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"?

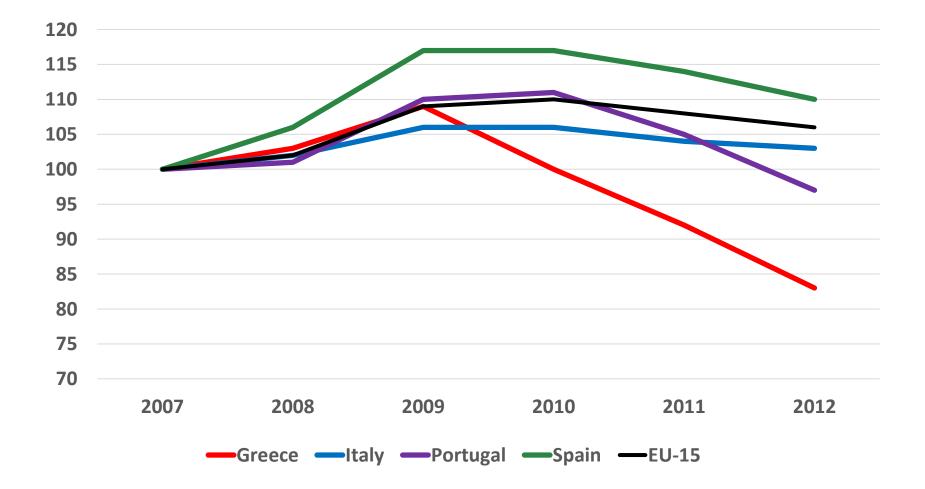
# Where is reform heading under the crisis?

## 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)



# Ouputs: 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!