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
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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

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!