Who's to blame?

How financial crises and technocrats change (or not) the welfare state in Europe[1]

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Since the 2008 financial crises the appointments of technocrats in parliamentary cabinets has more than doubled. At the same time most European governments adopted fiscal austerity with important consequences for their welfare states. How much of this effect is due to the financial crisis and how much is it due to the specific ministerial appointments? Using data from 13 European countries since 1980 and two-stage least square models, I test the effects of financial crises and of technocratic appointments on a battery of social welfare indicators. Initial results indicate that technocrats appointed in the finance portfolio have real effects on social welfare policy, controlling for financial crises. However, experienced ministers with a background in economics are also associated with cuts in social welfare expenditure.

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How has the Great Recession changed mature welfare states? Against the broad consensus that the 2008 financial crisis has deeply changed domestic and international politics (Tooze, 2018), there is less consensus about how it has affected the welfare states of industrialized democracies. While fiscal austerity was adopted by governments across the board, welfare state reforms varied considerably (Kersbergen, Vis, & Hemerijck, 2014). Domestic actors and institutions seem to primarily explain this variation. Some scholars find that left governments, particularly when they consist of broad coalitions, have implemented the deepest spending cuts (Armingeon, Guthmann, & Weisstanner, 2016), while others find that right of center governments, particularly in liberal and minimal welfare states, have been behind welfare retrenchment (McManus, 2018; Picot & Tassinari, 2017).

Yet, partisanship does not only vary across governments but also within governments. One of the effects of the Great Recession, and of major economic crises in general, is the appointments of experts, both partisan and non-partisan, to crucial economic posts in cabinet. Since the start of the Great Recession in Western Europe, the number of non-elected, expert ministers, also known as technocrats, has more than doubled, particularly in political systems with more personalistic electoral systems (Alexiadou & Gunaydin 2019). Even though there has been considerable academic and popular debate regarding the role of non-elected technocrats in democracies (Berman, 2017; Bickerton & Accetti, 2017; Caramani, 2017), there is very little empirical evidence on the policy effects of technocrats, as opposed to partisan experts.

Typically, technocrats are appointed during economic and financial crises to increase the government's credibility vis-à-vis the markets (Schneider, 1998). Importantly, these technocrats are not just experts who will implement the government's agenda. They are trained economists who believe in market-conforming reforms that increase economic efficiency

(Dargent, 2015; Kaplan, 2017). In Latin America, technocrats appointed to top ministerial positions have been found to have important policy effects, above and beyond the policy preferences of the presidents who appointed them (Dargent, 2015; Kaplan, 2014). As such, it has been argued that recurrent economic crises and technocratic appointments have weakened the political systems in Latin America, and could potentially destabilize party competition in Europe (Roberts, 2017). Nonetheless, whether technocrats deliver more neo-liberal reforms than partisan politicians in Europe is still to be determined (Alexiadou, 2020).

Here I investigate the policy effects of technocrats and expert partisans, accounting for monetary and financial crises in 13 European parliamentary democracies. While, there is empirical evidence that ministerial appointments can, under certain conditions, affect policy outcomes (Chwieroth, 2007b; Wenzelburger & Staff, 2017), the policy impact of technocrats in European political systems is understudied with a few notable exceptions (Alexiadou, 2020; Bertsou & Caramani, 2020). To advance our understanding of the policy impact of technocratic appointments as opposed to the policy effects of economic crises, I utilize two-stage least square models and a new dataset on ministers' professional and political background by Alexiadou (2020).

This paper is one of the first to test the policy effects of major economic crises both directly and indirectly through the appointments of technocrats and partisan expert finance ministers. As such this work contributes both to the extensive literature on the social effects of economic crises (Armingeon et al., 2016; Kersbergen et al., 2014) as well as to the growing literature on the policy effects of individual politicians (Alexiadou, 2020; Chwieroth, 2007a; Dargent, 2015; Jochimsen & Thomasius, 2014; Kaplan, 2017).

Economic Crises & market-conforming social welfare policies

During major economic shocks governments are forced to respond either with fiscal stimulus or with radical budget cuts (Armingeon, 2012). Governments' initial responses to international crises, such as the 2008 financial crisis are typically expansionary. Governments need to make sure that there is sufficient credit in the economy to contain further spill-over effects that negatively affect growth and employment (Armingeon, 2012). Yet, often, expansionary budgets are replaced with radical budget cuts to address the rising public debt and deficit, which in turn, negatively affects the country's credibility in the international markets. Austerity does not only hurt governments because they cannot deliver on their pre-electoral promises but it typically drains resources from social services such as education, pensions and social assistance, that are popular with voters (Armingeon, 2012; Pierson, 1996).

In responding to major economic shocks, governments vary significantly both in their policy as well as in their political strategies. In terms of the specific policy reforms, these can vary significantly by government despite commonalities in the economic shock. Governments can choose to raise taxes or cut spending. If budget reductions are chosen, they will typically target the departments of social welfare as they account for a very large percentage of the government's spending. Yet, even within the social welfare department, governments need to choose if they will reduce benefits from and services to more vulnerable populations, such as the unemployed or single parents, against services that constitute social investment, such as health and education, or public pensions, that are often seen as deferred income. Naturally, the latter are electorally more salient and particularly costly.

In terms of their political strategies, governments can time their severest budget cuts early in their term in the hope that the economy improves nearer to elections (Hübscher & Sattler, 2017), or move forward to more radical budget cuts when they have formed broad and consensus coalitions to diffuse responsibility and reduce the expected electoral costs (Armingeon et al., 2016). Nonetheless, often governments, particularly of the center-right, simply use instances of economic crises to push forward market-conforming policies they favored all-along, as was the case in Spain under Rajoy's government (Picot & Tassinari, 2017) or the UK under Cameron (McManus, 2018).

An alternative strategy that I investigate here is appointing technocrats to the portfolio of finance as a way of delegating policy to political outsiders. In what follows I define technocrats and technopols, before deriving hypotheses regarding the potential effects on social welfare policy.

Defining Technocrats and Technopols

Following Bertsou and Caramani (2020), McDonnel and Valbrzzii (2014), and Alexiadou (2020), I refer to technocrats, as the non-elected experts who hold cabinet positions. Technocrats are different from politicians who have expertise in a particular field, for example, politicians with prior professional experience in economics. Here, I will refer to partisan experts as technopols. In addition, I do not assume that when techncorats take-on political roles, i.e accept a ministerial post in the cabinet, they become 'technopols'(J Williamson, 1994). Instead I maintain that although political appointments provide opportunity for policy influence, technocrats lack what true technopols enjoy; the control of important political resources such as political experienced and influence within a political organization (Joignant, 2011).

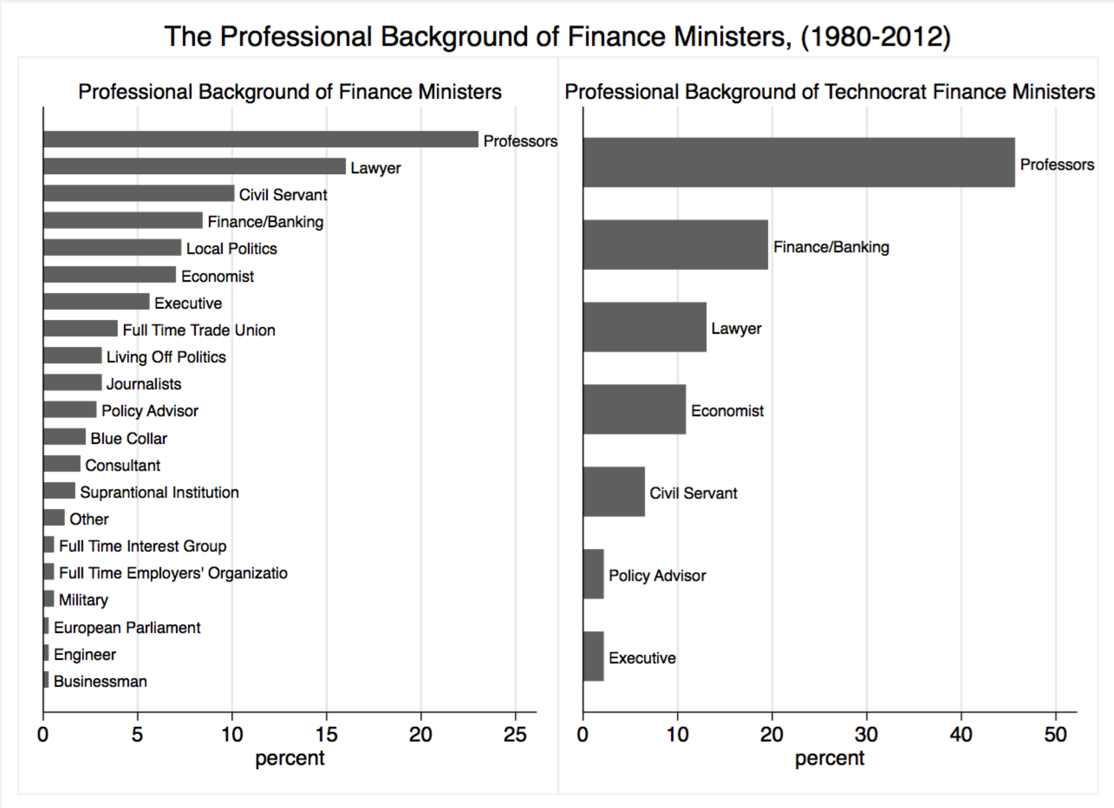
As extensively discussed in the literature (Bertsou & Caramani, 2020), it is important to distinguish technocrats from technopols when predicting their policy impact. A finance minister who is a partisan expert (i.e. elected to parliament) is qualitatively different from a non-partisan expert (i.e a non-elected expert brought into the cabinet from an outside profession). Holding expertise constant, technocrats differ in the level of their commitment to policy reform when reform can potentially have personal political cost. However, even if elected politicians fully discount the political costs of their policy choices (i.e. they are ideologues), they might still feel committed to their electoral promises and their constituencies (Grossman, 2014). In contrast, technocrats are likely to commit to a reform as long as it is considered optimal by their professional peers and enhances their professional reputation (Alesina & Tabellini, 2007).

I primarily look at technocrat finance ministers to study the effects of technocrats on the welfare state during crises for two reasons. Prime ministers are twice as likely to appoint technocrats and technopols to the finance portfolio during major economic crises than during quieter times (Alexiadou & Gunaydin, 2019.; Hallerberg & Wehner, Forthcoming). Second, finance ministers are the second most powerful actors in parliamentary cabinets after the prime minister, with important agenda and veto powers over the government's spending priorities (Alexiadou, 2020; Hallerberg, Strauch, & Hagen, 2009; Jochimsen & Thomasius, 2014). They often enjoy the prime minister's support, but this is not necessary. Finance ministers are so visible to markets and voters that sometimes their priorities clash with the priorities of other colleagues around the cabinet table. This is not the case with most other cabinet ministers.

Consequently, when trying to understand the policy effects of economic crises, it makes sense to study the role of finance ministers who are explicitly appointed in order to contain public spending. In addition, finance ministers have a very specific and relatively narrow set of technical skills, which is mostly concentrated in the field of economics. Using data by

Alexiadou (2020; 2019), Figure 1 shows the professional background of finance ministers in 18 parliamentary democracies, and of technocrat finance ministers. While in all of the countries in our sample the majority of finance ministers have a background in economics or finance, just 10 percent of all finance ministers have been technocrats, while twice as many have been experienced ministers with policy expertise.

Figure 1: Professional Background of Finance & Employment Ministers



Left-Right Ideology, Government Spending and Technocrats

Finance ministers oversee the drafting the government's budget. There is a consensus in the literature that economists appointed to the finance portfolio tend to hold market conforming preferences, particularly when they are appointed during economic crises (Dargent, 2015; Kaplan, 2017). Market-conforming policies include the "deregulation of product markets, labor markets, and financial markets; the liberalization of trade; the corporatization of state entities;

and low-rate, broad-base tax reform" (Christensen, 2017). By limiting the role of the government, market-conforming policies aim at allocating resources more efficiently (Christensen, 2017).

Technocrats and technopols were instrumental in liberalizing the economies of Latin American countries in the eighties and nineties by adopting market conforming policies, also known as the 'Washington Consensus' (Kaplan, 2014, 2017; John Williamson, 1993). In Europe, technocratic presence has been a lot more limited particularly during the eighties. However, a significant number of Northern European countries in Continental Europe were already enjoying high levels of monetary stability, partly due to influential independent central banks and corporatist bargains between employers and unions (Alexiadou, 2012; Crouch, 1993; Hall, 2013; Mares, 2006). Furthermore, the budget-correcting austerity policies of the eighties and the early nineties did not seriously threaten the mature European welfare states (Gingrich, 2015; Korpi & Palme, 2003; Scruggs, 2006).

Nonetheless, important reforms took place with the aim of liberalizing the labor markets, and reducing the generosity of welfare payments (Christensen, 2017; Gingrich, 2015). The policy prescriptions coming out of think-tanks, such as the Organization for Economic Cooperation and Development (OECD), attributed slow economic growth to generous welfare payments that created 'poverty traps' and to barriers in business restructuring due to employment protection legislation, i.e. legislation that makes it hard to employers to dismiss their workforce (OECD, 1996). Specifically, according to the OECD (OECD, 1996, p. 38) while activation policies such as re-training and employment subsidies (Active Labour Market Policies, or ALMPs) encourage employability, generous and long-lasting unemployment benefits hinder the reduction of structural employment and reduce labor market efficiency.

The prescriptions to cut welfare payments have been controversial for social-democratic parties and their leaders. Many of the market-conforming economic and labour market reforms demanded by the international markets and think-tanks, such as the OECD, go against traditional social-democratic principles, and more importantly, against the interests of trade-unions and the core voters of social democratic parties (Rueda, 2007). Despite, the ongoing debate in the literature regarding the policy priorities of Social Democratic parties in the post WWII era (Clark 2002, Hibbs, 1977, 1987, Pierson, 1996, Garret, 1998, Hicks, 1999, Korpi and Palme, 2003, Bradley et al, 2003, Boix 1998, Rueda 2005, Green-Pedersen 2001 among others), the primary policy objectives of social democracy have historically been equality and labor de-commodification (Boix 1998, Iversen and Wren 1998, Esping-Andersen 1990). Right of center-parties, on the other hand, have been more forthcoming in adopting market-conforming labor market policies since they generally prescribe to freer markets and smaller welfare states (Allan & Scruggs, 2004; Korpi & Palme, 2003; Rueda, 2007).

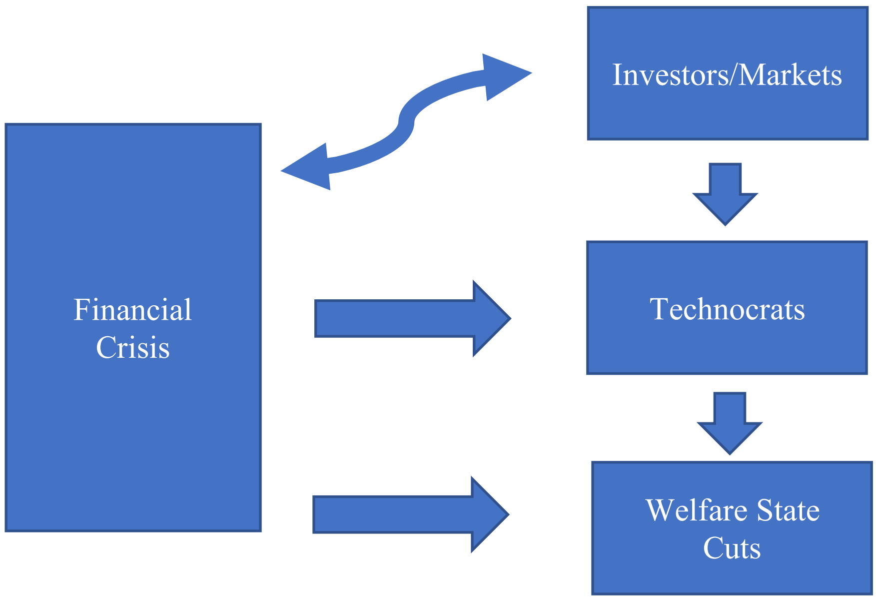
Where do the technocrats stand in relation to market conforming policies? As with partisan politicians, I expect technocrats' policy preferences to largely vary with their professional career. A labor economist is less likely to support deregulated labor markets than an economist who works in the financial sector. After all even central bankers who have a rather straight-forward policy mandate vary in the intensity of their preferences (Adolph, 2013; Ainsley, 2017). Nonetheless, it is probably uncontroversial to assume that a technocrat finance minister, one whose background is primarily academic, aligns with think tanks such as the OECD in her social welfare preferences. *If so, a technocrat finance minister would be to the right of the majority of social democratic parties, but probably to the left of right-of-center parties.* In other words, I do not expect technocrats to be more ideological than the average right of center politician. However, I expect them to be more willing to push through with reforms that are cost-saving and unpopular within the electorate. *Accordingly, I expect technocrats to be associated with cuts in government and social welfare spending, and particularly with social spending that has a high budgetary impact and is popular among the electorate.*

Economic Crises and the appointments of technocrats

According to the literature, technocrats, particularly in highly politicized and important posts such as the department of finance, are appointed for two main reasons during economic crises; to signal to investors and voters that an investment friendly environment exists (Schneider, 1998) and to shield partisan heavyweights from the personal political costs of unpopular policies (Alexiadou & Gunaydin, 2019). Alexiadou and Gunaydin (2019) find that although both monetary and financial crises predict the appointments of technocrats, they are more likely to be appointed in political systems where voters have a preferential vote,.i.e in more personalized electoral systems. Indeed, in these systems, the likelihood of appointing experienced politicians decreased significantly during the Great Recession, indicating that experienced politicians would rather not take a job that could 'burn' them. In turn, these findings suggest that technocrats might be more effective in undertaking market-conforming reforms than experienced partisans, especially when these are unpopular among the electorate. Building on and Alesina (2007), who argued that non-elected, non-partisan cabinet ministers are only marginally concerned about the political implications of their tasks, as they expect to return to their original professions when they leave government, one would expect technocrats to be more likely to push forward unpopular policy reforms than partisan ministers.

Accordingly, *I expect financial crises to have both direct and indirect effects on social spending.* During financial crises, governments initially respond with increased social spending but in the longer-run social spending will decrease. This is the direct effect. At the same time, during financial crises some governments resort to appointing technocrats, either to signal to the markets their market-conforming intentions and/or to address agency loss issues within their government. Either way, these technocrats are likely to push forward unpopular, market-conforming policies. This is the indirect effect of financial crises on the welfare state. The argument is illustrated in Figure 2.

Figure 2: Direct and indirect effects of financial crises on the welfare state



Empirical Analysis

Empirical model

The central argument of this article is that financial crises have both direct and indirect effects; they have direct effects through budgetary pressures and indirect effects through the appointments of technocrats. To empirically model this process, I use a maximum likelihood, treatment effects model which is a two-stage least squares estimator. In the first stage, the estimator predicts the appointments of technocrats and the in second stage the estimator predicts predicts the policy impact of technocrats, taking into account the selection process.

More specifically the treatment effects model estimates the two following equations:

$y_{it} = \boldsymbol{x_{it}}\beta + w_{it}\delta + \varepsilon_{it}$, the regression equation (1)

$w_{it}^{*} = z_{it}\gamma + u_{it}$, the selection equation (2)

Since I expect financial crises to have both direct and indirect effects, crises are included in both the selection and the regression equations. Moreover, other exogenous variables are included in the selection equation , such as changes in government bond yield and the electoral system, that predict the appointments of technocrats and which need have a direct effect on y, the outcome variable of the regression equation. I discuss the data in more detail in the next section.

Finally, the regression equation is an error correction model. There are two reasons for that: First, in line with the literature, I expect financial crises to have different short-term and long-term effects on social spending; in the short term, spending should increase, while in the long-term, spending should decrease. The panel, time-series data allow me to directly model these dynamics using an error correction model, which, following Pesaran (2015) can be expressed as follows:

$$\Delta y_{it} = \beta_0 \Delta \boldsymbol{x_{it}} - (1-\lambda)(y_{it-1} - (\beta_0 + \beta_1)/(1-\lambda)\boldsymbol{x_{it-1}}) + \varepsilon_{it}, \quad (3)$$

where the term $(\beta_0 + \beta_1)/(1-\lambda)$ is the slope coefficient in the long-run relationship between x and y, while β_0 is the short-run effect of a unit change in x on y.

To sum up, in the regression model the dependent variable is in changes and all the regressors are in both changes and lagged by one year. In the selection model, which is a probit model, all variables, both the regressors and the dependent variable are lagged by one year to match the dynamic specification of the regression model. Robust standard errors are included.

Data

The data are unbalanced time-series/cross-section and include 13 countries and on average about 16 years of observations. The countries in the study are all Western European parliamentary democracies: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Netherlands, Norway, Portugal, Spain and Sweden (Alexiadou, 2020; Alexiadou & Gunaydin, 2019).[3] The data spans from 1990 to 2013 due to data availability primarily on bond yield data, but also because technocratic appointments have been more frequent during the last three decades, as austerity policies and structural reforms became more pressing.

[3] For summary statistics see Appendix

Three different dependent variables are used: *total government spending as % of GDP, total social spending as % of GDP and total public health spending as % of GDP. These data are* provided by the OECD and extracted by the Quality of Government Dataset (2010).

I expect social spending to be one of the first policies to be negatively affected during periods of fiscal retrenchment, since it burdens public finances more than any other public expenditure. On average, social spending accounts for 15 to 20 percent of the GDP in advanced democracies in the last thirty years (OECD, 2016). The reason for including three different indicators of spending is that I expect technocrats to have more policy impact on spending cuts that are less popular, such as spending on health, than on total social spending. Government spending is included as a way to test if technocrats are more broadly with austerity policies.

In the regression model I include the following controls, in both changes and levels: *economic growth*, the *unemployment rate* (Armingeon, Weisstanner, Engler, Potolidis, & Gerber, 2012) the Prime Minister, as measured by the Comparative Manifesto Project *(RILE).*

There are two main explanatory variables: financial crises and technocrat finance ministers. I use two indicators for economic crises: one for *Monetary Crisis*, coded as 1 during inflation and currency crises (Reinhart & Rogoff, 2009), and an indictor variable for the *Great Recession*, coded as 1 since 2009 and 0 otherwise. Both of these indicators, monetary and the great recession, have also been found to strongly predict the appointments of technocrat finance ministers (Alexiadou & Gunaydin, 2019). Therefore, they are included both in the regression and in the selection models. In fact, these two variables that capture economic crises are the two main predictors for the appointments of technocrats in the selection models.

Apart from monetary crises and the great recession, I also include the lagged change in the 10-year bond yield of sovereign countries (own coding). Bond yields can change dramatically during financial crises especially when domestic economic and political conditions worsen dramatically. As such, technocrats could be appointed by prime ministers to signal to markets their commitment to policy reform as argued in the literature. Finally, I include a variable for how person-centred the electoral system is, to control for domestic institutional factors that condition the appointments of technocrats and high-ranking ministers to top economic posts in the cabinet (Alexiadou & Gunaydin 2019).

The dependent variable in the selection model is whether the finance minister is a technocrat, coded as one who has never been elected at the national, regional or local levels and has a background in economics, banking and finance. In addition, I test the policy effects of technopols, ministers who have the same policy expertise as technocrats but have experience in government, specifically, they have served as cabinet ministers for at least 4 years. Technopols are also more likely to be appointed during financial crises (Alexiadou & Gunaydin 2019). By testing the policy effects of technopols, one can further investigate the policy effects of ministerial appointments vis-à-vis the direct effects of financial crises.

Empirical Results

Table 1 supports the expectation that both the 2009 financial crisis and technocrats have short and long-run effects on the welfare state and on government spending in general. Even though government spending as a percent of GDP typically increases, the 2009 financial crisis has had a profound long-run effect on both types of spending. Specifically, according to Column 1 of Table 1, in the long-run, social spending has gone down by at least 5 percent due to the 2009 financial crisis, which health spending decreased by about half of total social spending. In contrast, the 2009 financial crisis has had no long-run impact on total government spending. In all instances, the immediate effect of the 2009 crisis on welfare spending was a significant increase of the magnitude of about 1 percent for social and total spending and half percent for health spending. Monetary crisis, on the other hand, have had no effect, whether positive or negative, on spending according to Table 1.

Technocrats, as predicted, also have a negative effect on social spending but primarily in the short-run; unlike the 2009 financial crisis, technocrats are associated with an immediate decrease in social spending by just under half a percentage point and a 0.12 percent cut in health spending. However, the long-run effect is the most interesting one. Here we find that technocrats have the same negative, long run effect on social spending as the 2009 financial crisis, although the indicator fails to reach statistical significance in the case of health spending. This is an important finding to the extent that it shows that financial crises have both direct and, perhaps unintended indirect effects on social spending, through the increase in the appointments of technocrats. Looking at the selection model, we can clearly see that both monetary and the 2009 financial crisis strongly predict the appointments of technocrats. In addition, a positive change in the bond yield, meaning higher borrowing costs for countries, also strongly predict the appointments of technocrats. Technopols, on the other hand, have a limited effect on social spending and no effect on health and government spending. According to Equation 2 of Table 2, appointing a technopols have no short-run effects but has a significant negative long-run effect of the magnitude of 16 percent. However, despite this significant effect, technopols have no independent impact on either health spending or government spending. This finding does provide some support to the expectation technocrats are appointed to implement unpopular cuts politicians would rather avoid.

Table 1: Effects of technocrat and partisan expert finance ministers on pension generosity

	(1)	(2)	(3)	(4)	(5)	(6)
	D_Social	Technocrats	D_Health	Technocrat	D Gov Expend	Technocrat
	Second Stage	First Stage	Second Stage	First Stage	Second Stage	First Stage
L. social exp.	-0.0531***					
	(0.017)					
L. health Exp.			-0.0503***			
			(0.019)			
L.gov. exp.					-0.0896***	
					(0.018)	
D.growth	-0.2211***		-0.0385**		-0.3414***	
	(0.047)		(0.017)		(0.097)	
L.growth	-0.2390***		-0.0355**		-0.3503***	
	(0.061)		(0.016)		(0.111)	
D.unem.	0.0698		-0.0360		-0.0195	
	(0.056)		(0.030)		(0.082)	
L.unemp.	0.0013		-0.0122***		-0.0250	
	(0.014)		(0.005)		(0.033)	
D.Rile	-0.0044		0.0007		-0.0136*	
	(0.004)		(0.002)		(0.008)	
L.Rile	-0.0053*		-0.0002		-0.0150**	
	(0.003)		(0.001)		(0.006)	
D.monetaryCrisis	0.1517		0.0521		-0.0505	
	(0.194)		(0.084)		(0.320)	
L.monetaryCrisis	0.4034	0.6810*	0.0413	0.5503	-0.0116	0.6027
	(0.268)	(0.388)	(0.120)	(0.403)	(0.468)	(0.394)
D.financialCrisis	**1.0169*** **		**0.4801*** **		**2.4268*** **	
	(0.276)		**(0.136)**		**(0.561)**	
L.financialCrisis	**-0.2935***	**1.0136*** **	**-0.1622** **	**0.9670*** **	**-0.4132**	**0.9583*** **
	(0.152)	**(0.325)**	**(0.075)**	**(0.335)**	**(0.254)**	**(0.317)**
D.Technocrat	**-0.3728*** **		**-0.1236** **		**-0.2776**	
	(0.119)		**(0.061)**		**(0.355)**	
L.Technocrat	**-1.0900*** **		**-0.1880**		**-1.1925***	
	(0.326)		**(0.132)**		**(0.706)**	
10 year Bonds		0.4625**		0.3708		0.3657*
		(0.207)		(0.237)		(0.208)
Person. System		-0.0311		-0.0391		-0.0449
		(0.043)		(0.050)		(0.050)
Constant	1.9496***	-1.4924***	0.5999***	-1.4301***	5.1990***	-1.3939***
	(0.514)	(0.257)	(0.159)	(0.284)	(0.960)	(0.276)
Observations	222	222	211	211	217	217

Table 2: Effects of technocrat and partisan expert finance ministers on unemployment benefits

	(1)	(2)	(3)	(4)	(5)	(6)
	D_Social	Experts&exp	D_Health	Experts&exp	D Gov Expend	Experts&exp
	Second Stage	First Stage	Second Stage	First Stage	Second Stage	First Stage
L. social exp.	-0.0600***					
	(0.013)					
L. health Exp.			-0.0560***			
			(0.019)			
L.socx_govexp					-0.0854***	
					(0.018)	
D.growth	-0.2227***		-0.0363**		-0.3313***	
	(0.048)		(0.016)		(0.094)	
L.growth	-0.2446***		-0.0342**		-0.3398***	
	(0.058)		(0.013)		(0.117)	
D.unem.	0.0769		-0.0374		-0.0360	
	(0.054)		(0.029)		(0.085)	
L.unemp.	-0.0106		-0.0126***		-0.0277	
	(0.012)		(0.005)		(0.032)	
D.Rile	-0.0016		0.0011		-0.0126	
	(0.004)		(0.001)		(0.008)	
L.Rile	-0.0036		-0.0004		-0.0162***	
	(0.003)		(0.001)		(0.006)	
D.monetaryCrisis	0.1476		0.0452		-0.0492	
	(0.206)		(0.079)		(0.326)	
L.monetaryCrisis	0.4012	0.3403	0.0258	0.2185	-0.0756	0.3726*
	(0.273)	(0.251)	(0.110)	(0.209)	(0.439)	(0.217)
D.financialCrisis	0.9148***		0.4753***		2.5536***	
	(0.312)		(0.128)		(0.589)	
L.financialCrisis	**-0.3324****	**0.4304**	**-0.1790*****	**0.6838****	**-0.6067*****	**0.5079**
	(0.156)	**(0.331)**	**(0.058)**	**(0.315)**	**(0.223)**	**(0.330)**
D.Expert&exper	**-0.1464**		**0.0118**		**0.1344**	
	(0.119)		**(0.051)**		**(0.292)**	
L.Expert&exper	**-0.9733*****		**-0.0540**		**0.0607**	
	(0.254)		**(0.088)**		**(0.311)**	
10 year Bonds		0.1929		0.0899		0.1055
		(0.133)		(0.110)		(0.094)
Person. System		0.0060***		0.0037**		0.0042***
		(0.001)		(0.002)		(0.001)
Constant	2.3029***	-1.1595***	0.6343***	-1.2380***	4.9062***	-1.1819***
	(0.402)	(0.215)	(0.157)	(0.243)	(1.059)	(0.238)
Observations	222	222	211	211	217	217

Robust standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Discussion

How do economic crises affect the welfare state? I try to address this important question by investigating both the direct effects of major economic shocks and their indirect effects, through the appointments of technocrats to the portfolio of finance.

As expected, I find that the 2009 financial crisis has had a profound long-run effect on the welfare state but not on government spending. Moreover, the 2009 crisis had both a direct and indirect effect: since 2009 the appointments of experts to the portfolio of finance, whether non-partisan or partisan increased significantly. These, the techncocrats and the technopols are associated with cuts in social spending, although only technocrats are also associated with cuts in health and government spending. These findings suggest two things: first, technocrats are more likely to undertake cuts in welfare benefits that are costly and political. Second, financial crises can have profound effects on the welfare state both due to budgetary pressures but also due to political appointments.

These findings provide an initial evidence on the indirect effects of economic crises on the welfare state through ministerial appointments. Yet, these findings raise a question. If the party and voters do not really want the reforms (i.e. cuts in their healthcare), how can governments or ministers stay in office and implement the reforms? What are the underlying political and social factors that determine the tenure of technocrat ministers?

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Online Appendix

Table A1: Frequency of technocrats and partisan experts in the portfolios of finance and employment

Country	Fin. Techno	Expert	Expert & Experience	Expert & High Rank	Fin. Techno	Expert	Expert & Experience	Expert & High Rank
	1970-2015					*2008-2015*		
Austria	0.02	0.82	0.29	0.27	0.00	0.71	0.14	0.57
Belgium	0.09	0.53	0.38	0.09	0.43	0.43	0.14	0.00
Denmark	0.00	0.47	0.29	0.16	0.00	0.43	0.29	0.43
Finland	0.02	0.33	0.07	0.29	0.00	0.71	0.14	0.71
France	0.18	0.44	0.07	0.11	0.29	0.29	0.14	0.00
Germany	0.00	0.78	0.36	0.56	0.00	0.86	0.86	0.86
Greece	0.10	0.69	0.16	0.00	0.43	1.00	0.29	0.00
Italy	0.18	0.80	0.18	0.00	0.43	1.00	0.43	0.00
Netherlands	0.00	0.71	0.18	0.20	0.00	0.29	0.00	0.29
Norway	0.07	0.49	0.09	0.38	0.00	0.57	0.43	0.57
Portugal	0.64	0.82	0.16	0.03	1.00	1.00	0.14	0.00
Spain	0.00	0.82	0.31	0.00	0.00	0.57	0.29	0.00
Sweden	0.18	0.60	0.18	0.07	0.86	0.86	0.00	0.00
Total	0.11	0.64	0.21	0.17	0.26	0.67	0.25	0.26