

Economic Crisis and Austerity in Southern Europe: Threat or Opportunity for building a Sustainable Welfare State?

After work Seminar organized by
the European Social Observatory,
AK Europa and ÖGB Europabüro

Permanent Representation of Austria to the EU
Brussels, 13 January 2015

South Europe: Social policy reform under harsh austerity

- Hit hardest and longest by the post-2008 crisis
 - Welfare states under acute strain
 - Increasing needs
 - Deep cuts in social spending

Petmesidou, M. and Guillén, A.M. eds. (2014)

Economic Crisis and Austerity in Southern Europe: Threat or Opportunity for building a Sustainable Welfare State?

South European Society and Politics, 19, 3.

Structure of the presentation

Countries: Portugal, Spain, Italy Greece

1. Reform paths prior to the crisis
2. Where is reform heading under the crisis?
3. Outputs and outcomes

Conclusions

Reform paths prior to the crisis

- Hybrid form of welfare arrangements:
 - Traditionally **occupational/Bismarckian** (income maintenance)
 - **Social-democratic** element introduced (healthcare, education) mid 70s-mid 80s
 - **Care and social assistance** means-tested
 - Great expansion 80s (despite oil crises & transition to democracy)
 - Different degree of success in each country

Reform paths prior to the crisis

- 1990s: The run up to the Euro

Austerity begins: fiscal constraints

- Cost-containment
- More active and service oriented provision
- Employment-friendly measures
- Recalibration (amending/modernising)
- Pursuing both equity and efficiency

Reform paths prior to the crisis

- 1990s-2000s

Italy and Portugal: intense reform during 1990s, to wain since the early 2000s

Spain: piecemeal but steady process of expansion until outbreak of crisis

Greece: failure to deal with major dysfunctions and imbalances

Where is reform heading under the crisis?

- **A critical juncture**

- Credit crunch and sovereign debt crisis
- Internal devaluation
- Social policies: main variables of adjustment

* Has the crisis ushered in a period of draconian welfare retrenchment?

* Does this indicate a significant erosion of social rights?

* Does it mean a tactics of policy “drift”?

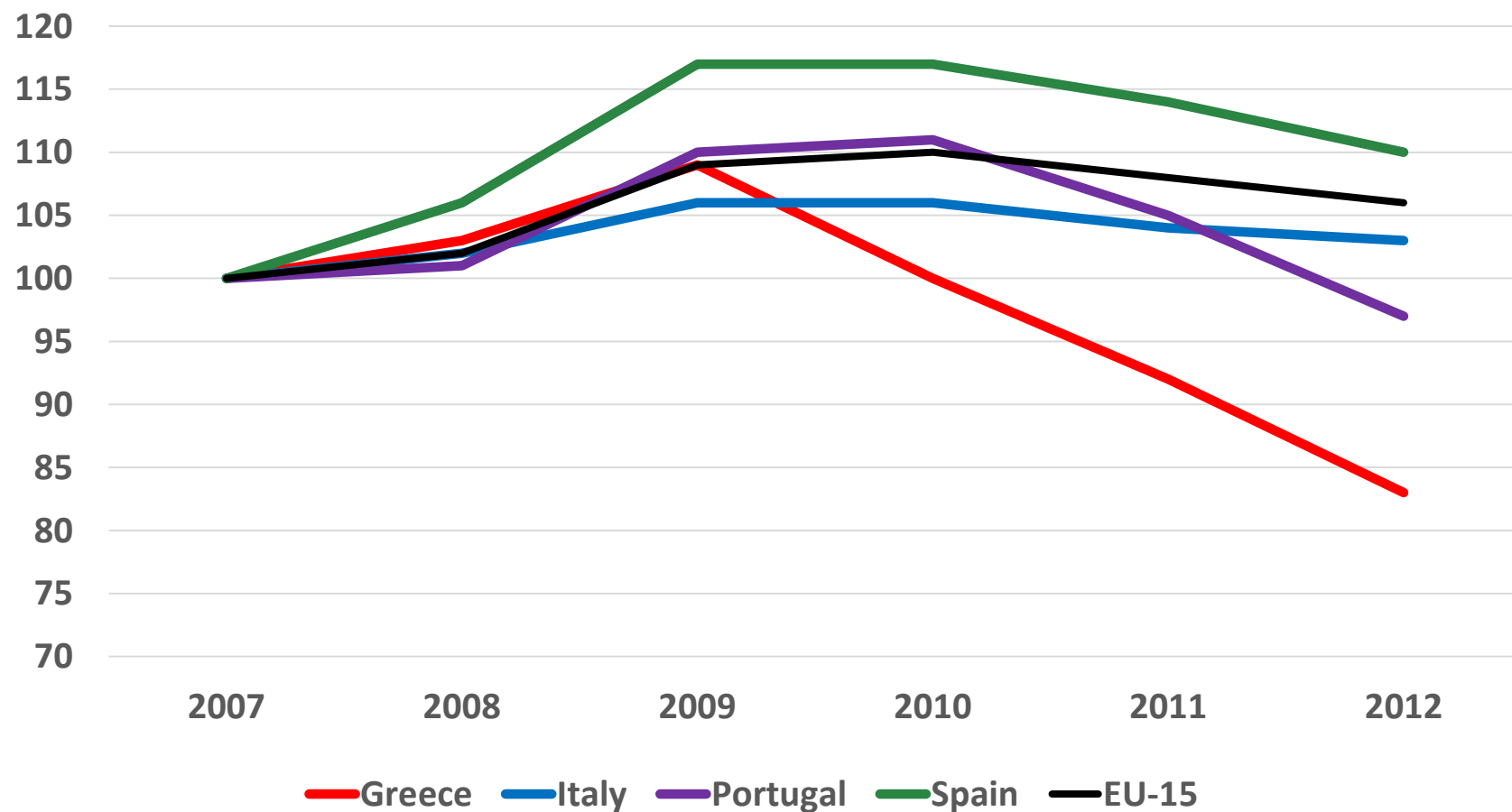
Where is reform heading under the crisis?

EU policies: “Six Pack”, “Euro Plus Pact”, “European Semester” and Rescue Deals

Paramount objective: Fiscal balance

- Wage squeeze /staff freezings
- Weakening of public services and social protection
- Increased taxation

Fig. 1 *Real public social spending since the beginning of the crisis (constant price 2007=100)*



Outputs: pensions (Natali & Stamati)

- Phased-out reforms
 - Higher mandatory retirement age
 - Lower replacement rates
 - Introduction of sustainability factors
 - From pay-as-you-go to a multi-tier system
 - Favouring of supplementary schemes
 - Future negative effects on adequacy of benefits
 - Reduced risks for long-term sustainability

Outputs: healthcare

(Petmesidou, Pavolini & Guillén)

- **Spain & Italy**

- No institutional change
- Public budget reductions
- Freeze of new contracts and salaries

- **Portugal & Greece**

- Attempts at wiping-out of fragmentation
- Attempts at coverage equalisation
- Seek of efficiency gains (+private burden)
- Introduction of market-based mechanisms

Outputs: family policies (León & Pavolini)

- Traditionally weak (expenditure and coverage)
- Major impulse from the process of European integration
- But policy innovation and path departure have been critically undermined by harsh austerity

Outcomes: unemployment and poverty (Gutiérrez)

Common features:

- Low and secondary occupation of the young
- Structural unemployment of less skilled
- Cyclical behaviour of employment (not Italy)
- Bias towards protecting the elderly

Uneven development by country of:

- Unemployment protection & minimum income
- Risk of material deprivation lower in Sp. & Pt.

**But even the most generous not able to counteract poverty risks even before the crisis

Outcomes: poverty and income inequality (Matsaganis & Leventi)

- EUROMOD, microsimulation

Estimation of distributional impact of the crisis

- Greece clearly stands out for negative impact
- Portugal and Spain affected less but significantly
- Change in the composition of population in poverty: younger & more likely to be unemployed
- Policies implemented account for a major part of increases in poverty

Conclusions

- Significant welfare retrenchment, especially in **Greece** & Portugal, but also in Italy & Spain.
- No 'paradigmatic' changes or wholesale privatisation so far.
- Very scant evidence of recalibration, if any.
- Significant erosion of social rights also in **Greece**; less so in Portugal.
- Differences in reform path by policy field.
- Policy "drift" may well be taking place in many policy domains under a debilitating crisis

Thank you very much for
your attention!