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Crisis, Structural Reform and the Dismantling of the European Social Model(s)

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Abstract

Following ECB-president Draghi's remark that the European Social Model does no longer exist and the crisis can only be overcome through a combination of austerity and structural reform, this paper examines the consequences of austerity measures and structural reforms adopted during the crisis in a number of EU member states. The hypothesis is that the juxtaposition of the end of the European Social Model on the one hand, and austerity and structural reform on the other was well chosen. In fact austerity and the structural reforms amount to a veritable attack on the foundations of the European Social Model. The first part of the essay summarizes the discussion on the European Social Model, while the second part describes and compares major austerity measures and structural reforms adopted during the crisis. The third part discusses the impact of the newly established European Economic Governance structure on national economic and social policies. The fourth part deals with the consequences of austerity and structural reform, including for poverty and inequality. The essay ends with some reflections on the role of solidarity and the future of the European Social Model.

Keywords: Economic crisis, European Social Model, Austerity, Inequality, Solidarity

JEL Classifications: H10, H40, H50, I38, J38, J58

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1. INTRODUCTION

The then newly appointed president of the European Central Bank, Mario Draghi, stated in an interview with the Wall Street Journal in February 2012 that the European Social Model is "gone". Draghi basically argued that there may have been a time when Europe could afford to maintain a comprehensive system of welfare protection, but given the economic problems faced by many European countries, as highlighted by the current crisis, this is no longer the case.[1] The ECB president, furthermore, noted that austerity coupled with structural change is the only option for economic renewal in Europe. A number of EU member states have followed Draghi's advice and have introduced major institutional reforms in addition to cutting back public spending – several of them under pressure from the European Central Bank, the European Commission and/or the International Monetary Fund. While IMF loans are traditionally linked to structural adjustment obligations, those countries that received funding from the European Stability Mechanism had do agree to structural reforms as part of the Memoranda of Understandings, accompanying the instalments (Scharpf 2011: 29).[2] Informally the ECB also pressed Italy and Spain to introduce reforms for the continuous support of their banks.[3] In addition the European Commission has stepped up efforts to encourage all member states, not only those in severe economic distress, to combine financial consolidation with far-reaching structural reforms, including the reform of labour markets.[4] Draghi's juxtaposition of the end of the European Social Model and the need for structural reform was not by chance. In many regards, the reforms proposed by Brussels, Frankfurt and Washington touch the very heart of the European social systems.

This paper takes a closer look on austerity measures and structural reforms adopted during the crisis. The hypothesis is that austerity and structural reform amount to a veritable attack on the European Social Model(s) and an erosion of its de-commodifying effects – even though these effects successfully mitigated the consequences of crisis in the first phase of the recession. The second part of the essay summarizes the discussion on the European Social Model, while the third part describes and compares major structural reforms introduced

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[1] Wall Street Journal 24 February 2012.

[2] For an overview of structural adjustment and the impact on labour and social policies in Latin America in the 1980s see Fraile 2009.

[3] The Italian newspaper Corriere della Sera revealed a letter send by the ECB president to the Italian prime minister laying out which measures the ECB expects Italy to adopt in the face of the crisis. In response the ECB admitted that it sent a similar letter to the Spanish government, Financial Times, 29. September 2011(‚ECB letter shows pressure on Berlusconi').

[4] José Manuel Barroso, Press Conference Brussels 29 May 2013 (Statement by President Barroso on the country-specific recommendations package 2013).

during the crisis. The fourth part discusses the possible impact of the shift from open coordination to economic governance for national economic and social policies. The fifth part deals with the consequences of austerity and structural reform, including for poverty and inequality. The essay ends with some reflections on the role of solidarity and the future of the European Social Model.

2. THE EUROPEAN SOCIAL MODEL(S)

The invention of the term European Social Model is commonly attributed to Jacques Delors. As president of thee European Commission, the social democrat Delors introduced the idea of a European Social Model in the early 1980s to distinguish Europe from the United States (Hermann and Hofbauer 2007:126; Wincott 2003: 288). As such the European Social Model initially was a political intervention, a fiction launched to strengthen the rather fragile European identity and to propose an alternative to the ultraliberal capitalisms of American and from the late 1970s onwards British imprinting (ibid). In addition, the notion of a European Social Model was crucial to maintain the support of trade unions and left-wing parties for the European project, even though the Common Market and other policies threatened national employment and social standards (Hermann and Hofbauer 2007: 128- 31; Jepsen and Serrano Pascal: 238). According to some authors, the frequent references to the European Social Model were even used to conceal the fundamental neoliberal character of the European integration process (Hermann and Hofbauer 2007: 128-9; Whyman, Bainbridge and Mullen 2012).

While in political terms the European Social Model was used as purely affirmative notion, it was not long and an academic debate emerged about the appropriateness and usefulness of the concept (Goetschy 2006). Analytically, the term European Social Model raises a number of difficulties. According to quantitative indicators such as (per-capita) GDP, inequality or unemployment, differences within the EU-27 are actually larger than differences within the United States (Alber 2006). Institutionally, Europe combines different varieties of capitalism as well as different welfare state models (Schmidt 2009; Clift 2009). Some authors therefore argue that Europe has not one, but several distinctive social models. Ebbinghaus (1999) and Sapir (2006) identify four European social models – a Nordic, Anglo-Saxon, Continental/Center and Southern/Mediterranean model.[5] While acknowledging that from an outside view there are significant commonalities among European social systems, including substantial employment rights, Bosch, Lehndorff and Rubery (2009: 10-13) emphasize the specific national character of European employment and social models and the national-specific dynamic of change that occurred in the past 30 years.

In contrast Richard Hyman (2005: 11) argues that the common features in continental Western Europe are strong enough to distinguish a European Social Model from an American model of largely deregulated labour markets and a Japanese model of management-dominated company employment relations. According to Hyman (ibid.) Europe is unique inasmuch as there are “substantial limits to the ways in which labour (power) can be bought and sold”. These limits constrain the autonomy of employers to “a degree unknown elsewhere in the world” (ibid). The limits are primarily set through comprehensive employment protection legislation, as well as encompassing and centralized collective bargaining structures. Offe (2003: 443) makes a similar argument when he notes that in the European model of ‘social’ capitalism, economic transactions, including labour market exchanges, tend to be institutionally embedded and therefore more restricted than in other parts of the world.

The embedding of economic activities is complemented by comprehensive welfare systems, granting a minimum existence independently from individual labour market performances. However, while Scharpf (2002) argues that the diversity of European welfare states is a major obstacle to the development of a common European Social Model, Hermann and Mahnkopf (2010: 317) point out that the highly diverse western European welfare systems still “share the common aspect that all (national) citizens are entitled (*de jure* or *de facto)* to income and resources that grant a socially defined minimum existence”. This even holds for Britain’s liberal and means-testing welfare state. In the United States, in contrast, welfare entitlements are either temporary or reserved for specific social groups such as elderly or single mothers (ibid; see also Kronauer 2007). Wickham (2002) also states that the main difference between the United States and Europe is that Europeans have social rights. Such rights not only include a certain degree of welfare protection, but also employment rights and rights of industrial representation, including in some countries even the right for co-determination. In other words, labour is widely considered as social partner, “often with a key role in shaping

[5] While Sapir (2006) has predicted that the Nordic and Anglo-Saxon models are well prepared for the challenges of globalization, he saw urgent need for reform in Continental and Southern European countries (ibid.) Interestingly it was the Anglo-Saxon and Southern European countries that were hit hardest by the crisis, along with some of new member states in Central and Eastern Europe (CEE), while Continental Europe did comparable well.

social policy and administering public welfare" (Hyman 2005: 11). Accordingly, Grahl and Teague (1997: 405) define the European Social Model as "a specific combination of comprehensive welfare systems and strongly institutionalized and politicized forms of industrial relations" and Martin and Ross (2004: 11) as "institutional arrangements compromising welfare state … and the employment relations system."

In conclusion, Hermann and Mahnkopf (2010: 318) argue that "if there is an essence of the European Social Model it is the comparatively high level of de-commodification provided by the institutionally and politically highly disparate European social systems." De-commodification is promoted through extensive employment regulation, comprehensive welfare regimes and a substantial public sector, encompassing public infrastructures as well as social services. In the latter case de-commodification not only stems from the provision of non-commodified public services, but also from the creation of relatively stable and well paying employment opportunities (Hermann and Atzmüller 2008). The exceptional degree of de-commodification results in a comparable high degree of equality and as such is also an expression of an advanced level of solidarity (Hermann and Mahnkopf 2010: 318). However, solidarity mainly flourished within national borders and only marginally extended to other parts of Europe, let alone other continents.

It is important to note that the European social models are not the result of a specific institutional tradition or path-dependency. The US model also inhibits a certain degree of de-commodification, especially in the heydays of the American labour movement in the 1950s and 60s. Rather European social models are the result of social struggles and the relative strength of the European labour movements and related working class parties after the Second World War or in Southern Europe after the transition to democracy (Schmidt 2009). However, the dependence on social and political power also means that the European social models have always been contested. In fact many of the welfare and labour market reforms introduced in the 1980s and 90s in a climate of growing labour weakness amount to a process of dissembedding and re-commodification (Hermann and Mahnkopf 2010: 318-21; Krätke 2005). In this regard, crisis-induced austerity and structural reform are only the latest chapter in the long-term dismantling of the European social models.

3. CRISIS, AUSTERITY AND STRUCTURAL REFORM

Apart from saving failing banks, European governments initially responded to the crisis with Keynesian inspired deficit spending. However, from 2009 onwards deficit spending gave way to austerity policies (Bieling 2012; Theodoropoulou and Watt 2011; European Commission 2012: 37-38). One country after the other adopted austerity packages, some of them several packages in a row. Particularly affected were those countries that relied on external funds to avoid public default and that subsequently stood under close observation by the funding organisations. However, even those member states that did not face insolvency experienced growing pressure from Brussels, which despite continuously sluggish growth pressed member states to reduce public expenses. As a result, Greece reduced public spending by more than 30 billion euro or an equivalent of ten per cent of GDP between 2009 and 2011. An additional eight per cent are expected to be saved until 2015 (OECD 2012: 28). The Irish austerity programme is also intended to save the equivalent of 18 per cent of GDP until 2015, while Estonia aims for 13, Hungary for eight and the UK, Spain and Portugal for seven per cent (ibid. and 2011: 28). Other countries, too, have introduced massive austerity programmes. Overall the scale of austerity adopted in response to the crisis is unprecedented in European postwar history and remarkable even in international standards (Theodoropoulou and Watt 2011: 12; Armigeon and Baccaro 2012: 256).

Social protection and public employment

Initially, welfare state spending played an important role in mitigating the worst effects of the crisis. Even the European Commission (2012: 15) concedes that "[s]ocial protection benefits have generally significantly cushion the effects of the income shocks on households from the economic crisis, especially in the period 2007-09". However, the situation changed significantly in the second phase of the crisis, when, as described above, governments turned from deficit-spending to austerity. Welfare-state spending, subsequently, became a major target of budget consolidation (Heise and Hirse 2011; Feigl 2012: 37). Hence between 2009 and 2010 total social protection expenditure fell in seven out of the eleven countries covered in this analysis despite continuous economic distress an in several countries fast rising unemployment – which normally would have resulted in an increase in expenditure. The Greek government, for example, responded to growing unemployment by cutting unemployment benefits by 22 percent (Avram et al. 2013: 34). Unemployment benefits were also reduced in Portugal, together with a shortening of the maximum period for which unemployment benefits can be obtained (ibid., 41). In Romania the reduction of unemployment benefits was part of a general 15-per-cent cut in social benefits (Heine and Hirse 2011: 26). In several cases, the reform of unemployment benefits was linked to a strengthening of work obligations. Hungary, for example, reduced entitlement to unemployment benefit to three months while at the same time introducing the obligation to perform community work (Toth, Neuman and Hosszu 2012: 149). In other countries cuts affected mainly family allowances and housing benefits. Spain abandoned the universal birth grant that was paid before the crisis, while Latvia and Lithuania reduced maternity/paternity benefits and the UK housing allowances (Avram et al. 2013; European Commission 2012: 41). In some countries, including Greece and the UK, cuts in benefits were complemented by increases in admission fees and co-payments for health care services and/or access to higher education. It is important to note that none of the countries affected by the cuts had particular extensive welfare states and generous social benefits before the crisis.

However, welfare state cuts were even more severe in the area of in-kind provision. Here spending cuts (between 2009 and 2012) amounted to 29 per cent in Greece, 19 per cent in Portugal and 16 per cent in Ireland. Such measures could hardly be achieved without severe cuts in service provision. In Greece, a 40 per cent-budget cut for hospitals together with the introduction of co-payments and stricter access rules created veritable health crisis (Tzannatos and Monogios 2013: 278; Stuckler and Basu 2013: 83-94).[6] In Portugal, Ireland and Latvia, cuts in healthcare spending led to hospital closures (Rato 2012: 436; Masso and Espenberg 2013: 116), while Spanish hospitals responded to the budget fallout with downsizing and temporary closures (de Bastillo Munoz and Anton 2013: 536). Spain and the United Kingdom have, furthermore, promoted marketisation and privatisation of healthcare provision in the hope that this will save healthcare expenditure. The cuts in in-kind provision underline the structural character of the welfare reforms adopted during the crisis.

In Greece and Portugal and to a lesser extent also in Ireland, Spain and Italy, financial consolidation also involved far-reaching privatisation programmes (Busch et al 2013). Privatisation and welfare state retrenchment translated into a shrinking of the public sector and the elimination of thousands of public sector jobs. Ten out of the eleven countries included in this analysis have announced public sector job cuts (Hermann and Hinrichs 2012: 5-6; Glassner 2010).

[6] Stuckler and Basu (2013) show that austerity can have deadly effects. Among other things, the budget cuts led to a reduction of the number of fresh needles given out to drug users with the effect Greece experienced the first HIV outbreak in Europe in decades (ibid. 26).

Table 1: Social protection spending

	Cuts in unemployment benefits and social assistance	Cuts in child a. maternity/ paternity benefits	Cuts in care and sickness benefits	Cuts in housing benefits	Total social protection expenditure 2009-2010	In kind social protection spending 2009-12
UK	-	X	X	X	-2.5	7.0
Ireland	-	X	-	-	7.9	-15.5
Greece	X	-	-	X	-4.9	-28.9
Portugal	X	X	-	-	0.4	-18.8
Spain	-	X	X	-	-0.1	-11.9
Italy	-	-	-	-	1.0	-1.6
Estonia	-	X	-	-	-5.0	12.8
Latvia	X	X	-	-	4.9	1.3
Lithuania	X	X	X	-	-9.2	-3.7
Hungary	X	-	-	-	-2.2	-4.2
Romania	X	X	-	-	-0.3	-0.7

Source: Compiled from Avram et al 2013, European Commission 2012 and further sources. Data from European Commission 2012.

The Greek government wants to reduce public employment by 25 per cent (Tzannatos and Monogios 2012: 268). The British government has shed 420,000 jobs by 2012 and is well on course to reach its goal of cutting ten per cent of the public sector workforce by 2015 (Grimshaw 2012: 589). Yet while the UK simply layoff workers, other countries shrink the workforce primarily through non-replacement of retirees or voluntary dismissals. After a temporary ban on all new hiring, only every tenth public sector employee is meant to be replaced in Greece (later to be reduced to every fifth). In Romania this applies to every seventh and in Italy to every fifth worker who leaves the public sector (Hermann and Hinrichs 2012: 5-6). While politicians tend to defend job cuts with the need to curtail inflated public administrations, actually many of the cuts affected healthcare and education workers. In Greece, understaffing in hospitals has put additional pressure on the already strained healthcare system (Tzannatos and Monogios 2013: 279). In Ireland, too, public sector jobs were mainly ‘saved’ in healthcare and education, further eroding the already small public sector (Regan 2013: 15). However, public sector workers not only suffered from job cuts; almost all governments covered in this survey have also introduced public sector wage cuts and pay freezes and several of them have reduced public sector pensions (Vaughan-Whitehead 2012). Rather than cutting pensions, the Irish government increased pension contributions of public sector workers, amounting to another seven-percent reduction of public sector wages (Hermann and Hinrichs 2012: 43).

Pensions

Austerity not only affected public sector pensions. Since pensions make up for a large part of welfare spending, it is not surprising that they are a major focus of welfare state restructuring.

Seven out of the eleven countries covered in this analysis introduced temporary pension freezes, while four countries actually cut private sector pension payments. In Portugal and Greece the 13th and 14th pension payments were partly eliminated, while Hungary cancelled the 13th payment.[7] In Greece this step was complemented by further cuts of up to 25 per cent in the new austerity package adopted in fall 2012 (Hermann and Hinrichs 2013: 33-45). However, in addition to short-term measures, most countries also used the opportunity to speed-up structural reforms. Eight countries have increased the retirement age during the crisis. Women are particularly affected because their retirement age is not only increased as a result of the crisis, but at the same time adjusted to the higher age of male of workers (ibid). Usually the changes are introduced gradually over a several years long time period. In Italy, however, the retirement age of women employed in the public sector has been raised from 61 to 65 between 2010 and 2011 and then to 66 in the following year (ibid). In the long-term the retirement age in the crisis countries is expected to increase to between 67 and 70 years. In addition, three countries have introduced 'automatic stabilisers' which asses the life expectancy every three or five years and adjust the retirement age to changes in life expectancies (ibid).

While the regular retirement age is increasing, access to early retirement and invalidity pensions has been restricted. Five countries have also extended the contribution period that makes retirees eligible for a minimum or full pension (ibid). In Latvia the minimum period of contributions has been increased from ten to 20 years, while in Greece the period that grants access to a full pension without deductions has been raised from 35 to 40 years (ibid). Greece and Spain have also extended the contribution periods upon which the pension payments are calculated. In Greece, calculations are now based on the entire employment career instead of the best five of the last ten years; in Spain, the last 25 instead of the last 15 years are taken into account. In both cases the likely result are lower pensions (ibid). Structural reforms also concerned the relationship between the different pillars of the national pension systems, with some countries strengthening and others weakening the personal saving-based component. However, in Ireland and Hungary pension funds resources were used to bail out banks or to cover public deficits (ibid.).

[7] In Greece pensioners receive a uniform compensation payment of 800 euro per month; in Portugal the measure was limited to pensions over 1,100 per month.

Table 2: Pension reforms

Increase of retirement age	EL, IT, ES, IE, HU, RO, LV, UK
Reduction of pension payments	EL, PT, HU, LT
Temporary pension freeze	EL, IT, PT, IE, LV, LT, EE
Extension of contribution periods	EL, ES, IT, RO, LV
Extension of the periods on which pension payments are calculated	EL, ES
Limitation of access to early and invalidity pensions	IT, PT, HU
Automatic adjustment to life expectancy	EL, ES, IT (UK in discussion)
Introduction of mininum pensions	EL, RO

EE=Estonia, EL=Greece, ES=Spain, IE=Ireland, IT=Italy, LT=Lithuania, LV=Latvia, HU=Hungary, PT=Portugal, RO=Romania, UK=United Kingdom.

Source: Own elaboration.

Labour markets

Labour markets are another popular target of structural reform (Hermann and Hinrichs 2012: 17-22; Schömann and Clauwaert 2012: 10-2). The overall goal is to make labour markets more flexible. However, flexibilisation mainly takes the form of promoting non-standard employment and weakening job security (Hermann and Hinrichs 2012: 17-22). Five countries have relaxed regulations of fixed-term employment. In Portugal the maximum length of fixed-term contracts has been increased from six to 36 months, in Greece and Romania from 24 to 36 months. In some countries the promotion of fixed-term employment went hand in hand with the elimination of restrictions for temporary agency work. While cutting permanent and temporary jobs, the Greece government enabled government agencies to hire temporary agency workers (ibid). Greece and Spain also introduced new employment contracts for younger and in the case of Spain unskilled workers. These contracts last for two years and pay only between 75 and 80 per cent of the national minimum wage (which in Greece has already been reduced by 22 per cent). In Greece workers under these contracts not only earn less; they can also be laid off at any time without being eligible for unemployment benefit. Workers can also be dismissed without reason during probation. Three countries have therefore extended probation periods. In Greece it now lasts for twelve instead of two months, in Romania for 90 instead of 30 days or 120 instead of 90 days for employees with managerial tasks (ibid).

While promoting atypical forms of employment, changes have also made it easier to layoff workers. In Greece the government ended the special employment protection for civil servants. In Estonia employers no longer need the consent of the labour inspectorate to layoff pregnant women, while in Hungary employees can now be dismissed while they are on sick leave (ibid). In addition to weakening special protection for particular vulnerable employees, the reforms also included a shortening of dismissal periods. In Greece workers have to be given notice three instead of five months; in Spain the period has been reduced from 30 to 15 days (ibid). Layoffs have not only become easier, but also cheaper. In Greece, Spain and Portugal severance pay has been halved (in Spain for companies in economic difficulties), while in Estonia it was reduced from three to two monthly wages – with one month being paid by the labour market service (ibid). Mass layoffs have also been made easier. In Estonia the dismissal period has been halved and companies no longer need government approval for mass redundancies. Estonian employers, furthermore, are no longer required to re-instate workers if new employees are hired after a mass layoff. Romanian workers still have a right to be re-hired – but the period for which this rule applies was cut from nine months to 45 days. Since mass layoffs are associated with additional obligations, the Greek government has increased the minimum number of workers that need to be made redundant simultaneously to qualify the measure a mass layoff (ibid).

While redundancy rules have been relaxed, it has become more difficult for employees to fight unfair dismissals. In the UK a worker must now be employed for two instead of one year to be able to challenge a dismissal at court (ibid). In Spain the definition of fair dismissals has been expanded. It is now sufficient for companies to refer to technological or economic reasons to justify a fair dismissal (ibid). Even if an employee can proof an unfair dismissal, the right to be re-instated has been restricted. In Italy a planned labour market reform will still grant victims of an unfair dismissal financial compensation, but they will no longer be able to return to their former job. The Hungarian government refrained from altering the definition of unfair dismissals, but reduced the maximum fine from 36 to twelve monthly wages (ibid).

Table 3: Labour market reforms

Promotion of non-standard employment		
	Promotion of fixed-term employment and agency work	EE, EL, LT, RO, PT
	Introduction of new employment contracts with less pay and job security	EL, ES
	Extension of probation periods	ET, GR, RO
Reduction of job security		
	Weakening of employment protection for civil servants	EL
	Weakening of employment protection for particular vulnerable groups of employees	EE, HU, RO
	Shortening of notice periods	EL, ES
	Increasing thresholds and reducing obligations for mass layoffs	EE, EL, ES, RO
	Changes in the definition of fair and unfair dismissals	ES, IT, UK
	Reduction of severance pay	EE, ES, EL, PT
	Restriction of access to court and reduction of fines for unfair dismissals	HU, UK
	Elimination or weakening of the right to be reinstated after an unfair dismissal or after a mass layoff	ES, IT, RO

EE=Estonia, EL=Greece, ES=Spain, IE=Ireland, IT=Italy, LT=Lithuania, LV=Latvia, HU=Hungary, PT=Portugal, RO=Romania, UK=United Kingdom.

Source: Own elaboration.

Collective bargaining

Particular dramatic are the changes in collective bargaining. While in some countries, the crisis initially fostered social partnership arrangements through what has been described as "crisis corporatism" (Urban 2012), the following structural reforms amount to a profound decentralisation and erosion of collective bargaining systems (Hermann and Hinrichs 2012: 23-30; Schulten and Müller forthcoming). Decentralisation is imposed in three different ways: Firstly, countries can abandon national or sector-wide collective agreements. While in Romania the government suspended the national collective agreement through legislative reform, in Ireland the social partnership on which the national agreement was based collapsed after the government opened an existing agreement and unilaterally cut public sector wages (Doherty 2011; Regan 2013). Secondly, countries can eradicate the favourability principle. The favourability principle is a cornerstone of many bargaining systems and stipulates that in the case of multiple collective agreements those regulations prevail that grant the most favourite conditions for the workers. As a result company agreements only have an effect when they contain better conditions than multi-employer agreements. In Greece and Spain this is no longer the case. Since the crisis company agreements apply even if they provide for poorer employment conditions than sector or regional agreements (Hermann and Hinrichs 2012: 25). Thirdly, countries can promote decentralisation through the granting of exceptions and the acceptance of derogation from sector-wide standards. Italy, among others, adopted a reform that allows for a wide range of derogations in essential bargaining matters (ibid. 26).

Decentralisation is complemented by a weakening of bargaining institutions (Hermann and ibid. 26-7). Greece has suspended extension procedures through which agreements concluded between one or more employer organisations and trade unions was made binding for an entire sector or region. In Portugal extension procedures were initially also suspended, but meanwhile the government has introduced a reform according to which signing parties must represent at least 50 per cent of the workers in the sector to justify an extension procedure. Similar changes were introduced in Romania and Hungary (ibid). Collective bargaining systems also suffer from the elimination or shortening of the 'after effect'. The 'after effect' means that regulations continue to apply after an agreement has expired. By doing so, they encourage employers to negotiate a new contract. In Estonia the 'after effect' was entirely abandoned; in Greece it was reduced from six to three months. In Spain the effect still lasts for two years – but this is a significant deterioration from the previous situation where agreements continued to apply until a new contract was reached (ibid).

The crisis even encouraged governments to interfere in collective bargaining. In Greece an existing agreement between the social partners was suspended and the national minimum wage cut by the government by 22 per cent. In Greece and Romania new legislation limits the duration of collective agreements to three and two years respectively (ibid. 28). In both cases the International Labour Organisation has criticised the changes as violations of the principle of free bargaining (ILO 2011a and 2011b). The erosion of the bargaining systems was complemented by a weakening of trade union representation (Hermann and Hinrichs 2012: 28-29). In Greece, for example, company agreements can now be signed by staff representatives without trade union affiliation. In smaller companies they can do so despite the presence of designated trade unionists (Voskeritsian and Kornelakis 2011: 18-9). The combination of company-bargaining and non-union bodies signing the agreements has resulted in an average 22 percent drop in collective wages (Georgiadou 2012). Romania has introduced tougher criteria for trade unions to be qualified as representative organisations that can sign collective agreements, while Hungary abolished the tripartite national forum for the discussion of wage developments (Schulten and Müller, forthcoming).

Table 4: Reform of collective bargaining

Decentralising collective bargaining		
	Elimination or suspension of national collective agreements	IE, RO
	Suspension of the favourability principle	EL, ES
	Approval of exceptions and divergences	IT
Weakening of collective bargaining		
	Suspension or reduction of extension procedures	EL, HU, PT, RO
	Limitation of the ‚after effect' of expired collective agreements	EE, EL, ES
	Limitation of arbitration	EL
Interventions in collective bargaining		
	Suspension of existing agreements	EL
	Limitation of the duration of agreements	EL, RO
Weakening of trade unions		
	Higher thresholds for representativeness of trade union organisations and abolishment of tripartite institutions	RO, HU
	Promotion of alternative forms of employee representation at the cost of works councils and trade unions	EL, HU, PT

EE=Estonia, EL=Greece, ES=Spain, IE=Ireland, IT=Italy, LT=Lithuania, LV=Latvia, HU=Hungary, PT=Portugal, RO=Romania, UK=United Kingdom.

Source: Own elaboration.

4. FROM THE OPEN METHOD OF COORDINATION TO ECONOMIC GOVERNANCE

Welfare and employment policies, core elements of the European Social Model(s), have long been excluded from the European integration process. Only from 1997 onwards social policies acquired a more prominent role on the European level, not least as response to the unemployment crisis looming in the mid 1990s in a number of member states, and as a counter weight to the Growth and Stability Pact that was adopted in the same year (O'Connor 2003: 347; Hermann and Hofbauer 2007: 128-9). However, while the Growth and Stability Pact included fines for those countries which did not adhere to the fiscal rules, and thereby indirectly also set limits for social spending, the adjustment of employment policies was based on a new policy making mechanism, the Open Method of Coordination. Rather than forcing member states to introduce certain measures, the Open Method of Coordination essentially established a process of evaluation, exchange and mutual learning with the effect that member states would voluntarily adopt the appropriate reforms of their employment systems. In the following years the Open Method of Coordination was extended to cover other fields of social policy-making such as social inclusion, health care and pensions (de La Porte and Pochet 2013: 338). While some commentators have welcomed the Open Method of Coordination as new and innovative form of policy making (Mosher and Trubek 2003; Zeitlin 2005), others have pointed to the limits of the 'soft law' or 'soft governance' approach to solving social problems (Jacobsen 2004; Trubek and Trubek 2005). There are some controversies about the actual impact of the Open Method of Coordination on member states' social policy making (de La Porte and Pochet 2013: 340-4; Heidenreich and Zeitlin 2009). However, the resulting reforms were certainly less far-reaching as hoped for by the policy-makers in Brussels. In fact the lack of more sweeping reforms of labour markets and social systems is seen as a major cause for the persistence of the crisis in Europe.

As a result of the crisis and the lack of reform in the member states, the European Union itself embarked on a major institutional overhaul, conventionally described as Six Pack (Klatzer and Schlager 2011; Barnard 2012; Bieling 2012).[8] In addition to a reform of the Growth and Stability Pact and a tightening of the rules of the Excessive Deficit Procedure, the changes also included the introduction of a Macroeconomic Imbalance Procedure with potential

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[8] The term Six-pack refers to five regulations and one directive that came into force on 13 December 2011.

effects for member states' employment and social policies.[9] Background is the current account imbalances which have grown significantly since the introduction of the Euro. Essentially Southern European countries have build up major current account deficits, while Germany and its satellites have registered growing current account surpluses (Hein, Truger and Van Treeck 2012; Busch 2012). The imbalances are seen as major obstacle to an economic recovery in Europe which in the view of the European Commission can only be tackled by increasing the competitiveness of deficit countries (European Commission 2010).

Like the Excessive Deficit Procedure, the Macroeconomic Imbalance Procedure imposes a number of targets, which member states are expected to fulfil. Among the eleven indicators are also labour unit costs and unemployment rates.[10] The choice of indicators and acceptable scores is not free of ideological considerations. Hence the scoreboard limits the growth of labour unit costs to three per cent per year, which is barely higher than the official inflation target, but allows for a ten per cent unemployment rate. If a member state fails to meet one or several targets, a formal procedure can be launched in which the respective government has to produce a strategy of how to tackle the perceived problems. The plan must then be approved by the Commission. If a member of the euro area repeatedly fails to propose an acceptable strategy, or to comply with the proposed measures, the country can be fined for up to 0.1 per cent of its national GDP (Oberndorfer 2012: 63; Busch 2012: 31-2). This is significant departure from the 'naming and shaming' principle of the Open Method of Coordination.

Which measures the Commission has in mind when it thinks about tackling current account imbalances, can be seen in the country-specific recommendations issued as part of the yearly Alert Mechanism. Among them are the decentralisation of collective bargaining, the abolition of wage indexation, general and public sector wage moderation, as well as greater wage differentiation (Schulten and Müller, forthcoming). As Bieling (2012: 264) notes, "[o]f course, the European recommendations on national reform and convergence programmes remain contested. However, first experiences with the European Semester show that they mainly go in one direction, as they stipulate accelerated public deficit reduction, increase of the effective retirement age, labour market flexibilization, wage developments in line with or in some cases even below productivity gains." The European Commission is seconded by the

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[9] Among other things, the new regulations sanction not only member states which fail to limit new debt to a maximum of three per cent of GDP per year, but also those whose accumulated debt exceeds 60 per cent of GDP. In the later case the gap between a country's debt level and the 60 per cent reference has to be reduced by 1/20th annually over a three-year-period.

[10] Indicators include: Current account balance; net international investment position; real effective exchange rate; export market shares; labour unit costs; house prices; private sector credit flow; private sector debt; general government debt; unemployment rate; total financial sector liabilities.

European Central Bank (2011: 7) which also calls for "comprehensive structural reforms" including "a strengthening of firm-level agreements so that wages and working conditions can be tailored to firms' specific needs". Similar recommendations can also be found in the Euro Plus Pact, voluntarily adopted by the members of the euro area and some additional countries (Barnard 2012: 106-7). It is not by accident that the main formulas for tackling macroeconomic imbalances and boosting competitiveness look very much like the structural reforms adopted during the crisis. In fact the Commission has explicitly welcomed the labour reforms introduced by Ireland and other crisis countries as important steps to regain competitiveness (European Commission 2010: 39).

5. THE EFFECTS OF AUSTERITY AND STRUCTURAL REFORM

In sum, austerity and structural reform have fuelled the erosion of welfare protection, especially with regard to pensions and the provision of public services; it has promoted atypical forms of employment, while reducing employment and job security; and it has shifted the locus of collective bargaining from the national, regional and sector level to the company level, thereby increasing the fragmentation of employment conditions. Instead of promoting social partnership, anti-crisis policies and structural adjustment have, furthermore, weakened trade unions and interest mediation. Austerity and structural reform, hence, had a major impact on the European Social Model(s) (Busch et al. 2013; Grahl and Teague 2013; Pochet and Degryse 2012; Scharpf 2011; Arestis, Fontana and Sawyer forthcoming). And despite country-specific variations in the structural adjustment programmes, overall the promotion of privatisation, insecurity and percarisation have reversed the decommodifying effects inhabited in the pre-crisis social systems. As Schmitter (2012: 5) notes, "the vision of Europe as the site of an alternative form of 'social capitalism' has been seriously tarnished by the current crisis."

However, contrary to the promises of Draghi and others, austerity and structural reforms have so far failed to initiate a systematic economic recovery in Europe (Armigeon and Baccaro 2012; Arestis and Sawyer 2012; Lehndorff 2012). Except for Britain, whose growth expectations are also shaky, none of the countries covered in this analysis have fully made up for the GDP losses incurred since the start of the crisis (by the end of 2012).[11] Greece suffered from five straight years of economic contraction and lost about a quarter of its GDP. Negative

[11] The Baltic countries are close to re-approach pre-crisis GDP levels, but in the case of Latvia and Lithuania at the cost of growing poverty and inequality.

or slow growth is complemented by record-high unemployment, accounting for more than 25 per cent of all workers in Greece and Spain, and for more than 50 per cent of young workers in both countries (for Greece see Karamessini 2012; for Spain Banyuls and Recio 2012)

Not surprisingly, growing unemployment was accompanied by an increase in poverty and economic deprivation. In four of the eleven countries included in our sample, the proportion of those living with less than 60 per cent of national median income has increased between 2008 and 2011– in Ireland, Spain, Lithuania and Latvia by more than four per cent. However, the measure of *relative* poverty underestimates the real effect on poverty because it does not take into account the simultaneous fall of the median wage in the crisis. Because of falling median wages the poverty threshold decreased in all countries except for Romania and in six countries it fell by more than six per cent (in Lithuania by an astonishing 17.4 per cent). This means that people may no longer be qualified as poor even though their income situation has deteriorated during the crisis. The OECD (2013: 6) attempted to tackle the problem by calculating the growth in poverty based on 2005 median incomes. As a result, between 2007 and 2010 poverty increased in six out of the eight countries from our sample covered in the analysis. Poverty increased by more than five per cent in Greece and Spain and more than three per cent in Ireland.[12] This picture is confirmed by changes in the share of population experiencing severe economic deprivation and those reporting to have great difficulties to make ends meet. In both cases the proportion increased in all but three countries from our sample. Particularly affected were Greece, Hungary and the Baltic states. Most of the countries that recorded increases in poverty during the crisis years already had above-average poverty rates before the downturn (Leschke, Theodoropoulou and Watt 2012: 263-4). Furthermore, given the pension reforms introduced in the crisis as well as the growth in unemployment and non-standard jobs, the crisis countries will face a veritable old-age poverty problem in the future – if no counter measures are adopted (Hermann and Hinrichs 2012: 57).

The recession not only fuelled unemployment and poverty; austerity and structural reforms also led to an increase in inequality. Heine and Hirse (2011: 32) conclude from the study austerity programmes from seven countries that “most countries are making savings at the expense of those on low incomes only a few governments are pursuing a strategy which also involves higher earners in debt consolidation.”

[12] Many of the countries that recorded increases in poverty during the crisis years already had above-average poverty rates before the downturn (Leschke, Theodoropoulou and Watt 2012: 263-4).

Table 5: Poverty, social exclusion and economic deprivation

	2011	2008-2011	2008-2011	2007-2010	2011	2008-2011	2011	2008-2011
	1	2	3	4	5	6	7	8
UK	23.1	-0.1	-7.7	-0.6	4.8	0.3	6.5	0
Ireland	29.9	6.0	-10.7	3.7	7.5	2.0	15.2	5.9
Greece	31.0	2.9	-7.0	5.1	15.2	4.0	25.6	5.6
Portugal	24.4	-1.6	-0.7	-1.7	8.3	-1.4	19.2	-5.0
Spain	27.0	4.1	-7.9	5.7	3.9	1.4	10.1	-2.4
Italy	24.5	-0.8	-0.5	2.2	6.9	-0.6	16.8	-1.3
Estonia	23.1	1.3	-6.7	2.2	8.7	3.8	8.5	5.4
Latvia	40.1	6.3	-17.4	-	30.9	11.9	24.1	10.9
Lithuania	33.4	5.8	-12.5	-	18.5	6.2	11.2	5.3
Hungary	31.0	2.8	-0.2	0.8	23.1	5.2	26.1	9.4
Romania	40.3	-3.9	15.5	-	29.4	-3.5	20.8	2.1

1) Risk of poverty or social exclusion in % (Eurostat)*

2) Changes in the risk of poverty and social exclusion in % (Eurostat)*

3) Development in the risk of poverty indicator/poverty threshold in % (Eurostat)*

4) Change in poverty when poverty threshold anchored in 2005 median incomes in % (OECD)**

5) Share of population experiencing severe economic deprivation in % (Eurostat)*

6) Change in the share of population experiencing severe economic deprivation in % (Eurostat)*

7) Share of population reporting great difficulty making ends meet in % (Eurostat)*

8) Change in the share of population reporting great difficulty making ends meet in % (Eurostat)*

* From European Commission 2012 (Employment and Social Developments in Europe 2012)

** From OECD 2013 (Crisis squeezes income and puts pressure on inequality and poverty)

Avram et al. (2013: 26) attest governments a more balanced approach. Most of the austerity programmes they have included in their analysis had a progressive effect, demanding for higher contributions from wealthier citizens. However, in five out of the eleven countries included in this analysis, the gini coefficient, a measure of inequality, increased between 2008 and 2011. Ireland recorded the greatest proportional increase, followed by Spain and Hungary. The gap between the top and the bottom income quintile grew in six out of the eleven countries, signalling growing inequality among high- and low-income earners. Here the greatest increase was recorded in Spain, followed by Ireland and Italy. However, these figures may still underestimate the different exposure of different income groups to the crisis. A comparison between the development of disposable income of the top and bottom income decile shows that in six out of eight countries for which data is available the top ten percent proportionally lost less income between 2007 and 2010 than the bottom ten percent – often half as much or less. Again Spain and Italy stand out in this comparison as here the top decile merely lost one per cent of disposable income, while the bottom decile lost 14 per cent in Spain and six per cent in Italy. Spain, Italy, Ireland and Greece stand in contrast to Portugal, where the losses were distributed more evenly between the rich and the poor.[13]

[13] This development seems to be widespread: In 21 out of 33 countries for which the OECD found data, the richest ten per cent has done better than the poorest ten per cent. In fact Iceland was the only country were the top ten lost more than the bottom ten (OECD 2013: 4).

Table 6: Inequality

	1	2	3	4	5	6
	2010/11	2008-11	2008-11	2007-10	2007-10	2007-10
United Kingdom	0.33	-2.7	-5.4	0.0	-1.0	+
Ireland	0.33	11	20.4	-3.0	-7.0	+
Greece	0.33	0.3	1.7	-4.0	-8.0	+
Portugal	0.34	-4.5	-6.6	-2.0	2.0	0
Spain	0.34	8.6	25.9	-1.0	-14.0	+
Italy	0.31	2.9	9.8	-1.0	-6.0	+
Estonia	0.31	3.2	6.0	-3.0	-6.0	+
Latvia	0.35	-4.8	-9.6	-	-	-
Lithuania	0.33	-3.3	-1.7	-	-	-
Hungary	0.27	6.3	8.3	-4.0	-4.0	0
Romania	0.33	-7.8	-1.4	-	-	-

1) Gini coefficienct (Eurostat)*

2) Change in Gini coefficient 2008-11 in % (Eurostat)*

3) Change in S80/S20 income quintile share ratio in % (Eurostat)*

4) Top 10% disposable income development in % (OECD)**

5) Bottom 10% disposable income development in % (OECD)**

6) Bottom 10% lost more than top 10%

* From Eurostat Online Data Provision.

** From OECD 2013 (Crisis squeezes income and puts pressure on inequality and poverty)

6. CRISIS AND SOLIDARITY

In 1994, the European Commission identified solidarity as one of the shared values that form the basis of the European Social Model (European Commission 1994: 2). In essence solidarity means that people share their wealth with those in need and they put back their individual interests in favour of collective interests or for the benefit of the wider public. The problem is not only that solidarity has been weakened through economic and social reforms proposed by the Commission and others in the past decades; the problem is also that solidarity is mostly limited to national borders. The crisis has strikingly shown that the richer countries in Europe are not prepared to share their wealth with those in economic and social difficulties; they are prepared to grant emergency funding, not least to save the foreign investments of their own banks, but only under harsh conditions and with the expectation to receive interest. There is some distribution of wealth on the European level through structural cohesion funds, but measured as proportion of Europe's GDP the amount is marginal – and it has become even less meaningful through the EU expansion in Central and Eastern Europe.

According to some economists, the root of the crisis lies precisely in the vanishing of solidarity and the associated growth of inequality that took place in many countries in the past decades (Hein 2012; Stockhammer 2012a; Demirovic and Sablowski 2011). In this view the concentration of wealth at the top of the income scale, and especially among those with significant asset holdings, has fueled the massive expansion of financial markets and the provision of loans to households, who, because of low wages and insecure employment conditions, were struggling to pay them back. This model worked as long as growth outlooks were favourable. But the bubble burst as soon as investors started to think twice about the reliability of their creditors. The emergence of current account imbalances in Europe followed a similar logic: Some member states, or more precisely their citizens, have borrowed more than they can afford from other member states, or more precisely from their banks, which have accumulated large surpluses that are waiting to be invested (Becker and Jäger 2012).

If one accepts inequality as the major cause of the crisis, the economic and social problems in Europe cannot be solved without a meaningful redistribution of wealth – within countries, but also on the European level (Lehndorff 2012: 23-4). Hence rather than precarisation and welfare state retrenchment, a long-term solution of the crisis actually demands for an expansion and Europeanization of welfare systems (Stockhammer 2012b; Grahl and Teague 2013). However, solidarity not only means a sharing of wealth; it also means fostering collective interests. The creation of institutions to support a European-wide coordination of wage bargaining would, for example, give European interests precedence over particular interests of individual member states (Schulten 2002 and 2003).[14] As such it would not only be an alternative to the current process of fragmentation and internal devaluation (Armigeon and Baccaro 2012: 273); it could also be a first step towards the development of a true European-wide Social Model.

[14] Coordination does not necessarily mean adjustment. The result of a coordination process could also be a higher raise of German wages, in line with Germany's higher productivity, to give Southern European countries space to grow (Stockhammer 2011).

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