	0.3	0.1	0.0	1.7	570	30
OTHER PROGRAMS (TOTAL)	0.5	0.5	0.5	0.1	0.0	3.3	585	30
EDUCATION (KIND) (*WORLD BANK DATA*)	5.3	1.1	1.0	0.4	2.9	8.6	484	30
CONTROL VARIABLES								
TEMPORARY EMPLOYMENT (PERCENTAGE RATIO, OECD)	11.9	6.2	6.3	2.0	1.6	34.0	573	29
TEMPORARY EPL (INDEX, OECD)	1.6	1.1	1.0	0.4	0.2	4.8	473	30
EMPLOYMENT RATE, AGED 15-64 (PERCENTAGE RATIO, OECD)	66.9	6.5	6.2	2.5	48.8	79.6	531	30
REAL HOUSING PRICES (INDEX, OECD)	95.0	25.2	16.6	18.4	32.4	175.1	541	30
SAVING RATE (PERCENTAGE GDP, OECD)	5.9	6.0	5.2	3.2	-25.5	27.6	637	30
PEOPLE AGED 65+ (PERCENTAGE RATIO, OECD)	15.9	2.6	2.3	1.6	10.2	27.3	642	30
LOG GDP (INDEX, OECD)	10.2	0.5	0.4	0.3	8.6	11.2	642	30

*Table 8. Correlation matrix of spending data (1995-2017). * 0.01. OECD SOCX Data.*

	Old Age + Survivors (Total)	Incapacity-Related Benefits (Total)	Health (Kind)	Family (Kind)	Unemployment (Cash)	Active Labor Market Programs (Kind)	Housing (Kind)	Other Programs (Total)	Education (Kind)
Old Age	1.0000								
Incapacity-Related Benefits	0.1131	1.0000							
Health	0.3485*	-0.0897	1.0000						
Family	0.1137	0.6082*	0.2625*	1.0000					
Unemployment	0.2285*	0.2112*	0.2748*	0.0878	1.0000				
Active Labor Market	0.2302*	0.6340*	0.1965*	0.6725*	0.3974*	1.0000			
Housing	-0.1491*	0.1706*	0.3406*	0.5148*	0.0589	0.3542*	1.0000		
Other Programs	-0.2781*	0.0829	0.1127	0.1276	0.0502	0.2363*	0.1620*	1.0000	
Education	0.0276	0.6817*	0.0747	0.7324*	-0.0073	0.5385*	0.3232*	0.3715*	1.0000

Appendix 2: Cluster analysis.

Inputs for Clustering

Variables: CC, HH, NEET 15-29, Welfare age-orientation index

Level of Detail: Country

Scaling: Normalized

Summary Diagnostics

Number of Clusters: 3

Number of Points: 28

Between-group Sum of Squares: 2.8711

Within-group Sum of Squares: 3.1928

Total Sum of Squares: 6.0639

Table 9. Data of the Cluster analysis

Country	Household debt	Consumer Credit	NEET 15-29	Welfare age-orientation index
AUS	144.9	13.27	11.441	1.29528
AUT	73.53	9.71	11.442	1.4576
BEL	70	9.71	14.1895	1.00059
CAN	132.67	38.37	12.3327	1.91875
CHE	179.94	1.82	10.435	1.69644
CZE	55.21	8.82	15.8956	1.95303
DEU	79.41	9.21	14.7033	1.96649
DNK	232.06	12.02	8.2216	1.10401
ESP	103.97	8.93	17.1367	1.5468
EST	63.75	5.5	14.7632	1.97879
FIN	96.59	11.34	10.9003	1.10378
FRA	81.3	11	14.5193	1.58496
GBR	117.12	13.7	14.1735	1.55467
GRC	80.53	21.78	19.5474	5.06089
HUN	31.02	13.67	17.2432	1.48974
IRL	98.9	12.08	10.4815	0.86445
ITA	57.37	9.4	21.0642	2.4716
JPN	45.69	3.37	12.404	4.42545
LTU	33.29	2.86	11.4146	2.28309
LUX	147.24	7.26	7.333	0.9523
LVA	36.86	3.1	17.2292	2.18919
NLD	130.08	5.76	7.265	1.38087
POL	49.67	14.35	18.3706	1.92254
PRT	95.48	9.27	12.8665	2.15532
SVK	55.34	10.24	20.5477	1.50384
SVN	37.44	8.59	10.0619	1.67571
SWE	155.9	8.39	9.181	1.26346
USA	106.13	24.12	13.1381	2.10854

Note: "Household debt" and "Consumer credit" data comes from the ECRI statistical package 2019. NEET data is from OECD. The welfare age-orientation index is computed using OECD SOCX data. On the elderly-oriented spending side (the numerator), the following public spending programs were included: (1) old-age-related benefits in cash (pensions, early-retirement pensions, other cash benefits) and in kind (residential care/home-help services, other benefits in kind); (2) survivors benefits in cash and in kind (funeral expenses, other in-kind benefits), (3) disability pensions, (4) occupational injury and disease-related pensions, and (5) early retirement for labor market reasons. On the nonelderly-oriented side of the index (the denominator), the following public spending programs were included: (1) family benefits in cash (family allowances, maternity and parental leave, other cash benefits) and in kind (day care/home-help services, other in-kind benefits), (2) active labor market programs (employment services and administration, labor market training, youth measures, subsidized employment, employment measures for the disabled), (3) income maintenance cash benefits, (4) unemployment compensation and severance pay cash benefits, and (5) education spending for all levels of education from early childhood to university

2. Old and hopeless: gerontocratic welfare, household indebtedness, and economic pessimism in Italy

Abstract

This chapter examines the impact of Italy's gerontocratic welfare system on household indebtedness and economic pessimism. After tracing the history and describing the conservative nature of Italian welfare, this study uses a comparative approach combined with structural equation modelling to examine how the Italian welfare model's preferential allocation of benefits to the elderly at the expense of the working-age population influences economic behaviour and sentiment. This bias towards the elderly discourages future oriented financial practices and risk-taking, such as borrowing, and fosters a negative economic outlook.

Keywords: Gerontocratic welfare system, Conservative welfare, Household debt, Economic pessimism

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This chapter aims to explain the reasons for Italy's low household debt. It focuses on how the country's gerontocratic welfare system influences economic attitudes and behaviours. Often viewed as a personal journey, aging is a phenomenon with profound political and social implications. Political science has rarely prioritized age in its research, with some notable exceptions, such as the political power of older segments of the population (known as "gray power") or the distribution of welfare across generations (Vanhuysse, 2014; Vlandas et al., 2021; Vlandas, 2022). As Western societies experience an increase in their elderly populations, policymakers need to recognize the impact of their decisions on demographic structures.

Welfare states, which have traditionally focused on pension schemes, may neglect the needs of the working-age population, who face new challenges such as work-life balance and adapting to technological advancements. Economic behaviour, as demonstrated by Ando and Modigliani (1963), typically follows a life-cycle pattern: borrowing in early adulthood, usually to buy a house, followed by debt repayment and saving during the working years, and finally disinvestment in old age. This chapter examines the effects of interrupting the cycle. Italy, a country with an aging population and a challenging labour market, is used as a case study.

The chapter's first part demonstrates how welfare changed after the end of Bretton Woods, with a greater emphasis on financialization and increased use of household debt to deal with welfare retrenchment. However, Italian household debt has remained low by European standards, which is puzzling.

The second part traces the origins and evolution (or lack thereof) of the Italian welfare state, highlighting its ageist tendencies. It is argued that the Italian welfare system has not adapted to the challenges of globalization.

The third and fourth sections employ a comparative approach and a structural equation model (SEM) to address the private debt puzzle. They demonstrate how welfare systems that primarily focus on the elderly lead to a less optimistic working population, which in turn affects future-oriented activities such as private debt.

It is argued that a gerontocratic welfare system impacts all aspects of long-term economic outlook and decision-making. In a society where the future is uncertain and risky, individuals are hesitant to make long-term financial commitments such as borrowing. Low indebtedness in Italy, which is often mistaken for familial frugality, is also a result of a precarious labour and welfare system. In contrast, countries that distribute welfare spending more evenly between working and elderly populations tend to have higher levels of private indebtedness. This is because they foster greater economic optimism and a willingness to take long-term financial risks. This chapter argues that Italy's gerontocratic welfare system not only fails to address current economic challenges but also perpetuates a culture of economic pessimism among its working-age citizens.

Welfare, financialization, and the puzzle of household debt

The welfare state has always been closely associated with age; indeed, the welfare state was primarily created to deal with ageing. During the golden age of industrialism, after the Second World War, incomes were sufficient to maintain households and welfare provision was 'residual', designed to protect those who could no longer be employed in formal work, mainly the elderly. This basic function of the welfare state remains the same today, and in all OECD countries the bulk of social spending goes to pensioners (see Figure 1). In this sense, the welfare state should not only be regarded as a 'Robin Hood institution' that takes from the rich to give to the poor, but also as a piggy bank that smoothes consumption over the life cycle (Vanhuysse et al., 2021), where welfare takes from the working population and gives back to children and the elderly.

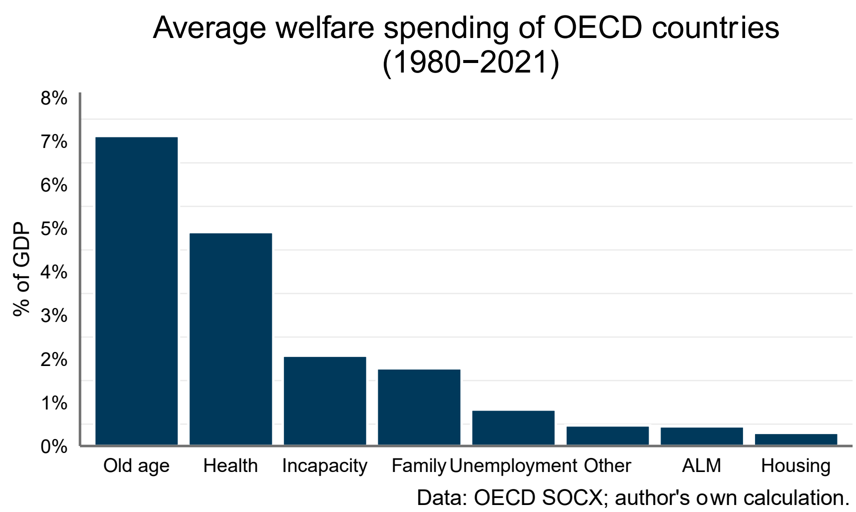

Figure 1. Average welfare spending in % of GDP in all OECD countries 1980-2021 (Author calculations, OECD SOCX)

Post-war welfare systems emerged during a period of stable, controlled economic activity (Bordo & Eichengreen, 2007; McNamara, 1998). In contrast, the pre-World War I period under the gold standard experienced volatile capital movements that contributed to the 1929 economic crisis and the Great Depression. After World War II, countries responded to these lessons by imposing strict controls on capital movements, restricting global banking and maintaining monetary stability under the Bretton Woods system established in 1944 (Gallagher, 2012). The so-called golden age of the welfare state in the West developed within this unique institutional configuration of relatively high global stability, industrial labour and heavy regulation.

The end of the Bretton Woods system led to increased economic instability, exacerbated by the oil crisis and stagflation that disrupted the post-war economic order. Capital mobility increased, shifting job creation in Western societies from high-productivity, capital-intensive industrial jobs to low-productivity, labour-intensive service sector jobs. Policymakers blamed poor employment performance on labour protections, leading to a broad wave of labour and financial market liberalisation. According to Chauvel and Schröder (2014), these changes have resulted in increased precariousness and instability, leading to younger generations facing lower living standards than their predecessors.

Globalization has led to the emergence of new social risks (Bonoli, 2005; Bonoli, 2007). Unlike the post-war industrial era, income alone is no longer sufficient to ensure a comfortable life, as jobs have become more precarious. Issues such as low-quality employment, working poverty, inadequate social security contributions, difficulties in reconciling work and family life, and low fertility rates have arisen. The provision of welfare services by countries has become a crucial factor in achieving economic and social stability. One strategy to address emerging risks is to expand welfare coverage beyond its traditional beneficiaries, making it a countercyclical tool to tackle economic crises and foster innovation and competitiveness (Stiglitz & Greenwald, 2015). The Scandinavian countries, in particular, adopted the strategy of social investment: welfare had to be refocused on the working population, fighting in-work poverty or mass unemployment with guaranteed minimum incomes, and implementing active labour market policies to retrain and integrate more people into the labour force. The focus on human capital development is the main objective.

The second strategy was to marketize welfare. Policymakers saw the costs of the post-war welfare system as unsustainable and inefficient. The strategy has been to replace or supplement publicly funded welfare programs with financial instruments and insurances. In Anglo-Saxon countries, finance has played a major role in welfare reform, and financial markets have been incorporated into social policy, with a focus on the 'financial inclusion' of low-income earners in the financial system. For instance, this resulted in the reorganization of pensions from government-run to privately managed funds invested in financial markets. Additionally, housing was used as a security asset in an 'asset-based welfare' system, where ownership and debt became a new way to achieve financial security and stability (Prabhakar, 2013; Hay, 2011; Montgomerie & Büdenbender, 2015). Policymakers have tried to encourage home ownership through tax incentives (Prasad, 2012). Private debt has risen in all OECD countries, as have house prices. The inclusion of regular citizens into the financial system through private pensions and complex mortgages has resulted in the inadvertent exposure of typical households to financial crises (Fligstein & Goldstein, 2015).

The 2008 global economic meltdown is widely believed in the United States to have been caused by excessive household debt resulting from the reckless lending practices of financial institutions. Private debt has since been recognized as a source of concern beyond the borders of the United States, where the crisis originated. The European Commission has included household debt in its framework for assessing the financial stability of countries (Eurostat, 2023)[**]. Sociologists argue that the household debt crisis has emerged due to financialization and the retrenchment of public policy. Welfare has filled the void left by a starving welfare state (Crouch, 2009; Prasad, 2012; Trumbull, 2012; Wiedemann, 2022). This is known as the welfare-debt trade-off hypothesis.

Despite its elegance, this theory does little to explain the very high levels of private debt in Nordic European countries, which are known to have very generous and comprehensive welfare systems. In response, other scholars have pointed out that countries with robust welfare systems coupled with lenient financial markets may actually encourage increased borrowing and indebtedness among households (Annarelli, 2022; Johnston et al., 2021; Tranøy et al., 2020). This trend is evident in northern European countries such as Denmark, Norway, Sweden and the Netherlands, all of which have extensive welfare programmes and yet report high levels of household debt (see Figure 2). However, it is paradoxical that robust welfare states, such as those in Germany and Italy, have relatively low levels of household debt (see Figure 3). In the later sections of the paper, I propose that this paradox can be resolved by examining the structural intricacies of the labour market and the age-orientation of welfare provision.

[**] Countries with private sector debt above +133 (% of GDP) are considered at risk according to the EU's Macroeconomic Imbalance Procedure (MIP) Scoreboard 2022.

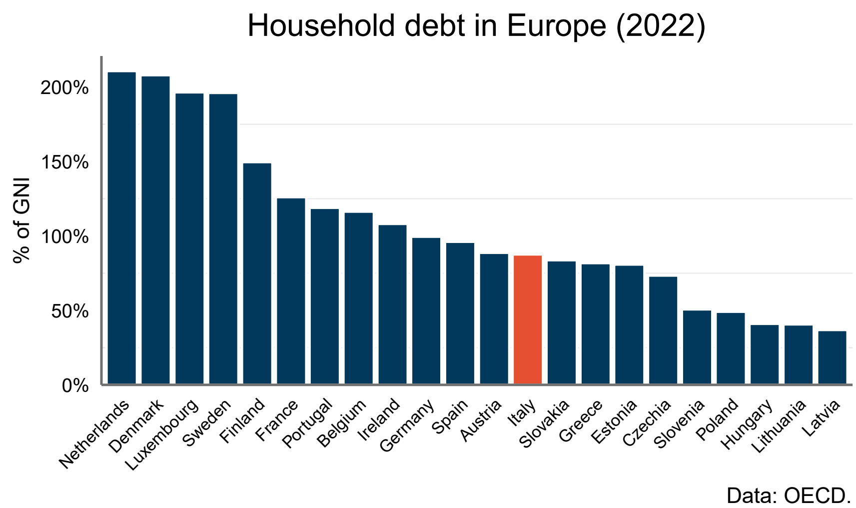

Figure 2. Household debt in Europe (2022)

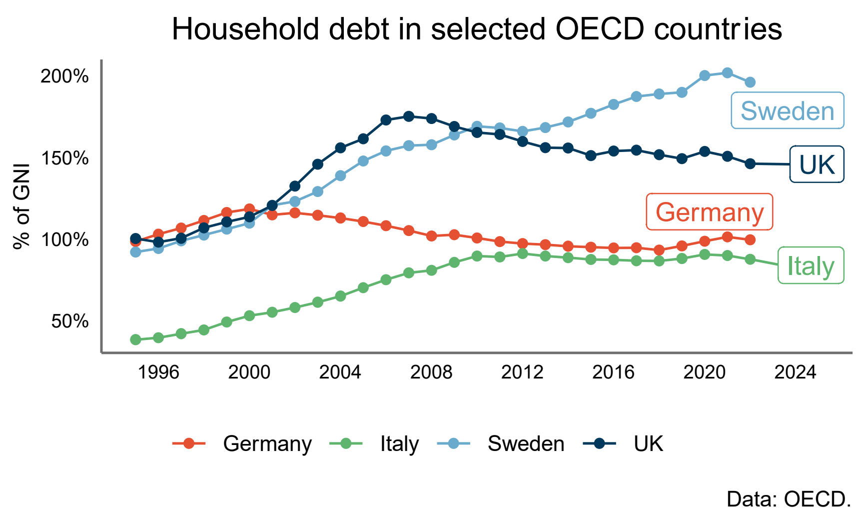

Figure 3. Household debt in selected OECD countries

Marketisation has also taken place in opposition to labour regulation. Italy has partially liberalised its labour market by introducing more flexible contracts, especially for new entrants, while maintaining existing privileges for insiders. This has led to a dualization of the labour market: high protection for insiders and increased precariousness for others. The age dimension of liberalization is evident, given its 'partial and selective' nature, mainly focused on access to the labour market, targeting young workers in particular (Barbieri & Lucchini, 2007; Barbieri, 2009; Barbieri & Cutuli, 2015). Labour market insiders were able to retain the privileges of very stable contracts and accumulate generous pensions, creating a de facto dual labour market divided by age. This measure was politically convenient because it did not touch the privileges of current voters, but it put the entire burden of labour market reform on the shoulders of the younger generation. A further step was to give significant tax incentives to self-employment, which is often used as a substitute for more stable employment contracts (even for jobs that have nothing to do with freelancing). The same applies to the pension system: Italy is one of the few countries in Europe that has moved from a pay-as-you-go system, in which current contributors pay current pensioners (i.e. based on intergenerational exchange), to a mixed investment-based system (based on lifetime savings); due to a long transition period, these changes mainly affected those who started working after 1995, while older generations were still protected by the first system, raising again questions of intergenerational justice. As in Anglo-Saxon societies, Italian policymakers have attempted to financialise welfare by adding private pillars and tax incentives for private pension funds, but in the Italian case there are no mandatory private pension funds. The results have been mixed, as low wages cannot support private capitalisation for a large part of the population. Private pensions are used by 30% of the workforce. This, together with the partial and selective flexibilization of the labour market, has not been followed by a reform and expansion of the welfare state in terms of social investment. Instead, the nature of Italian welfare has remained focused on pensions, and this will be the subject of the next section.

The nature of Italian welfare

Welfare spending in Italy is comparable to that of other countries of similar size (see Figure 4). However, the composition of spending is significantly different, with a heavy emphasis on pensions (see Figure 5). This system has resulted in a pattern of poverty that disproportionately affects younger generations, while poverty levels among the elderly remain low (see Figure 6). The suppression of wages systematically will have repercussions for future generations, widening the gap between those who can steadily contribute to social security during their working lives and those who will remain on the margins not only of the labour market but also of the welfare and pension system (see Figure 7).

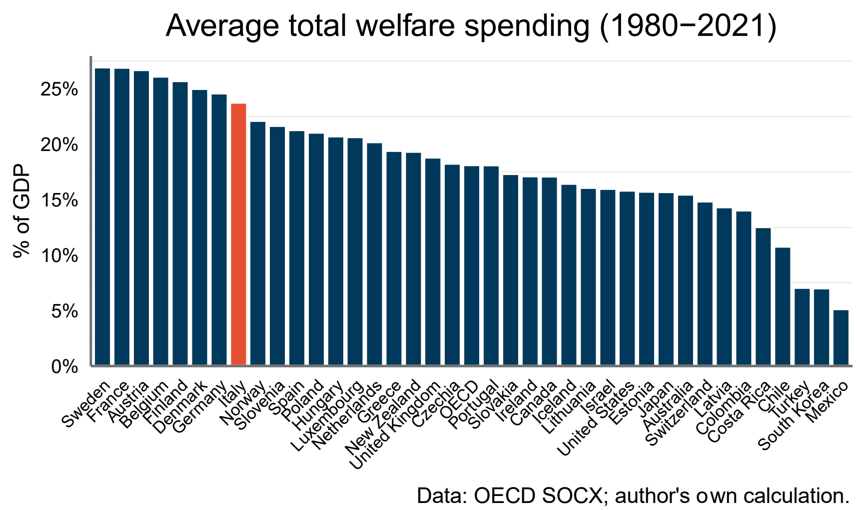

Figure 4. Average total welfare spending (1980-2021)

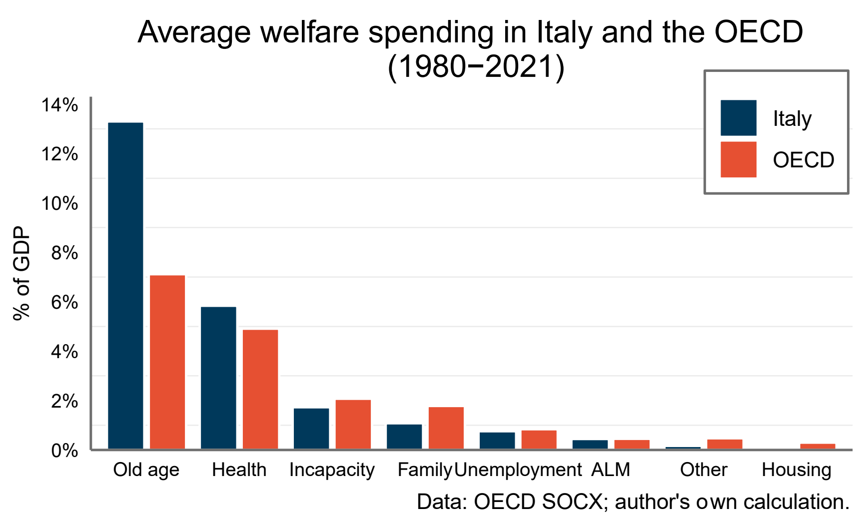

Figure 5. Average welfare spending in Italy and the OECD

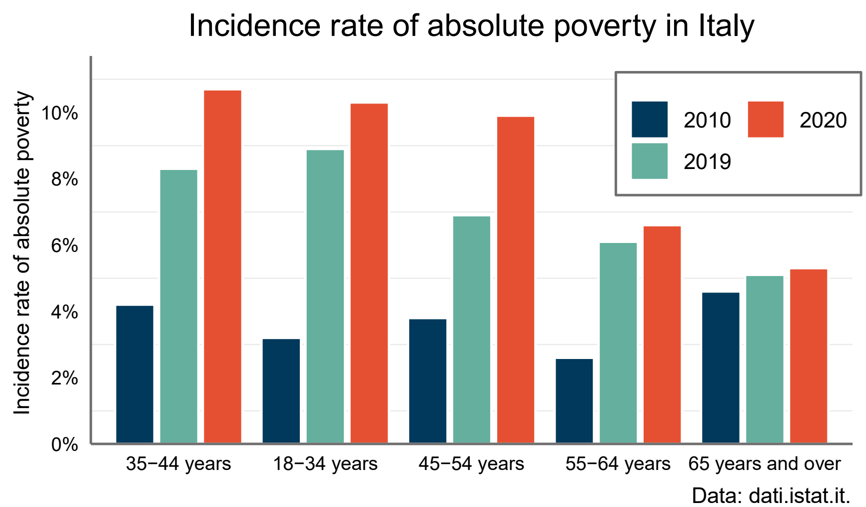

Figure 6. Incidence rate of absolute poverty in Italy

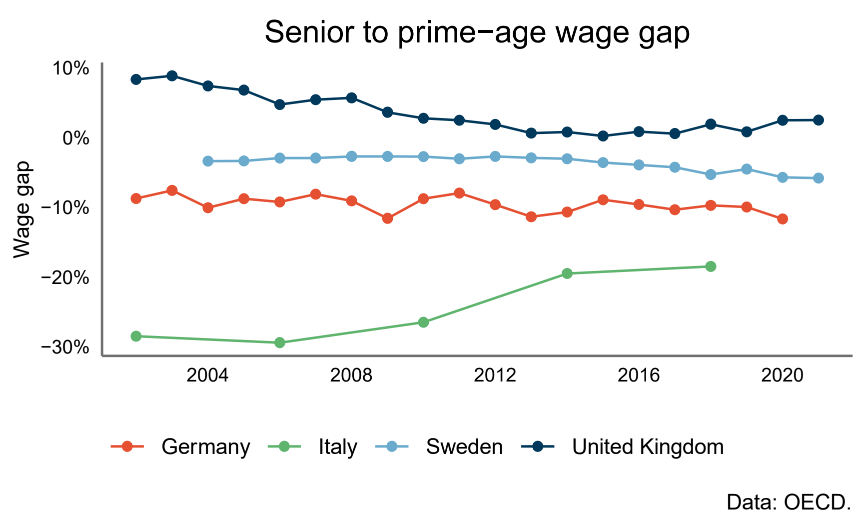

Figure 7. A negative number means that seniors earn X% more than prime-age workers

The welfare state, in the classical Marshallian conception, is the development of social citizenship, or 'the right to a modicum of economic welfare and security to the right to share to the full in the social heritage and to live the life of a civilised being according to the standards prevailing in the society' (Marshall, 1950, p. 11). In other words, the welfare state should enable the development of active and free citizenship. Social rights make political and civil rights meaningful and allow one to 'live the life of a civilised being'. Charity, piety, benevolence, family obligations and other material help or mutualism may create welfare, but they alone do not contribute to the development of social citizenship because they are not rights and their actions are idiosyncratic or even discriminatory, for example based on faith or other considerations (McGoey, 2012).''The norms prevailing in society' are dynamic and subject to change; in the previous section we have seen that the needs of post-industrial society, the reconciliation of work and family, are more complex than those created by the economic dynamics of post-war industrialism.

Italian welfare has never fully developed the idea of social citizenship and it has remained much more anchored in the idea of deservingness. In the Italian case, welfare provision is linked to occupational status, making it part of the conservative Bismarckian type, according to the classic work of Gøsta Esping-Andersen (1990). Conservative welfare systems are status-oriented and tend to redistribute within rather than between classes; they apply a corporatist logic and emphasise the role of subsidiarity, private or family assistance rather than expanding the provision of social services (Esping-Andersen, 1990; Esping-Andersen, 1999). The only exceptions to this logic in the Italian case are education and health care. Otherwise, the nature of Italian welfare has been remarkably stable despite the extensive changes and challenges of the global economy, and it can be said to have five main characteristics (Ascoli, 2002).

1. Italian welfare is *particularistic*: it is based on occupational status and specific conditions, categories, or groups, and therefore has little universalist elements like those found in social-democratic welfare states. Its roots are clearly Bismarckian, with mutualistic and horizontal protection and little or no vertical redistribution. All social benefits are linked to employment status. For instance, the pension system used to be divided into 50 different occupational fund categories, each with varying degrees of privileges. Although most of these funds have now been consolidated, the system still heavily relies on a pure capitalized contribution scheme known as Notional Defined Contributions (NDC). This means that the benefits provided will reflect the existing market distribution, perpetuating any inequalities. Soon, contributors with low wages and frequent periods of non-payment (also associated with work on reduced wages) will lead to limited accumulation of contributions and higher poverty rates also in old age. Currently, there are no universal minimum pension schemes in place.
2. Italian welfare is *regionalist*: Welfare is implemented by local authorities, which have varying capacities and resources, resulting in uneven quality and quantity of services provided. The establishment of regions in the Italian constitution in 1945 initially served as administrative and statistical divisions without much autonomy, but later gained greater independence in the 1970s. This led to an ongoing conflict of responsibilities between the central government and local authorities. Structurally, Italy's northern region has a robust economy. Due to the highly occupational nature of Italian welfare, the north receives more welfare transfers, primarily in the form of pensions. In contrast, the weaker job market in the south results in fewer transfers. However, this is counterbalanced in two ways: first, by the widespread use of invalidity benefits, and second, by providing most of the workforce for the army and public administrations. Despite lower pay, public jobs have

the quality of being stable and secure; Cassese even spoke of the southernisation of public administration (Cassese, 2012).

3. The welfare system often relies on clientelist cultures rather than clear criteria for access. It is mainly administered by local powers who may distribute benefits for their own electoral gain. In the past, welfare has even been used for electoral purposes. For instance, until 1984, invalidity benefits were extended to those deemed 'socially invalid', which allowed healthy individuals living in difficult or remote areas to receive benefits. While this may appear to be a progressive measure, it can also be seen as problematic. However, this was a way to consolidate an electoral basis and redistribute funds. The criteria for determining 'invalidity' were unclear and decided ad-hoc by local authorities. The particularistic and categorical nature of the Italian welfare system also leads to strange anomalies, where there are even hierarchies between physical disabilities, and this leads to a further stratification in the generosity of benefits, where blind people receive more money than people with paraplegia.
4. The Italian welfare system focuses mainly on monetary redistribution, mainly through pensions and fiscal incentives such as tax subsidies, while it has significant shortcomings in terms of service provision. This service gap, which has traditionally been filled by unpaid female labour, particularly in care work, highlights the system's reliance on domestic contributions. Furthermore, the approach to public service provision in Italy is characterised by a preference for public procurement and public-private partnerships. This is reflected in the widespread practice among municipalities of outsourcing services such as nursing homes to cooperatives or companies through public tenders, a method in line with 'New Public Management' reforms aimed at streamlining service delivery. However, this approach has resulted in fragmented service delivery due to a lack of effective coordination mechanisms. In addition, the strong decentralisation of decision-making has led to poorly integrated services and economies of scale. Italy's limited administrative capacity at the local level exacerbates these problems, creating challenges in managing tenders and increasing vulnerability to corruption and organised crime.
5. It is a system that relies heavily on familism and traditional gender roles (Glassmann, 2016). Even today, and especially in southern Italy, the employment rate of women is extremely low (see Figure 8). When it comes to caring for the elderly, public support is marginal. The system has focused on incentivising familism, as women are disproportionately responsible for unpaid care work in the family. The state has tried to formalise this situation, and those caring for elderly family members with severe disabilities can also take advantage of the so-called 'Law 104', which allows for two years of exceptional paid leave. This leave is granted to workers in a specific order of priority (partners, parents, sons, brothers and other family members). Another way of dealing with the problem was to encourage immigration and regularisation, and then to create flexible contracts for foreign migrant care workers, creating a de facto marketisation of care work. This has had several consequences, including the exploitation of migrant workers, who are often employed on precarious contracts with low pay and poor working conditions, and the lack of adequate training and support.

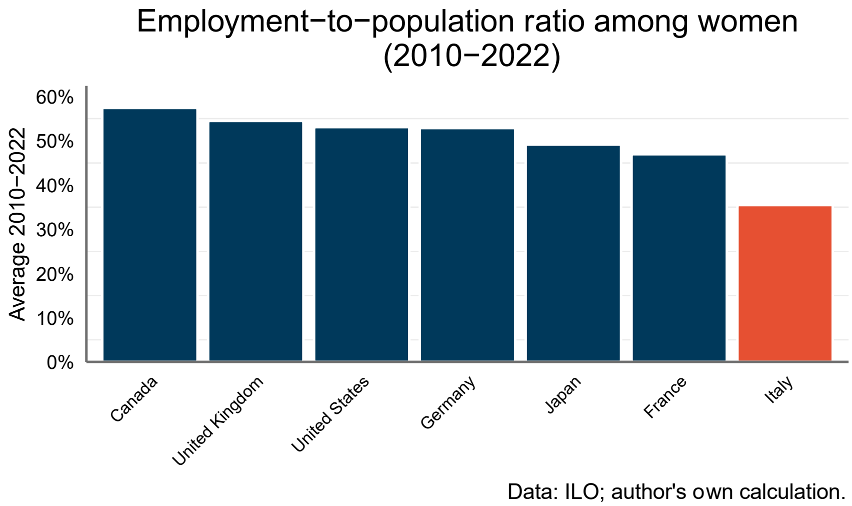

Figure 8. .Employment-to-population ratio among women (2010-2022)

Unlike more modern approaches, which are based on social investment and are universalist, Italian welfare has remained deeply tied to targeting and industrialist dynamics. This approach does not align with the current state of the Italian economy, which is a modern, tertiary-driven economy that must compete in a global environment. Some scholars have even pointed out that the main characteristic of southern European welfare, despite the wide variety of policies enacted, is its lack of adaptability to changing economic conditions (Burroni et al., 2020). The Italian system is still fragmented and mostly focused on the elderly, which hinders its ability to provide viable answers to the challenge of globalization. There is a significant lack of research and development and investment in human capital that would be needed for a 'high road' to development. It is important to address these issues to achieve sustainable development. Although the labour market has been liberalized, it was not accompanied by new measures of conciliation or training. The fragmentation of the Italian welfare system also limits the development of human capital.

Healthcare is the second largest expenditure in the Italian welfare system. Prior to 1978, the Italian healthcare system resembled the rest of the Italian welfare system, with numerous professionally oriented mutual funds, charities, and private foundations. However, due to pressure from social conflicts, trade unions, and left-wing parties, a universal system was established in 1978 (Giorgi, 2023). The Italian healthcare system is publicly funded and offers comprehensive coverage to all citizens and legal residents. It is primarily financed by taxes and managed at the regional level. The system places a strong emphasis on preventive care and provides comprehensive coverage, including primary care, hospitalisation, diagnostic tests and specialist consultations. It is designed to be accessible and affordable, with low out-of-pocket costs for patients. The system has contributed to Italy's high life expectancy, one of the highest in the world. The implementation of the 1978 reform of the Italian health system faced significant political challenges from private lobbies. Especially after 1989, there was an ideological preference for private healthcare providers, which were seen as more efficient. This led to a shift towards health care models that contradicted the universalist principles on which the *Servizio Sanitario Nazionale* (National Health Service) was founded. Moreover, due to the regionalisation of the system, the quality and governance of the system are very uneven (Bertin & Carradore, 2016; Carradore, 2014) and private providers have increasingly replaced public ones, often with the implicit support of local elites: the region of Lombardy, for example, is paradigmatic in this sense – private providers are encouraged through political support. As a result, the system is gradually moving towards a single-payer model, where public money is used to pay private healthcare providers, and the amount of out-of-pocket spending by the end user is increasing for premium services and shorter waiting times.

Education is also universal in principle. However, the reality of strong regionalisation makes the results very uneven. The 1963 reform introduced compulsory secondary education, which increased the length of schooling and delayed the tracking of pupils. High schools introduce some elements of tracking, but they all allow access to higher education, reversing the previous fascist policy of allowing access to higher education only for lyceum students. Instead, the management of vocational training is left to the regions and often outsourced to private companies, associations or trade unions (Regini, 1997). This, in turn, exacerbates regional inequalities in a key area of education and production, blurs the organisational boundaries between public and private interests, and fragments the quality and conditions of training.

Two major innovations have been added to the Italian welfare system in recent years: the 'Citizen's Income', a minimum income scheme, and the 'single and universal allowance for dependent children'. The General Confederation of Italian Industry has strongly criticised the first measure because of its impact on wages. On 1 January 2024, the Citizen's Income was abolished and replaced by two programmes for the poor, but both were drastically reduced in both generosity and duration, it can be said that the system was dismantled in order to return to the previous status quo of small, extremely targeted programmes. The first, called inclusion cheques (*assegno di inclusione*), is aimed at people responsible for caring for minors, the elderly or disabled family members – again emphasising the role of private provision of care services within the family. The second programme, known as 'Aid to Vocational Training' *(supporto alla formazione e al lavoro*), is aimed at unemployed people who are actively seeking work but who do not qualify for inclusion cheques.

Another universalist programme recently introduced to address the incredibly low birth rate is a form of financial support for families called the Universal Child Benefit (*assegno unico e universale per i figli a carico*), which is granted for each dependent child up to the age of 21, with no age limit for disabled children, and is guaranteed at a minimum level to all families with dependent children without any form of means testing. This policy was implemented in 2022 after a difficult legislative process and aims to reverse Italy's demographic decline.

Thus, reforms may be possible, but challenging the path dependency and ageist bias of Italian welfare is difficult. The 'citizenship income' policy, with its universalist framework, faced widespread criticism as many found the concept of inclusive welfare entitlements difficult to comprehend, showing a preference for a system that targets the 'deserving'. The Italian electorate is more receptive to a welfare system that is based on age and targeting. In the following section, we will compare how different welfare systems address the issue of age.

Age orientation of welfare

Despite the reforms mentioned in the previous section, the nature of Italian welfare has remained largely unchanged, firmly placing it in the conservative Bismarckian welfare camp. The over-reliance on pensions has resulted in higher poverty levels among the young population, while the old population has a relatively low poverty rate, at least for the time being.

In her study on the pensions system, Lynch (Lynch, 2006) created an index of OECD data to provide comprehensive spending information for different demographic groups. She used percentage figures of GDP per capita to highlight spending patterns. Lynch's analysis of expenditures on education, unemployment, elderly care, children, and healthcare reveals significant disparities, particularly in Italy, where there is a notable emphasis on spending for the elderly.

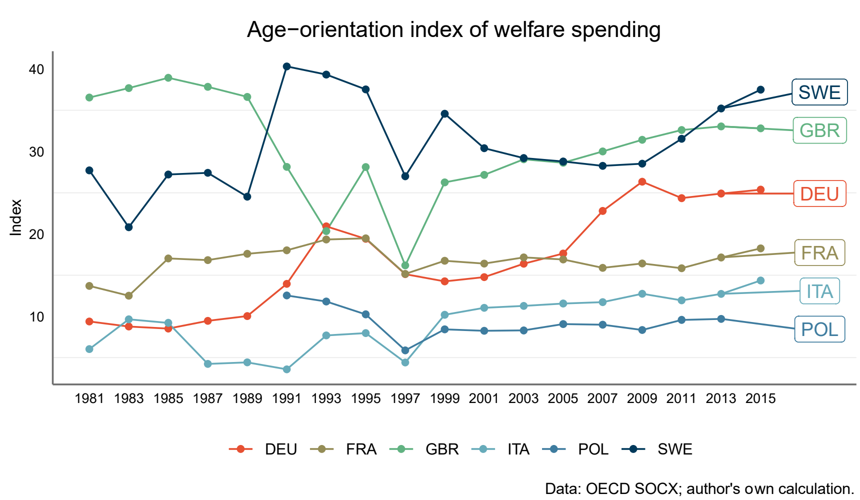

Figure 9. Age-orientation index of welfare spending

Figure 9 displays an index similar to Lynch's (2006) that indicates the direction of welfare spending for selected OECD countries. The index is a ratio of social spending for the economically active (numerator) to spending oriented towards the elderly (denominator).[††] A smaller value indicates a welfare system that is more oriented towards the elderly, while a higher value indicates a more balanced spending approach. Although there is a slight trend towards more inclusive welfare, Italian welfare still primarily focuses on the elderly, as does the welfare system in Poland and other Central Eastern European countries. Germany, which traditionally followed the same Christian-democratic welfare model as Italy, has successfully reformed its system. Despite starting from a similar level as Italy, Germany has been able to gradually rebalance its welfare spending.

The aim is to analyse the implications of a predominantly gerontocratic welfare system. The analysis will follow two distinct paths. Firstly, the role of financialization in supplementing welfare, particularly in liberal welfare systems like those in the US and UK, will be highlighted. It has been noted that household debt has become crucial in supplanting public welfare provisions. Crouch (2009) introduced the concept of 'Privatised Keynesianism', suggesting that public expenditure to foster welfare and support aggregate demand has been replaced by private financial leverage.

The following sections will discuss the macroeconomic consequences of the welfare age orientation. Modigliani's classical study on life consumption smoothing shows that individuals tend to accumulate debt early in their working lives when their income is low but their financial needs are high (e.g., buying a house, having children), and repay it as they age (Ando & Modigliani, 1963). The question is, how does a gerontocratic-biased welfare system affect this? How does the welfare orientation towards the elderly affect borrowing? Although household debt has increased globally with financial liberalisation, it has not increased uniformly. As previously mentioned, many political economists attribute this trend to a trade-off between private debt and welfare retrenchment, which has been viewed as an alternative to welfare. Is this also the case in Italy? The following section presents a model demonstrating that a greater focus on elder welfare results in lower levels of household debt at the aggregate level.

[††] The welfare age-orientation index is calculated using data from the OECD's SOCX. This index takes into account public spending programs that are specifically targeted towards both the elderly and the non-elderly. For spending that is oriented towards the elderly, it includes: (1) cash and in-kind benefits related to old age, such as pensions, early retirement pensions, residential care, and similar services; (2) cash and in-kind benefits for survivors, including funeral expenses; (3) disability pensions; (4) pensions related to occupational injuries and diseases; and (5) early retirement due to labor market factors. However, the index's spending on non-elderly individuals includes: (1) family benefits, such as family allowances and maternity/parental leave, as well as day care services; (2) active labour market programs, which encompass employment services, training, youth initiatives, subsidised employment, and measures for disabled workers; (3) cash benefits for income maintenance; (4) unemployment compensation and severance pay; and (5) educational expenditures across all levels, from early childhood education to university.

Welfare and household debt‡‡

Two models are used to examine the relationship between the age orientation of welfare and household debt (see Table 1). The dependent variable in both models is household debt as a percentage of Gross National Income (GNI). The sample comprises a panel of 30 OECD countries over the period 1995-2017. All countries are members of the European Union, except for Canada, New Zealand, Norway, South Korea, the United Kingdom, and the United States. Model one examines welfare generosity, a qualitative measure that describes the length of time and coverage of welfare measures for unemployment, pensions, and sick pay insurance. The second model examines how welfare spending affects household debt.

‡‡ This paragraph revisits the findings from a previous study (Comelli, 2021). Table 1 in this paper replicates the table from that study, providing further context for the results. For information on the methodology, please refer to that study.

Table 1. Household debt and welfare

	MODEL 1		MODEL 2		MODEL 3 (CONTROLS)	
	Household debt		Household debt		Household debt	
	(b/se)		(b/se)		(b/se)	
PUBLIC PENSIONS	-3.3499	*				
	(1.37)					
UNEMPLOYMENT INSURANCE	-5.0468	***				
	(1.49)					
SICK PAY GENEROSITY	7.2896	***				
	(1.21)					
OLD AGE			-14.5897	***		
			(1.41)			
INCAPACITY-RELATED BENEFITS			0.5100			
			(4.36)			
HEALTH			-2.5448			
			(2.38)			
FAMILY			-10.4380			
			(9.92)			
UNEMPLOYMENT			-17.2793	***		
			(4.41)			
ACTIVE LABOUR MARKET			83.9352	***		
			(8.08)			
HOUSING			-9.5267			
			(7.44)			
OTHER PROGRAMS			-9.3405	+		
			(4.93)			
EDUCATION			17.5040	***		
			(5.20)			
TEMPORARY EMPLOYMENT	1.7025	**	1.0872	**	1.4815	***
	(0.59)		(0.39)		(0.35)	
TEMPORARY EPL	4.7969	+	3.4195	+	1.4051	
	(2.80)		(2.04)		(2.08)	
EMPLOYMENT RATE, 15-64	5.9539	***	-0.6488		4.7089	***
	(0.79)		(0.52)		(0.62)	
HOUSING PRICES INDEX	0.5105	***	0.3810	***	0.3801	***
	(0.08)		(0.11)		(0.09)	
SAVING RATE	-3.3042	***	-3.8054	***	-1.6390	**
	(0.81)		(0.72)		(0.50)	
PEOPLE AGED 65+	-11.9101	***	3.5900	*	-6.8729	***
	(1.25)		(1.41)		(0.83)	
LOG GDP	90.1541	**	156.8218	***	109.7789	***
	(32.29)		(14.05)		(11.71)	
CONSTANT	-1071.7940	***	-1480.5285	***	-1264.7318	***
	(307.55)		(120.64)		(108.72)	
R2	0.7513		0.8532		0.5913	
N	217		270		321	

*Note. + p<0.1, * p<0.05, ** p<0.01, *** p<0.001.*

Model 1 shows a statistically significant negative correlation between public pension generosity and household debt. Model 2 analyses the correlation between household leverage and nine welfare spending variables, with four variables showing statistically significant results. In line with our expectations and consistent with generosity results, we have observed a significant negative correlation between spending on old age and household debt. Conversely, spending on education shows a positive and significant correlation with household debt, suggesting that countries that invest more in human capital tend to have citizens who are better positioned in the labour market. Countries that implement active labour market policies, such as Denmark, Sweden, and the Netherlands, have a significant and positive impact on household debt.

On the other hand, spending on unemployment and families has a negative impact on household debt, as seen in both model 1 and model 2. This can be attributed to the varying nature of welfare spending across countries, which can be better understood as a welfare regime. As previously mentioned, in conservative, continental European welfare regimes, unemployment benefits often do not cover temporary workers, precarious workers, or the self-employed. Instead, they provide more robust protection to those with stable jobs, creating a division between insiders and outsiders in benefit provision. Unstable occupations have become common entry points to the labour market, and jobs intended as stepping-stones to more stable occupations often become job traps. This division frequently aligns with generational fault lines.

A comparable trend is evident in terms of household expenditure. Countries with conservative welfare regimes in continental and post-socialist regions allocate a greater proportion of their funds to family policies, which exacerbates and prolongs the gap between those who are included and those who are excluded. In these nations, the family assumes a central role in critical life choices, and family members perform vital welfare duties such as caring for children and the elderly. Family networks become the exclusive source of these services.

Bismarckian and Christian-democrat social policies aim to support families through assistance. However, this can result in women being burdened with an additional 'second shift' of caregiving responsibilities after work or being pushed out of the labour market. In contrast, nations that prioritize individuals do not reinforce traditional gender roles within families. Instead, they prioritize policies that make it less exclusionary to choose between family and career by focusing on the individual through active labour market policies, as suggested by Esping-Andersen (1999).

Active labour market policies aim to upgrade workers' skills and increase their long-term employability, providing an alternative to unemployment benefits. These policies often target disadvantaged groups, creating sponsored employment opportunities and resulting in a more secure financial outlook. Countries implementing such programs tend to have higher household debt levels, as with education. Housing prices contribute to household debt but do not offset the impact of welfare spending. Additionally, GDP performance is linked to higher household indebtedness. It is worth noting that older societies tend to have lower private debt, although this control does not invalidate our previous findings.

Welfare and economic pessimism

Through a comparative analysis, it is evident that the age orientation of welfare can partially account for the low indebtedness of Italian households. This is a positive outcome as higher household debt can lead to significant leverage in the banking sector and overall economic instability.

However, it is important to note that gerontocratic welfare affects long-term expectations beyond just household debt, including people's perceptions of the future. Avoiding household debt is a manifestation of a broader trend. Debt, like having a baby or starting a company, is a long-term commitment that carries long-term consequences.

The nature of welfare redistribution can also impact our perception of the future. It is argued that age-biased and highly targeted welfare, such as the Italian system, may not be effective in stabilising future expectations. This is because its generosity is focused only on the elderly and insiders, leaving the active population and the precarious to fend for themselves. A more universalist coverage could help stabilise perspectives by providing a sense of security despite the volatility of the labour market.

Using a structural equation model, this study aims to analyse the interaction between the age orientation of welfare and both household debt and economic pessimism (see Figure 10). The study will investigate how the age orientation of the welfare index, as presented above, interacts with the percentage of household debt (as a percentage of GNI, from OECD), the number of homeowners with arrears on their mortgages (from EU-SILC), and a variable measuring economic pessimism created[§§] using data from the OECD Risks That Matter Survey (see Table 2). In essence, the question is whether gerontocratic welfare has a direct or indirect impact on economic precarity, as well as the long-term perception of economic instability.

[§§] To construct the index of economic pessimism, mean values for survey questions regarding long-term worries about personal finances (q3a) and young family members' financial security (q3b) were aggregated by country. The index was then formed by summing these mean values for each country, and normalized using the Z-score method to allow for cross-country comparison.

Table 2. Descriptive Statistics

Country	*Economic pessimism (2020)*	*Share of homeowners with mortgage deficiencies (2020)*	*Household debt (2020)*	*Age orientation of welfare (Average 1995-2015)*
DNK	-1.76	1.40	259.20	25.95
NOR	-1.36	2.00	247.41	30.26
NLD	-1.29	0.70	224.87	27.85
FIN	-1.25	3.00	154.32	25.72
AUT	-0.87	2.40	94.58	17.51
CHE	-0.68	0.40	223.30	21.65
DEU	-0.66	1.70	98.63	17.22
EST	-0.57	1.70	80.31	23.15
POL	-0.51	2.40	57.10	10.47
BEL	-0.40	1.30	117.76	25.71
IRL	-0.25	6.80	119.83	31.00
LTU	-0.22	4.10	40.94	19.65
FRA	0.12	3.00	123.31	17.52
ITA	0.60	2.30	90.51	11.08
PRT	1.43	2.90	127.37	15.40
ESP	1.68	7.50	102.67	17.89
GRC	1.73	26.10	97.56	9.70

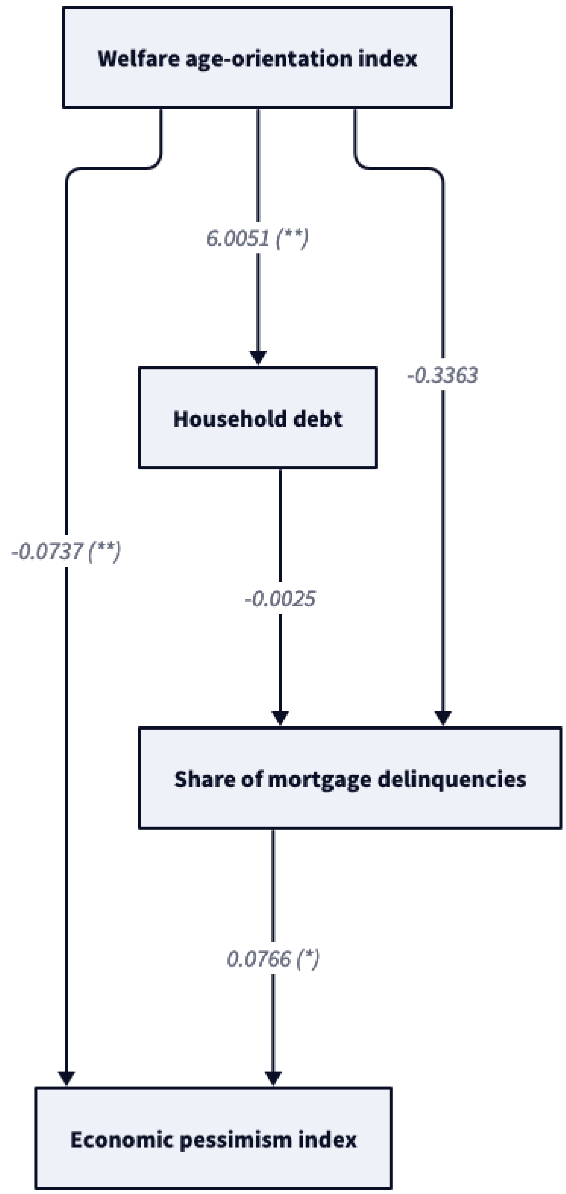

*Figure 10. Structural equation model–- illustrating causal associations between all the study variables. Standardized regression coefficients are displayed for each relationship (*p < 0.05, **p < 0.01, ***p < 0.001)*

Figure 10 shows that greater age equality in welfare spending has a positive and statistically significant effect on household debt. This confirms the findings of the previous section that increased funding for the active population impacts future-oriented activities, such as debt. Notably, there is no correlation between higher private indebtedness and mortgage delinquencies among homeowners. There is a negative relationship between the two, but it is not significant. Among OECD countries, the most indebted countries at the personal level are in Northern Europe. However, those with a larger proportion of the population struggling to repay their debts are primarily concentrated in Southern and Eastern Europe, where the average indebtedness is moderate to low (see Table 2).

Increased welfare spending is positively correlated with higher household debt in a statistically significant way. However, it is negatively correlated with a lower struggle to repay debt, although this correlation is not statistically significant. This suggests that higher welfare spending encourages people to take on more debt, but also has the potential to reduce the number of people struggling to repay their mortgages.

Moreover, a welfare system that is more focused on the younger generation has a statistically significant negative impact on economic pessimism. This is a relevant factor that is often overlooked in welfare literature. Inclusive welfare policies not only affect material conditions but also shape individual'' perception of the future. It is worth studying the personal and social consequences of this phenomenon, including how individuals conceptualize their future and how their perception of the future influences their present actions.

Conclusion

Welfare should be seen as part of a country's growth strategy. In the past, the welfare state focused primarily on protecting those who were unable to work because of age or illness. In today's society, however, social policy and the welfare state are expected to play a more active role in promoting economic growth by shielding individuals from market volatility, retraining them, supporting aggregate demand, and encouraging economic dynamism.

This chapter discusses the role of welfare in economic dimensions that are often overlooked in welfare research, such as its impact on household debt levels. Welfare can stabilize expectations and shape perceptions, thereby influencing attitudes and behaviour. It is argued that the age targeting of welfare spending is a crucial factor in influencing these dynamics. The aim of this chapter has been to demonstrate that the direction of welfare spending is just as important as the amount spent.

Although all OECD countries allocate most of their welfare spending to the elderly, those that also allocate some of their spending towards the working population tend to inadvertently encourage long-term decision-making, such as taking out mortgages. This, in turn, affects a country's economic growth, as well as the size and nature of its financial system.

The main characteristics of Italian welfare are presented as industrialist welfare that failed to reform to the new needs of a post-industrial society. Italian welfare remained focused on the protection of senior citizens, while remaining deaf to the problems and demands of the active population.

Using a structural equation model, this study demonstrates that in OECD countries, welfare systems that balance spending between the elderly and the working population tend to increase private debt while reducing the share of people struggling to repay their debts. Additionally, there is no correlation between the amount of private debt and the percentage of households struggling to repay their mortgages.

It is worth noting that the Italian welfare system is particularly gerontocratic. However, this characteristic is not unique to Italy; it is widespread in several European countries, particularly in Central and Eastern Europe. These countries, such as the Visegrad countries and Slovenia, have exhibited what Vanhuysse refers to as a 'premature pro-elderly bias' (Vanhuysse & Perek-Białas, 2021; Vanhuysse, 2023). This trend is especially noticeable in the context of significant shifts of working-age individuals into early and disability pensions. This phenomenon has been observed in Hungary, Poland, Slovakia, and Slovenia, but not in the Czech Republic.

In countries such as Hungary and Poland, the period following 1989 witnessed a significant increase in the number of individuals receiving early and disability pensions, which were more generously protected. The strategic use of public pension systems acted as a buffer against widespread transitional unemployment. As a result, there was a significant increase in the number of pensioners, which had substantial macro-fiscal and political-electoral implications. For example, in Hungary and Poland, the proportion of pensioners in the electorate increased significantly during the early years of the post-communist transition. This transformation reshaped the landscape of political and economic conflict, mirroring trends observed in Italy where social conflicts realigned along generational lines.

Policymakers must consider the age orientation of their strategies to avoid trade-offs between age groups, given the rapid escalation of inequality in Italy and other countries with similar policies. The Italian experience highlights the complex interplay between welfare policies, economic conditions, political dynamics, and perceptions. It underscores the need to consider welfare as an integral part of a growth strategy.

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3. The impact of welfare on capital controls

Abstract

This paper investigates the relationship between welfare state and capital controls. Using macro-sociological data, it confirms the notion of a trade-off between welfare and capital controls and suggests that the nature of this trade-off is related to both the amount of spending on welfare, but more importantly to its direction and coverage. Correlational evidence is presented to suggest that countries with more traditional approaches to welfare - that segment the working class and redistribute horizontally - tend to use capital controls more often; while countries with more active welfare measures and universalistic family policies tend to use capital controls less. The paper encourages the view of welfare as a macro-prudential tool vital for financial stability and is a first contribution in the direction of exploring how welfare has taken on tasks previously covered by capital controls.

Introduction

Capital controls and the welfare state are rarely studied together, but they have more things in common than what meets the eye. They developed with impetus after the Second World War, in what has been called the golden age of Keynesianism. And in the last thirty years, they have been both seen - by the economic mainstream - as detrimental to economic efficiency and challenged on those grounds. They are different tools, to reach the same goals of social and economic stability.

Capital controls (CC) are macroeconomic policy tools used by governments to regulate the flow of capital in and out of a country's economy. Capital controls take many forms, including controlling the availability of foreign currency, imposing limits on foreign currency transactions, and taxing cross-border investments in assets like stocks, bonds, or houses. CC can be used to manage macroeconomic objectives such as maintaining a stable exchange rate or influencing the country's balance of payments, reducing financial instability, protecting domestic industries, increasing investment, reducing unemployment, and promoting economic growth.

Capital controls were particularly employed during the Bretton Woods era. The same period was the welfare state's golden era. It was a period of remarkable economic stability, *les trente glorieuses,* also thanks to the pervasive use of controls in the movements of capital. Full (male) employment was common, and the era saw a constant increase in productivity, thanks to industrial development. Those productivity gains went proportionally more to work instead of capital. The welfare state particularly developed at the same time to absorb everything that work could not cover, mostly pensioners, the sick, or others unable to work.

With the end of Bretton Woods, the world became much more exposed to global financial movements, accompanied by a series of international crises. With the post-war stability fading away, welfare had to charge, and it took upon itself many more tasks related to macroeconomic stability at large: it broadened its targets way beyond its traditional users, like pensioners, to become a countercyclical device and fostering innovation (Stiglitz & Greenwald, 2015). Welfare started to work on the active population as well, fighting working poverty, or mass unemployment with guaranteed minimum income or enacting active labor market policies; along a series of measures that under the golden age of Keynesianism weren't needed, for example, as the increased number of women in the workforce brought about a need for services that provided a better balance between work and home life, including childcare and eldercare (Bonoli, 2005; Armingeon & Bonoli, 2007; Bonoli, 2007). But, importantly, not all welfare systems took this additional burden, and some remained to protect the classic categories.

The goal of this paper is to formulate a theory about how the welfare state and capital controls interact today. The existence of a trade-off between capital controls and welfare spending is not a new consideration. Previous studies pointed out that capital controls are still used especially in countries with limited welfare protection (Burgoon et al., 2012). As shown in fig. 1 there is indeed a negative relationship between welfare spending and capital controls, countries that spend more money on welfare, need lower capital controls.

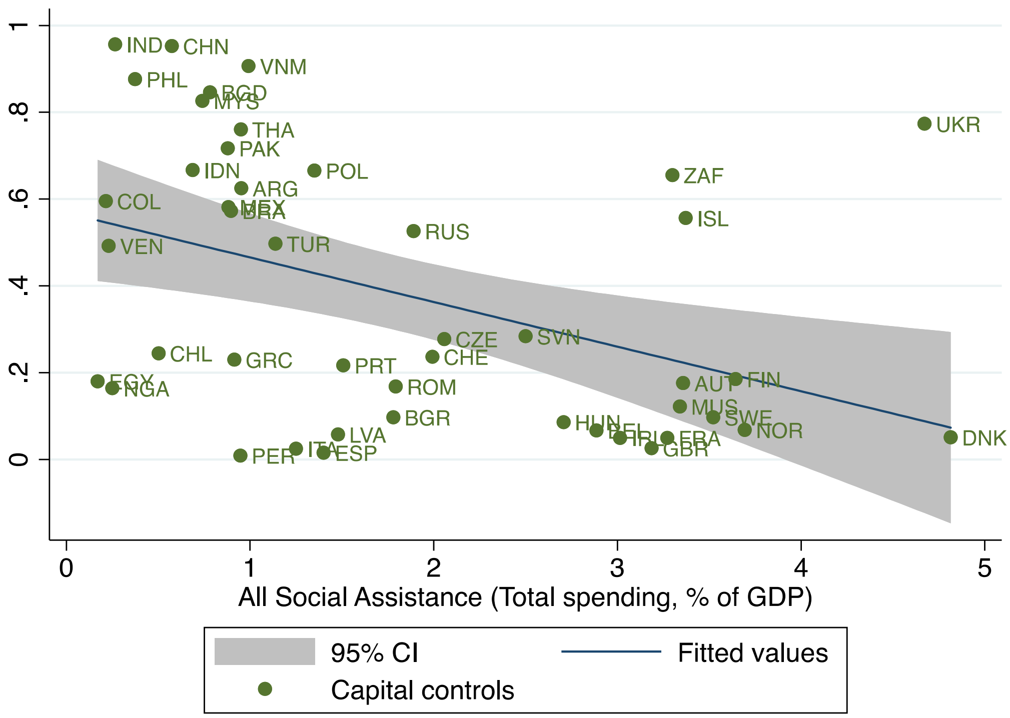

Figure 1. Capital controls (CCI Index) by social assistance spending (GLOW database)

But previous studies did not investigate how the nature of welfare - its distributional qualities - influences this relationship. I hypothesize that countries that have extended welfare protection to become more inclusive and universal, tend to control capital movements less, as welfare is already set up to work as a countercyclical macro stabilizer. Instead, in countries where social protection remains traditional or “residual”, such as pensioners, a more consistent use of capital controls is required to stabilize their economy.

In other words, there is not always a trade-off between welfare and capital controls, welfare can be generous, but if it’s targeted only to a small population, it lacks countercyclical features. It is important to look at other measures than the quantity of money spent on social spending, but more at its direction, where the money is spent; this creates different patterns of welfare and capital control arrangements. Using data about social spending from the OECD SOCX and data about coverage from the GLOW dataset, I will present some correlational evidence of the phenomena.

This study offers a new way to think about welfare and capital controls are inherently part of a welfare strategy where a mutual interaction is present and can be dosed in different ways, in a welfare mix. Economic stability is also social policy by other means (Seelkopf & Starke, 2019). Of course, welfare in itself cannot avoid capital flights, or capital controls alone cannot relieve unemployment, but the role of those are complementary.

The article will start with a brief historical note to introduce the rise and fall of capital control utilization. Then, in a review of the literature, I will focus on how social scientists studied the relationship between welfare and CC. In the third section of the paper, I present my theoretical vision and formulate two hypotheses; I then present the data on how the hypotheses are operationalized. Correlational evidence of the phenomena will be presented. This will be followed by a discussion of the results and conclusions.

Capital controls: historical context

The recent history of capital controls can be divided into three main periods: the liberal era (from the 1870s to 1914 and from 1925 to 1931), the Bretton Woods era (1944-1974), and the neoliberal era (from 1974 on).

In the late 19th century, gold becomes the basis of the international monetary system in the western world. The rise of global commerce required smooth capital movements. Since most countries already used gold as the base of their national currencies, it naturally became the primary medium that allowed international trade. The gold standard assured stable currency exchange by pegging the value of national currencies to a fixed quantity of gold, established by law. Gold was supposed to be freely imported or exported, and its movements were meant to stabilize prices automatically: countries that experienced a rise in domestic prices would see a negative trade balance since the exports would have been more expensive then than imports, and the outflow of gold would have pushed prices down; while countries where prices were going down, would have seen a positive trade balance, as the inflow of gold would have adjusted the prices in the opposite direction. The system was meant to be self-correcting and involve minimum human intervention. However, the system never worked so smoothly, and it always required a lot of central bank involvement against speculators profiting on margins or for political considerations, such as avoiding excessive currency appreciations and unemployment (Cassel, 1966). High volatility in inflation/deflation, low economic growth, and high unemployment were characteristics of the first gold standard era. The system broke for the first time during the first World War. It was then reinstated from 1925 to 1931, and it amplified and spread internationally the effects of the crisis of ’29 (Eichengreen, 1992; Hamilton, 1988).

In the aftermath of the great depression and the second world war, delegates from forty-four countries met in Bretton Woods (New Hampshire, USA) to elaborate on a substantial revision of the gold standard. Bretton Woods agreements de facto established a hierarchy of currencies. The dollar assured convertibility to gold, and it could be used as a proxy for gold. International institutions like the International Monetary Fund (IMF) and the World Bank were established to manage global financial stability. The Bretton Woods period made great use of capital controls. Keynes, one of the architects behind the agreements, remarked, “what used to be a heresy is now endorsed as orthodoxy” (Helleiner, 1996). This was a reaction to the destabilizing capital flows of the previous regime (Bordo & Eichengreen, 2007). The use of capital controls successfully helped spur the development of the national economies of Europe, with positive repercussions also in South America. Only in December 1958 European countries went back to assure currency convertibility, and till 1964, international banking “was virtually nonexistent” (McNamara, 1998); the level of capital mobility during the first liberal era was much higher than in the Bretton Woods era. This development was possible because of the class politics and the consensus underlying the post-war period:

> “The extension of the suffrage and the emergence of working-class political constituencies, parties, and even governments were responsible in part; but demands for social protection were very nearly universal, coming from all sides of the political spectrum and all ranks of the social hierarchy (with the possible exception of orthodox financial circles).” (Ruggie, 1982)

Counterfactual studies showed that the Bretton Wood era was against the United States’ economic interests. Still, it consolidated political hegemony to “support economic reconstruction and international economic growth, promote stability of all governments, and protect against future hostilities” (Ohanian et al., 2020). Canada, Europe, Asia, and South America grew faster than the States. This Pax Americana stimulated European reconstruction after the war, in conjunction with the Marshall, CC helped to develop industrial capability, especially with a self-directed, mostly self-financed, and stable national economy, free from external constraints of capital volatility or debts. Geopolitically, this was also to counteract the fast rise of the Soviet economic miracle.

In 1971, also this modified version of the gold standard came to an end. The United States fixed the convertibility of the dollar at 35 dollars per ounce of gold (*31.1 grams); but over time the dollar was seen as overvalued, and external dollar liabilities exceeded US monetary gold stock* (Triffin, 1983). The US was at this point operating leveraged like a bank, with the consequent risk of a bank run. In general, the international monetary system was too influenced by the idiosyncrasies of American politics: any expansionary/contractionary policy would have had global consequences as well (Darby et al., 2008). Overvaluation of the dollar pushed President Nixon to revoke the convertibility "temporarily", and after some unsuccessful attempts to reinstate the system in the following years, currencies were for the first time on a free-floating exchange.

With Nixon's decision, this system came to an end, and the United States started to make its interests and pressure more visible, especially by using the "exorbitant privilege" (in the words of Valéry Giscard d'Estaing) of emitting the global currency. The end of Bretton Woods wasn't just the end of a system of fixed exchanges, but it was more importantly the end of a regime of capital accumulation and the start of another (Lim, 2022). As mentioned before, capital mobility was high during the liberal period and low during Bretton Woods; after 1974 capital mobility slowly became prevalent again.

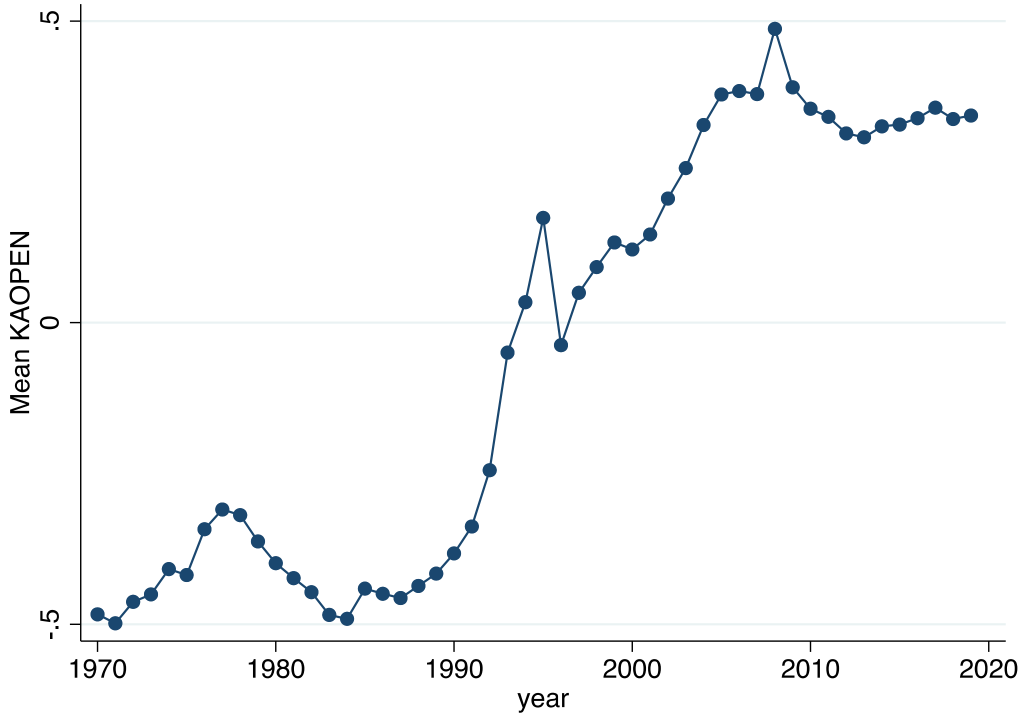

Figure 2. Mean of capita controls opennes (KAOPEN database), all countries in the database.

Especially in the late 80s, with the fall of the Soviet Union, a new consensus on development was formed, *the priorities were open trade, capital circulation, financial discipline, privatization, and the rapid growth of a market economy.* Those policies were later called the Washington consensus" (Williamson, 2018), and they mimicked the open approach of the liberal era, in contradiction to one of the 50s and 60s.

At this point, the American deficit flowed, for 40 years uninterrupted into global markets with mixed effects, allowing the development of global trade, ownership, and foreign direct investment. While FDI investment became obliquus, at the end of the 00s also the ills of the free movement of capital became clear again especially in the west, in terms of unemployment and deindustrialization. Milanovic's Elephant curve famously showed that globalization was good to create a middle class in China and India but at the cost of having zero or negative growth for the European and North American middle class (Milanovic, 2016). High-productivity jobs were offshored, and the service sector alone could not recreate the same widespread wealth of the golden age of industrialism.

After the economic crisis of 2008, there has been renewed attention to CC (Alami, 2019; Gallagher, 2012; Gallagher, 2015). Paradigmatic is the Chinese case: not only China avoided the shock therapy that made Russia regress to a petrostate plagued by extractivism (Weber, 2021), but the strategic use of capital controls, golden shares, and other limitations have been a component of this economic rise (Petry, 2020; Vermeiren & Dierckx, 2012). While FDI and trade are not going to slow down, industry re-shoring and politically driven investments toward local trade blocks, instead of a global open market, might be seen as the new normal (Foroohar, 2022).

Studies on welfare and capital controls

The literature on capital controls (CC) is vast and it follows events of the periodization described above. At first, it explained the reasons behind the generalized decline of CC after the Bretton Woods era; then it focused on finding explanations for the persistence of pockets of CC in various contexts, despite the general trends. Multiple theories have been tested to compose a fragmented picture.

In general, the increase of capital mobility has been seen as instrumental in developing a global finance industry by constraining state action (Andrews, 1994; Cerny, 1999; Germain, 1997; Strange, 1996) Washington consensus development narratives tended to favor free capital and trade, also because it was in the interests of hegemonic countries. Because of this, capital accounting liberalization has become a global norm and a marker of development, and the presence of CC carried a reputational cost (Blyth & Mark, 2002; Chwieroth, 2009; Moschella, 2010).

While the historical macro-trends are clear, a lot of literature focused on cases of persistence[***]. A lot of explanations underlined how interests and institutional dynamics influenced the use of CC. Researchers found that the prevalence of some sectors conditions the use of CC; for example, if the manufacturing industries were prevalent, the country will be more likely to employ CC to protect their interests, while a big financial industry tends to lobby for openness (Hamilton-Hart,

[***] For a broader review of the persistence literature, Da Silva in his opus divided it in five groups based on the determinants of CC analyzed: institutions, interests, ideas, partisanship and economic conjecture (da Silva, 2021; da Silva, 2022b). Here we will focus mainly on what he calls institutional factors.

2017; Rodrik & Subramanian, 2009; Soederberg, 2004). Similarly, other research focused more on class interests and class dynamics, showing how CC can be strategically deployed to stabilize and develop the financial system to favor the interests of global capital against workers. Those contributions are particularly interesting because they show that the use of CC is not necessarily always "progressive": CC is often used to defend and develop the interests of international and local capitalists or the comprador class (Alami, 2018a; Alami, 2018b). On a similar note, da Silva shows that class compromise between workers and élite can encourage the use of capital controls in the South American context (da Silva, 2022a).

The relationship between capital controls and welfare has been studied mostly through the prism of globalization, since capital account liberalization is often presented by those studies as one dimension of globalization. Two main competing hypotheses are tested: in the *efficiency hypothesis,* globalization would restrain the size of welfare by cutting taxes and engaging countries in a race to the bottom; while in the *compensation hypothesis,* globalization has no effect, or it might even expand welfare by compensating the victims of economic liberalization.

The results are mixed (Lodhi, 2021). The compensation hypothesis is driven by rising public demand for social protection as a means of mitigating risk created by globalization (Rodrik, 1998a; Rodrik, 1998b; Rodrik & Subramanian, 2009). The studies of Molana and Montagna show how Nordic small open economies have been able to cointegrate high welfare to wide economic openness (Molana & Montagna, 2003; Molana & Montagna, 2007). Other studies go in a similar direction, pointing there is not a trade-off between globalization and welfare, but complementarity (Häggqvist, 2020; Meinhard & Potrafke, 2012). Others point to methodological limitations of *compensation* studies, proving a weak or null effect at best, or finding a negative relationship between globalization and welfare spending (Adam et al., 2013; Busemeyer, 2009; Garrett & Mitchell, 2001; Podestà, 2020; Scharpf & Schmidt, 2000). Some other studies show the effects vary depending on the welfare regime (Kim & Zurlo, 2009; Yay & Aksoy, 2018).

Overall, empirical meta-analysis shows that the compensation hypothesis tends to have more scientific consensus (Heimberger, 2021). Despite similar data and hypotheses, these uncertainties are intrinsic to social science inquiry (Breznau et al., 2022). Another problem of the aforementioned literature is that *globalization* is very difficult to operationalize since it is a multifaced concept. Most of the studies reported above use an aggregated index that surveys globalization in political, cultural, and economic terms, the KOF (Dreher, 2006; Gygli et al., 2019).

While the effects of globalization on welfare have been often studied, there are fewer studies on the other causal direction: the role of welfare on capital controls. And this is the way that is taken on this paper. This different perspective is hopefully fruitful because it conceptualizes CC as a component in a welfare mix, that provides social stability as macroprudential stability. To the best of my knowledge, just a few research tried to inverse the causality, and there is limited empirical work. Nevertheless, some studies do exist, the main idea of these studies see, again, capita controls as a compensatory mechanism for the absence of welfare (Burgoon et al., 2012; Santos & Simões, 2021a; Santos & Simões, 2021b). In other words, countries with higher spending in social protection can allow themselves lower CC; while countries that spend less in social protection, try to achieve the same goals of macro stability by implementing CCs. Brooks for example sees a case of this trade-off in Latin America, where modest welfare protection did not allow for a wide CC liberalization (Brooks, 2004).

Unlike many of the studies mentioned above, the goal of this paper is to check how different voices of welfare spending influence the use of CC, and further, not only look at the spending but the nature of the spending, and its directionality. Is welfare directed just to pensioners or it covers working people as well? Is the welfare just targeting the poor or it is universal – how do these distributional arrangements interact with CC? Welfare can reiterate the cleavages generated by markets or defy them, and the amount of money spent should not be the single indicator of how welfare works redistribute. Previous studies tended to overlook how in different countries class conflict has been institutionalized within welfare, and how this influences the implementation of CC. In the next part, we clarify the theoretical underpinnings and formulate hypotheses.

Welfare quality and capital controls: theory and hypothesis

Walter Korpi famously remarked that the Welfare state is a form of "democratic class struggle", an arena where different classes' interest clash, shaping the social contract. Different patterns of conflict and coalition between the state, labor, and capital, generate different welfare configurations. Those welfare arrangements reflect the distribution of power in society and they redistribute income in different ways. The political capacity of labor to organize is the key factor in this dynamic, and those arrangements can change significantly over time and between countries (Korpi, 2018).

While market forces stratify, the welfare state can correct and counterbalance this stratification or reiterate it, making workers more or less dependent on capital. The social expenditure, in itself, does not say much about the capacity to counteract market forces. Esping-Andersen shows how welfare is organized in regimes with different capacities of decommodification (Esping-Andersen, 1990), and they tend to orient their institutional generosity to different categories of people.

The relationship between globalization and welfare has been extensively studied, but less attention has been given to how welfare policies influence capital controls. The structure of social programs, and especially who is eligible for welfare provision, is a product of the democratic class struggle. Splitting the working class between those who are eligible and those who don't deeply influence political outcomes and serves as a self-reinforcing mechanism for the stability of welfare. According to Korpi, more universalistic programs tend to encourage coalition formation between the working class and the middle class in support of continued welfare state policies, while countries that target specific categories (such as the unemployed, the elders, etc.) see the least amount of political intervention in market distribution, and they are less redistributive (Korpi & Palme, 1998). The Korpi and Palme "paradox of redistribution" shows that welfare that targets poverty more, disincentives growth and engulfs people in poverty, while a universal redistribution avoids those pitfalls (Korpi & Palme, 1998).

In societies that prioritize the welfare of elders or incapacitated individuals, alternative measures such as capital controls become necessary to protect the workforce and sustain aggregate demand. Conversely, welfare spending focused on the active population reduces the need for such controls. Autocratic countries also develop welfare systems, but they tend to be less universal in their coverage, focusing more on pensions and "club goods" that are targeted to critical supporting groups (Knutsen & Rasmussen, 2018). The work of Alami also points out how élite class interests are pivotal in the deployment of capital controls, and instead of presenting them as a progressive policy, CC might well be a cheaper alternative to stabilize the social contract, protect industrial interest while the deepening process of liberalization of labor or opening to domestic forms of financialization (Alami, 2018a; Alami, 2018b; Alami, 2019).

This essay proposes a reversed compensation theory: instead of the removal of capital controls leading to higher welfare spending, it is the inadequacy of universalistic welfare spending that necessitates the use of capital controls to maintain economic and social stability. This paper aims to bridge the gap between capital control literature and the literature about welfare regimes, explore potential crossovers and produce descriptive evidence of how directionality in welfare spending and targeting influences the use of capital controls. As pointed out in the literature review, also the use of capital controls is mostly a product of different institutional configurations of the productive sector and class interests. Both welfare and capital controls have similar goals and social and economic stability; and it makes sense to see CC as a part of a welfare mix, along with social spending. Two hypotheses will be tested: first, to understand how the direction of welfare spending influences the use of CC; then understand if the level of targeting of welfare vs the level of universalism plays a role.

(H1) The first hypothesis is about spending direction. I estimate that is not the quantity of welfare spending that explains capital controls, but the institutional arrangements and direction of social spending. When the welfare state is mostly focused on pensioners, cutting most of the active population out – the capacity of welfare to decommodify is greatly reduced, and this could incentivize the use of capital controls.

(H2) The second hypothesis is about targeting and coverage. I posit that a higher degree of welfare targeting (spending just on the deprived) is correlated with higher use of CC. If welfare focuses just on marginalized populations, the complementary benefits of capital controls are required. Instead, a more universalistic welfare coverage allows to reduce the need for capital controls.

In the next section, I describe the data and methods used to research these two hypotheses and specify them in the language of variables.

Operationalization: data and methods

To produce correlation evidence of the hypothesis presented above, I use macro data. The dependent variable is a measure of capital controls. In the literature, two main indexes are used. The Chinn-Ito Index (also KAOPEN) is the principal component of four IMF binary variables reported in the Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER)[†††]. The index is seen as a proxy of the "extensity" of capital controls, so the existence of different types of restrictions, more than their effective intensity (Chinn & Ito, 2006; Chinn & Ito, 2008). The second index is the Capital Controls Index (CCI) or KC10 index also based on the AREAER, on 10 asset categories[‡‡‡] and differentiating between directions of transactions; the goal of this index is to measure the intensity of CC thanks to a better granularity (Fernández et al., 2016). The main IV used in the study is the latter index, the CCI; but the former, the KAOPEN, normalized using z-score (Ansari & Mussida, 2013), is also used for robustness proposes, and it will be shown in appendixes.

[†††] The AREAER can be found here: https://www.elibrary-areaer.imf.org/Pages/Home.aspx the four binary variables considered by the Chinn-Ito Index are: (1) the existence of multiple exchange rates; (2) restrictions on current account; (3) capital account transactions; (4) and requirement of the surrender of export proceeds.

[‡‡‡] The ten variables considered by the KC10 Index are: (1) Money Market Instruments (Debt instruments with maturity 1 year or less); (2) Bonds (Debt instruments with maturity greater than 1 year); (3) Equities; (4) Collective investments; (5) Derivatives; (6) Real estate; (7) Financial credits; (8) Commercial credits; (9) Guaranties and sureties; (10) Direct investment.

The first hypothesis (H1) about how the spending direction of welfare might influence CC use, will be tested with the OECD SOCX dataset (Adema et al., 2011). The variables listed in Table 1 provide an overview of spending averages of eight types of social provisions[§§§] for all OECD countries; as it can be seen, most of the money is spent on "old age", so pensions and related spending. I argue that societies that focus mainly on the protection of the elders or incapacitated individuals, must recur to other means to protect workers and sustain aggregate demand, therefore are more likely to control capitals more. Spending on the active population (all the other voices) instead should decrease the need for capital controls. Controls variable will be employed to test if the effect is not absorbed or driven by a higher share of the older population (age dependency ratio), by an economic system mostly orientated toward export by checking the current accounts as a percentage of GDP (imports and exports of goods and services, payments made to foreign investors, and transfers such as foreign aid) or GDP growth. Given the limitations of the data, this analysis can be conducted only on 31 OECD countries.

Table 1. Descriptives Model 1

variable	mean	range	sd	N	Sources
Capital Controls	0.1533148	0.9	0.1836858	600	CCI
Old Age and Survivor (% GDP)	8.122198	17.126	3.387352	600	SOCX
Incapacity (% GDP)	2.293558	5.897	1.128715	600	SOCX
Health (% GDP)	5.57821	8.864	1.476141	600	SOCX
Family (% GDP)	2.090018	4.06	0.9220804	600	SOCX
ALM (% GDP)	0.53123	2.299	0.4026445	600	SOCX
Unemployment (% GDP)	0.8615283	3.816	0.7401588	600	SOCX
Housing (% GDP)	0.3427467	1.717	0.3358625	600	SOCX
Other (% GDP)	0.4718783	2.767	0.468368	600	SOCX
GDP growth	2.43416	24.37045	2.960865	600	OECD
Old Age Dependency Ratio	0.2331978	0.4627534	0.056646	600	OECD
Current account (% GDP)	-0.1385822	16.4581	5.560686	600	OECD

The second hypothesis (H2) focuses especially on the degree of targeting welfare. Using the Global Welfare Dataset (GLOW) (Yörük et al., 2019a; Yörük et al., 2019b) this extends the analysis to cover countries outside the OECD. The focus is on family policies, a measure of welfare that targets

[§§§] In the OECD's SOCX Database, social spending is divided in: (1) Old age + survivors; (2) Incapacity-related benefits; (3) Health; (4) Family; (5) Unemployment; (6) Active labor market programs; (7) Housing; (8) Other programs. See https://www.oecd.org/social/expenditure.htm for methodology, countries notes and metadata.

exclusively mostly active population. An index of means testing versus universalist policies in family benefits is used, and it is controlled by all spending on social assistance, the level of inequality as measured by the Gini index, and the GDP growth. More importantly, the second model tests whether it is more impactful the spending on social assistance or the coverage of welfare in determining the use of capital controls. My hypothesis is that the coverage, so the share of the population that could receive social assistance, is what matters. A higher coverage makes most of the population protected, diminishing the need for capital controls. Instead, I expect countries with lower coverage, despite their level of spending on social assistance, to deploy capital controls more often. This analysis covers 35 countries, between 2005 to 2014. In other words, I expect higher levels of targeting, and more means-tested provision, to be correlated with higher use of capital controls.

Table 2. Descriptives Model 2

variable	*mean*	*range*	*sd*	*N*	*Sources*
Capital Controls	0.2340345	0.975	0.2568798	206	CCI
Family benefits: Means-tested v. universalistic policy (v74)	6.210291	7.97	0.7055846	206	GLOW
All Social Assistance (Coverage %, v10)	53.72514	93.24983	19.37353	206	GLOW
All Social Assistance (Spending % GDP, v9)	2.367184	5.3	1.177805	206	GLOW
Gini Index (v207)	33.46718	55.93	7.254285	206	GLOW
GDP per capita growth (annual %, v245)	1.037961	10.85	3.626473	206	GLOW

Both hypotheses will be tested using time series cross-sectional pooled regression, with only year-fixed effects. Beck and Katz argued for the addition of country dummies to address omitted variable bias (Beck & Katz, 1996), though this comes with drawbacks. When using this approach, any variation in the dependent variable due to persistent factors like constitutional structures is eliminated, leading to decreased coefficients among countries. As the variation in many of the independent variables is mainly cross-sectional, it is not suitable for this analysis. Kropko and Kubinec noted that the fixed-effect model mixes within-unit and cross-sectional variation in a confusing way, making it difficult to interpret the results (Kropko & Kubinec, 2020). For the robustness test, the same models will be run with Driscoll and Kraay's (1998) standard errors, as its purpose is to compute stand errors that are robust to spatial correlation and serial correlation in the case of unobservable common factors.

Results

Table 3. Model 1

	H1, Model 1 CCI (Pooled regression)		H1, Model 1 CCI (xtscc - Driscoll and Kraay)	
	b/se		b/se	
Welfare Spending				
Old Age and Survivor (GDP)	0.017	(***)	0.0168	(***)
	(0)		(0)	
Incapacity (GDP)	0.0043		-0.0128	
	(0.01)		(0.01)	
Health (GDP)	-0.0276	(***)	-0.0277	(***)
	(0.01)		(0.01)	
Family (GDP)	0.0376	(**)	0.0522	(***)
	(0.01)		(0.01)	
ALM (GDP)	-0.1016	(***)	-0.1094	(**)
	(0.03)		(0.04)	
Unemployment (GDP)	-0.0036		-0.0145	
	(0.01)		(0.01)	
Housing (GDP)	-0.019		-0.0151	
	(0.03)		(0.02)	
Other (GDP)	-0.021		-0.0069	
	(0.02)		(0.01)	
Controls				
GDP growth	0.0016		0.0005	
	(0)		(0)	
Old Age Dependency Ratio	-1.4089	(***)	-1.0453	(***)
	(0.19)		(0.2)	
Current account (% GDP)	-0.0023		-0.0009	
	(0)		(0)	
Constant	0.3948	(***)	0.4127	(***)
	(0.06)		(0.04)	
r2	0.2986		0.1966	
N	600		600	

*Note. p values: + p<0.1, * p<0.05, ** p<0.01, *** p<0.001. Country dummies are included but not shown.*

Table 3 shows the relation between capital controls, measured with the Capital Controls Index (CCI), and social spending, measured with SOCX for 31 OECD member countries. In Annex 1, I provided the various spending voices of SOCX regressed alone, and they all have a negative relationship with capital controls; taken alone, an increase in spending on any of the eight welfare spending categories, means lesser use of CC. This confirms the empirical regularity observed that, overall, countries with higher welfare spending can allow themselves a lower use of capital controls; and it reconfirms the idea of a trade-off between the two. But, if we regress all those measures together, so controlling for each other, a new pattern emerges.

It is found that countries that are more generous with pensions tend to use capital controls more, and this relation is statistically significant even when controlling for the age dependency ratio. This implies that when welfare is mainly targeted toward the elderly, states still implement capital controls. In other words, the trade-off between welfare and capital controls does not apply to pensions. Conversely, welfare spending that covers the population universally or targets active workers in areas such as health spending and active labor market (ALM) policies — such as training, job rotation and job sharing, employment incentives, supported employment and rehabilitation, direct job creation and incentives for Start-Ups — displays a negative correlation with the use of capital controls. This result is corroborated by the KAOPEN database, as illustrated in Annex A, wherein higher spending in housing is also found to be statistically significant with lower use of capital controls.

Family spending is, like pensions, correlated positively with capital controls. This might at first seem paradoxical, but it can be explained by the nature of family welfare in OECD countries. The phenomenon of 'Bismarckization' in many OECD countries, whereby family spending is highly targeted and means-tested, has always been a stable of many welfare regimes and it did not change much over time (Duman & Horvath, 2013; Morel, 2007; Palier, 2010). This is typified by the deepening of insider-outsider patterns in employment, whereby solidarity is extended within classes rather than between them. This is exemplified in Dorottya Szikra's description of Hungarian welfare policies as 'Welfare for the Wealthy', wherein instead of providing aid to the precarious population, generous family allowances are redirected to those with a stable labor market position (Szikra, 2018).

Table 4. Model 2

	H2, Model 1 CCI (Pooled regression)		*H2, Model 2 CCI (xtscc - Driscoll and Kraay)*	
	b/se		b/se	
Family benefits: Means-tested v. universalistic policy (v74)	-0.0474	(+)	-0.0653	(+)
	(0.03)		(0.03)	
All Social Assistance (Coverage %, v10)	-0.0025	(*)	-0.0026	(+)
	(0)		(0)	
All Social Assistance (Spending %GDP, v9)	-0.0065		-0.0038	
	(0.02)		(0.03)	
Gini Index *(v207)*	-0.0001		0.0026	
	(0)		(0)	
GDP per capita growth (annual %, v245)	0.0215	(**)	0.0106	(*)
	(0.01)		(0)	
Constant	0.5991	(*)	0.6903	(*)
	(0.24)		(0.27)	
r2	0.2311		0.1589	
N	206		206	

*Note. p values: + p<0.1, * p<0.05, ** p<0.01, *** p<0.001. Country dummies are included but not shown.*

To address this issue, in the second model the focus is specifically on the degree of universalism or means-testing in family spending, in 35 countries between 2005 and 2014. This triangulates and completes the results presented above, and extends the geographical reach of the research, including countries that are not OECD members. The main independent variable is an ordinal measure of whether welfare benefits are means-tested (0) to universal (5). This is, to the best of my knowledge, the best proxy to measure the level of the universalism of active welfare. The controls variables are the total social spending as % of GDP, inequality measured with Gini index, and GDP growth.

Model 2 shows that when there is a higher share of the population that receives social assistance, is correlated to a statistically significant decrease in the use of capital controls. While the total social assistance spending is negatively correlated to CC, but not in a statistically significant way. In other words, more inclusive social assistance is correlated with lower capital controls implementation. The results again confirm that an increase in universalism has a negative effect on the use of capital controls. The results go in the same direction also using the KAOPEN index as can be seen in Annex B.

In other words, capital controls are more often employed only when welfare fails to protect workers universally. While in countries where social protection tends to the universalism, they see the lowest use of capital controls and the most open economies. The share of social assistance spending does not matter as much, what matters is the universalism of provision and the share of coverage it has.

Conclusions

Following the end of the Second World War, capital controls were implemented to achieve a stable economic environment, which in turn enabled a high-productivity manufacturing sector to create widespread wealth. Work, alone, was sufficient to allow individuals to thrive, and (male) full employment was common. The welfare state was configured to protect those who were unable to work, such as pensioners and the sick.

With the end of the Bretton Woods era, capital controls have been seen as more and more detrimental to economic efficiency. The welfare state had to take on many additional tasks to combat the effects of economic cycles and globalization, such as dealing with working poverty, creating new employment, and (re-)train people. As a result, the relation between capital controls and welfare changed.

The segmentation of the working class between those who are eligible of welfare provision and those who are not, is a result of class conflict dynamics and it shapes cleavages with significant impact on political outcomes. Korpi notes that more universalistic programs tend to induce the formation of an alliance between the working class and the middle class to ensure the persistence of welfare state policies (Korpi, 2018). In some countries this did not happen, and welfare remained fragmented.

Similarly, Alami's work on capital controls has drawn attention to the fact that the effect of capital controls is contingent upon class dynamics (Alami, 2019). In this study, I provide evidence of such dynamics through empirical macro-sociological research. Capital controls and welfare measures can be seen as decommodifying mechanisms; however, following the Polaniyan lesson, not all forms of decommodification are necessarily progressive.

Previous studies have indicated that there is a trade-off between welfare and capital controls. This paper empirically confirms this notion, and further suggests that the nature of this trade-off is not only related to the amount of welfare spending but also to where and to whom spending is allocated. Countries that have adopted a more traditional approach to welfare, rather than providing universal protection, were found to use capital controls more than countries with more universalistic welfare programs.

In the first model, I have shown that among OECD members, capital controls are more often used in countries that spend a larger share of their welfare on pensions. While countries with active welfare, capital controls are used less often. This is true in particular in the case of social investment policies, such as active labor market policies, that protect the workers specifically and decommodify them more.

In the second model, the Global Welfare Dataset was used to widen the geographical scope of the analysis, and it revealed that countries with more universalistic family policies and those with a higher share of citizens receiving social assistance tend to use capital controls less. Furthermore, coverage in social assistance, impact the use of capital control more than spending in social assistance.

Many conservative welfare systems reiterated fault lines within society and redistributes horizontally instead of vertically. Capital controls should be understood in the same way: they can be used as a cheap alternative to welfare, with the goal of deepening economic domination, or exactly to avoid the vertical redistribution that more universalist welfare would entail, or to make up for a lack of resources. Correlation evidence is presented to support this phenomenon. Nevertheless, further research is necessary to establish causation; such the politics of social blocs, as da Silva is recently doing (da Silva, 2022a).

This paper aims to encourage the view of welfare as a macro-prudential tool vital for financial stability. That welfare took charge of things previously covered by capital controls, is an unexplored area of political economy and welfare historiography. This paper is one of the first contributions in this direction, showing how in the present days, there is a trade-off between welfare and capital controls, and how the nature of welfare (who is covered), is important in shaping this trade-off.

Appendix A. Welfare spending direction

Table 5. Model 1 variables regressed alone

	CCI b/se	CCI b/se	CCI b/se	CCI b/se	CCI b/se	CCI b/se	CCI b/se	CCI b/se
Old Age (GDP)	-0.0131***							
	(0)							
Incapacity (GDP)		-0.0359***						
		(0.01)						
Health (GDP)			-0.0571***					
			(0)					
Family (GDP)				-0.0535***				
				(0.01)				
ALM (GDP)					-0.1792***			
					(0.02)			
Unemployment (GDP)						-0.0588***		
						(0.01)		
Housing (GDP)							-0.0420+	
							(0.02)	
Other (GDP)								-0.0851***
								(0.02)
Constant	0.3114***	0.3051***	0.5083***	0.3125***	0.3487***	0.2616***	0.2231***	0.2649***
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
r2	0.0631	0.0615	0.1798	0.0753	0.1385	0.0643	0.0334	0.0526
N	761	761	766	761	758	731	733	761

*Note. p values: + p<0.1, * p<0.05, ** p<0.01, *** p<0.001. Country dummies are included but not shown.*

Table 6. Model 1 using KAOPEN

	H1, Model 1 KAOPEN (Pooled regression)		H1, Model 1 KAOPEN (xtscc - Driscoll and Kraay)	
	b/se		b/se	
Welfare Spending				
Old Age and Survivor (GDP)	0.038	(***)	0.0429	(***)
	(0.01)		(0.01)	
Incapacity (GDP)	-0.0067		-0.0163	
	(0.03)		(0.04)	
Health (GDP)	-0.0763	(***)	-0.0451	(*)
	(0.02)		(0.02)	
Family (GDP)	0.1022	(**)	0.1154	(**)
	(0.04)		(0.04)	
ALM (GDP)	-0.1578	(*)	-0.2186	(+)
	(0.07)		(0.13)	
Unemployment (GDP)	-0.1013	(***)	-0.1638	(**)
	(0.03)		(0.05)	
Housing (GDP)	-0.1304	(+)	-0.1742	(+)
	(0.07)		(0.09)	
Other (GDP)	0.0809	(+)	0.0846	
	(0.04)		(0.06)	
Controls				
GDP growth	-0.0063		-0.0052	
	(0.01)		(0.01)	
Old Age Dependency Ratio	-4.8502	(***)	-4.4114	(***)
	(0.48)		(0.88)	
Current account (% GDP)	-0.0147	(***)	-0.0086	
	(0)		(0.01)	
Constant	-0.2635		-0.045	
	(0.47)		(0.23)	
r2	0.3621		0.2778	
N	690		690	

*Note. p values: + p<0.1, * p<0.05, ** p<0.01, *** p<0.001. Country dummies are included but not shown.*

Appendix B. Universalism and Coverage

Table 7. Model 2 variables regressed alone

	CCI	CCI	CCI	CCI	CCI
	b/se	b/se	b/se	b/se	b/se
Family benefits: Means-tested v. universalistic policy (v74)	-0.1221***				
	(0.01)				
All Social Assistance *(Coverage %, v10)*		-0.0034***			
		(0)			
All Social Assistance (Spending % GDP, v9)			-0.1026***		
			(0.01)		
Gini Index *(v207)*				0.0059***	
				(0)	
GDP per capita growth (annual %, v245)					0.0184***
					(0)
Constant	1.1087***	0.8704**	0.3807***	0.2297+	0.3516***
	(0.08)	(0.27)	(0.07)	(0.12)	(0.04)
r2	0.0891	0.1512	0.247	0.167	0.0421
N	1218	295	621	473	1207

*Note. p values: + p<0.1, * p<0.05, ** p<0.01, *** p<0.001. Country dummies are included but not shown.*

Table 8. Model 2 using KAOPEN

	H2, Model 2 KAOPEN (Pooled regression)		***H2, Model 2 KAOPEN*** *(xtscc - Driscoll and Kraay)*	
		b/se		b/se
Family benefits: Means-tested v. universalistic policy (v74)	-0.1914	(*)	-0.2455	(*)
	(0.07)		(0.11)	
All Social Assistance *(Coverage %, v10)*	-0.0087	(**)	-0.0093	(*)
	(0)		(0)	
All Social Assistance (Spending % GDP, v9)	0.0811		0.0869	
	(0.06)		(0.07)	
Gini Index *(v207)*	0.0119		0.0182	(*)
	(0.01)		(0.01)	
GDP per capita growth (annual %, v245)	0.0506	(**)	0.0258	(+)
	(0.02)		(0.01)	
Constant	-0.0499		0.3759	
	(0.67)		(0.98)	
r2	0.2729		0.1879	
N	214		214	

*Note. p values: + p<0.1, * p<0.05, ** p<0.01, *** p<0.001. Country dummies are included but not shown.*

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4. Paradoxes of (Il)liberal Democracy: The Role of Christian Democracy

Abstract

Studies on the democratic backsliding in central eastern Europe (CEE) often focus on local dysfunctions and idiosyncrasies. Those studies tend to overlook that authoritarian tendencies are firmly rooted in Western Europe as well, and deeply influenced eastern developments. I argue that the authoritarian tendencies in CEE are exacerbated by a shared political culture based on Christian Democracy (CD), and instead of divergence between Western and CEE, a form of convergence is happening. I point to CD's role in responding to the "polanyian" tensions between democracy and liberalism. I retrace how CD played an important role in shaping the present constitutional and ideational order of the European Union. I then argue that the "illiberal" policies enacted by several member countries, especially in the domains of Christian identity politics, traditional gender roles, and Bismarckian welfare, come out of the Christian-Democratic political toolbox and exemplify a paradoxical regime of authoritarian liberalism (or politics without policies) that does not threaten the (neo)liberal foundations of the EU.

Keywords: European Union, European Integration, Authoritarian Liberalism, Christian Democracy, Populism, Illiberal Democracy

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In the span of 20 years, Central and Eastern Europe (CEE) went from the resonant success of Western liberal democracy and living proof of the end of history, to the failure and warning sign of the autocratic tendencies of "the East." Scholars, Western and "autochthonous" alike, explain the current rise of illiberalism in CEE in several structural or cultural ways, mostly focusing on local idiosyncrasies. Those explanations often presuppose a form of "civilizational incompetence" (Sztompka, 1993) from the structural weakness of civil society, to the corruption of elites and their inability to grasp the principles of markets and competitive electoral procedures, to social and cultural legacies from the communist period that favor authoritarian leadership (Bogaards, 2009; Bogaards, 2018; Bochsler & Juon, 2020; Buzogány, 2017; Geva, 2021; Enyedi, 2020; Hanley & Vachudova, 2018; Sata & Karolewski, 2020; Sedelmeier, 2017; Vachudova, 2020; Ágh, 2016). Another strand of explanations relates to the rise of right-wing populism that, while generally acknowledging a global dimension and avoiding the trap of methodological nationalism (Delanty, 2016), is still interpretatively limited to studies of ideologies as discursive styles and rhetorical strategies, or, focused more on the outcomes rather than the causes of democratic backsliding. Using the populist frame as an empty form of "doing" politics overlooks the fact that the political developments in CEE have a more systematic nature than any "thin-centered ideology" (Martín-Cubas et al., 2019; Mudde, 2004).

Instead, more structural accounts have stressed that the European Union (EU) itself contributed to democratic backsliding by creating a "cycle of authoritarianism" in which EU policies introduce and "constitutionalize" traits of authoritarian rule in the EU's supranational governance. This depoliticizes them, thereby spurring and reinforcing a rise in right-wing populism (Kreuder-Sonnen & Zangl, 2015; Kreuder-Sonnen, 2018; Kreuder-Sonnen, 2016). Others point out that EU funds help financially sustain these regimes and create an "authoritarian equilibrium" (Kelemen, 2020), or that international organizations that promote democracy unintentionally foster authoritarianism by focusing too much on institutions, rigid parameters, and increasing executive power while also limiting domestic policy options (Meyerrose, 2020)—again, a form of depoliticization. Indeed, many authors underline how CEE countries can conceal the tension between the nationalistic tendencies with international neoliberalism (Csillag & Szelényi, 2015; Johnson & Barnes, 2015; Kim, 2020; Scheiring & Szombati, 2020) as a strategy to combine the needs of international capital with some sense of identity and local solidarity.

Our contribution follows the footsteps of these structural accounts. While many of the previous authors have pointed at the role of the EU in enabling depoliticization and the rising of authoritarian tendencies, little attention has been given to which political tools have been employed to make these arrangements possible. What has helped this separation of the economy from politics at the EU level, and within member states? Against the populist thesis, I argue that Christian Democracy's (CD) political strategies, already tried and used in Western Europe after the Second World War and deeply embedded in the construction of the EU itself, are the main tool used by CEE governments to deal with the need to reconcile the contradiction between enabling international capital reach and maintaining an image of solidarity and social stability.

Many studies underline the significant role of CD in shaping EU integration (Conway, 2020; Forlenza, 2017b; Forlenza & Turner, 2019; Hien, 2020; Hien & Wolkenstein, 2021; Invernizzi-Accetti, 2018; Johansson, 2002; Kaiser, 2007; Kalyvas & Van Kersbergen, 2010; Kalyvas, 2018; Lamberts, 1997a; Müller, 2013a). Recently, Invernizzi-Accetti underlined how CD influenced "the institutional framework and background political culture," and further showed how many EU institutional features are explainable by looking at CD political tools and categories. Christian-Democratic concepts such as subsidiarity, consociationalism, and a social market economy are, according to Invernizzi-Accetti, insightful when describing the type of polity, political regime, and economic regime of the EU (Invernizzi-Accetti, 2020).

Despite CD being one of the most successful political families in postwar Europe, academic scholarship about it remains limited both in political science and political sociology. Given that CD is mostly endemic to continental European political culture—with some derivatives in South America—Anglo-Saxon scholarship has scantly investigated it. This has created a blind spot in the literature about European integration. The goal of this paper is to bridge the gap between studies on CD and European integration and the literature about the democratic backsliding in Europe and to explore potential crossovers. The main thesis is that many discursive and policy tools employed by CD in Western Europe after the Second World War have been used with success by CEE governments to restrain democracy. To explain this, I will proceed in three steps.

In part one, I bring the discussion to a higher structural level by highlighting the contradictions intrinsic to liberal democratic governance. I underline that instead of following a supposed natural order, the cohabitation of liberalism and democracy is precarious at best. I then sketch how the contradiction between democracy and liberalism pushed a political program of separating economics from society through its constitutionalization and depoliticization, which created a Polanyian dynamic of disembeddedness.

In the second part, I show how the contradiction between democracy and liberalism has played out in Europe, focusing specifically on the role of CD and ordoliberalism. I briefly retrace the intellectual history of political Christianity in Europe and the origins of CD. I argue that CD was particularly effective at separating economics from the political domain because its origin is rooted in another age-old conflict between Christianity and popular sovereignty that began after the French Revolution. The historical goal of CD was to mediate between those two domains and to create a "constrained democracy" by limiting the power of the people to maintain this balance and ensure a harmonious community. CD, like Christianity, also promoted a civilizational mission using the concept of *Abendland* as an attempt to reconstruct the postwar (Western) European space. To address this intrinsic identitarian nature, I will also investigate CD's ideological specificities and the ideal polity that CD wanted to create, focusing on subsidiarity, corporatism, supranationalism, and ordoliberalism.

In the third part, I will focus on how all these ideological idiosyncrasies are reflected in the policies. I argue that many conservative parties in CEE use various political tools that come straight from the classical Christian Democratic toolbox. I provide examples of this from Hungary and Poland, as well as comparisons with Western Europe. These are namely identity politics (leveraging the Christian roots), gender politics (embracing traditional gender roles, subsidiarity), and welfare politics based on corporatism and Bismarckian solidarity within and not between classes (consociationalism and corporatism). In the context of an EU-mandated "authoritarian liberalism," a supranational union of "policies without politics" de facto encourages these national strategies of "politics without policies" (Schmidt, 2006). This phenomenon is particularly strong in the post-socialist context, where the influence of neoliberalism and Europeanization is stronger, however, it can also be observed all over Europe.

I argue that CD has always aimed to build constrained democracy, and this limiting of policy options for redistributive politics at the European level encourages the recrudescence of "politics without policies" at the national level. While many post-socialist countries are challenging the rhetoric of an "ever closer union" by waging cultural battles, they are simultaneously not challenging economic integration, austerity-driven European policies, and the entailed process of liberalization. The European Union, trapped in such an equilibrium, severely limits the possibilities of more redistributive social policies. Consequently, national politics in new member states adapt to this situation. In CEE, economic liberalism is accompanied by the resurgence of a reactionary wave, with precursors in Hungary and Poland. While many consider the rise of Hungary's "Fidesz" or Poland's "Law and Justice" to be a new populist animal in the European political fauna, I point out the similarities of political strategies already used by their Western counterparts for decades—which often remain blurry under the intensity of the orientalizing discourse focused on the differences and failures of "the East."

Tensions of the Liberal Democratic Order

The description of "illiberal democracy" as an oxymoronic term represents the essentialization of liberal democracy and its conflation with democracy in general (Slobodian, 2020; Stavrakakis & Jäger, 2018). The relationship between liberalism and democracy, however, is no less paradoxical. Its inherent conflict between democracy and liberalism took different forms in different eras and geographical contexts, but at its core, there is a Polanyian conflict between the social and economics. For Polanyi, liberalism is a theory of government that works towards the disembedding of the economic sphere from the social and political one (Polanyi, 1957).

I understand the tensions between liberalism and democracy as the friction between two different interpretations of what freedom is supposed to be. For Friedrich Hayek, "[l]iberalism and democracy, although compatible, are not the same. The first is concerned with the extent of governmental power, the second with who holds the power" (Hayek, 1966). By signifying independence from the state, liberalism is characterized by negative freedom or '*freedom from'*, in contrast to democratic theory which, as a reflection on the forms and means of self-governing by a constituency, is mainly concerned with positive freedom or '*freedom to.*' Despite the ties between liberalism and democracy, particularly in the Anglo-Saxon tradition, the pairing represents a contingency rather than a natural occasion, and its conjunction is relatively recent and fraught.

In US constitutional history, the Lochner vs. New York case showed the inherent tensions between *freedom from* and *freedom to* in public governance. After the state of New York instituted a regulation that capped the working hours for bakery employees to a maximum of ten hours per day in 1895, bakery owner Joseph Lochner was convicted and fined after being found guilty of exceeding those limits. Lochner appealed, arguing that the penalties were unconstitutional because they were against his right to freedom of contract between him and his employees. After several levels of judgment, the Supreme Court ruled in his favor[****]. From this point on until the late 1930s, personal freedoms such as freedom of contract were considered "foundational laws" that existed in a sort of pre-political space. Freedom was, in other words, seen as a natural rather than a social construct, and any legislative action that jarred with this conception—for example, actions in favor of redistribution or regulation—was "unprincipled." As Michael Antinori remarks, "Lochner-era courts elevated individual rights at the expense of popular sovereignty" (Antinori, 1994). During the three decades, the Supreme Court focused on delimiting what Hayek called "the extent of governmental power," thereby opening an era of judicial activism where affirmative

[****] Lochner v. New York, 198 U.S. 45 (1905), https://supreme.justia.com/cases/federal/us/198/45/

action policies—such as policies constructed with the intention to redistribute wealth—were ruled as unconstitutional. The Lochner deadlock broke when another ruling by the American Supreme Court established that the protection of negative freedoms guaranteed by the constitution should not infringe on public decisions. In the case of West Coast Hotel v. Parris[††††] (1937), a housekeeper sued the hotel she was working for because of the gap between the received pay and the minimum wage set by the public. The hotel tried to defend itself using Lochner, but after deliberation, the Supreme Court ruled again: "Liberty implies the absence of arbitrary restraint, not immunity from reasonable regulations and prohibitions imposed in the interests of the community." In other words, while the American constitution allows freedom from the excess of government, it simultaneously guarantees the affirmative power of politics. "Freedom from" and "freedom to" have the same legitimacy for the American constitution: one should no longer prevail over the other. In post-Lochner America, politics will decide what to prioritize—nothing exists in a "pre-political space."

Cass Sunstein argues that Lochner-like themes are deeply ingrained "in the very concept of constitutionalism," and given the restriction of positive governmental measures, the Lochner case imposed "a constitutional requirement of neutrality that commands preservation of the status quo as reflected in market outcomes." The function of this imposition was to preserve "the existing distribution of wealth and entitlements under the baseline of the common law" (Sunstein, 1987). The clash between the state's push for "freedom to" versus the court's acceptance of "freedom from" in the Lochner era is, in Hayekian terms, a conflict between democracy and liberalism. For Hayek, "the progressive displacement of the rules of conduct of private and criminal law (i.e., negative freedoms) by a concept derived from public law (positive freedoms) is the process by which existing liberal societies are progressively transformed into totalitarian societies" (Hayek, 1966). In other words, free liberal societies should stick to negative freedoms if they wish to stay free because positive freedoms pave the road to serfdom. But to defend freedom, democracy is the main target—Hayek famously confessed to "preferring non-democratic government under the law to unlimited (and therefore essentially lawless) democratic government" (Hayek, 2018). Hayek's distaste for democracy producing potentially arbitrary power is so evident that some contemporary authors do not consider him a liberal (Richard, 2020), while others point out that for liberal thinkers this disdain for democracy is more the rule than the exception (Solchany, 2016).

Indeed, besides the Hayekian focus on the *rule of law* to constrain democracy, this tension between democracy and liberal governance is also found in other theorizations of liberalism. According to Walter Lippmann, the general public would not be able to achieve a basic knowledge of public affairs, as the world is too complex for any individual to comprehend, thus making democratic deliberation simply impossible or illusory (Regalzi, 2012). His solution is threefold:

[††††] West Coast Hotel Co. v. Parrish, 300 U.S. 379 (1937), https://supreme.justia.com/cases/federal/us/300/379/

building consent and forging opinions (instead of a social contract), researching common symbols, and, similarly to Hayek, restraining "the government of the people by a common law"— "in a liberal democracy the law must seek primarily to regulate human affairs by a system of individual rights and duties rather than by administrative commands from the ruling officialdom" (Lippmann, 1937). Again, this constrains political action to protect (negative) freedom (Tourneux, 2020). A newer formulation of liberal theory by James M. Buchanan also shares the same tension with democracy. In the *Limits of Liberty* (1975) and *Reasons of Rules* (1985), Buchanan sees danger in democracy, as it might disrupt itself without a constitutional set of rules. In a very "Lochnerian" fashion, those rules must be found in a pre-political space of unanimity. Those general rules should constitutionalize the primacy of the individual and avoid public waste—the state should act as a regulator instead of trying to be the producer of social welfare, which would inevitably result in a waste of resources. According to Buchanan, both democracy and liberalism are compatible because they take individuality seriously. Buchanan's normative individualism follows the contractarianism tradition, where voluntary contracts are the principal means by which individuals coordinate their activities without public interference (Colin-Jaeger, 2020). We saw the limits of this line of thinking in the Lochner enigma: collective action is as much natural and legitimate as individual action. MacLean noticed how Buchanan ideas deeply influenced the Koch brothers' activism, which cemented the base of the American alt-right (MacLean, 2017).

With this necessarily brief excursus of contemporary liberal doctrines, I want to point out how the relationship between liberalism and democracy is intrinsically unstable. If anything, the main theorization of liberalism nurtures a clear suspicion of democracy and mass politics, ranging from Hayekian distrust to Lippmann and Buchanan pessimism. This intuition is not new. In chapter 12 of Karl Polanyi's *Great Transformation*, the birth of the liberal creed is seen as a political experiment conducted with "evangelical fervor" to artificially separate the social from economics, to make the utopia of an auto-regulated market a reality (Polanyi, 1957). What these formulations I surveyed have in common is the aim to constrain democracy by separating the economic sphere from the rest of society and following the utopia of a self-regulated market. This can be achieved using the constitution or other procedures and institutions. The goal is to create a space above the political, to depoliticize it and to create a sort of governance without government. Using this Polanyian frame, I will focus on how this tension between liberalism and democracy played out in Europe, and on the political ideology that operated on this fault line more than any other: Christian Democracy.

Liberalism vs. Democracy in Europe: the case of Christian Democracy & Ordoliberalism

Quinn Slobodian's claim that the "confrontation with mass democracy was also at the heart of the century for neoliberals" (Slobodian, 2020), however, is also perfectly applicable to CD. For Christian Democrats, people as a community are held together by natural law (a pre-political arrangement) and the idea of the common good (Invernizzi Accetti, 2019). Based on this relationship, the Christian Democratic vision of institutional functioning in a democratic regime needs to limit the power of the people to maintain this balance and ensure a harmonious community—one that conceals class differences. Aquinas in his *Summa Theologiae* defines natural law as "the rational creature's participation in eternal law." One of the main thinkers behind CD, Jacques Maritain, in his treatise *The Rights of Man and Natural Law*, added: "Natural law, or natural right, is nothing more than […] an order or disposition that human reason can discover, and according to which the human will must act in order to attune itself with the necessary ends of the natural order" (Maritain, 2012). Given the existence of a "natural," pre-political order, the question was, especially after the French Revolution, how to reconcile this with democracy (Müller, 2013b). With the massification of Christian Democratic partisanship in Europe following the Second World War, the political realization of this democratic vision manifested—in what Jan-Werner Müller terms "constrained democracy"—as a wave of "constitutional ethos" that was "positively hostile to ideas of unlimited popular sovereignty," as well as publicly backed with a traditionally moral and political language (Müller, 2011; Müller, 2013b). In this sense, political Christianity and liberalism share the need to constrain democracy. The challenge for CD is how to harmonize Christianity and democracy and how to render democracy "safe" for Christianity by constraining the demos through institutions. The main harbingers of this political innovation were Western European Christian Democratic parties, whose dominance in West Germany, France, Italy, and the Benelux made them highly important protagonists in creating a specific postwar political and economic order.

Here I suggest the existence of morphological similarity between CD and liberalism: if, according to the Polanyian analysis, liberalism is a belief in the utopic auto-regulating power of the invisible hand, then the goal of CD was to isolate this "natural law" from the intervention of society. I argue that this theoretical and intrinsic hostility toward democracy has made Christianity and liberalism compatible and complementary. Politically, both have worked to temper democracy, to tame it and present a new vision of democracy much more restrained in limits, goals, and possibilities: a new type of governance based on abstract, pre-political, rules.

What do these abstract rules, or "natural order" entail for CD? Without going into the full details of the extensive work of Invernizzi Accetti regarding the nature and content of Christian

Democratic ideology (Invernizzi Accetti, 2019), the main points are based on: the sacredness of human life, focusing on personhood (the individual, his responsibility toward the others); the defense of the family as an essential part of human life; traditional gender roles; the protection of private propriety; and the idea of subsidiarity, that the state should not interfere to manage things that can be adequately dealt with at lower levels of social organization, such as the family or the community. Moreover, Christianity had a civilizational mission (Invernizzi Accetti, 2019). For this study, I focus in particular on the two characteristics—identity and subsidiarity—that are the most relevant for studying the specificities of democratic backsliding.

Abendland: Europe as an identity

The role of identity is central to the CD project in Europe. In the context of the postwar period of reconstruction, Cold War power relations are important for understanding the specificities of the development of the new European Christian Democratic agenda and its highly anti-socialist and anti-nationalist thought and language. Rosario Forlenza well depicts the *longue durée* transformation of the German medieval concept of *Abendland*—as a culturally and spiritually homogenous Western European realm—from its counter-revolutionary political reemergence after the French Revolution to a signifier of the postwar Christian Democratic order. After the catastrophe of the Second World War, Christian Democrats used the narrative of *Abendland* to push the idea of a revived, common European space opposed both to pre-war nationalisms and postwar communisms. The language of supranational Europeanism that invigorated the process of European integration, however, was based on a Catholic German-Franco alliance with strong anti-communist tendencies politically set against pre-fascist liberalism, although less clearly against US capitalism (Forlenza, 2017a).

The concept of *Abendland* as an attempt to reconstruct the postwar (Western) European space, moreover, was a project of both giving new meaning to post-Nazi Germany and vindicating political Catholicism and its support for violent nationalist and authoritarian regimes from the interwar period (Forlenza, 2017a). The tendency to move away from authoritarianism—questionable since the Vatican still supported postwar fascist regimes in Spain, Portugal, and Latin America—has never altered the Christian Democratic distaste for mass democracy. The answer to the question of bringing together Christianity and democracy remained in the realm of top-to-bottom restraint through elite and expert-led governments and administration, both on the national and supranational level. After 1945, this transformed from theory into practice on a mass scale that defines Europe today.

A handful of scholars addressed the relationship between CD and contemporary so-called "illiberal democracy" by arguing that, although certain Christian-Democratic intellectual attitudes and policies can be interpreted as illiberal, the main difference lies in the European, supranational character of CD versus the nationalism of CEE-type illiberal democracy (Müller, 2020). In contrast, I reveal the hegemonic and exclusionary character of Christian-Democratic supranationalism and the way that various European discourses on Christian civilization try to fit into it as a currency of Europeanness. Moreover, against the rather unsubstantiated defense that "Christian Democrats in Western and Northern Europe weakened their ethnic and gender biases to a large degree" (Kovács & Trencsényi, 2020), the focus on the classic Christian-Democratic repertoire—identity and subsidiarity—displays a new wave of regressive decommodification with Christian-Democratic characteristics which continue to be pivotal throughout the European Union from the postwar period until today.

Ordoliberalism, Subsidiarity and Social Market Economy

Another strain of postwar restructuring and refashioning for Christian Democrats happened in the sphere of their economic programs. The intellectual origins of ordoliberalism are from the Weimar period in Germany (Goldschmidt & Wohlgemuth, 2008). It developed under Nazism and was later implemented under the name "social market economy" (*soziale Marktwirtschaft*) in the postwar era, conceived under Konrad Adenauer's Christian Democratic Union (CDU) in 1949.

(1) In an article titled "The Age of Neutralizations and Depoliticizations" (1929), Carl Schmitt argues that Europeans have several times throughout the centuries attempted to neutralize political conflicts by taking them far from the domain of politics and trying to manage political issues through other means. The aspiration of neutralization and depoliticization was to find a shared ground on which to coordinate society while avoiding the costs, conflicts, and dangers of politics. Schmitt refers to the process of reaching a "neutral domain in which there would be no conflict" as "normativism," or politics by normalizing. In other words, this turns politics into a system of norms based on the idea of natural rights (Scheuerman, 1996). Schmitt traces the quest for neutral power from the 17th century onward. He concludes that "Europeans always have wandered from a conflictual to a neutral domain, and always the newly won neutral domain has become immediately another arena of struggle" (Schmitt, 1993). He points to the hypocrisy of the liberal order by showing that to have rules you already need a political order that enforces them. For this reason, the supposed neutrality of the constitutional order is always fictitious—there cannot be non-conflictual neutrality, and the norm simply conceals power.

Schmitt's intention was neither to improve the democratic process nor to create a state of permanent revolution without any constitutional arrangement. Rather, particularly worried by the perceived lack of political efficacy in the Weimar era and by pluralism as the cause of mass discontent and revolt, Schmitt's proposed alternative was the concept of the "strong state". In front of an audience of industrialists in November 1932, he specified that the strong state was not a "quantitative total state" that tries to order the economy in an authoritarian and partisan way, but a "qualitative total state" that claims to be just and non-partisan by drawing "a sharp line of separation vis-à-vis the economy, although ruling, on the other hand, with the strongest military means and the means of mass manipulation (Radio, Cinema)" (Heller, 2015). Puzzled by this confusing distinction that Schmitt defended "with a straight face," German legal scholar Herman Heller, in a very polemical article from 1933, refers to Schmitt's ideas as "authoritarian liberalism," which describe a state that lacks democratic rule and the possibility of social policy, but protects and encourages the economic sphere. In Heller's view, Schmitt's "authoritarian liberalism" was hollowing democracy from the inside out by creating an unholy alliance between free-market liberalism and political authoritarianism (Heller, 2015). In the past decade, Heller's concept has been mobilized multiple times to understand the paradoxical nature of the contemporary state (Poulantzas, 2013). Ian Bruff updated the concept by writing about "authoritarian neoliberalism," in which dominant social groups maintain their hegemony through constitutionally and legally engineered self-disempowerment of nominally democratic institutions, governments, and parliaments (Bruff, 2014). Additionally, various authors pointed out the intellectual closeness of Schmitt's ideas to the Hayekian liberal project (Cristi, 1984; Irving, 2018; Scheuerman, 1997).

(2) The Nazi period: ordoliberalism was born contemporarily at these discussions on the role of the state in the relationship between economics and politics and focused on the same themes. The main proponents were German economic and legal scholars with deep roots in Christianity, gathered around the Freiburg School, and later in connection with the academic journal *ORDO.* These include Walter Eucken, Franz Böhm, Ludwig Erhard, Alfred Müller-Armack, Wilhelm Röpke, and many others. There is a lively debate among scholars working on the history and politics of ordoliberalism about the continuity between Schmittian and Nazi legal theories and ordoliberalism, as well as between pre-war and postwar dynamics of ordoliberalist thought and practice. Werner Bonefeld retraces to Schmitt the influence on ordoliberal thinkers (Bonefeld, 2017), saying that both argued for "a healthy economy in a strong state" (Schmitt, 1932). Ralf Ptak shows how there is "a considerable overlap of ordoliberal and Nazi critiques of parliamentarian democracy, trade unions, and the Communist Party in particular" (p. 119). He points out that many proponents of ordoliberalism worked in close connection with the Nazi regime during their academic careers, as "papers published in Freiburg between the mid-1930s and the beginning of the 1940s unquestionably reveal that ordoliberal concepts were designed to be implemented under the auspices of the Nazi government" (p. 117) (Ptak, 2009).

(3) In the post-war period, ordoliberal ideas found their way into Christian Democratic programs. After the war, the CDU's idea of *social market economy* assumed that a state-introduced framework needs to exist to ensure the functioning of a competitive market economy and to bring while providing some social protection to those disadvantaged by it. In this sense, the creation of an economic framework at the constitutional level was also perceived as a solution to social injustice, which essentially played out as a sort of Bismarckian, conservative welfare state, and was more than strategically necessary in the postwar context of strengthened organized labor and socialism (Goldschmidt & Wohlgemuth, 2008; Matković, 2020; Slobodian, 2020). Subsidiarity is the core idea behind the Christian Democratic welfare state, where theological justification of subsidiarity has "often sought to protect private and religious issues, or the 'natural' groups of family, church and guild" (Follesdal, 1998), and "'subsidiarity' is understood as the responsibility of all individuals to take care of themselves" (EPP, 2009). It is important to clarify what is "social" about the social market economy, and Erhard, ordoliberal and Minister of Economic Affairs under Adenauer from 1949 to 1963, in conversation with Hayek clarifies: "I hope you don't misunderstand me when I speak of a social market economy (Soziale Marktwirtschaft). I mean by that that the market economy as such is social, not that it needs to be made social" (Ptak, 2009). Social market economy is often presented, especially by its proponents, as a third way between socialism and liberalism, in fact, it was extremely close to other neoliberal theories, just with more emphasis on the conservative protections of families and waged labor.

The CDU was not alone in its economic endeavors, and other Christian Democratic parties' debates from the late 1940s between more progressive and conservative economic visions were resolved similarly in favor of the latter—the French MRP replaced *dirigisme* with "mixed economy," and the Italian CD decided on market regulation (Invernizzi Accetti, 2019) that maintained a familistic welfare structure inherited by fascism and never quite reformed (Quine, 2002). In this period, European Christian Democratic parties transformed into mass national parties and, as Wolfram Kaiser argues, formed a strong transnational party network that became hegemonic in Western Europe. This dictated the formation of pre-EU institutions such as ECSC and EEC (Kaiser, 2007). After becoming a member of the negotiating committee following the Spaak Report, Müller-Armack, an ordoliberal sociologist who worked as an advisor for Erhard in the German Ministry for Economic Affairs, helped draft and sign the founding document of the EEC, the Treaty of Rome (Slobodian, 2020). Müller-Armack's interest in state and economic order went back to the interwar period and his work for the Nazi regime, during his time as a member of NSDAP, which lasted up until 1945. In the same years that Schmitt wrote about the strong state, Müller-Armack published his *The Idea of the State and Economic Order in the Third Reich* (1933), and while teaching at the University of Münster, he became acquainted with ordoliberal thinkers who circled around the University of Freiburg. After the war, Müller-Armack and Erhard joined the CDU as well as the Mont Pèlerin Society (Matković, 2020). There, the idea that a compromise between neoliberals and Christian Democrats took place at the birth of the European Union, as argued by Slobodian, is not completely accurate (Slobodian, 2020): in terms of people, institutions, and ideas, both sides were already intertwined during the interwar period and, after 1945, emerged as the most influential determinants of European political culture to this day.

From the 1960s onward, the political success and economic programs of Christian Democratic parties went through certain transformations, not just on national levels but also within their main—and generally the largest—EU parliamentary group: the European People's Party. In the dialectical process of Europeanization, the EPP expanded its Christian Democratic core to include other conservative center-right parties (Hanley, 2002). Nevertheless, as Invernizzi Accetti insightfully argues, the deterioration of Christian Democratic partisanship was in fact paralleled by a process in which its core ideas and principles became constitutive elements of the "political infrastructure and cultural mainstream" of Europe (Invernizzi Accetti, 2019). In other words, the institutional framework of the European Union served as a means of transfer, and even universalization, of Christian Democratic political and intellectual tendencies that affected even those political parties and policies that are not explicitly labeled as Christian-Democratic. The question now is: how have identity and subsidiarity been used in the wider frame of the EU constitutional order?

The Christian Democratic Policy Toolbox

In a famous and prescient text called "The Economic Conditions of Interstate Federalism" (Hayek, 1939), Hayek argues that the best way to implement a system of negative freedoms is federalism. A federation of states limits the possibility for single countries to establish arbitrary policies while simultaneously limiting the state's role as a pure enforcer of the rule of law. Hayek points out, for example, that a common currency at the federal level necessarily limits the leeway of national central banks. The same goes for policies and market regulations, which "cease to be at the disposal of state governments." For Hayek, federalism becomes an opportunity to create governance—but without any possibility of government. This lack of a constitutional body with a shared identity hinders the development of any central institution that could overcome the federal limitation of state powers. Hayek remarks that, without national solidarity, "[I]t is difficult to visualize how, in a federation, agreement could be reached on the use of tariffs for the protection of particular industries." Consequently, this makes the construction of affirmative policies all but impossible.

According to Fritz Scharp, the European project created a "constitutional asymmetry" between policies that promote markets and policies that promote social protection and the correction of market failures (Scharpf, 2002). While the former is enacted by "non-political" institutions like the European Central Bank or European Court of Justice, for the latter, there is no superior body to account for and manage those institutions. The European Union is an example of governance without a government—a case of Hayek's legacy. Wolfgang Streeck argues that the EU's member states are in a supranational institution, which is "insulated from electoral pressure" and built to avoid any form and possibility of discretionary politics. Streeck's most important example comes from monetary policy, in which "the removal of devaluation ensures that investors, in particular financial investors, need no longer fear that struggling governments will use sudden exchange-rate adjustments as a weapon of self-defense." The European Union, therefore, closely embodies the Hayekian idea of a liberal federation of states (Streeck, 2014) lacking a constituent body that could come in the way of limiting individual state powers, with an intergovernmental scheme that disables the legitimation from national assemblies. National politics is relegated to "politics without policies," which preserves the liberal status quo. Both features are in favor of supranational operations at the federal level, which strongly prioritize single-market policies and potentiate the implementation of a Hayekian system of negative freedoms. "Politics without policies" should be understood, in a Polanyian sense, as a regressive reaction to the straitjacket of "authoritarian liberalism" created by the European constitutional order of "policies without politics."

Instead of representing a new political trend, the so-called illiberal backlash of CEE countries shares many similarities with CD strategies used by many Christian Democratic Parties across postwar Europe. The 2009 declaration from the Bonn Congress of the EPP, the European group of all CD parties, said that "the state must not be omnipresent but should act as a rule-maker and referee, establishing and enforcing the 'universal rules of just conduct', as the German philosopher Immanuel Kant, the Scottish philosopher David Hume and—in our days—the Austrian economist and Nobel laureate Friedrich A. von Hayek and the French economist Claude-Frédéric Bastiat put it" (EPP, 2009). While Hungary and Poland rhetorically try to break with neoliberalism, they are in fact dependent on it (Bohle & Greskovits, 2019)—when it comes to following EU's economic parameters oriented toward austerity, lowering the deficit, and a very parsimonious social spending, they could be considered best in class. I go further, suggesting that the same framework can be used to understand policies used both in Western and CEE. Post-socialist Europe is as Christian-Democratic as the West, even more so. I will focus on the three areas where CD ideas had the most impact. The first one is identity: Christianity today, like before, is used to create a sense of belonging in a society fractured by different instances. The appeals to Christianity should be seen as heritage and identitarian statements, not as a reversing of secular trends. The second point relates instead to subsidiarity and is about gender: family and traditional gender roles have always been used, in Christian Democratic regimes, as a cheaper alternative to welfare—these dynamics are now current in CEE. Finally, the broad welfare system and labor politics show a neo-Bismarckian direction with a tendency to socialize risk within and not between classes—an application of corporatism and subsidiarity.

Identity & Race Politics

European integration was driven by Christian Democratic parties and their belief in Europeanism as a form of supranationalism and even universalism. This was backed by the concept of *Abendland,* and the religious culture shared by most of its "founding fathers" who, like Konrad Adenauer, Alcide de Gasperi, and Robert Schuman, were devout Catholics and received support from the Vatican (Loughlin, 2015). Nevertheless, there has been little research on the contemporary relationship between Christianity and the EU (Chaplin & Wilton, 2015). Instead, the question of Christian identity emerges only in critical junctures, such as in debates on the reference to the Christian roots of Europe in the EU's Constitution (2002-3), or on the accession of Turkey to the European Union (Menendez, 2005; Minkenberg, 2012). Weiler argues that Christianity is a pillar of European identity that cannot be eradicated, just like crosses and churches cannot be eradicated from our cities since they are what make the European civilization "European" (Weiler, 2003). During the debate on the European constitution, he argued that constitutions of many EU countries indeed refer to God and that Christian values are more broadly at the origin of liberalism and pluralism (Cvijic & Zucca, 2004).

Although the heated debate around the position of Christianity in the European constitution brought the project to an end, a rewritten version, which later became the Lisbon Treaty (2007), still recognizes the importance of religion as a part of the European heritage (Milton, 2015). This blanket reference to religion, however, is drowned out by the dominant pleas specific to Christian identity, which have always been employed by European politicians in the search for legitimacy through both consensus and exclusion. The case of the German CDU's debate on the idea of *Leitkultur*—a counter-model to multiculturalism that should protect the jeopardized "German cultural identity" from immigration (Pautz, 2005)—exemplifies the tendency to culturalize politics and relate it to a broader and ill-defined set of ideas based on "identity." The *Leitkultur* debate symbolically reached its peak when the German chancellor Angela Merkel announced the death of multiculturalism (Manz, 2004). By commenting that guest workers brought in the early 1960s stayed in Germany even though everyone else hoped they would "disappear again," Merkel announced that the multicultural approach to "live side by side and (…) happy with each other" has "utterly failed" (BBC News, 2010). Portrayed as a cultural issue, Merkel's racist statement glosses over the importance of guest workers for Germany in its bilateral agreements with Turkey, and that, if anything, the case of the *Gastarbeiter* is not a failure of multiculturalism but instead of policies designed to import cheap labor from abroad to fill in the growing shortage of able-bodied male workers, which creates a de-facto ghettoized minority at the bottom of the income scale. The language used by Merkel and CDU in 2010, therefore, masked the systemic economic and social problem of Germany's migrant labor exploitation by presenting it as a problem of culture.

Several other examples show that this identitarian position has been a typical rhetorical and political tool used by Christian Democrat parties in Europe in the last 20 years (van den Hemel, 2020). During the electoral campaign in 2007, the Christian Democrat Swiss People's Party created posters of a flock of white sheep kicking out a lone, black one with a Swiss flag as its background. Other posters were asking, "where do I live, in Baden or Baghdad?". These posters built momentum that, in 2009, led to a populist referendum for banning the building of minarets on Swiss soil, which is now incorporated into the Swiss constitution. In 2011, under President Sarkozy, the French EPP member parties Union for a Popular Movement introduced a law banning headscarves, which today is still enforced in public schools. Similar laws banning full facial coverings were introduced in Austria, Belgium, the Netherlands, and Denmark. Italy's EPP member House of Freedoms, led by Berlusconi, introduced one of the most draconian immigration laws in 2002, creating detention centers for illegal and irregular immigrants. Susanna Mancini argues that these policies are made specially to define friends and enemies in a Schmittian sense, as identity and representation are the two pillars of the political form (Mancini, 2014). Schmitt is inspired by the history of the Catholic Church, where the identitarian idea is so strong and unitary, and its capacity of representation so powerful, that it can survive any internal transformation: what ultimately counts is the identity and not the content.

For Rogers Brubaker, the rise of the Christian identitarian discourse corresponds to the perceived threat of Islam present among European populist parties in the last 15 years (Brubaker, 2017). Christianity, however, is not seen in religious terms but as a supposedly common marker of a civilizational identity. This is placed in opposition to others, mainly the generations of Muslim migrants in Western Europe, or, in the case of CEE, the possibility of their arrival following the 2015 migrant crisis. Despite being a common European feature, "civilizationalism"—as Brubaker terms it—is equally Islamophobic in Western and CEE, but while it has "internalized liberalism" by showing care about "gender equality, gay rights, and free speech" in Western Europe, in CEE it appears as more national and critical of liberal democracy (Brubaker, 2017).

Despite the insightful understanding of the exclusionary character of the Christian identitarian discourse, Brubaker's distinction of "civilizationalism" as a new form and alternative to nationalism cannot hold ground if I consider the previously described examples of discourse and policies in Western European Christian Democratic parties, where references to Christian identity did not make them any less nationalist, Islamophobic, or xenophobic. Moreover, Brubaker's dichotomy between the supposed Western European liberal and CEE-an national and anti-liberal "civilizationalism" proves false, even by Brubaker himself, who writes that the Western European "liberalism is deeply illiberal." Instead, this dichotomy rather echoes the common orientalizing discourse, according to which "the East" is always more nationalist, racist, xenophobic, and "illiberal" than Western Europe, even though Western Europe shows identical tendencies, not only in parties labeled as populist but in center-right Christian Democratic parties.

In contrast, Ivan Kalmar recognizes that xenophobia in Western and Eastern Europe has the same characteristics and is demographically related to the same population—the precariously employed white and lower-middle-class workers and rural residents—even in places where the Muslim population is in fact rather low (Pickel, 2020; Yendell, 2019). For Kalmar, the difference in xenophobia is in the degree of it, which is structurally explained by the fact that the aggressive, capitalist transition generated deeper social woes, poverty, and resentment in CEE than in western Europe, and this radicalized the population further (Kalmar, 2020).

Hungary and Poland's leadership capitalize on the population's discontent and fears, by utilizing Christian "identitarian" and nationalist discourse to signify internal and external "threats" and legitimize the introduction of a variety of discriminating and restrictive measures. In Hungary, a reference to Christianity was introduced during the change of the constitution and was subsequently followed by a series of legal changes that undermined freedom of the media, limited judicial independence, and weakened the power of the Constitutional Court. EPP's member Fidesz also criminalized homelessness and discriminated against the unmarried, same-sex families, and transsexual individuals. These are all measures that Adam Fabry aptly terms "authoritarian-ethnicist" (Fabry, 2019). Simultaneously, these measures are a case of pure identity politics that do not challenge the economic model, which remains the neoliberal subsidization of foreign direct investment in manufacturing appreciated and encouraged by core countries (Bohle & Greskovits, 2019). While civil rights are slashed with no real economic cost, the economic model remains in the status quo. Similar tactics have been used in Poland.

"European identity," based on the evocative power of tradition, is a political myth, and "ultimately an illiberal project, that carries the risk of undermining the very foundations of post-World War II Europe" (Mancini, 2014). As an opportunity to reaffirm identity and the illusion of solidarity against an external threat, the Christian Democratic identity discourse pushes politics to the border in an almost literal sense since border protections were the focus of the rhetoric and action in several European countries. Politics has no power to act on the frustration of the electorate in a redistributive way: it can only offer more identity.

Gender Politics

Another important component of CD is its focus on gender politics, which serves as another bridge between "the West" and "the East" in political cultures and policy strategies with very similar goals. Recent studies reveal the transnational dimension of the so-called anti-gender movements in Europe (Kováts, 2017), which stem from the debates in the Vatican following the UN Beijing Conference on women in the mid-1990s. An intense focus on gender among conservative and right-wing parties and religious civil society movements emerged in the late 2000s, both as an issue and, as Gabriele Dietze and Julia Roth argue, a "meta-language for negotiation of different conditions of inequality and power" under neoliberalism (Dietze & Roth, 2020; Paternotte & Kuhar, 2017). Complex and contradictory, the opposition to the so-called "gender ideology" brings together discourses and policies centered around conservative identity politics, which emphasize the heteronormative nuclear family as a social model and attacks reproductive rights, sexual education, LGBTQ rights, gender mainstreaming, gender studies, and other forms of deconstruction of gender and sexuality as biological categories (Kováts & Põim, 2015).

Like Christian identity, the discourse on gender operates as a "symbolic glue," creating an antagonism to politics and a culture of gender emancipation that has been constructed as foreign and hostile to traditional values (Grzebalska & Pető, 2018). Gender is instrumentalized in the struggle against "external and internal enemies," centered around the idea of protecting women and families against Muslim migrants or LGBTQ individuals. This is obvious in the debates regarding the sexual attacks during New Year's Eve celebrations in Germany, or demonstrations and referendums against same-sex marriages that took place from France and Germany to Croatia, Slovakia, and Poland (Dietze, 2016; Sremac & Ganzevoort, 2015). In this antagonist identity discourse, another layer is played by the idea of foreign imposition and financialization, highlighted through an anti-colonial narrative of protecting national sovereignty and conservative values against liberal elites in the EU (Paternotte & Kuhar, 2017). The discourse on gender as "Ebola from Brussels," which invigorated Europe-wide attacks on the Istanbul Convention, is part and parcel of similar nationalist attacks on any kind of supranational decision-making on the EU level (Korolczuk & Graff, 2018).

Again, the gender aspect of identity politics discourses equally represents a case of politicization of the cultural and de-politicization of socioeconomics. This includes an erosion of the welfare state and a parallel individualization and commodification of household and care responsibilities that shifts to women and families. Although the criticism of gender ideology is sometimes targeted against liberal elites, the gender order it proposes works in harmony with the conservative, neoliberal emphasis on the family as the cell of society. In Hungary, this is emphasized by the fact that "gender policy was reformulated by the government as family policy, and family policy was reformulated as demographic policy" (Kováts, 2020). This is in fact not specific to CEE, but a crucial part of the Christian Democratic package of social policies based on Bismarckian welfare.

Unlike its northern peers, this Bismarckian Christian-Democratic social policy has always put the family at the center of its welfare efforts. The idea of subsidiarity has been embraced by CD as well, de facto encouraging a status quo between a male breadwinner and a female caregiver within a heteronormative family. This has had important effects on the nature of the labor market and the welfare system—in the postwar period, the decades of economic growth show full male employment paired with low female employment. When it comes to the welfare system, the fundamental unit to protect was the heteronormative family and not the individual; many care tasks, for children or elders, were considered the private duty of women. In contrast, CEE under socialism showed a much better record of gender equality in terms of access to the labor market and parity of wages. In the case of motherhood, families could benefit from an extensive network of social services that were scarce in Western Europe (Pascall & Manning, 2000).

Germany is an interesting case study: after the reunification and during the swift privatization of industry, its eastern part saw a significant setback when it comes to female employment and social rights. The high female participation that still existed at the beginning of the 1990s was seen as a potential problem. A statement from 1994, by then Minister for Women and Youth Angela Merkel, says "the willingness of the eastern German women to seek employment will be reduced, relieving the labor market." In West Germany, family policy reached what is called a "climax of familization," the conceptualization of the family in a typical Bismarckian way as a space of refuge, an "anti-structure to society" (Rosenbaum, 1978). Historians point out that this special emphasis on families was a direct reaction to the family and gender policies from the socialist bloc (Kolbe, 1999). As late as 1978, Christian-Democratic MPs and social scientists warned that "the needs and demands of (small) children set limits to [women's] emancipation," and that "young adolescent women" should be protected "against a misdirected idea of emancipation."

The focus of Christian-Democratic care policies on motherhood and family perpetuates the patriarchization of society. Studies show that even care policy reforms within the corporatist Bismarckian welfare systems in Germany, France, Belgium, and the Netherlands from the late 1990s have done little to change its conservative, patriarchal character. Instead, these have simply increased the flexibilization and cheapening of labor, as well as reinforced existing social stratifications (Morel, 2007). Heteronormative familialism and the increase of low-paid, low-skilled female labor, therefore, go hand in hand within the EU's agenda to reconcile work and family time. Post-socialist countries have similarly shifted from a system of universal protection to traditional familism, with the emphasis put mainly on motherhood and fertility policies (Duman & Horvath, 2013). Hungary and Poland adopted political strategies and legislations to support this traditional gender order by adopting the classical Christian-Democratic script, which has recently been re-baptized as “family mainstreaming” (Grzebalska & Pető, 2018).

“Family mainstreaming” was used with this meaning for the first time in 2010 by the sociologist Pierpaolo Donati, a member of the Pontifical Academy of Social Sciences (Donati, 2010; Donati, 2013), and later endorsed by a network of Catholic family associations all over Europe. In 2011, the Hungarian EU presidency adopted the term, in opposition to “gender mainstreaming.” Family mainstreaming sees families as one of the fundamental units of society, a point that is found in many Christian Democratic and conservative parties in various countries that define marriage as “the foundation (CDU)/basic (AfD)/smallest (NPD) unit of the community or society” (Blum, 2015). In opposition to universalist welfare, the family mainstreaming approach underlines the importance of the family over the importance and the rights of individuals. Despite the supposed novelty of the term, this idea once again brings us back not only to Bismarckian familialism but also to one of its crucial components: the Christian-Democratic principle of subsidiarity, according to which care over the individual should take place mainly at the level of the family without state interference. Whatever terminological innovations and identity debates there may be, the transnational struggles against “gender ideology” as an umbrella term for perceived threats to heteronormative motherhood and family reinforces neo-liberalized care policies. For decades, these policies have been dominant in many Western European countries and eventually spread into post-socialist states within the EU.

Welfare Politics

Changes in care and family policies are only part of a broader transformation of welfare and public spending spurred by the process of Europeanization, during which a vast range of neoliberal policies were embraced by the heart of the Bismarckian system (Vidra, 2018). A large number of EU countries, from Germany, Austria, and France, to Hungary, Poland, and Slovakia, “followed the Bismarckian route to welfare development” after their transition. This took a different course in terms of (un)employment, health insurance, and pension policies during the 2000s (Palier, 2010). The flexibilization of labor and workfare programs in the EU represents significant changes in the Bismarckian system without moving away from it, and once again brings countries together across the supposed West-East divide. In addition, against a vast literature in social policy that favors the narrative of “the modernization of social protection” or “catch-up convergence,” a few scholars point out that the European Union has in fact contributed to austerity and the rise of authoritarianism much more than working to reduce it (Stubbs, 2019; Stubbs & Lendvai-Bainton, 2020). This is hardly surprising since current research shows that austerity pushes the electorate to radicalize, not only in the East but especially in the West, thereby increasing the vote for nonmainstream parties (Hübscher et al., 2020). The main differences are temporal: CEE was subjected to austerity earlier, from the 1990s and 2000s, while, in many parts of Western Europe, austerity tendencies occurred only much later. In both cases, the dynamics in actions and policy responses are very similar.

During state socialism, welfare was extensive, providing social rights and increasing wealth to a large share of the population (Szikra & Tomka, 2009) to such an extent that János Kornai defined Hungary as a “premature welfare state” (Kornai, 1997). After 1989, socialist welfare legacies were still present. Kornai himself lamented the dominant state ownership of welfare services, as Poland and Hungary still had relatively generous welfare systems after the transition. By joining the European Union, the nature of post-socialist welfare changed significantly, marking a radical departure from the previous universalism of the socialist period.

Post-socialist welfare found itself in an uncomfortable position, having to deal with two simultaneous problems. On the one hand, the switch to a market economy created a wave of unemployment across all post-socialist spaces. For example, in Hungary, 1.2 million jobs disappeared because of the transition, and in Poland, the consequences of the 1990s shock therapy last to this day (Myck & Oczkowska, 2018; Vidra, 2018). On the other hand, under the framework of a liberal European Union, access to the common market demanded adherence to strict criteria on spending and state deficits. Reforms in the post-socialist space were almost universally impacted by the EU-imposed austerity, and welfare had to be significantly resized. Hungary, Slovenia, and Croatia, among others, had to address issues around public spending, public revenues, and rising public debt to meet the debt reduction requirements of the EU (Bohle & Greskovits, 2012).

Following the models of continental Western Europe, many post-socialist countries started a process of “Bismarckization” welfare that puts families and work at its center. This emphasized using subsidiarity acts to bring private actors into public provisions—roles that were often taken by churches or confessional NGOs, especially in education and healthcare. This overemphasis on heteronormative family values and the role of women as caregivers is, therefore, not an Eastern aberration. Western European countries where Christian Democracy is the most rooted, such as Germany and Italy, are historical laggards when it comes to childcare provisions. In these places, raising a child has always been seen as a private family problem involving little or no public responsibility. However, as Nathalie Morel argues, the “freedom of choice” in the pluralization of benefit options is in fact only available to women of middle and higher income (Morel, 2007).

Indeed, a second characteristic of "Bismarckization" is the deepening of insider-outsider patterns in employment, which is typical of conservative welfare regimes that redistribute within and not between classes. Dorottya Szikra describes Hungarian welfare policies as "Welfare for the Wealthy," meaning that instead of spending money on the precarious population, the new welfare redirects money—especially in the forms of generous family allowances—to the "hard-working" people, meaning those with a stable labor market position (Szikra, 2018).

The European Union and the OECD talked for years about the importance of "employment flexibilization," as an umbrella term for various policies that promote non-permanent employment, though the connection between job market flexibilization and employment or economic growth is in fact weak or non-existent (Barbieri, 2009). The negative economic and social consequences are more obvious, and CEE was hit hardest by flexibilization (Grekousis & Gialis, 2019). The same process has also occurred in Western European countries, for example, with the German Hartz reforms, pushing for workfare, means-testing and targeted benefits, and deeply deregulating the labor market through the introduction of mini-jobs (Treuke, 2018). The flexibilization of the labor market has also followed similar patterns in Italy, France, and other countries (Syrovatka, 2020), and was then followed by welfare practices that increasingly stigmatized welfare recipients. These practices were then rebranded as social investments or workfare. The 2009 declaration from the Bonn Congress of the EPP clearly stated that "the redistribution policies in many EU member states do not provide enough incentives for unemployed people to get back to work," and that "more attention should therefore be given to policies which aim at stimulating the individual's responsibility" (EPP, 2009). In post-socialist Europe, flexibilization was implemented faster as well because of the low trade union density.

The austerity-driven EU reinforced these tendencies. In the postwar period, many worker conquests in Western Europe were directly related to the strength of the socialist and communist parties, along with the real threat of regime change or social unrest (Rasmussen & Knutsen, 2019). Liberal governments were eager to appease worker demands, giving concessions both in terms of work protection and improvements to welfare. After 1989, without this political threat, governments in the West were free to pursue more liberal-oriented policies.

The Hungarian and Polish attacks against the EU, and their cries to protect the national population from Brussels, are mainly rhetorical, while neoliberal labor policies and the Bismarckian welfare system remain unchallenged. Even beyond that, the adaptations of Bismarckian welfare, which itself is inseparable from Christian identity politics, are common within the space of the European Union. These are historically infused with CD and essentially differ only in periodization and degree.

Summary and Conclusion

In recent years, a deluge of popular and academic publications set out to describe, define, historicize, and warn about the perceived “democratic backsliding” and “illiberalism” that are working to erode liberal democracy in the European Union. Three decades after the transitions of 1989, the frantic question of what has possibly gone wrong with liberal democracy, in the meantime, stays largely confined within a liberal vision. The interpretations that subsequently emerged focus much less on Western “pillars of democracy,” and much more on CEE-an “newcomers,” such as Hungary and Poland. Such interpretations are largely based on the idea that there has been a deviation from the liberal-democratic, European mainstream caused by the specificities of the post-socialist experience.

Reiterating that democracy is dysfunctional in CEE also has the side effect of overestimating its health in Western Europe. While both liberal and world systems theory explanations capture important pieces of the puzzle, and to some extent contribute to the understanding of “democratic backsliding” in Europe, they do so by perpetuating a kind of Cold War intellectual posture. This, in turn, perceives CEE as being historically and culturally inclined to authoritarianism. The result is a tendency to (self)orientalize and understand contemporary events simply as local idiosyncrasies and products of an incompletely achieved “transition” to market economy and liberal democracy, which has been hegemonically constructed as universal standards of “normalcy” and “development.” This attitude homogenizes CEE countries and makes common comparisons to political situations in Russia and Turkey, but with much fewer comparisons to the recent political developments in France, Austria, Italy, or Germany.

In this article, instead of stressing the differences, I stressed the commonalities between East-Central and Western Europe in the past several decades. By moving forward from critical literature that recognizes the downfalls of liberal democracy and the negative effects of the EU framework, I first shed light on the internal discord of liberal democracy that causes the depoliticization of the economic sphere, as well as the way it was constitutionalized in the European Union. Second, I showed that the process of political neutralization of economics corresponds to the intellectual and political tenets of CD, which were also definitional for the political culture of the EU, from its foundational moments to contemporary times.

From its entanglement with ordoliberalism in the 1930s to the postwar social market economy and, finally, the foundation and the constitutional nature of the European Union, I proved that these authoritarian tendencies were always a historically and geographically widespread phenomenon. By comparing examples of debates and policies related to identity, gender, and welfare in the EU, I demonstrated that the political tendencies of democratic backsliding that are commonly characterized as “illiberal” are in fact part and parcel of a long tradition of Christian-Democratic conservative and anti-liberal thought and praxis. According to the historian of Christian Democracy, Emiel Lamberts, “the power of the Christian Democrats was dependent on their ability to keep the political [conservative] right permanently tied to them” (Lamberts, 1997b). This was true with the transition from Nazi-Fascism to the post-World War II order—from keeping intact core structural and sociological features of the previous regimes, to repacking these old ideas into new environments, such as the “social market economy.” This has been a strategy also successfully attempted by the EPP in the case of Fidesz and other “stabilocracies” in the region (Bieber & Kmezić, 2017). Authoritarian-liberal parties in CEE, even if not traditionally connected with CD, adopt a similar strategy: CD provides the language and the political tools to maintain a form of nationalist solidarity while keeping the structural nature of the system unchanged and unchallenged.

While the West was traditionally seen as the example to “transition” to, scholars did not give enough weight to the influence of the East and the socialist experience on the West. As Philippe Schmitter highlights, the collapse of the Soviet Union and the absence of any plausible threat of a revolution, or an alternative type of regime, has de facto weakened democracy and social rights in the “Real-Existing Democracies” of Western Europe (Schmitter, 2019). The neo-liberalization of economic and welfare policies in the EU from the 2000s has not, in fact, led to a radical departure from the conservative Bismarckian, Christian-Democratic welfare. Rather, these transformations have hollowed out the few remains of the social dimension of Christian-Democratic tendencies and given space to rising precariousness, labor exploitation, and economic inequality throughout the EU.

The scavenging for resources under the neoliberal sun, particularly in places grasping with the radicalness of the post-1989 transitions, intensified national and identity discourses. This occurred through the culturalization of discussions of essentially economic problems, and the employment of antagonistic demagogic rhetoric opposed to visions of internal and external enemies that included even Brussels. The strengthening nationalism, Christian identity politics, and an anti-Brussels narrative, however, are not a sign of a desire of these conservative regimes to challenge neo-liberalization; rather, they are merely to create an illusion of solidarity, direction, and shared destiny while simultaneously increasing the hardship for their marginalized populations.

European scholars should be more aware of the global hollowing of democracy and its historical roots, rather than exclusively focusing on the failures—not without a touch of orientalism—of a single region. The lack of an inter-European political “freedom to” has created a legitimacy vacuum and an identity void. The rise of right-wing and identity politics is now filling this void everywhere in Europe.

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