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Introduction: Comparing Social Policy Responses to the Cost-of-Living Crisis

Daniel Béland*, Bea Cantillon, Bent Greve***, Rod Hick† and Amílcar Moreira‡**

**McGill University, Montreal, Canada*
***University of Antwerp, Antwerpen, Belgium*
****Roskilde Universitet, Roskilde, Denmark*
†*Cardiff University, Cardiff, UK*
‡*University of Lisbon, Lisboa, Portugal*
Corresponding author: Daniel Béland; Email: daniel.beland@mcgill.ca

This introduction to our themed section on social policy responses to the recent cost-of-living crisis spells out this topic and the key issues examined in the section's main contributions before summarising their findings and overall contribution to the literature. More specifically, to frame this themed section, the present Introduction begins with a concise, up-to-date overview of the inflationary crisis that emerged in late 2021 and evolved throughout 2022 and the first half of 2023. It then charts, and reflects upon, the diversity of responses enacted in a variety of countries reflective of different models of welfare provision in Europe and North America.

Keywords: Inflation, cost-of-living crisis, social policy, welfare state, social security, policy drift.

Introduction

In the early 2021, as they were still grappling with the COVID-19 crisis, advanced economies were confronted with a steady rise in inflation (see Figure 1). Building throughout 2021, the Russian invasion of Ukraine in February 2022 only intensified these pressures. Rising energy and food costs played a key role in the upwards evolution in prices - although to varying extents across countries (see Figure 2). While concerns about the cost of living pre-date the current shock, perhaps especially in relation to housing (Hick *et al.*, 2022), the focus of this themed section is on the inflationary episode that began in 2021, which is the most serious inflationary crisis to afflict the global economy since the oil shocks of the 1970s.

Faced with this inflationary shock, governments were yet again asked to introduce measures to shield families from the effects of the market (Sgaravatti *et al.*, 2021; Gentilini *et al.*, 2023). As evidenced in this themed section, the response to this cost-of-living crisis involved a wide range of measures, from the introduction of fuel subsidies and discounted travel to more orthodox interventions, such as activating indexation rules that adjust benefits to the increase in prices. In fact, their sheer diversity is both notable and

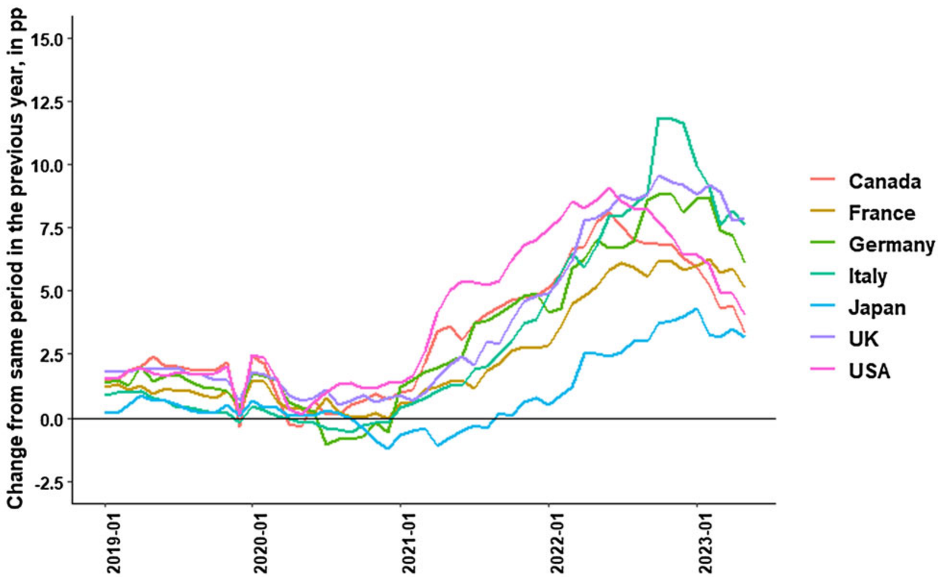

Figure 1. Inflation in G7 economies, 2019–2023.

analytically interesting, raising a series of question, such as: why did policymakers lean to such an extent on non-traditional instruments in designing policy packages instead of relying more heavily on indexation mechanisms? What considerations informed the design of policy packages, and how did they balance considerations of universality and targeting?

This new bout of state activism would alone justify the interest of welfare scholars in this topic. However, there are important specificities in this particular crisis that justify a more detailed look at the measures introduced since prices started to rise. First, the type of measures required are of a different nature. Whereas COVID-19 pandemic required the introduction of extensive income-replacement schemes to sustain demand, the current crisis requires a more comprehensive approach – combining (more traditional) compensatory measures with (upstream) interventions in the formation of prices in the economy. Second, unlike in the previous crisis, policymakers were faced with an important trade-off – as some measures that support families facing cost-of-living pressures may contribute to excess demand which, in turn, intensifies price increases.

With this in mind, this themed section of *Social Policy and Society* examines social policy responses to the current cost-of-living crisis in a comparative international context. Preceded by a state-of-the-art paper that discusses these issues and lays the comparative ground for them, the articles comprising this themed section take the form of a series of comparative studies examining European and North American countries located within different welfare state regimes (Esping-Andersen, 1990), and thereby reflecting potentially wide range of international social policy responses to the recent cost-of-living crisis.

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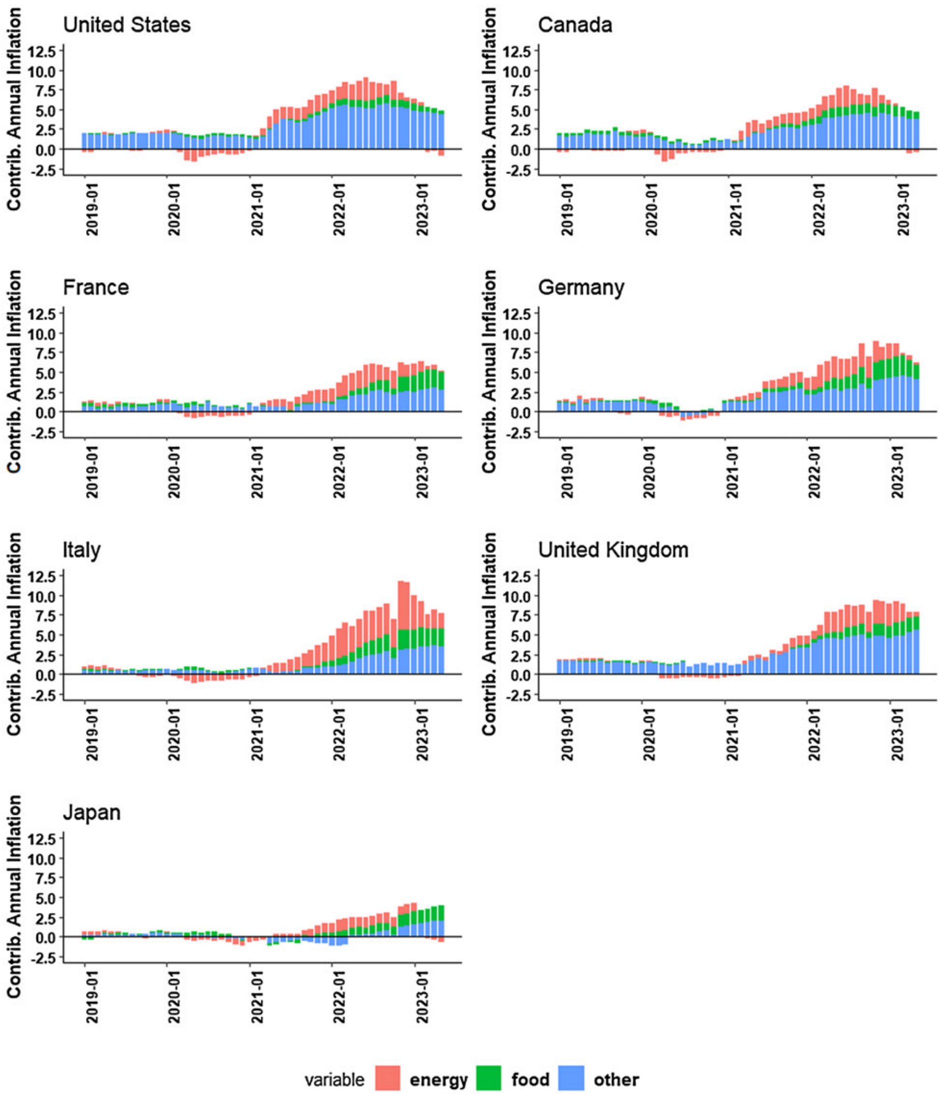

Source: OECD (2023a)
Notes: CPI according COICOP 2018 for Japan, from January 2021 onwards.According to COICOP 1999 classification for all other cases.
'Energy' - CPI:Energy; 'Food' - CPI:01 Food and non-Alcoholic beverages; 'Other' - CPI: All items non-food nonenergy.
Sums of contributions do not necessarily add up to the CPI for all items, due to rounding issues.

Figure 2. Inflation in G7 economies, main components, 2019-2023.

Importantly, and while recognising that the measures to support household at times took non-traditional forms (a kind of 'social policy by other means'; see Béland, 2019), the focus here is on the welfare state rather than on macroeconomic policies put in place to respond to the increase in prices. Simultaneously, as far as the present cost-of-living crisis is concerned, we focus more on the role of social policies to shield workers and families against some of the negative consequences of it rather than on the macroeconomic impact of these policies on inflation itself.

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In this introductory piece, we sketch-out the conceptual and analytical framework that shapes the selection and design of a set of comparative case-studies presented in this themed section. The subsequent sections are structured as follows. First, we explore the theme of continuity and change in social policy, including the role of policy legacies in welfare development. In doing this, we give particular attention to the role of indexation mechanisms, which are the traditional tool for adjusting benefits to changes in prices. Building on that, we then review the main findings of the papers that compose this themed section. We conclude by reflecting on the nature of the social policy responses we observe to this crisis – in relation both to specific questions such as the balance between reliance on indexation mechanisms and one-off benefits in dealing with inflation and broader questions about the significance of the responses in the context of welfare reform trajectories.

Continuity and change in time of crisis

In responding to the COVID-19 pandemic, policymakers responded quickly, implementing sizeable packages of support (Moreira and Hick, 2021). Nonetheless, in many countries, these policy packages showed signs of the historical traits in social policy, i.e., of path dependent development stemming from re-enforcing feedback effects (Pierson, 1996; Pierson, 2000) and even in the Liberal countries, where responses were more discontinuous (Béland *et al.*, 2023; Ramia and Perrone, 2023), changes proved to be temporary and policies would largely revert to their preceding settings. Once again, we are confronted with the question of whether a crisis – this time, an inflationary shock – might lead to path departing changes over time. If such path departing changes take place, the question is whether they take place abruptly or incrementally, through processes such as layering and policy drift (Hacker, 2004; Streeck and Thelen, 2005).

More specifically, when examining social policy responses to this inflationary shock, a key focus is how indexation mechanisms, which can be automatic or ad hoc in nature, inform the policy response and its economic consequences (Weaver, 1986). That is, when looking at social policy responses to the inflationary shock, we have to look at the specific nature of indexation mechanisms and at whether they fully compensate for the effects of inflation over time. If they to do not, this can lead to policy drift, which is about how changing economic and social circumstances can alter the nature of social protection in the absence of adequate adaptive mechanisms (Hacker, 2004).

Other important issues concern whether indexation (where formalised) applies to social benefits only or also informs wage bargaining processes and whether the application of these rules can be deemed a *sufficient* response to rising prices. The latter opens up questions about the breadth of the policy response – of who needs to be supported and, thus, of the balance between universality and targeting in constructing responses to the cost-of-living crisis.

The response to the cost-of-living crisis in advanced economies

Following a state-of-the-art article on the inflation and social policy nexus discussed above, there are comparative papers examining developments in: the US and Canada; Nordic countries (Denmark, Finland, Norway, and Sweden); the UK and Ireland; Belgium and the

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Netherlands; and four Southern European countries (Greece, Italy, Portugal, and Spain). This section very briefly draws the main conclusions out of the different empirical articles in the section for the response in different types of welfare states. Against the backdrop of whole-of-society price rises, what role was there for social policies, and how did these roles differ across countries?

The study of social policy responses to the recent cost-of-living crisis in Canada and the USA focuses on three areas: pensions, minimum wage, and food security. The article identifies the main responses in each of these policy areas, with a particular emphasis on the presence or absence of adequate automatic benefit indexation. The analysis points to three main general remarks. First, the automatic indexation of cash benefits is not always sufficient to prevent the emergence of policy drift (Hacker, 2004), in this case the incremental fall over time in the real value of such benefits. This is the case because the way in which automatic indexation formulas are designed is a key factor here. Second, the presence or absence and the actual design of automatic indexation are not the only factors that matter to determine if a cost-of-living crisis leads to policy drift. For instance, new policies can be enacted to compensate for the negative effects of this crisis on workers and families. Finally, social programs lacking automatic indexation might not be subject to policy drift if ad hoc benefit increases are enacted, something that can only become possible when the political conditions on the ground make these increases possible in the first place.

Like elsewhere, rising inflation in the Nordic societies has changed the living standards for many families. Several elements have been used to determine who is facing the most risks. Nordic countries have combined automatic stabilisers with temporary policy interventions to deal with increased inflation in general or specific sub-elements (such as oil, natural gas). In managing the crisis, the Nordic countries have adopted stronger targeting towards those considered to be in need, displaying some innovations in their social policy approach. Yet, one can trace a high degree of path-dependency, with the countries adhering to universalist principles, with an aim of redistributing resources.

In the paper comparing developments in the UK and Ireland, the balance between universalism and targeting in constructing policy responses is emphasised. These responses evolved in a more expansive direction as the scale and duration of the inflationary crisis was more fully appreciated, and at the same time they rebalanced from largely universalist supports in favour of greater targeting. Targeted components of the policy response relied on ad hoc payments that were 'passported' on the back of means-tested social security payments for working-age adults, with more comprehensive measures for pensioners. Moreover, targeting sometimes took a rather crude form – in the UK, larger households would receive the same targeted support as smaller ones, despite their greater needs – and, more generally, successful targeting presented practical challenges in both countries. A key difference in the responses was that energy prices were subsidised by government in the UK but not in Ireland. Towards the end of the period we examine here, traditional indexation mechanisms – that is, price indexation in the UK and ad hoc (non-automatic) adjustments to core social programmes in Ireland – were applied, reflecting a backdrop of path dependency and continuity in terms of setting social security rates for the period ahead, which contrasts with the activism in relation to the provision of ad hoc supports.

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In Belgium and the Netherlands, policy responses show great similarities but also significant differences. In both countries responses were quick and very substantial. Measures covered both prices and household incomes while universal, not earmarked measures moved beyond selective interventions. However, there were major differences between the two countries stemming mainly from the fact that Belgium, unlike the Netherlands, could fall back on the mechanism of automatic indexation of wages and social benefits. While Belgium relied more on existing universal policy instruments, in the Netherlands, arguably because of the high costs of the necessary ad hoc compensations, more targeted measures were taken which also allowed for innovation in policy making. The different policy paths in Belgium and the Netherlands had their origins in a more distant past, particularly in the 1980s when policy models in the low countries began to diverge, and different legacies emerged. The elimination of automatic indexation was an important, yet less-noticed, part of the deviating policy routes in both countries. Four decades later, it would prove to be of great significance in understanding the social policy responses to the recent cost-of-living crisis in both countries.

In the Southern European countries (Greece, Italy, Portugal, and Spain), we see that governments have sought to, on the one hand, limit the transmission of international energy prices into their respective economies; and, on the other, compensate families for the increases in prices. Crucially, in all four countries, the spending on measures to compensate individuals/households for the increase in the cost-of-living was significantly below of what was spent on measures to limit the increase in prices – less so in Portugal and Italy, though. The authors also find that, in line with what happened during the pandemic crisis (see Moreira *et al.*, 2021), governments privileged the use of one-off temporary payments to assist families in need. There is also evidence of differences concerning the role given to indexation mechanisms during the crisis. In contrast with Portugal and Greece – who relied exclusively on one-off payments to assist families – Spain and Italy have also made efforts to up-grade existing benefits, namely old-age pensions (Italy) and minimum income benefits (Spain).

Concluding remarks

The inflationary episode of 2021-2023 can be thought of, we argue, as an inflationary shock. The increase in prices experienced from 2021, but especially following the invasion of Ukraine, were unexpected, acute, lopsided, and posed significant short-run threats to living standards. In many countries, social security indexation rules play an important role in maintaining the real value of payments through time and inflation can be accommodated through the quiet application of such rules; elsewhere, the uprating of social security payments is dependent on political decision-making. The return of inflation has given us cause to reflect on this important, but often neglected, aspect of social security systems.

Like the COVID-19 crisis itself, social policy responses to this inflationary shock were rapid and sizeable and both in countries with automatic indexation and those without, we see significant reliance on ad hoc policy responses. That is, the welfare state once again played a role in shielding families from this shock to living standards, but as well as the adjustment of settings of traditional policy instruments, we see a wide range of policy changes – temporary tax reductions and public transport cost reductions, ad hoc payments, and others – that might be thought of under the rubric of the *one-off welfare state*.

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The one-off nature of these responses was pursued for three reasons: first, ad hoc responses had, compared to the application of indexation mechanisms, the benefit of *timeliness*. Second, they were selected in many cases as a means of *targeting* support for the most vulnerable. Third, one-off instruments had the advantage of avoiding a deviation from pre-crisis trajectories and their planned withdrawal would limit the inflationary impact of these measures.

What is also evident in the contributions of this themed section is the sheer number of responses in most countries, incorporating measures both to raise incomes and reduce prices, those targeted on lower-income households and others covering the whole population. The large number of responses, and their significant variety, means that econometric analysis comparing the precise impact of these schemes on poverty and living standards will be an important contribution to research in the period ahead.

Another key question concerns whether the threat posed by this inflationary shock, and responsiveness and reliance on ad hoc measures in responding to this crisis influences longer-term welfare reform trajectories. Prospects for welfare state change are sometimes viewed as uncertain but, equally, as rather linear. Accounts emphasising the significance of critical junctures are clear that an exogenous shock may *not* induce policymakers to act, but where they do, they are imagined as shifting to new equilibria. Incrementalist accounts, too, emphasise the distance that reforms can take over many steps (or stages) of reform, or that pressures can build, creating tipping points for change. Periods of shock are often understood to create possibilities for change, overcoming the weight of institutional inertia.

However, what we see here – and, perhaps, in relation to COVID, too – is something different. Like the pandemic response, policymakers have responded in an agile fashion to the immediate crisis, implementing substantial response packages. Welfare state instruments have been utilised in new ways. And yet, the temporary nature of these supports means that longer-term change is, for the most part, not planned, with policymakers intending to revert to the status quo ante. Perhaps they will not be able to do so: perhaps new equilibrium points will be reached and new reform trajectories will emerge. But, in the period to date, responses to the cost-of-living crisis are suggestive of a more temporary and contradictory kind of change: of agility against a backdrop of stability; short-term responsiveness in contexts of path dependence, resilience even in contexts of change.

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