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Economic crisis and austerity in Southern Europe: threat or opportunity for a sustainable welfare state?

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Abstract ([1])

Southern European countries have been hit hardest and longest by the post-2008 economic crisis. This has brought their welfare states under acute strain. Unmet need has sharply increased while significant welfare reforms and varying degrees of cuts and changes in social spending have been prominent in the repertoire of crisis management solutions implemented by their governments (subject to European Union constraints and the strict rescue-deal requirements for Greece and Portugal).

This paper draws upon part of the research undertaken under the CABISE Project (Reassessing Welfare Capitalism in Southern Europe, 2012-2015) funded by the Spanish National Research Plan as well as by the Spanish Foundation for Science and Technology. It briefly reviews reform trends prior to and during the crisis in order to highlight convergent and divergent paths among the four countries, and summarises the major findings of the project with regard to main policy areas (pensions, family policy and healthcare). The employment crisis and the distributional impact of austerity and protracted recession in SE are key when examining reform pressures, bottlenecks and setbacks.

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1. An earlier version of this paper (titled ‘Can the Welfare State as We Know It Survive? A View from the Crisis-Ridden South European Periphery’) has been published as an editorial for the Special Issue of the journal *South European Society & Politics* (vol. 19, no. 3, September 2014): ‘Economic Crisis and Austerity in Southern Europe: Threat or Opportunity for a Sustainable Welfare State?’, co-edited by Maria Petmesidou and Ana Guillén. The parts of the editorial included in this revised version are reprinted by permission of Taylor & Francis Ltd. The Special Issue is available online at http://www.tandfonline.com/toc/fses20/current#.VKZNGLccRtU.

Introduction

The latest crisis began in 2008 in Southern Europe (SE) and has still not come to an end. The credit crunch, which became a sovereign debt crisis in this area, has intensified the challenges and tensions faced by the SE welfare states, and has brought to the fore questions such as: Has the crisis ushered in a period of draconian social retrenchment? Does this indicate a significant erosion of social and labour rights, as social policies in the broad sense have become the main variables of adjustment – through internal devaluation – in the European Union (EU) (Degryse, Jepsen & Pochet 2013)? Or is there, instead, a window of opportunity for a sustainable welfare state? Are reform processes sustaining, increasing or reducing similarities between the four SE welfare states?

In the aftermath of the credit crunch, in a lecture Paul Pierson gave at the London School of Economics (November 2010), he aptly raised the question of whether, after four decades of shifts and turns in social provision in the western world, the era of retrenchment was now finally beginning (see also Pierson 2011). This is mostly true for the SE welfare states that, contrary to the northwestern European welfare regimes, started expanding from the 1980s onwards, at a time of mounting pressure for retrenchment and restructuring in western countries, ushering in (particularly in the Anglo-Saxon world) a gradual politico-ideological weakening of welfare state legitimacy. During their 'lagged' path of welfare-state expansion, SE countries faced serious challenges from an array of internal and external pressures. Globalisation, and, most importantly, mounting fiscal constraints in the run-up to the introduction of the Euro, severely strained social budgets, even though unmet need and inequalities and imbalances in social protection persisted (though to a differing extent among the four countries). Yet, more than ever before, the current financial and economic crisis has brought SE social protection systems to a critical juncture.

Since the early 1980s, institutional and policy change in European welfare states has been a central research theme. The accumulated literature throws light on the variety of reform strategies followed over the last four decades, in a macro-economic environment where Keynesian demand-side priorities gave way to stricter fiscal and monetary policy measures (culminating in the fiscal rules of the Economic and Monetary Union).

A range of reform options have been examined at length in the comparative literature: (a) Cost-containment/retrenchment (i.e. scaling back of public provision, increasing reliance on means-testing and transfer of responsibility to the private sector) as a response to budgetary pressures.

(b) Family and employment-friendly measures in the field of tax/ benefit systems so as to facilitate market participation in tandem with recalibration ('amending'/'modernising') of existing policy instruments in the face of the new social risks in post-industrial societies (that is, changes in gender roles and family patterns, increasing female labour-force participation in the service economy, demographic ageing and rapid decline of lifetime jobs). The latter policy options are premised upon a 'social investment' approach that places a great emphasis on prevention of disadvantage (through quality child care, family support, education, training, and the balancing of flexibility and security; see among others Hemerijck 2012). However, equally relevant is Pierson's argument about tactics of policy 'drift' (e.g. continuous provision exhaustion) that may eventually outflank the welfare state, just as the 'Maginot Line', built on the eastern frontier of France to prevent Nazi invasion, failed to do so, as Pierson (2011, p. 22) aptly put it ([2]).

Notably, drastic budget austerity and an erosion of labour rights, all the more prevalent in Europe amidst the protracted aftershocks of the financial crisis, threaten to tip the balance away from social Europe. Crisis management measures (the 'Six Pack' of macroeconomic policies, the 'Euro Plus Pact', the 'European Semester' and the 'rescue deals' for the ailing countries) more or less embrace a single objective, namely structural adjustment through wage squeezes, weakening public services and social protection. This reflects the dominance of the market-driven convergence approach (via deregulation and market adjustments), given the fact that any plan for socio-political integration has, thus far, persistently been undermined in the EU (Degryse, Jepsen & Pochet 2013). Advocacy in favour of an emerging 'social investment' paradigm does have innovative potential to counteract the austerity orthodoxy. Nonetheless, the influence of such a perspective has remained at an ideational level until now.

Against a backdrop of significant and rapid policy moves in Europe, the analyses undertaken as part of the CABISE project aim to shed light on reform trends in major social policy fields in SE countries. Among other issues examined are the governance of the crisis, as well as changes in the decision-making process and in the roles of key actors. In this research paper we briefly review reform trends prior to and during the crisis and summarise the major findings with regard to pensions, healthcare, family policy, labour market risks, and the impact of the crisis and austerity on poverty and inequality. The emphasis is on the orientation and nature of reforms, the specific policy outputs and the current (and potential) outcomes across the four countries.

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2. In this respect he considers the US to be the precursor for Europe, in a process where the middle and lower classes will face a tight squeeze (Hacker & Pierson 2010). Strikingly, a policy drift is even evident in the Scandinavian countries, which are held to provide the "blue print" for social investment. As a recent report stresses (Fafo 2014, pp. 47-58), unemployment and sickness benefit insurances are being eroded by "non-decision". Even though the income related unemployment insurance scheme remains intact, the take-up rate has dwindled from two out of three persons to one out of three. Also the income ceiling has not been adjusted to wage increases since the rates of the early 2000s. Consequently, only about a tenth of recipients actually receive the stipulated 80 per cent of previous earnings (and the same holds for sickness benefits).

1. How did Southern European welfare states fare until the current crisis?

1.1 The 1980s and early 1990s: 'the peak of commonalities' consisting of a hybrid and pension-heavy model

Ferrera's seminal work in 1996 brought into sharp relief the distinctive characteristics of SE welfare configurations vis-à-vis the universalist, social-democratic welfare regimes of Northern Europe, and the occupational income maintenance pattern of the continental, corporatist welfare regime. Founded on common socio-cultural traits and political dynamics, as well as a rapid process of modernisation, a constellation of similar social welfare arrangements was clearly evident in the 1980s – early 1990s. With the benefit of hindsight, the decade of the 1980s up to the early 1990s could be considered as 'the peak of commonalities' in the social welfare arrangements put in place from the 1960s onwards in SE. These consist of a pension bias that crowded out resources for support to families at earlier stages of the life cycle, underdeveloped social safety nets, high labour market segmentation, and inequalities in social insurance coverage.

SE welfare arrangements exhibited a hybrid form (Guillén & León 2011, pp. 1–16; Petmesidou 2013), as they embraced elements from all three 'welfare regimes' distinguished by the well-known typology documented in the work of Esping-Andersen (1990). Pensions developed on an occupational basis according to the Bismarckian model. Traditionally, these were highly fragmented, but over the last two decades they have undergone significant changes - levelling out coverage and provision and introducing stronger actuarial components and private insurance (though to a varying extent between the four countries). In the late 1970s to the early 1980s, a social-democratic element was introduced in healthcare with the establishment of national healthcare systems. This was a significant change of direction that, however, met with a different degree of success in each country. On the other hand, statutory coverage of care and social assistance needs has been limited and family arrangements have predominated. Non-governmental organisations (NGOs) (including religious organisations) contribute to welfare provision. A dense network has been prominent in the Latin Rim countries, with the Catholic Church and the Red Cross playing a crucial role. This is not the case in the Balkan area where the values of Eastern Orthodoxy and its historical lack of involvement in social activism did not provide fertile ground for institutionalised voluntary action (Petmesidou & Polyzoidis 2013) ([3]).

Notwithstanding some variations, the above features would tend to confirm the existence of a distinctive type of welfare state. The CABISE project focused on any structural changes in the

3. However, the deep economic and social crisis has heightened the need for a stronger involvement of the voluntary sector in social provision.

recent past that may have significantly altered the above welfare configuration when the crisis erupted. The direction of change, as the crisis unfolded, and the extent to which reform has rendered SE welfare states more or less dissimilar, are central issues in the research.

1.2 Reform paths prior to the crisis

Over the 1990s and 2000s, until the eruption of the crisis, internal and external pressures (i.e. demographic trends, massive immigration, new social risks, changing gender roles, budgetary strains and the fiscal requirements for joining the European Monetary Union [EMU]) all resulted in, though to varying degrees and at different paces, a whole range of reform policies (cost containment/retrenchment, rationalisation/modernisation of social programmes and changes in the public-private mix). Importantly, from the mid-1990s, to one extent or another, EU influence introduced a novel discourse in SE countries on 'recalibrating' welfare programmes towards more active and service-oriented provision. The extent to which this has triggered reform that has altered the traditional configuration of social provision varies between the four countries. In the run-up to the adoption of the euro, reform gathered momentum in Italy and Portugal, but has been waning since the early 2000s. Seemingly, in Spain, a piecemeal but steady process of negotiated reform has been a key characteristic of high-level policy-shaping decisions until recently (Guillén & León 2011). Compared with the other three countries, Greece ostensibly failed to deal with major dysfunctions and imbalances in social protection in the previous decades. The debilitating crisis made an overhaul imminent but at the same time it put the reform process in dire straits.

In Italy, it was largely the intense political crisis in the early 1990s (which swept away the existing party structure), as well as the challenges of joining the EMU, that gave an impetus to social reform and provided propitious conditions for social pacts covering wide-ranging changes in social protection, industrial relations and labour market policies (Ferrera & Gualmini 2004). Public deficits and indebtedness soared dramatically during the 1980s in Italy (a characteristic also shared by Greece), partly because of a significant expansion of earnings-related schemes (proliferation of new funds, early retirement, disability pensions) under the strong grip of clientelistic–particularistic arrangements. Thus retrenchment and rationalisation in traditional policy fields (such as pensions) became a key priority in the 1990s, and were accompanied by significant steps forward in social assistance and social services, at least in terms of legislation and experimentation (e.g. legislation for the introduction of an antipoverty scheme, piloted in selected municipalities between 1998 and 2002, and legal provisions for reducing regional inequalities and guaranteeing 'an essential level of service' throughout the country on the basis of universal though selective criteria; see Ferrera 2012).

However, as extensively stressed in the literature (Sacchi & Bastagli 2005; Ascoli 2011; Hemerijck et al. 2013; Madama, Natili & Jessoula 2013), the 'recalibration momentum' significantly weakened in the early 2000s ([4]). The reform setback highlighted the resilience of traditional patterns in social assistance. Moreover, as Madama, Natili and Jessoula argue (2013, p. 26), some new benefits available since the 1990s (e.g. a maternity allowance for uninsured mothers, benefit to families with more than three children, and support for low income tenants) have persistently been at a very low level, providing very little protection to families in low income and marginalised groups.
An element of social investment is evident in the 'limited new social rights related to family and care issues during the 1990s', but implementation has been deficient due to lack of resources and/or shortcomings in the structure of the policy framework. On the other hand, attempts to curb the pension bias of the system and move away from the traditional incrementalist policy bore results: the extreme fragmentation and inequality of the pay-as-you-go (PAYG) system was tackled, and actuarial criteria were strengthened by the introduction of a (notional) defined contributions system (though applied only to new entrants, since 1996, onto the labour market). This indicated a shift towards multipillarism. First pillar pensions would progressively provide lower replacement rates, which would necessitate a mandatory (since 2004) supplementary pillar. However, protracted phasing-in conditions of the reformed first-pillar and slow pacing in the spread of supplementary pillars have left this change in direction unfinished, with serious challenges ahead as to how to balance cost cutting and rationalisation with redistribution.

A steady process of negotiated reform started early in Spain, after the restoration of democracy. It effectively tackled fragmentation in pensions and healthcare, balanced actuarial criteria with improved coverage of less protected groups (workers with discontinuous contribution records, widows, orphans and others) and put social insurance on a sustainable track. It equally contributed to the overhaul of healthcare, culminating in the establishment of a devolved national health service (NHS), while in 1990 universal coverage of three (non-compulsory) pre-school education years was introduced. Moreover, during the 2000s, until the eruption of the crisis, path-shifting 'recalibration' strategies in social care, gender mainstreaming and social assistance were pursued by both the conservative and socialist governments alternating in office. Among the key measures were the active integration income (in 2000), increased flexibility of maternity/paternity leave schemes, expansion of pre-school childcare, progressive legislation on gender equality, and, just before the eruption of the crisis, the passing of legislation making social care for dependent people a social right (Guillén 2010) ([5]).

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4. The Berlusconi governments discontinued the anti-poverty social insertion scheme and drastically cut funding for family support and social services. Apparently, the Prodi administration in office between 2006 and 2008 did not restore the reform momentum for addressing new risks (Jessoula & Vesan 2011).
5. However, with respect to tackling labour market dualisation, no substantial progress was recorded until the eve of the crisis.

Compared to the other three countries, Spain has hardly been a 'pension-heavy state'. Moreover, even though the funding structure of the PAYG system remained intact, successive cost-containment/rationalisation reforms, since as early as the mid-1980s, explain to a large extent its positive performance until the eruption of the crisis. A major innovation towards securing system sustainability was the creation, with the surpluses of the system, of a reserve fund, which reached over 60bn euros in 2010. The sound pension (and public) finances in Spain (compared to the other three countries) may have made financially possible the introduction of new schemes in social care services and family policy. But also, as León & Pavolini (2014) argue, policy recalibration to tackle 'neglected' areas of need has been facilitated in Spain by significant changes in attitudes and behaviours away from the family-based approach. These accelerated the need for a less traditional and more egalitarian approach to family policies, gender issues and social care that created fertile ground for a proactive, innovative path supporting the dual earner model.

As indicated above, Italy also embarked upon a strategy of recalibration, with a view to addressing deficits in social assistance and social care services. Besides, social investment in pre-school programmes dates back to the late 1960s, when state responsibility for the three years of pre-school was introduced. However, despite this early push and later recalibration measures, responsibility for filling the gaps in social assistance and social care services, and for direct efforts towards social investment, has remained with fairly weak (financially) local and regional authorities, with strong variations in terms of access to and generosity of the benefits and services provided. The concept of a 'frozen landscape' since the turn of the century, in Italy, used by León and Pavolini (2014), aptly captures the 'net effect of reforms', mostly involving retrenchment.

In Portugal the prospect of accession to the EU and, later on, the challenge of joining the EMU prompted consensual (through social pacts), interconnected reforms. Under Socialist Governments, between 1995-2002 and 2005-2011, a wide range of changes in income distribution, labour market, and social security and welfare policies meant an expansion of social protection. The introduction of the RMI (minimum guaranteed income), and integrated 'social insertion' policies at a community level, indicate a significant attempt to expand the coverage of social needs. Yet, after joining the EMU, fewer social pacts were concluded, and the reform dynamism subsided. Nevertheless, in the field of social insurance, rationalisation of the system continued during the 2000s, with the aim of increasing horizontal equity, adjusting to population ageing, discouraging early retirement, and introducing greater sustainability.

In contrast, in Greece there were almost no processes of negotiated reform in the 1990s and 2000s, prior to the crisis. Organisations (think tanks and policy communities) for driving policy debate were absent, decentralisation proceeded very slowly (with regard to social policies and programmes), and the scope of multilevel governance was limited (Petmesidou & Mossialos 2006; Petmesidou 2013). A tradition of statist–paternalistic forms of social organisation, closely linked with highly politicised, fragmented and conflictive industrial relations in this country, was persistently conducive to policy stalemates and reform impasses until the late 2000s. Despite prolific legislation in various policy fields, very few attempts were made to tackle major issues such as inefficiencies in healthcare (with a persistent overlap of universalist and fragmented-corporatist organising criteria, and fast growing private health expenditure in the form of out-of-pocket payments), the blurred line between social insurance and assistance, the absence of a safety-net and growing unregulated privatisation in social care (facilitated by a wave of mostly illegal women migrants from the neighbouring Balkan countries and Eastern Europe). Moreover, EU-initiated policies and options, such as the guidelines and targets of the Open Method of Coordination in the social and employment policy fields, have persistently been high in rhetoric but low in practical implications.

In a nutshell, during the 1990s and 2000s, until the eruption of the crisis, with the exception of Greece, SE countries attempted to tackle their insider-biased welfare, and to meet 'deficits' in social assistance and social insertion programmes, in family policies and investment in early childhood, and in gender-friendly employment measures. However, this process was slow and only partially successful. It is also noteworthy that Greece and Portugal did not make a full transition to a fully-fledged universalist national healthcare system. In these two countries (but mostly in Greece) healthcare remained fragmented until the late 2000s, and private (out-of-pocket) spending reached comparatively high levels: in 2008 it amounted to 4 per cent of GDP (and 40 per cent of total healthcare spending). At the same time, the rate for Portugal was 3 per cent, and for Italy and Spain around 2 per cent of GDP. Private health insurance represented between 7 to 8 per cent of total health expenditure in Spain and Portugal, but was negligible in Greece and Italy. As shown by Petmesidou, Pavolini & Guillen (2014), healthcare systems in Greece and Portugal (and to a lesser extent in Italy) suffered from long-term problems of quality, access and affordability. These were compounded by the fiscal imbalances brought into sharp relief by the crisis.

1.3 Have Southern European welfare states 'grown as far as they can' in fiscal terms?

Table 1 below summarises the trends in total social spending and its main components, in the four countries, in the decades of the 1990s and 2000s until the crisis struck, and up to 2011 (for which disaggregated data are available). There is a noticeable trend of convergence of per capita social expenditure to the corresponding EU-15 average (measured in purchasing power standards, at constant 2005 prices) from 1990 until the late 2000s. But, particularly in Spain, Greece and Portugal, per capita (total) social spending did not improve as fast as per capita gross domestic product (GDP) (measured against the respective EU-15 average; see columns [6] to [11] in Table 1).

This indicates that social expenditure has hardly 'grown to its limits' and casts doubts on the argument that welfare spending has been a major cause of the current fiscal woes of these countries. The last column of Table 1 depicts the percentage change of public social spending (in real terms) from 2007/08 to 2012/13. Strikingly, in the hardest-hit country (Greece) public social spending in real terms plunged by about 18 per cent, even though social needs increased enormously (during this time the unemployment rate almost tripled, reaching about 27 per cent in June 2014, the highest rate in the EU-15). By contrast, in Spain, which has also seen a rapid increase of unemployment since 2008, real public social spending rose by about 18 per cent. Smaller increases are observed in Portugal and Italy (4.3 and 3.7 per cent, respectively).

If we disaggregate spending by major categories, in Italy per capita expenditure on pension benefits has persistently been higher than the EU-15 average, indicating the resilience of the traditionally pension-heavy welfare state. In terms of per capita spending on healthcare services and sickness benefits, Spain and Italy moved closer to the EU-15 average during the 2000s, but the trend has reversed slightly since the eruption of the crisis. The SE countries have been furthest from the EU-15 average in the area of per capita spending on family/children and social exclusion ([6]); the gap slightly diminished between 2000 and 2008, but then grew again.

In a nutshell, significant differences with respect to the roadmap and pacing of reform characterised the four countries in the two decades prior to the crisis. Spain seems to have steadily pursued a path of system rationalisation and 'retuning' geared towards gender equality and the work–family balance. However, as stressed above, total social spending per capita in purchasing power standards (PPS) remained significantly below the EU-15 average. Italy has gone through periods of drastic reforms ushering in permanent retrenchment, market-based systems of organisation, and privatisation (in major policy fields such as pensions and healthcare), balanced with considerable attempts to expand less developed areas (e.g. social services and social assistance). Yet, since the early 2000s, significant setbacks in the momentum of reform, compounded by serious obstacles in implementation (due to institutional stickiness and low capabilities), have greatly limited the scope and effectiveness of reform.

6. With the exception of Greece (see caption of Table 1).

Table 1 Social Expenditure and GDP per Capita (7)

	Per capita expenditure by type of benefits (in PPS, EU15=100) 2000/2008/2011					Total social expenditure per capita (in PPS, EU15=100)			GDP per capita (in PPS, EU15=100)			Percentage change in real public social spending
	Old-age & Survivors [a] ***(1)***	**Health/ Sickness & Disability[b]** ***(2)***	**Family /Children [c]** ***(3)***	**Unemploy-ment[d]** ***(4)***	**Social Exclusion (8) [e]** ***(5)***	**2000 [f]** ***(6)***	**2008** ***(7)***	**2011** ***(8)***	**2000** ***(9)***	**2008** ***(10)***	**2011/ 2012** ***(11)***	**2007/08 – 2012/13**
Italy	109/112/113	75/79/76	53/64/64	22/42/61	11/12	91	93	92	101	88	91/90	+3.7%
Greece	61/86/83	51/72/62	53/67/63	46/81/57	96/78	57	79	76	73	87	72/69	-17.6%
Spain	62/74/79	67/76/70	40/64/55	74/103/83	49/32	59	73	74	84	93	88/87	+17.6%
Portugal	47/68/71	61/59/54	31/42/38	48/41/40	42/40	52	60	61	68	66	71/69	+4.3%
EU-15	***100***	***100***	***100***	***100***	***100***	***100***	***100***	***100***	***100***	***100***	***100***	**-**
EU-27	-	-	-	-	-	***85***	***88***	***89***	***87***	***90***	***91***	***+10.7%[9]***

Source: Own calculations (Eurostat data) and OECD data retrieved from http://www.oecd.org/els/societyataglance.htm

Of the two smaller countries, the system in Greece appears to be 'gridlocked'. This is most clearly reflected in the persistently high poverty rate during the 1990s and 2000s, until the eve of the crisis (about 21 per cent, EU-15 average about 16 per cent), and the strikingly low redistributive effects of all other social transfers (except for pensions; namely sickness, family, unemployment and social assistance benefits). In Portugal, some periods of progress (such as the mid to late 1990s) produced an attempt to expand social rights, but imbalances and fragmentation in traditional policy fields remained.

7. Per capita expenditure (in PPS) is calculated: (a) for the population aged 60 years and over, (b) for the total population, (c) for the population under 20 years of age, (d) for the total number of unemployed, (e) for the population at risk of poverty and social exclusion. (f) Data for 2000 based on the European Social Statistics Report 1996-2004. (g) The average rate refers to the 21 European countries that are OECD members. As for public labour market policies (LMPs), in 2011 expenditure amounted to less than 1 per cent of GDP in Greece (active LMPs absorbed about 0.22 per cent of GDP), 3.71 per cent of GDP in Spain (active LMPs 0.88 per cent), 1.78 per cent of GDP in Italy (active LMPs 0.41 per cent), and 1.93 per cent of GDP in Portugal (active LMPs 0.59 per cent) (OECD data base retrieved from http://stats.oecd.org/).
8. A note of caution is needed with regard to social exclusion spending (column 5). In Greece, this spending category embraces mostly EU funded programmes targeted to specific measures (e.g. social inclusion measures for Roma, ethnic minorities and other vulnerable groups). These are often one-off programmes that have rarely led to the formation of permanent social service provision arrangements. Hence the persistently very low redistributive effect of social transfers (other than pensions) in Greece; see Dafermos & Papatheodorou 2011). Additionally, poor administrative capabilities in the country, perverse redistribution and classification/measurement problems with regard to this spending category call for great caution in interpreting relevant data. Also, in the Italian case, expenditure on social exclusion may well be unreliable because of underestimation of regional and local spending in this area.

2. Where is Reform Heading in Southern Europe during the Crisis?

2.1 Vulnerabilities and setbacks

It is primarily through public indebtedness that SE economies have been hit by the financial crisis. In Spain, both public deficit (showing a surplus in 2005-2007) and public debt were comparatively very low at the onset of the crisis (40 per cent of GDP in 2008), but the eruption of the international credit crunch and massive private indebtedness (amounting to twice the national GDP) intensified a contraction that had already started with the bursting of the construction bubble, a little prior to the global financial storm, putting an end to the outstanding economic and employment growth in the 2000s.

In Italy and Portugal, the financial turbulence precipitated economic decline that was all too evident prior to the crisis and triggered the ballooning of public debt and deficit. Greece exhibited significant rates of growth over the 2000s, but profligate borrowing in order to fund the government budget and current account deficit, in tandem with weak revenue collection and structural rigidities of the economy, heightened vulnerability to the international financial turmoil. Soaring borrowing costs cut Greece and Portugal from money markets and brought them under a bailout deal with the International Monetary Fund (IMF), the European Commission and the European Central Bank (the so-called 'troika'). The two larger SE countries have so far avoided coming under the strict surveillance of a bailout deal, but they have also had to tread a harsh austerity path (further, a rescue deal was necessary to re-float the Spanish banking sector in 2012).

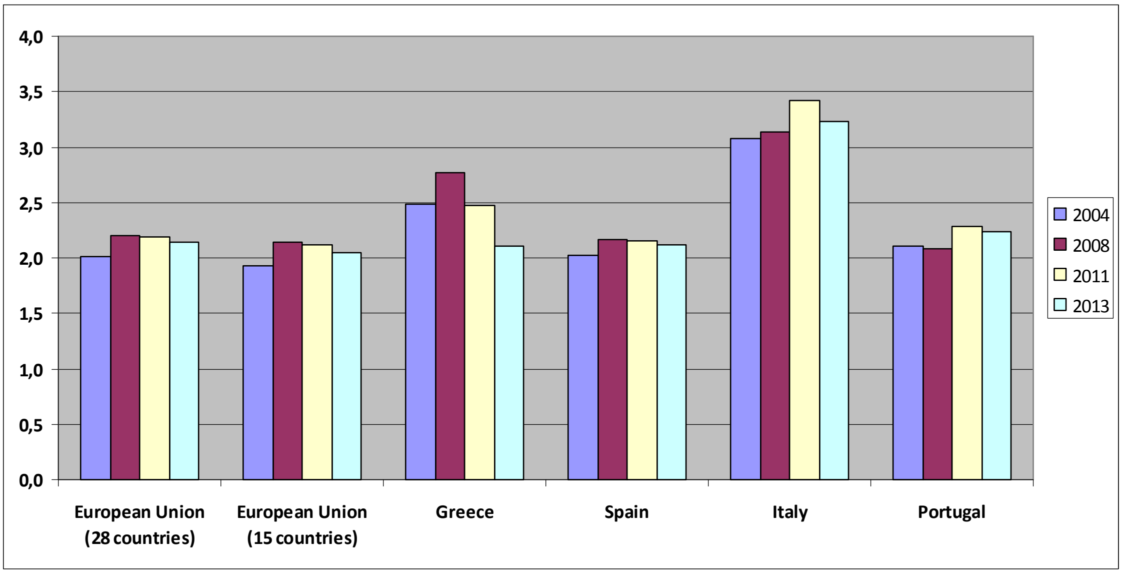
In the bailout countries, the 'Memoranda of Understanding' (MoUs) signed under the rescue deals stipulated wholesale reforms and sweeping cuts in public spending (especially in Greece). Both countries are confronted with strong pressure to tackle major imbalances in the two traditional policy fields – pensions and health (wipe out fragmentation, equalise coverage and seek efficiency gains through market-based mechanisms of funding, organisation and delivery). Evidently, particularly in the case of Greece (but also in Portugal), the crisis is functioning as a catalyst for breaking system gridlocks. Major changes so far include an overhaul of pensions in Greece (from a pay-as-you-go to a multi-tier system favouring funded pension schemes and private savings), integration of health insurance, and health sector reform and redeployment. Similar reform options were included in the MoU for Portugal.

However, under conditions of a debilitating crisis, harsh austerity and repeatedly false forecasts by the troika as to the depth, duration and (social) effects of the slump, it is highly questionable whether the effects of reform will be successful in balancing drastic cuts with improvement in coverage, quality and equity, or whether, instead, a drift towards permanent retrenchment is imminent. So far, in the hardest-hit countries, substantial to severe cuts in benefits, in tandem with increasing direct and indirect taxes, foreclosures because of mortgage defaults, bankruptcies and waves of redundancies (in the private and public sector) have caused steadily rising hardship among large sections of low and middle income groups who fall into the ranks of the 'new poor'. Alarmingly, the financial crisis has turned into a deep and prolonged economic and social crisis. In Greece, under the two bailout programmes, GDP shrank by a quarter between 2009 and 2013, while forecasts by national and some international bodies of a return to positive growth in 2014 (zero per cent to 0.6 per cent) do not allow much scope for optimism, as they continue to project a very anaemic trend over the longer term ([9]). The possibility of a significant fiscal gap through 2015 and 2016 remains, and fuels alternative scenarios as to a protracted continuation of harsh austerity. A major question is how far drastic retrenchment and rapid rolling back of protection will dominate, dragging coverage down to the lowest common denominator ([10]).

The huge employment losses will have long-lasting consequences, as it is highly unlikely that these four countries will be able to meet the EU 2020 target for 75 per cent of 20-64 years-old in employment. Spain lost the most: from 2009 to the second quarter of 2014 the economy shed 3.2 million jobs (from a total of 17.2 million), which is by far the highest job loss (in absolute numbers) among all EU-28 countries. In percentage terms, however, Greece also suffered a huge loss, as about 30 per cent of the working population (that is, 1 million people) lost their jobs in the same period. In Italy employment went down from 23 million to 21.8 million, while Portugal suffered over half a million job losses during the crisis. As Gutiérrez shows in his CABISE-project contribution (2014), in the two bailout countries the crisis and austerity swept away all employment improvements accumulated during the growth cycle. Moreover, in these two countries employment levels even worsened in comparison with the situation in 1995. On the other hand, despite the heavy losses, Spain maintains a fraction of the total jobs gained during the growth cycle. Italy may have suffered comparatively lower losses, yet its employment level is rather low, because of the little improvement achieved prior to the crisis.

9. In Portugal, GDP shrank by about 6.5 per cent between 2011 and 2013. The country has formally exited its rescue programme but harsh austerity remains the mantra of the government.
10. Strikingly, the EU authorities have been utterly oblivious to the vociferous criticism of the so-called SAPs (structural adjustment programmes) imposed by international financial institutions on a large number of over-indebted developing countries in the decades of the 1980s and 1990s, which dismantled even the rudimentary social protection institutions in these countries and intensified poverty and destitution (Greer 2013).

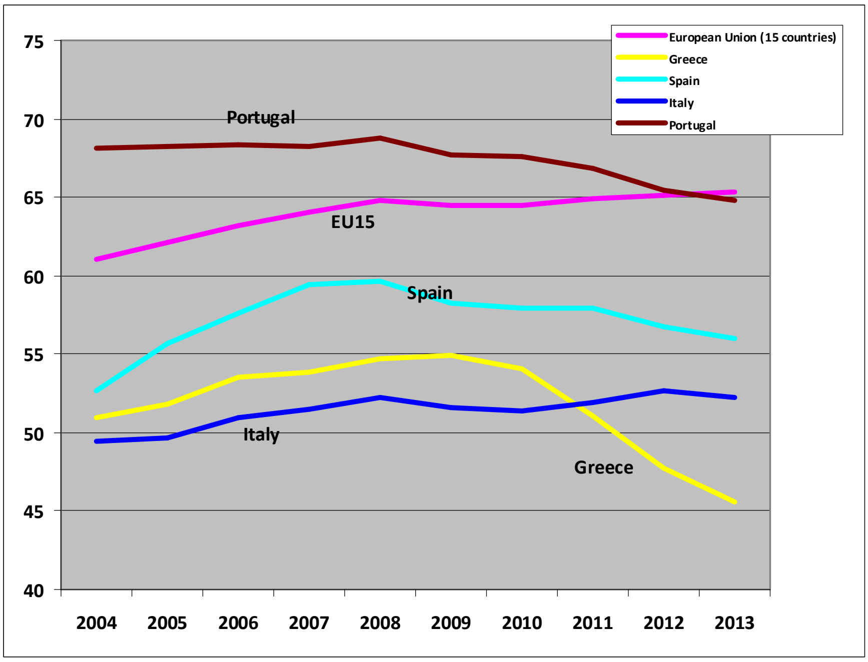
***Figure 1.** Odds ratios (youth to total unemployment rate ratio)*



Source: Eurostat, LFS data base

Moreover, in Greece and Spain (and to a lesser extent in Portugal), declining employment levels swept away improvements in youth and female employment, attained in the decade prior to the crisis. Notably, in Greece (less so in Spain) the concentration of labour market risk among youth was strong when the crisis erupted (Figure 1). Subsequently the odds ratio fell considerably in Greece, because of the dramatic increase of unemployment across the whole of the working population. In the latter country, the unemployment rate among 15-24 years-old skyrocketed to 57 per cent in 2014 (it also rose to 54 per cent in Spain). Yet youth unemployment is a relative rather than an absolute problem in these two countries: unemployed youth constitute only about 13 per cent of the total number of the unemployed in Greece (this is the lowest share in the EU), and about 15 per cent in Spain. Italy stands out as the country in which there was a bias against young people even before the crisis, a trend further exacerbated by the crisis. In Portugal the labour market risk for the young increased during the implementation of the bailout deal.

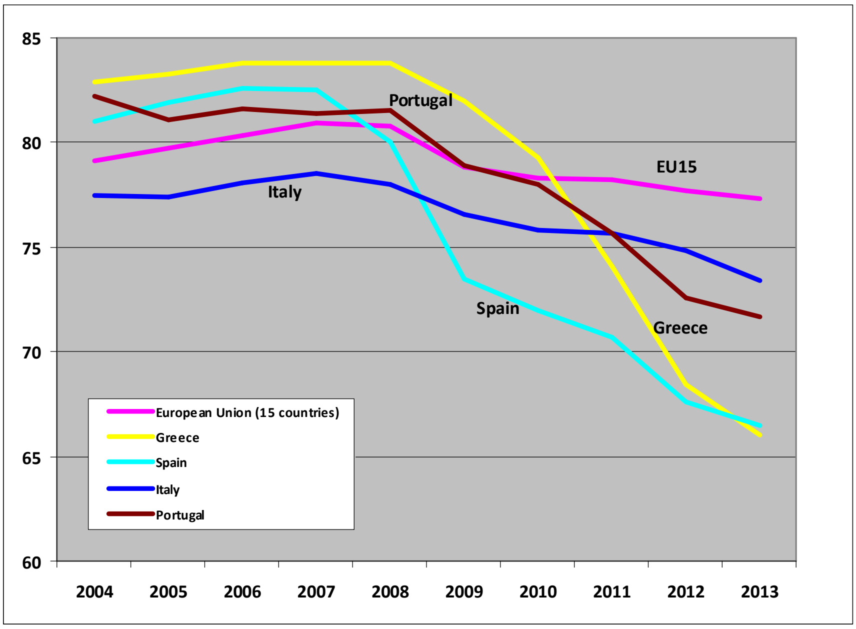
Figure 2. *Female employment rates (2004-2013)*



Source: Eurostat, LFS data base

Female employment fell abruptly in Greece, increasing the gap with the EU-15 average (Figure 2 above). A similar trend has been observed in Spain (though mature age women were not affected, as shown by Gutiérrez 2014). In Portugal, job losses particularly affected the male labour force (Figure 3 below). In Italy, the crisis has had only slight consequences for male employment. Female employment, which was comparatively low even before the crisis, has not been particularly affected.

Figure 3. *Male employment rates (2004-2013)*



Source: Eurostat, LFS data base

These setbacks in employment trends have slowed down the shift towards a dual-earner model (e.g. in Spain and Portugal). However, at the same time, they have shaken the foundations of the male breadwinner model that traditionally characterised these countries. If we also take into account the social expenditure cuts and other austerity measures that accompany the phase of 'permanent strain' in SE, these conditions leave little room for a social innovation agenda. Furthermore, the steep job losses (at least in Spain and Greece) have exposed dramatically the vulnerability of the public pensions systems.

Spain is facing a significant and abrupt turning point. After a decade of ambitious social reforms and an expansionary trend, austerity and staggering unemployment are stress-testing the social protection system. The improvements made in the fiscal sustainability of the pension system during the previous decade have rapidly evaporated under the crisis conditions and the massive destruction of jobs. Welfare institutional arrangements remain almost intact but significantly diminishing coverage and system generosity (particularly with respect to newly consolidated social rights) may cancel out recent innovations, indicating a drift towards welfare state erosion. Also, internal divergence (increasing variations among the autonomous communities) with respect to coverage, access, benefit generosity and the introduction of market-based mechanisms may seriously negatively affect welfare outcomes. Public social spending in real terms increased, as indicated above, but so did unmet need (four out of ten unemployed people do not receive unemployment benefit and safety-net benefits amount to about half of the income level constituting the poverty line). Alarmingly, both poverty among children and income inequality have risen in an unprecedented upward trend.

In Italy the crisis has intensified retrenchment, which was already the main orientation of reforms since the mid-1990s. The safety net has so far been meagre, poorly addressing rising risks (increased long-term unemployment and poverty), and social transfers appear to be skewed towards the better-off more than in any other SE country ([11]). Most importantly, in all four countries reform agendas have been pushed through reducing labour protection, with the exception of increased coverage for unemployment in Italy. In general, these involve a drastic reduction of collective bargaining and the weakening of unions, freezing and/or cuts in wages, and greater flexibility in the rules governing hiring and dismissal of workers (including the duration of temporary and fixed-term contracts). Moreover, in the two bailout countries, debt reduction plans have instigated reforms that tend to undermine social democratic values, roll back workers and citizen's protection, increase inequality and heighten poverty and insecurity among large sections of the population.

11. In 2010, in Italy social transfers to the lowest 30 per cent of income groups amounted to 56 per cent of average transfers, while those to the top 30 per cent of income groups amounted to 146 per cent of average transfers; on account of this inequality, Italy is ranked third among OECD countries (after Turkey and Mexico; OECD data accessed at http://www.oecd.org/social/soc/societyataglance.htm).

2.2 The social impact of the crisis and austerity: overview of the findings in major policy areas

2.2.1 Pensions

The crisis made evident the severe vulnerability of the pension systems to external shocks and internal demographic pressures, increased the role of international actors in precipitating reform, and marginalised the role of social partners. These conditions made political resistance to change, which characterised (though varyingly) these countries for a long time, subside. Addressing the demographic problem in an economically viable way is paramount, as is also improving intergenerational justice and social redistribution. Evidently the crisis exerts heavy strains on the realignment of these objectives, and this brings to the fore serious long-run sustainability and adequacy questions. In the CABISE project, Natali and Stamati (2014) comparatively examine how the crisis is affecting reform roadmaps in the four countries. They trace the changes in the institutional set-up of pension systems (the changing public/private pension mix and the interplay between first pillar and supplementary schemes), and attempt to assess their distributional implications.

As stressed above, common lines of action across the four countries (prior to and during the crisis) involve a reduction of institutional and financing fragmentation and ensuing differences in the level of benefits, and a shift (though partial) towards a mutli-pillar system. Cost-containment has been pursued by an array of measures, such as increased retirement age, more limited access to early retirement, less generous indexation, strict application of means testing for the provision of basic pensions, and a stricter link between contributions and pension benefits. A sustainability factor linked to longevity (as well as – e.g. in Greece – to economic performance and the financial situation of the pension funds) aims at automatically adjusting spending to demographic and economic trends. In parallel, pension system revenues have increased, with higher contribution rates (though to a varying extent among the four countries).

The intended shift to a multi-pillar system is manifestly unfinished, given the still high dependence on the public (first) pillar benefit. This benefit, however, has been significantly reduced, pushing work-related pensions to social assistance levels (particularly in Greece and Portugal). As funded pension supplements are underdeveloped, residualism appears to be a trait to which SE pension systems may converge.

Particularly in the bailout countries, policy options have, until now, made the sustainability argument rather controversial. Notably, in Greece, the bailout agreement stipulates that the contribution of the state budget to pension expenditure should not exceed an increase of 2.5 percentage points of GDP between now and 2060. However, this is a very unrealistic premise, unless steep decreases in pension income take place, further to the cuts already imposed (on current and future retirees' benefits) ([12]). Moreover, gloomy forecasts regarding unemployment suggest a steep future fall in the revenue of social insurance funds, thus seriously detracting from the viability estimates of the reform plan. Equally devastating for pension funds was the over 50 per cent haircut of bondholding imposed under the PSI (that is, the Private Sector Involvement in a complex bond-swap programme implemented in March 2012 as part of the rescue plan) that made social insurance organisations subscribe to losses of over 12bn euros. These conditions undermine the actuarial valuations guiding reforms under the bailout deal. If we also take into account the strain on the revenue of social funds caused by steeply falling wages and salaries, alarming unemployment and the inability of the self-employed and small businesses to continue paying contributions, a vicious circle between fiscal sustainability and benefit adequacy is evident, driving pension benefits further downwards.

2.2.2 Healthcare

Petmesidou, Pavolini and Guillén (2014) deal with similar questions by examining cross-country healthcare reform. As indicated above, although all four SE countries developed national health services in the past, they could hardly be grouped together on account of crucial criteria of universal access, equity and funding, prior to the crisis. Compared to Greece and Portugal, Italy and Spain achieved a higher degree of system integration and a decentralised mode of managing funding and delivery, and kept private expenditure low. A different distinction arises with respect to health spending: between 2000 and 2008, Greece and Spain exhibited a rapid expansion of public spending (in Greece, mostly due to fast rising medication expenditure), while in Italy and Portugal the trend was moderate (yet Italy remains the highest per capita spender of the four countries).

Whether the crisis has shaken the universalist underpinnings of healthcare in the four countries is a crucial question. In this policy area too, fiscal sustainability has been the main leverage of reform under the crisis. Even though none of the four countries has openly embarked upon systemic change dismantling the public system, the austerity-driven measures applied so far (and further changes planned for the coming years) may add up to a transformative process in both the funding and provision sides of the SE health systems. In the bailed-out countries, controversy permeates reforms. Some measures are helping to tackle serious functional and financial problems. Yet the imperative of fiscal restraint triggers a kind of 'policy drift' and/or exhaustion,

12. Current pensioners' incomes have been drastically reduced through successive rounds of cuts (up to about 40 to 50 per cent for certain categories of retirees). This is compounded by a tax raid over the last four years that disproportionally hit middle to lower incomes. Also, the combination of shrinking pensionable income and a lower replacement rate will lead to significant reductions in pensions, gradually reaching up to 50 per cent for new retirees, as the new regulations progressively come into full force from 2015 onwards (Institute of Labour 2010, p. 315).

where the publicly operating system gradually withers away. Apparently, large-scale public spending cutbacks and a range of policy measures are shifting the cost of care away from the state.

In Italy, the gap between the original aims of a universal NHS and its actual effects on barriers to access and worsening quality was evident before the crisis begun. Fiscal retrenchment is further fuelling the erosion of the public system. In Spain public expenditure cuts were significant, but the data on outcomes seem to suggest that austerity-driven reforms have so far (and only so far) had a moderate impact. Moreover, in this latter case, increasing differences between regional healthcare systems and a mounting tension between professionals and governments are among the negative aspects of the management of the crisis.

In Greece and Portugal the scale of retrenchment and the accompanying reforms indicate a major rethink (even if not explicitly formulated) of the financial and institutional assumptions of publicly-operated health systems. In the case of Greece, public healthcare spending was halved from 2009 to 2013, mostly by efficiency gains in hospital care, procurement methods and pharmaceutical policies, in parallel with increasing fees and co-payments, and drastic rolling back of public provision. However, the effects on equity, quality and health outcome are grim. There are over two million uninsured; unmet medical needs have sharply increased; there has been a rise in infant mortality, mental disorders, cardiovascular diseases, unhealthy practices (such as alcohol and drug addiction), HIV incidence, and the suicide rate. The human cost of austerity is still not fully visible, but a perilous future with an eruption of expensive morbidity (and a humanitarian crisis) is highly likely. Strikingly, this will have a boomerang effect on system sustainability - the flagship of the reforms.

2.2.3 Family policy

The impact of the economic crisis on family policies is also a focal issue of the CABISE project. León and Pavolini (2014) examine the trends in this policy area in Italy and Spain. As indicated above, family policies have traditionally been a less developed welfare domain in SE countries. For reasons that are related to historical developments and the specific configuration of the SE welfare states, family policies have taken on particular forms and have remained well below average in terms of expenditure and coverage in comparison to the continental welfare states. In the last two decades, however, and with a major impulse from the process of European integration, Italy, and particularly Spain, have created new family programmes and expanded existing ones. These changes have been accompanied by deep shifts in underlying cultural values and attitudes with regard to the role of women and equal parenting, and were certainly influenced by processes of European convergence. However, policy innovation and 'path departure' have been critically undermined by current austerity plans. As the authors indicate, a bleak future of 'permanent strain' limits the scope for social investment 'from the top', though some trends of social innovation 'from below' are ushering in a 'new form of organised collective action worth noting' (e.g. in Italy through a stronger third sector involvement).

2.2.4 Employment crisis

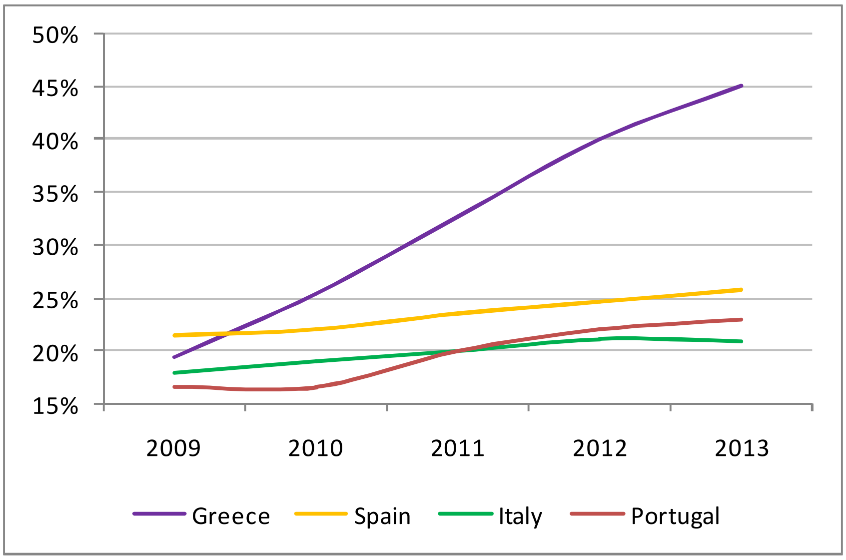
The vulnerability of the major pillars of social welfare is a factor of the deep employment crisis in SE triggered by the 'Great Recession'. Gutiérrez' contribution to the CABISE project (2014) comparatively examines the magnitude and profile of the job crisis in the four countries and traces any convergence (or divergence) in labour market policy reforms over the last few years. Mainstream approaches to the economic malaise of SE countries emphasise 'inflexibilities' in the labour market as a main cause (although, for instance, over a third of labour contracts are fixed term in Spain). In this vein, strategies involving a move towards greater labour market flexibility and deregulation have been forcefully instigated by the 'rescue plans' in Greece and Portugal and largely adopted in Spain and Italy too. The analysis clearly indicates that the modernisation and recalibration of welfare systems in SE during their 'Europeanisation' (at, however, differing paces and to varying extents of intensity) failed to replace 'dualism' with a more inclusive pattern, especially in Spain and Greece. Such a change is also highly unlikely under the crisis-induced labour market reforms. The findings show diminishing employment protection and the dismantling of labour rights in tandem with increasing poverty risks and income inequality, and highlight the trajectory of each country in this respect.

2.2.5 Poverty and inequality

An overall evaluation of the social impact of the crisis in Portugal, Spain, Italy and Greece was undertaken by Matsaganis and Leventi (2014). Given that official statistics tend to lag behind by two to three years, the authors applied the European tax–benefit model (European Microsimulation Model [EUROMOD]) to simulate recent changes. They trace the changing distribution of incomes under the impact of the crisis, and assess how (and to what extent) inequality and poverty have risen as a result of two interrelated factors: the austerity measures taken to reduce fiscal deficits and the wider recession causing business closures and job losses. The authors quantify the distributional impact of both of these factors and provide an estimate of the distribution of the burden across income groups.

In 2009-2013, inequality measured by the Gini index increased very steeply in Greece (from 0.321 to 0.364, i.e. by 13 per cent). It also went up in Spain, but declined steadily in Portugal, and hardly changed in Italy. Evidently a deep fall in median incomes has been a main characteristic of the 'Great Recession'. In real terms, this is estimated at -36 per cent in Greece, -14 per cent in Portugal, -11 per cent in Spain and -6 per cent in Italy. Highly revealing are the estimates of the 'anchored poverty rates' (that is, the proportion of the population with incomes in 2013 below the 2009 poverty line, in real terms). In 2013, in Greece, over 45 per cent of the population were below the 'anchored poverty line'; the respective rates for Portugal, Spain and Italy were 23, 25 and 21 per cent (Figure 4).

Figure 4. *Anchored poverty (2009-2013)*



Source: Matsaganis & Leventi 2014.

They also estimate how the differential impact of the crisis may have altered the composition of the population in poverty. The age groups experiencing the greatest increases in anchored poverty were the young (aged 18-29) in Greece, Spain and (by a smaller margin) in Italy, and children (aged 0-17) in Portugal. Nevertheless, the elderly also suffered considerable increases in anchored poverty, except in Spain where the relevant rate actually fell. Overall, their estimates suggest that 'in most of the countries examined poverty increased' and the austerity-driven policies 'accounted for a major part of that increase'. Also, in some cases 'policies alone raised anchored poverty more than the combined effect of policies and changes in the wider economy did'.

The findings are quite revealing regarding the social impact of the crisis and austerity in the four countries. A fuller picture could be drawn, if the effects of indirect taxation (given its relative weight in the SE tax systems), and most importantly, if the impact of the (more or less drastic) funding cuts in health and social service provision in the four countries could be taken into account in the estimates. The authors are very cautious in this respect and clearly indicate how this aspect may affect the accuracy of their results. Particularly in the case of the elderly population (65 years and over), for whom they find a remarkable decrease of relative poverty between 2009-2013 in SE countries, this may be an incomplete estimate, given that it does not consider the increased costs of health and social care services incurred by elderly people due to the drastic funding cuts and the rolling back of public provision.

3. Concluding remarks

The contributions to the CABISE project bring together a number of cross-country studies on major social policy areas in SE and are intended to provide valuable information and analytic insights to both academics and public decision-makers. Over the last few years there has been an increasing amount of literature on country-specific social policy studies in SE and on comparisons between selected countries in the area. By drawing upon this literature and including further research evidence and analyses, the project aims at a systematic comparative appraisal of welfare-state reform trajectories across SE prior to and during the crisis. This is indeed a timely task, as SE is precisely one of the geographical areas where the crisis has hit longest and hardest within the EU. The contributions are expected to enrich the critical dialogue on the consequences of austerity politics and policies that are a strong threat to the very idea of Social Europe and raise crucial questions with regard to the challenges ahead for the revitalisation of the social dimension of the EU.

The current economic and fiscal crisis has brought the SE welfare model to a political and economic crossroads: fundamental policy reform choices need to be made by these countries in the process of working their way out of the fiscal conundrum. Seemingly such choices have a national (and sub-national) focus. Yet they also reflect a deep ambivalence with regard to the European integration project. Although defending a more just society and inclusive solidarity has always been a core value of EU integration, there is mounting evidence that the policy options for the 'euro-rescue' are progressively eroding the EU's social foundation. Structural adjustment in the 'bailout countries' (Greece and Portugal) and in those that came close to being 'at risk of bailout' (Spain and Italy) embrace sweeping austerity measures with detrimental effects on workers and citizens' protection.

A major question that arises is whether austerity is eroding the foundations of 'Social Europe'. A set of values and goals ('social justice', 'equity' and 'solidarity') constitutive of the European Social Model and defining the basis of European identity seem to be fading away, and appeals to them have increasingly been undermined by the crisis management policies. Moreover, persistent austerity runs counter to the renewed objective of the EU 2020 Strategy to significantly reduce the number of poor in the current decade. Alarmingly, rising poverty and insecurity are not a phenomenon limited to the ailing countries. Recent data show that about 125 million people, or 25 per cent of the EU population, lived at risk of poverty or social exclusion in 2012. Unemployment, old age and low wages are the main causes.

Cuts of an unprecedented magnitude accompany downward adjustment that heightens divergence and polarisations in socio-geographical terms. European Union and national crisis management policy tools have provided fertile ground for the strengthening of the neoliberal project, in ideological, ethical and policy terms, in Europe ([13]). Whether this is an irreversible path towards permanent retrenchment and strain, even if and when the economic crisis is over, is an open question. Differing policy mixes in the different welfare regimes, and a sustained better performance of the Nordic countries in economic and social terms, have kept alive the debate on the need to strengthen advocacy for an EU 'social investment pact'.

Nevertheless, as the jury is still out, the contributions produced under the 'Reassessing Welfare Capitalism in Southern Europe' project aim to highlight major dimensions and components of social and labour market reform in the ailing SE periphery, which, under the imperative of the crisis, provides a vantage point for dissecting any decisive turns and shifts emerging from the clash between Europe's social ambitions (as set out in the Treaties) and European economic governance, which is exerting dangerous downwards pressure on labour and social rights. Last but not least, SE welfare capitalism is becoming increasingly dissimilar in the four countries, calling into question the existence of a distinctive 'model'.

13. See, also, the contributions to the special issue of the *Journal of Contemporary European Studies*, vol. 22, no. 2, 2014, on Social Welfare and the Ethics of Austerity in Europe: Justice, Ideology and Equality.

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