

# **Reforming the Liberal Welfare State**

## **International Shocks, Unemployment and Income Shares**

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**Paper Abstract:** We examine the aggregate and labour market effects of labour market and welfare state reforms in the presence of international fragmentation of production and investigate the dynamic behaviour of the economy in response to international shocks is affected by the reforms. The behaviour of shares of different income sources in household income sheds light on the distributional impact of policy reforms and shocks. Reform packages exist that can improve upon the labour market outcomes of a liberal welfare state system. Even when reducing labour market flexibility relative to a liberal welfare state regime and resulting in lower steady-state unemployment, flexicurity reforms appear to lead to a higher volatility in employment and GDP in response to exogenous foreign shocks.