The European social model in times
of economic crisis and austerity policies
ILO, 2014

1. Is Europe Losing Its Soul? The European Social Model in Times of Crisis

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1. INTRODUCTION

This book is the final result of a series of projects started in the early 2000s carried out by the ILO and the European Commission to ensure regular and systematic monitoring of social policies and industrial relations. From the EU accession of Central and Eastern European countries (with Cyprus and Malta) we started to question the future of the European Social Model (Vaughan-Whitehead 2003), and tried to forecast whether working conditions in the enlarged EU would diverge from or converge around the European Social Model (ILO-EC project 2004–2005). We monitored the world of work in the enlarged EU with a focus on the quality of employment and working conditions (ILO-EC project 2006–2007). Then came the financial and economic crisis and we analysed its social outcome and identified how it challenged social cohesion within the EU and increased inequalities. In particular the most vulnerable workers were identified in the crisis (ILO-EC project 2008–2010). Among the categories most at risk, a particular group was identified in the second part of the crisis characterised by austerity packages, public sector employees, and we carried out a comparative study to identify the public sector shock and its short- and long-term effects (ILO-EC project 2011–2012). However, the extent of adjustments and reforms in the past few years induced us to enlarge this study to carry out a more comprehensive assessment of all the areas and elements of the European Social Model. Undoubtedly, there are elements of the European Social Model – such as pension systems – that may need to be reformed to make them more sustainable under demographic and new economic and social pressures. However, under the pressure of the financial crisis and following the introduction of austerity packages to reduce debt, we witnessed most European countries changing – often hastily – several elements of that model: social protection, pensions, public services, workers' rights, job quality and working conditions and social dialogue. A paradox considering that it had taken EU countries more than 60 years, since the Treaty of Rome in 1956, to agree on common views and principles and to develop a coherent set of national and EU regulations and institutions concerning social issues. This social dimension, accompanying and even stimulating economic growth, undoubtedly represents the soul of the European Union, envied and copied by other regions and countries in the world.

Is Europe currently losing this legacy? And if so, what were the motivations behind these changes and what are the effects? On the social side, will it not lead to ever growing inequalities, social exclusion and poverty, and to increased social conflicts? On the economic side, is this not leading to unbalanced growth and thus also endangering the long-term sustainability of our economic model?

1 For the volumes arising from these projects, see the publications by the author in the references.

The aim of this book is to assess the situation in EU member states on the basis of detailed empirical evidence and concrete case studies of social policies that have been dismantled, unchanged or strengthened in the crisis. This thorough analysis was carried out by a group of high-level experts who for nearly two years collected comprehensive information on changes in social policy in their country, distinguishing as far as possible between long-term trends and more recent developments due to the economic crisis. For this we followed a similar structure in each chapter, trying first to define what were the main features and elements of the European Social Model that prevailed in each country in the 1990s before analysing the changes that occurred over time, first in the past two decades, and then more specifically since the financial and economic crisis in 2007 and alongside anti-crisis policies in 2008–2013. A series of tables on ESM elements and changes in each chapter will help the reader to better distinguish those changes over time.

In each chapter, we also tried to systematically present the effects already observed due to the identified changes and also the effects that these trends might have in the future. A series of case studies are aimed at illustrating the main changes in individual countries and present concrete evidence on the implications both in the social and the economic areas.

Each chapter also presents policy considerations and recommendations on social policy adjustments and reforms that we summarize and place in a larger transnational perspective at the end of this introductory chapter.

2. THE EUROPEAN SOCIAL MODEL, THE SOUL OF THE EUROPEAN UNION

Paradoxically, there is no official definition of the European Social Model. The European Commission, which often refers to the concept of the European Social Model, has not provided an official definition, even in the Commission's glossary (EC 2000). However, the different European summits have helped to qualify the European Social Model (as shown in Table 1.1). During the European Summit in Lisbon in 2000 the member states took the position that 'the European Social Model, with its developed systems of social protection, must underpin the transformation of the knowledge economy'. Similarly the European summit in Nice dedicated an entire section to 'modernising and improving the European Social Model', that was also emphasized in the European Summit in Barcelona in 2002 (see Table 1.1).

The European Social Model can also be characterized by its comprehensive nature, since its aim is to encompass all important social areas and to cover the greatest number of people, something that has been achieved over decades. Community legislation has progressively been extended to cover more labour issues, but also to extend its coverage to new categories of workers. We can regroup the European Social Model around six main pillars, as described below.

Table 1.1 European Council Conclusions on preserving the European Social Model

Presidency conclusions, Lisbon, 23–24 March, 2000 **Paragraph 24**. 'People are Europe's main asset and should be the focal point of the Union's policies. Investing in people and developing an active and dynamic welfare state will be crucial both to Europe's place in the knowledge economy and for ensuring that the emergence of this new economy does not compound the existing social problems of unemployment, social exclusion and poverty'. **Paragraph 31**. 'The **European social model**, with its developed systems of social protection, must underpin the transformation to the knowledge economy'.
Presidency conclusions, Nice, 7–10 December, 2000 **Paragraph 11**. 'The **European social model**, characterised in particular by systems that offer a high level of social protection, by the importance of the social dialogue and by services of general interest covering activities vital for social cohesion, is today based, beyond the diversity of the Member States' social systems, on a common core of values'. **Paragraph 12**. 'The **European social model** has developed over the last forty years through a substantial Community acquis, which the Treaties of Maastricht and Amsterdam made it possible to strengthen to a considerable extent. It now includes essential texts in numerous areas: free movement of workers, gender equality at work, health and safety of workers, working and employment conditions and, more recently, the fight against all forms of discrimination. The Social Chapter of the Treaty established the fundamental role of agreements between the social partners in the law-making process'.
Presidency conclusions, Barcelona, 15–16 March, 2002 **Paragraph 22**. 'The **European social model** is based on good economic performance, a high level of social protection and education and social dialogue. An active welfare state should encourage people to work, as employment is the best guarantee against social exclusion'. **Paragraph 24**. 'The European Council stresses the importance of the fight against poverty and social exclusion. Member States are invited to set targets, in their National Action Plans, for significantly reducing the number of people at risk of poverty and social exclusion by 2010'.
Presidency conclusions, Brussels, 20–21 March, 2003 **Paragraph 10**. 'The promotion of sustainable growth and the creation of more and better jobs must remain firmly at the top of the Union's agenda. This can be done by pursuing growth and stability-oriented macroeconomic policies, pressing ahead with economic reforms, taking decisive action to increase employment and modernise the **European social model**, and implementing the sustainable development strategy adopted at Goteborg.'
Presidency conclusions, Brussels, 25–26 March, 2004 **Paragraph 17**. 'The European Council emphasises that competitiveness, innovation, and the promotion of an entrepreneurial culture are defining conditions for growth – essential to the economy as a whole, and especially important for small and medium-sized enterprises. With the strides being made by other global players, the Union must act more decisively if it is to maintain the capacity to support the **European social model** in the years ahead'.
Presidency conclusions, Brussels, 22–23 March, 2005 **Paragraph 22**. 'For the completion of the internal market, the European Council has identified the following priority areas: In order to promote growth and employment and to strengthen competitiveness, the internal market of services has to be fully operational while preserving the **European social model**'.
Presidency conclusions, Brussels, 23–24 March, 2006 **Paragraph 57**. 'Recalling its conclusions of March 2005 and the conclusions of the Competitiveness Council of 13 March 2006, the European Council stresses that the internal market for services must be made fully operational, while preserving the **European social model**, by securing a broad consensus on the Services Directive'. **Paragraph 69**. 'The new strategy for jobs and growth provides a framework where economic, employment and social policy mutually reinforce each other, ensuring that parallel progress is made on employment creation, competitiveness, and social cohesion in compliance with European values. For the **European social model** to be sustainable, Europe needs to step up its efforts to create more economic growth, a higher level of employment and productivity while strengthening social inclusion and social protection in line with the objectives provided for in the Social Agenda'.
Presidency conclusions, Brussels, 8–9 March, 2007 The Council refers to 'Boosting employment, modernising and reinforcing the **European Social Model**'.
General Secretariat of the Council, Brussels, 13–14 December, 2012 **Paragraph 1**. 'In light of the fundamental challenges facing it, the Economic and Monetary Union needs to be strengthened to ensure economic and social welfare as well as stability and sustained prosperity. Economic policies must be fully geared towards promoting strong, sustainable and inclusive economic growth, ensuring fiscal discipline, enhancing competitiveness and boosting employment, and in particular youth employment, in order for Europe to remain a highly competitive social market economy and to preserve the **European social model**'.

2.1 Main Pillars of the European Social Model

2.1.1 Increased Minimum Rights on Working Conditions

It is important to remember the progressive extension of the number of issues covered by EU legislation that is present in national legislation, from labour mobility to provisions aimed at fighting distorted competition, promoting equal opportunities between men and women, and improving health and safety in the workplace – with a great number of EC directives in this area. Occupational safety and health (OSH) is an area in which the EU has made considerable progress over the past two decades in terms of enhanced workers' awareness, introduction of workplace preventative measures, stronger OSH laws and concrete results, such as the decline of fatalities and accidents, including in construction and manufacturing sectors with typically high work-related accidents. Democracy in the workplace – for instance, codetermination and works' councils, information and consultation, financial participation, and so on – has also been promoted through Community legislation but also by a number of innovative rules and practices in individual member states. What is rooting such schemes in the EU is the commitment to them of all the actors concerned as part of their corporate governance process (see also the European company statute).

All these working conditions have progressively been extended to workers outside regular employment, with the progressive implementation of regulations on atypical forms of contract, such as part-time and fixed-term work, or temporary jobs obtained through agencies. European social partners drafted and signed framework agreements – for instance, on part-time work (1997) or on fixed-term contracts (1999) that were then converted into EU legislation – precisely to accompany and better regulate the developments of atypical forms of contracts, and to prevent them from generating lower working conditions compared with those under open-ended contracts.

2.1.2 Universal and Sustainable Social Protection Systems

Universal social protection with a strong basis in social solidarity constitutes one element of the European Social Model that the EU has also tried to extend to new member states.

Although the European Commission has always emphasized that it is up to the member states to decide their social protection and pension systems in accordance with the subsidiarity principle, there are a number of references to and provisions on social protection. Social protection is one of the fundamentals defined in Article 2 of the Treaty establishing the European Community. Article 117 mentioned the needs to harmonize social protection systems, while Article 118 tasked the European Commission with promoting 'close cooperation between member states … notably on matters related to social security'.

The Community acquis on social protection was long confined to the harmonization of social security (with two regulations adopted in the early 1990s) but other progress was made in the area of social protection. The Treaty of Maastricht, establishing the European Community, introduced among its fundamental objectives the 'European Union's ability to achieve the promotion of a high level of social protection', but also the improvement of living standards and quality of life, and additionally 'economic and social cohesion, as well as solidarity between member states' (Principles, Article 2). For the first time, 'the achievement of a high level of health protection' is also mentioned in Article 3 (Principles) with a Title also on Public health, where it is clearly stipulated that 'requirements in terms of protection of human health are a component of the other Community policies'. Social protection, which is enshrined in the Treaty, is thus clearly part of the Community acquis. The aim is not to have harmonization of legal provisions and regulations of member states but 'through encouragement … or through recommendations by qualified majority', Community action being governed by the principle of subsidiarity in the area of social protection.

Despite the disparities between social protection systems, a number of basic features are shared by EU member states, such as universal social protection (at least to a certain extent) to reach all citizens without discrimination of any kind and solidarity ensured between different groups in society.

2.1.3 Inclusive Labour Markets

Inclusive labour markets are clearly a priority of the European Union, and so an additional basic feature of the European Social Model. The European Union has adopted quantitative goals in active labour market policy for all member states. The member states freely determine the policies they will implement in order to reach these goals, but they must achieve them within five years. Their national programmes are analysed and their results evaluated each year by the European Council. The Council has no constraining power, but can make public recommendations to states which do not fulfil common goals. The Lisbon Strategy also pushed forward the objective of 'more and better jobs', thus including also qualitative goals on labour markets, a dimension of 'quality of jobs and employment' that is present in most Commission documents on employment and is thus part of the European Social Model. Labour markets are also expected to generate fair wages and decent living standards. While wages have been left to the responsibility of individual member states, all of them have developed minimum wage regulations, either through a statutory national minimum wage – in 21 out of 28 member states – or through minimum wages negotiated through collective bargaining. Governments have shown a renewed interest in the minimum wage over the past decade, as shown by the introduction of a national minimum wage in the United Kingdom in 1999, followed by Ireland in 2001 and the decision to introduce a statutory minimum wage in Germany in 2015.

2.1.4 Strong and Well-Functioning Social Dialogue

Social dialogue has been promoted in all member states, if in diverse ways, and as such constitutes a basic element of governance in the EU. At EU level social dialogue has evolved into a shared governance process at Community level since the Amsterdam Treaty.

Social dialogue is not only an issue in its own right that deserves attention, but also, because it involves the social partners, it covers many more areas, social as well as economic and political, in which the social partners may have a role to play. This is why, at Community level as well as in individual member states, social dialogue not only is an element of social policy, but also over the years has become a means of making progress in other social areas. This is why the need to consult the social partners is present in the text of several directives, including areas such as labour law, safety and health and anti-discrimination.

The place and role of social dialogue have been progressively strengthened at EU level. While the Treaty of Rome in 1956 set up a social partnership between the Commission and the social partners, initially established with an advisory capacity, a process of bipartite social dialogue started in 1985 in Val Duchesse when Jacques Delors took the initiative to bring the social partners together for the first time so that they could find common ground on economic and social issues. This process led to intensive cross-industry dialogue between EU social partners representatives (ETUC for the workers; and UNICE for the employers, which then converted into BusinessEurope; as well as CEEP and UEAPME). A new era commenced in the early 1990s, in particular at the 1991 Intergovernmental Conference, when the European social partners (Agreement of 31 October 1991) agreed a joint text on an enhanced role for the social partners at European level (then inserted into the Social Protocol adopted at Maastricht in December 1991). This resulted in a new procedure of social dialogue (incorporated in the Treaty of Amsterdam in 1997) in which the social partners acquired new rights to be consulted on proposals in the social field and also to opt to replace the traditional legislative route (that is, the EC preparing a draft directive for submission to the Council) by the negotiation and conclusion of framework agreements, which can also be converted into Council Directives. Social partners thus became key actors in what we could define as 'shared social governance'.

The same process of bipartite social dialogue emerged at sectoral level, when the Commission decided on 20 May 1998 on the creation of sectoral social dialogue committees at EU level, which provides the social partners with a platform for sectoral social dialogue and thus induces member states to set up similar structures. In 2013 there were 41 such sectoral committees.

Over the years, the social partners have also come to be increasingly consulted, for instance on employment issues in the implementation, at all stages, of the European Employment Strategy, but also from 1997 (decided at the Luxembourg Employment Summit), through regular meetings with the Commission and the heads of state and government of the member states, and finally from 1999 (decided at the Cologne Economic Summit) in the macroeconomic dialogue with economic and finance ministers and the European Central Bank.

Social dialogue has thus progressed at different levels, ensuring that the social partners can usefully contribute to avoiding gaps between what is discussed at higher levels and the microeconomic and social realities that they confront on a daily basis.

Another characteristic of the social dialogue model in EU countries is the combination of different levels of negotiation (EU, national, sectoral, regional, enterprise) compared with full decentralization to enterprise level in the United States, but also Japan.

These collective agreements that extend beyond the immediate workplace or company level are seen by industrial relations experts and practitioners as one of the unique institutional features of the European social model: 'No other world region has any comparably well-developed system of multi-employer collective bargaining in which agreements cover not only entire industries but in some cases apply even nationally. The existence of collective agreements with such extensive coverage is one of the reasons why a clear majority of employees continue to be covered by collective bargaining in Europe. By contrast, in countries and regions in which the predominant level of bargaining is at the workplace or company, only a minority of employees have their employment conditions secured by collective agreement' (Schulten, 2013).

2.1.5 Public Services and Services of General Interest

The Treaty of Lisbon, Protocol No. 26 on Services of General Interest (EU, 2009: 307) and Article 36 of the European Charter of Fundamental Rights (EU, 2009: 204) underline the importance of services of general interest in the EU – such as electricity, gas, other public utilities and transport – in ensuring the EU's social and territorial cohesion, and set out principles to guide the EU approach to these services. It also recognizes the important role of services of general interest in the shared values underlying the European Social Model.

Protocol No. 26 imposes on the EU and the member states a shared responsibility for a ‘high level of quality, safety, and affordability, equal treatment and the promotion of universal access and of users rights’ in public services, including public administration. More recently, the European Commission has issued a ‘quality framework ‘ for social services of general interest (SSGI) to ensure that citizens have access to essential services. It will review the situation on a regular basis and promote quality initiatives, in particular for social services that address particular needs (EC 2011). At the same time, it aims to increase clarity and legal certainty with regard to the EU rules that apply to these services, especially concerning the current trends addressed in this volume.

Such basic principles and conditions have been enshrined in national legislation, including a strong and high-quality public service as part of the national social model.

2.1.6 Social Inclusion and Social Cohesion

Guided by the principle of ‘solidarity’, one of the aims of European institutions and EU member states is not to leave any group of citizens out of the European construction. This implies significant social protection and social inclusion programmes for the most vulnerable, a strategy that led in 2002 to the adoption of a coordinated policy among other member states to fight social exclusion, an approach that has been extended to all countries that more recently joined the European Union.

2.2 A Stimulating and Supporting European Framework

While individual member states have developed their own social policy, the European Union, from the start stimulated such policies by providing a social policy framework that was also progressively strengthened. This progress in social policy has been possible through the use of various tools. While legislation played a key role in setting the basis of general workers’ rights, it became clear that along with increased complexity in societies and in work organization it would be increasingly difficult to make progress on the sole basis of legal workers’ rights. The use of financial means through the European Structural Funds also appeared to be insufficient. This is why other major ways of developing social policy have emerged in the course of time, to enrich the armoury of tools, which we can group in five major categories:

(i) extending minimum legal rights;
(ii) ensuring social solidarity at European level through a mechanism for the redistribution of European social funds;
(iii) establishing a more flexible and coordinated framework between member states (method of open coordination);
(iv) developing a dynamic space for social dialogue at European level;
(v) extending social rights through fundamental social charters.

On the legislative side, Community labour law has established just over 70 directives or legislative instruments in four main areas: free movement of workers; workers’ rights; equal opportunities for men and women; and health and safety in the workplace. This legal framework has been extended over time, for instance establishing new social rights on transnational questions (such as free movement, European works’ councils; posting of workers) or better coverage of new forms of employment (such as independent work or tele-work).

The structural funds have also pursued their common mission, to reduce the differences in living standards between regions of the EU. They have represented over the years a central mechanism of economic and social cohesion. In the social field, the European Social Fund (ESF), one of the EU's four structural funds, represents an important instrument for the promotion of solidarity because it plays a key role not only in social but also in employment policy, especially the European Employment Strategy. It represents an important tool for helping the member states to prevent and fight unemployment, develop the skills of the labour force and prevent people losing touch with the labour market.

A third tool that has been developed more recently is the 'benchmarking' or 'coordinated' method in areas where objectives are needed and where legislation is not possible or is undesirable. It emerged as an appropriate instrument in those areas of competence that are essentially national, but require concerted strategies at European level. The process – which consists of guidelines, national plans of action and monitoring – leads to the adoption of concrete recommendations addressed to member states, which are quite constraining. They are aimed at helping member states to improve their performance in this area. This method has been so far used on employment – with the European Employment Strategy – but also against social exclusion and in favour of social protection.

The fourth way to progress on social policy (presented earlier) has been to provide a framework of dialogue, to create at European level a dynamic space in which to generate impulses for change. The social partners have used the process of framework agreements for instance on parental leave (1996), part-time work (1997), fixed-term contracts (1999) and temporary agency work and the fact that all these framework agreements have then been enshrined in European legislation by the Council (at the social partners' request) is an obvious sign that social dialogue has become one of the driving forces of European social policy.

A fifth instrument that is often not regarded as relevant by those describing Social Europe, because it is not considered to be part of the legal – and thus more constraining – Community *acquis* (although it provides a series of institutional or constitutional rights) is the social charter. There have been three major charters on social rights to complement the European Convention on Human Rights: first, the Charter of the Council of Europe of 1961, which was revised in 1996; second, the Community Charter for Fundamental Social Rights adopted at the European Summit in Strasbourg in December 1989, which was drawn up with the clear objective of defining a common basis of 'fundamental social rights'; and more recently, the Charter for Fundamental Social Rights adopted at the European Summit in Nice in 2000. The social charters have proved to be an important way of extending social rights and of having social rights accepted at the same level as human and civil rights. Although they are non-binding, the different charters also provide new references for the Court of Justice.

The role of the EU institutions in shaping the European Social Model was particularly visible during the EU accession of Central and Eastern European countries which had lower social standards in a number of areas, especially after their early years of transition. During the accession process the insistence of the European Commission on those future member states taking on the social *acquis* was successful in driving steps forward in such important areas as occupational health and safety, social dialogue and workers' participation, and other aspects of labour law (Vaughan-Whitehead 2003).

2.3 Its Relevance and Example for Other Parts of the World

Nothing similar to the European Social Model can be found in other parts of the world. The model is quite distinctive, rooted in shared values that have not been replicated so far. In particular, it differs sharply from policies and developments in the United States. In particular, the American model embraces the deregulation of labour market guarantees, low wage rates for less skilled workers, lower levels of social protection (that are, moreover, based on personal/enterprise insurance rather than guaranteed by a welfare state), and a limited role for collective bargaining and social dialogue. While the United States has certainly developed a number of social policies – for instance on social security and pensions – the system is based mainly on the individualistic approach, with little initiative being taken by the state and an increasing reliance on market forces. While the European form of 'welfare' is concerned with the social being of all citizens within their societies, welfare in the United States tends to be oriented towards a 'safety net' for those who, for whatever reason, are not employed in the mainstream economy. This last vision is also the one that has been promoted by international monetary organizations such as the IMF and the World Bank. Only recently the United States has proposed a major reform towards a national health care system based on a more universalistic approach with the President Obama's Affordable Care reform.

The EU model is also more concerned with reducing inequalities. The specificity of the European Social Model is emphasized in the World Competitiveness Yearbook:

> Another force shaping the competitive environment of a country is the distinction between a system that promotes individual risk and one that preserves social cohesiveness. The so-called Anglo-Saxon model is characterized by emphasis on risk, deregulation, privatization and the responsibility of the individual through a minimalist approach to welfare. In contrast, the Continental European Model relies heavily on social consensus, a more egalitarian approach to responsibilities and an extensive welfare system. (IMD 2000)

The financial crises in Asian countries have also provided proof of weaknesses in economies not built on social partnership and democratic values (Stiglitz 2002). Similar elements of economic failure can be identified in the economic crises of Latin American countries, where economic and social recovery often came from more social approaches, as in Brazil and more recently Uruguay and Argentina.

If the European Social Model survives, while retaining its basic features, and allowing economic recovery, it may well constitute an alternative to the US capitalist model and thus represent a useful model for the rest of the world.

3. A MODEL UNDER ATTACK IN RECENT YEARS OF CRISIS AND AUSTERITY

While the ESM has been progressively eroded over the past decade (Hermann 2013), the crisis and ensuing austerity packages have accelerated the process.

3.1 A Constantly Challenged and Changing Model

Despite a number of achievements in promoting a Social Europe at Community level and also in several member states, the importance of social matters has not been accepted by all. Several member states have repeatedly tried to undermine the social rights described above in the belief that they are costly for enterprises and lead to much too rigid labour markets. Among those arguing against social policies, some are ready to accept that social matters should be taken care of, but only after economic growth has been ensured. If not, there should not be any redistribution of productivity gains.

Neoliberal theorists believe in the ability of markets to determine optimal levels of wages and employment. Labour market rigidities would also accentuate the negative impact of the crises on unemployment. In particular all social measures to protect individuals from the consequences of imperfections of market forces have the direct effect of increasing the cost of labour and therefore act as disincentives to employment. It therefore becomes impossible for employers to lower wages to a level at which excess labour supply would be restored to its ‘natural’ level. Moreover, social allocations by the state – such as unemployment benefits – would have the effect of disincentivising work and encouraging voluntary unemployment. However, many theorists have countered that social provisions can also represent an economic incentive; for instance social protection can also be viewed as an employment factor in the sense that it allows the job-seeker to be more efficient in his search because he does not have to concentrate on making ends meet; he may also have the opportunity to engage in further training which may turn out to be beneficial for society as a whole. This was the response of the Lisbon Summit in 2000 that established social progress as a ‘productive factor’ (COM(2000)82: 4).

Beyond these different perspectives on the place and role of social policy there have been also discussions about the need to make the European Social Model more sustainable, also considering demographic factors. This debate has led for instance to a number of discussions and reforms on pensions to ensure their long-term viability.

The different chapters of this volume show that some reforms of elements of the European Social Model started already in the 1990s and continued in the first half of the 2000s, partly under the influence of the above perspectives and ideological views on social policy, and partly under the influence of the sustainability debate.

It is, however, after the crisis that most European countries entered into a period of rapid changes in social policy and started to rapidly implement decisions and reforms that in a few years will modify their overall social policy model.

3.2 The Crisis: Opportunity to Strengthen or Dismantle the European Social Model?

No doubt the crisis with its deep effects on economic growth challenged the European Social Model in many ways. We can distinguish between two periods.

3.2.1 The Use of Social Policy in the First Phase of the Crisis

The role of automatic stabilizers

In the first period of the crisis, the existence of social protection mechanisms greatly contributed to minimizing the social costs of the crisis. With massive job losses and increased unemployment, the presence of unemployment benefits and social benefits and social assistance contributed to cushioning the social shock and limiting increased poverty. At the same time, it has contributed to limiting the economic impact of the crisis by avoiding a collapse of consumption. The fact that real public social expenditure – relatively stable in 2006–2008 – started to increase dramatically in 2009 shows that these mechanisms acted as automatic stabilizers and limited the fall in citizens’ purchasing power and thus also global domestic demand. In 2009, social protection expenditure increased by around 6 per cent in the EU27, an acceleration driven mainly by increases in unemployment expenditure, but also in health and disability and old age and survivors’ expenditure. The increase in unemployment expenditure mainly reflected increases in the number of unemployed.

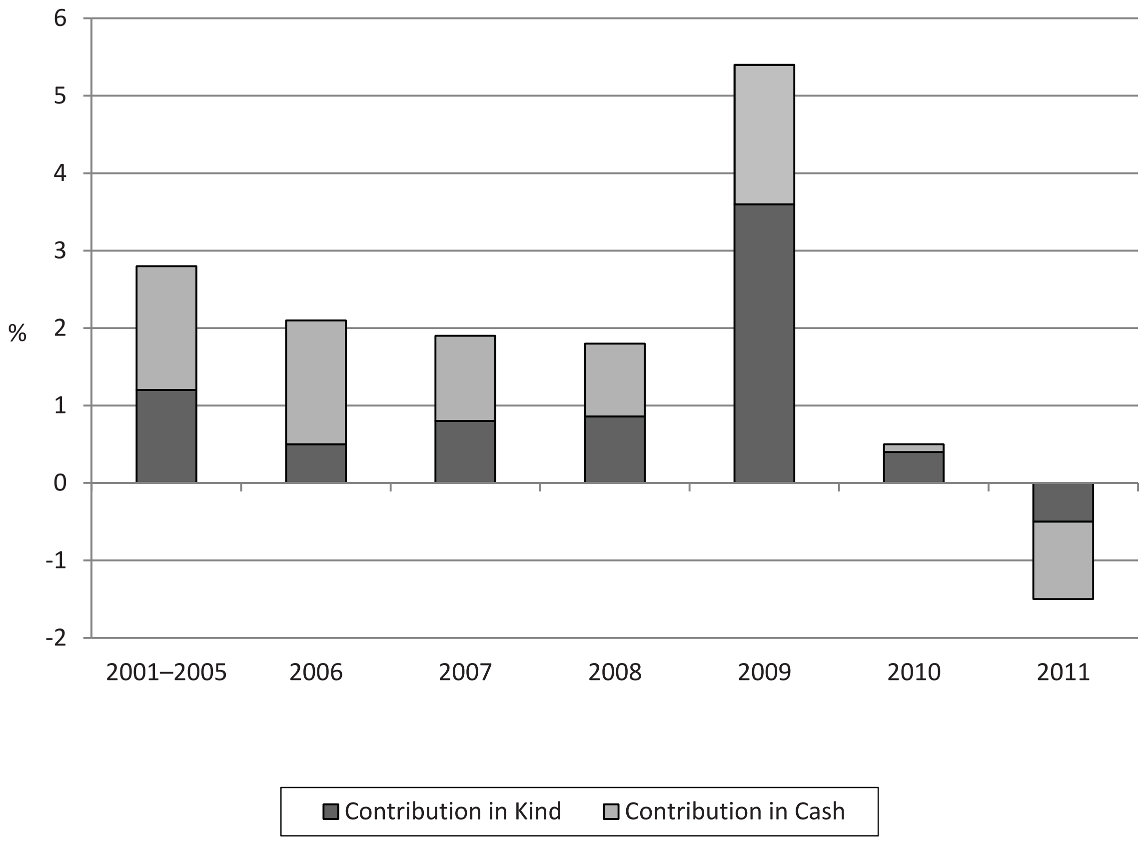

Figure 1.1 Annual growth in real public social expenditure, EU27 countries, 2001–2011

Source: Adapted from Bontout, O. and Lokajickova, Z. (2013) 'Social protection budgets in the crisis in the EU', Working Paper 1/2013, European Commission, Publications Office of the European Union, Luxembourg, p. 16.

From 2010, the situation totally reversed, when annual spending growth slowed significantly, followed by a fall in social expenditure in 2011. This did not mean that needs were lower in 2010–2011 compared with 2009 but reflected instead a U-turn, or shift, in governments' public expenditure policy from 2010.

Institutional solutions to the crisis

While the increase in social expenditure in the first phase of the crisis has shown that the European Social Model worked when needed, individual countries have also experienced how the institutional schemes they had in place could help them to mitigate the employment shock of the crisis. The chapter on Germany in this volume shows how the employment miracle in Germany – not much employment reduction despite output contraction – was due to the implementation of short-time working schemes that could be negotiated through social dialogue at enterprise level and represented a credible alternative to layoffs. In France partial unemployment schemes with the state funding a shorter working week also allowed some alternatives to unemployment.

Other elements of the ESM, such as the Cassa Integrazione Guadagni in Italy, helped to mitigate adverse effects on unemployment. The training system in Sweden together with its flexicurity system also helped the country to avoid any unemployment effect, as described in one of the case studies presented in the chapter on Sweden. The external flexibility system combined with training mechanisms developed in Scandinavian countries also contrasted with the type of external flexibility based on a high share of temporary workers in Spain, who not only lost their jobs in the crisis, but had difficulties finding another job in later years, with a very high rate of long-term unemployment. In all countries where there was a tradition of social dialogue at enterprise level, layoffs could be avoided through the negotiation of agreements between the management and the unions on shorter working hours, as also in Austria and/or lower wages as in France. By contrast, in those EU countries where there were no social dialogue institutions, the crisis led to immediate and massive layoffs in Estonia, Latvia and Lithuania.

3.2.2 Paradox and Contradicting Views on the Future of the ESM

Despite the fact that the European Social Model with its different elements (unemployment and social benefits, training, social dialogue, working time or restructuring schemes) were at work during the first years of the crisis, as acknowledged by the European Commission,[2] the worsening of the budgetary situation and public debt led many European countries to abandon stimulus packages and to introduce fiscal consolidation policies. Total social protection expenditure fell in a majority of European countries in 2010 and 2011, although rising unemployment and increased poverty should have resulted in an increase in expenditure.

Obviously, adjustments were most severe in countries in which the public and budget deficits were highest (as in Greece, Portugal and Ireland). Greece reduced public spending by more than 30 billion euros or the equivalent of 10 per cent of GDP between 2009 and 2011 and an additional 8 per cent is expected to be saved by 2015 (Hermann 2013; OECD 2012).The Irish austerity programme is also intended to save approximately 18 per cent of GDP by 2015, and Spain, Portugal, the United Kingdom and Hungary aim at 7–8 per cent of savings at least. Overall the scale of austerity is unprecedented in post-war European history. We must add that most of those debts were not due to social expenditure as such – even if they increased with the stimulus packages – but were explained mainly by the decision of governments to refund their banks during the financial crisis, as in Ireland where the budget deficit appeared only after the banking bailout. Those that had stabilized their budget earlier were not under similar pressure to remove their social policies or cut their overall public sector expenditure (as in Sweden and other Scandinavian countries).

Nevertheless, this led to a paradox, with social policy being attacked within austerity plans despite the fact that, first, it was not the cause of the crisis and second, it had helped to preserve social and economic outcomes in the first phase of the crisis.

This paradox was reflected in a series of contradictory views on the European Social Model. For the President of the European Central Bank, Mario Draghi, 'the European Social Model has already gone when we see the youth unemployment rates prevailing in some countries';[3] while for the Vice-President of the European Commission, Olli Rehn, 'High debt levels, the rapid population ageing and the fact that more than half of the social spending of the whole world today takes place in Europe (shows) the burden that the European productive economy has to carry in order to sustain our social model'.[4] On a

2 'Social protection benefits have generally significantly cushioned the effects of the income shocks on households from the economic crisis, especially in the period 2007-09', EC 2012b: 15.

3 'Europe's banker talks tough – Draghi says continent's social model is gone', *Wall Street Journal*, 24 February 2012, available at: http://online.wsj.com/news/articles/SB10001424052970203960804577241221244896782#printMode

4 Speech given at IIF-G20 Conference, Moscow, 15 February 2013; see reference in: http://www.insightweb.it/web/content/also-sprach-olli-rehn

more positive note, the President of the European Commission, José Manuel Durão Barroso, probably in response to his Vice-President, stated: 'The European Social model is not dead … Undoubtedly we need to continue reforming our economies … An effective social protection system that helps those in need is not, I repeat, an obstacle to prosperity' (EC 2013). For the President of the European Council, Van Rompuy, 'the ESM remains an important asset and a global competitive advantage'.[5]

Faced with such a divergence of views, the aim of this volume is to clarify the issue and to make a first assessment of what has happened to the European Social Model in the crisis. More importantly, this volume also assesses the effects of such changes, something that may help to better identify the role of the ESM. For instance, in cases in which elements of the ESM were removed, did that have positive effects on the public budget, employment and the economy, or not?

3.2.3 Social Policy Changes under Austerity Packages

The different findings in this volume converge to one conclusion. The global picture that we paint in the next sections is alarming. During this short period, and beyond the diversity of national situations, all six pillars of the ESM have been adversely affected, and several key elements within each pillar are undergoing transformation or have been abandoned altogether.

(i) Workers' rights and working conditions affected

The crisis and the deteriorating economic conditions have generated more tensions between employers' and workers' interests. A number of reforms prioritising enhanced competitiveness and economic recovery have directly put pressure on wages and working conditions. More flexibility has been sought by employers without always providing security to workers, whose bargaining power is also undermined by increased unemployment and also changes to the rules of collective bargaining.

Basic workers' rights undermined
First, within the crisis a number of countries have set out new restrictions on the right to strike, for example Hungary. In Greece, there have been repeated statutory interventions in free and voluntary collective bargaining; and also repeated infringement of the right to strike by civil mobilization orders. Also to be noted is the appearance in the United Kingdom of the possibility for employees to give up their basic workers' rights in exchange for shares in the company, a phenomenon that illustrates the way in which workers' rights, which in the past could not be easily questioned, can now be circumvented by employers (see chapter on the United Kingdom).

Unilateral employers' decisions on working conditions
At the same time, changes in labour codes have progressively given employers more and more freedom to unilaterally change working conditions, such as working hours and wages, as in Spain and Romania, where workers leaving a company are also asked to pay back training costs if the employer included a training clause in the workers' contract.

By contrast we saw how in Germany, France, Austria and other countries social dialogue helped in negotiating alternatives to layoffs through shorter working hours.

5 Remarks by the President of the European Council, Herman Van Rompuy, following the Tripartite Social Summit, Brussels, 14 March 2013, available at: http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/136114.pdf

Wage fall as part of the internal devaluation strategy

Within austerity packages, some countries of the euro zone – where currency or external devaluation is impossible – and on the direct advice of the Troika sought greater competitiveness through a sort of 'internal devaluation' that is from a series of measures aimed at reducing labour costs. Under this strategy a number of initiatives were taken to reduce wage growth, which led to a fall in real wages and even nominal wages. Tripartite negotiations on wages were interrupted, as in Portugal, Romania and Ireland, and their results in Greece were considered unsatisfactory and thus ignored by the Troika; tripartite pacts, where they had been signed, were not always respected, as in Spain and Hungary. It is in this context that minimum wage growth was frozen and thus fell below price increases in Portugal, Spain and the United Kingdom, while the minimum wage was even cut in nominal terms by 22 per cent in Greece, again following requests from the Troika. Hungary decided instead to increase the minimum wage tax wedge. We will also see that most changes in the collective bargaining process are aimed at breaking regular adjustment mechanisms with regard to wages.

On the positive side, we can report recent developments in Germany, where the decision to introduce a statutory minimum wage for the first time was taken at the end of November 2013, which should not only increase the scope of wage earners covered by a minimum wage, but also allow an improvement of wages at the bottom of the wage scale.

Violations on occupational safety and health

We saw earlier in this introduction that EU countries have made constant progress in this area over the past two decades. However, the crisis has generated new difficulties, an increasing number of violations in the field of health and safety were reported in a number of countries, such as Estonia (+21 per cent). Work-related illnesses, stress and depression were reported in Portugal and Croatia. The problem is that certain enterprises – especially SMEs – in order to survive, had to significantly cut their occupational safety and health budgets. At the same time, the budgets of public OSH structures have undergone considerable reductions as part of austerity measures. Advantages for public sector employees were also removed, such as sick leave in Spain, or reduced, as in Slovenia.

(ii) Labour market: more and more flexibility

Labour market reforms are not new and have been implemented in most European countries since well before the crisis. In particular, high unemployment rates and their long-term and structural features have led to more activation policies, with a progressive reduction of passive labour market measures in favour of more active labour market policies in order to improve incentives to work and to increase employment levels. At the same time, non-flexible forms of contract have been encouraged to stimulate job creation. Since the crisis and the implementation of austerity policies, however, reforms and changes in labour market policies have rapidly multiplied, touching all areas, including – in some cases – active labour market policies themselves.

Facilitating entry and exit

Most recent reforms of the labour market have aimed at promoting employment through offering more flexibility to the employer to get rid of labour, on one hand, while also reducing administrative procedures on hiring new employees. This led first to the simplification of procedures for individual dismissals – as in Greece, Italy, Estonia, Portugal and Slovenia – and also a reduction in notification periods – as in Slovakia and, at the extreme, Greece, where it was shortened (for white-collar workers with over 20 years of tenure) from a minimum of 24 to a minimum of 4 months.

Within the framework of the same logic to reduce employers' constraints, the probation period for newcomers – during which they not only have lower wages but also lower rights – was also increased, as in France, Romania (from one to three months) and Greece (from two to twelve months).

Collective dismissals were also made easier, with prior procedures being simplified, as in Estonia and Spain or Greece, where the threshold was raised from 2–3 to 10 per cent (or was even suppressed, as in Slovakia), as demanded by the Troika.

In the United Kingdom, rights to unfair dismissal were made more restrictive – eligibility is possible only after two years' employment rather than one year, as before – while other countries, such as the Czech Republic, Greece and Lithuania, decided to cut severance pay.

Further flexibilizing work contracts

Paradoxically, although temporary workers were the first to suffer from the crisis, because they were the first to lose their jobs, most countries decided to make recourse to this form of employment much easier. A number of countries increased the maximum length of fixed-term contracts, from 6 to 36 months in Portugal, and from 24 to 36 months in Greece and Romania. Estonia has removed all limits on temporary employment and temporary agency work has increased everywhere, including in France, where it represents 90 per cent of new contracts. In Germany, temporary agency workers tripled from 2004

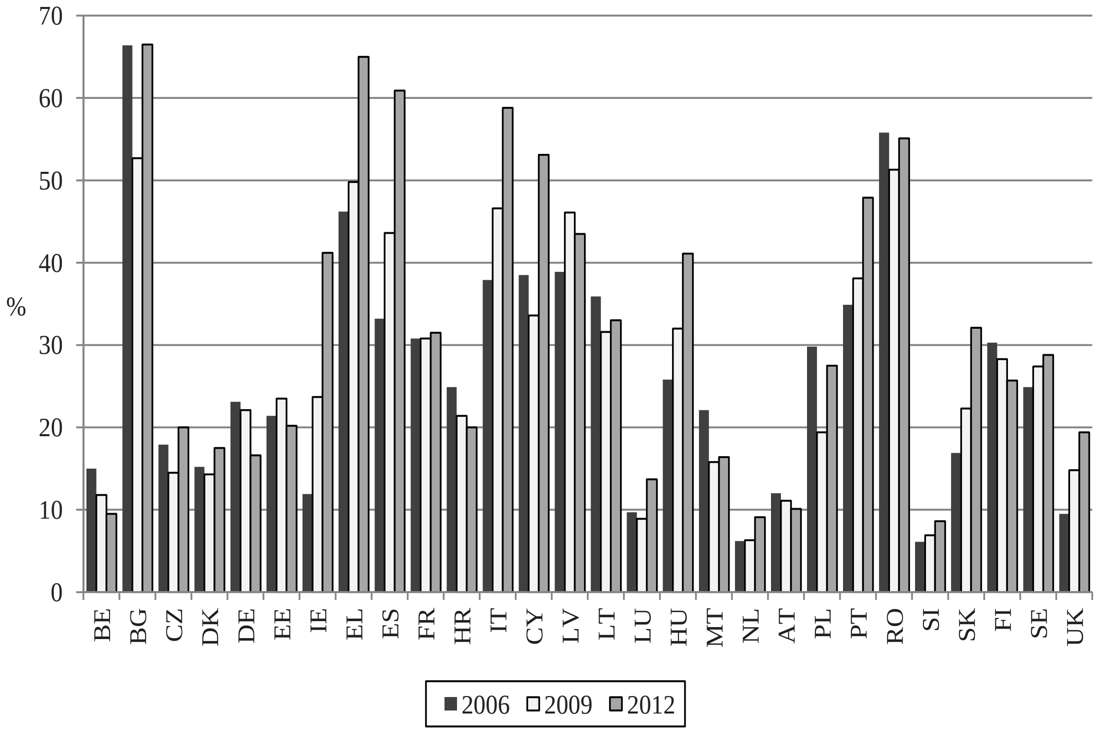

Figure 1.2 Involuntary part-time employment as a percentage of total part-time employment (15 to 64 years), EU countries, 2006–2012

Source: Eurostat (Ifsa_eppgai).

to 900,000 in 2011, and the number of mini-jobs rose from around 5.5 million to 7.5 million, among whom the share of low-wage workers was 86 per cent in 2010. Restrictions on temporary agency work were also reduced or removed, for example in Greece and the Czech Republic (Hermann 2013; Clauwaert and Schömann 2012).

Forms of very flexible and unprotected contracts also emerged as in the United Kingdom where the increasing use of 'zero-hours contracts' was reported: an employee must agree to be always available for work as required but only receives compensation for the actual number of hours worked. New employment contracts for younger workers were encouraged in Greece and Spain, at wages below the national minimum wage.

The conversion from full-time to part-time contracts also developed, as in Greece, Italy, and France. This led to a rapid upsurge of involuntary part-time workers, as in Cyprus from 7 to 53 per cent, and in Ireland from 11 to 41 per cent. Involuntary part-time work is thus emerging as a significant phenomenon in Europe.

Less resources for active labour market policies

At the same time, a shift can also be noticed in labour market policies. First, the 'rolling back of the state' can be reported notably in the United Kingdom, with a massive withdrawal from active labour market programmes, coupled with a policy of starving the regions of funds. A similar process has been observed in Italy and Portugal, with less funding provided by central government to the respective regions.

A number of countries have reduced the funds dedicated to active labour market policy. The most excessive move happened in Hungary where not only was the duration of unemployment assistance cut to only three months, but all active labour market policies were abandoned, replaced with a policy based on public work, as shown in one case study in the chapter on Hungary. In the United Kingdom, a significant job activation programme for young people was revoked by the coalition government elected in 2010.

On the positive side, France, Germany and Ireland increased the funding of active labour market policy and the number of participants in these policies was extended in Estonia and Latvia.

(iii) Social protection: Both quantitative and structural changes

Most European countries have been engaged in long-term reforms of social protection since long before the crisis under pressure of demographic changes and long-term sustainability issues, but also of structural unemployment. This led to a number of reforms, notably on pensions and social protection, a need for reforms that had already been emphasized by the European Commission in several documents. As an example, pension reforms started long ago. Austerity policies in Europe have accelerated such changes, however, affecting all areas of social protection. Generally speaking, stricter eligibility conditions have been introduced, involving significant cuts – in benefits, social assistance and pensions – but also structural changes, for instance on pensions and access to unemployment assistance that we document below. We also try in this volume to analyse whether these changes have helped to address the sustainability issues or whether they may have missed – because of their magnitude and speed – their original objectives.

Drastic cuts in both unemployment and social benefits

While unemployment has increased during the crisis a number of measures have been taken by governments to reduce the total bill. For this they have modified the unemployment system in a number of directions. First, they limited access to unemployment assistance and everywhere a series of new and stricter eligibility conditions have been put in place. In Portugal in 2008, 61 per cent of unemployed received unemployment benefits but only 46 per cent in 2012. In Spain, coverage fell from 70 per cent in 2008 to 48 per cent in 2013. Similarly, the number of beneficiaries decreased, by 16 per cent in Estonia and 28 per cent in Lithuania and many other countries. Second, the duration of unemployment benefits was reduced, falling for instance from 15 to 12 months in Portugal and Ireland, but with the most excessive cut in Hungary (as illustrated in this volume), from 9 to 3 months. Third, several countries have cut the value of unemployment benefits, by 20 per cent in Portugal, 22 per cent in Greece and 15 per cent in Romania.

A more structural shift from universal to targeted protection

The suppression of many universal benefits, which affect many people across the social spectrum – such as access to child allowance – has contributed, with the changes described earlier, to changing the face of universal social protection systems. In many countries, spending cuts have targeted family benefits and family support programmes, thus making lives more difficult for parents and children, especially for working mothers. Child tax allowances were abolished in Greece (and the universal birth grant in Spain), child benefits were also reduced in Ireland, the ceiling was reduced in Denmark and in the United Kingdom the working tax credit was frozen. Maternity/paternity benefits were also reduced in Latvia and Lithuania while the United Kingdom cut eligibility, too, and the value of housing benefits.

More restrictive entitlement criteria for social protection were introduced in Italy. The social support index was frozen in Portugal. In Latvia mandatory state social contributions increased from 9 to 11 per cent. In Cyprus cuts of 15 per cent introduced by the 2012 budget, together with the introduction of a series of means-testing criteria, also led to a system more targeted at the most vulnerable. Massive cuts in all previously existing social benefits in Greece and redirection of public monies to means-tested ones transformed the social protection system into one offering mainly residual protection, as documented in the chapter on Greece in this volume.

By contrast, social assistance was increased in Bulgaria, while Sweden distributed more state aid to municipalities in order to support the provision of welfare services and also organised some redistribution in favour of the lowest income households, as was also done in France.

Pensions heavily reformed (both amounts and systems)

Although pension reforms started well before the crisis to improve their long-term sustainability they represent another social area that has entered a period of radical change and reform. First, many mechanisms were introduced with the announced aim of ensuring sustainability but often also had the effect of reducing pensions. Either benefits were directly cut, as in Hungary and Lithuania, or frozen, as in Ireland, or they suffered from some decline in real terms because of the interruption of the indexation process, as in Italy and Portugal. A recent study on 11 European countries reported pension freezes in seven of them, while four actually cut pension payments (Hermann 2013). Another way to make savings was to increase the number of years of contribution, such as in France, Spain and Latvia (where the minimum period of contributions was extended from 10 to 15 years). The qualifying period was also increased in Greece (from 35 to 40 years of contributions), where calculations are now based on the entire employment career instead of the best five of the last ten years. In Spain it is now the last 25 years and not the last 15 years that are taken into account. Pension contributions were also increased from 3 to 9.6 per cent in Poland. Pension reforms were also urgently introduced in Italy to make savings at the height of the financial crisis (see chapter on Italy in this volume)

Most EU countries also embarked on reform of the pension system not only due to the debt that appeared with the crisis but also because of demographic factors that threatened the sustainability of existing systems. Almost all countries increased the statutory pension age (eight out of the 11 countries in the study previously cited), as also advised by the European Commission. But many other countries did not stop there. They extended reliance on the private sector. In France, the private pillar was strengthened, while it was nationalised in Hungary (after the collapse a few years ago of private pension funds). Resources collected from pension funds were even used by the Hungarian government to cover the public deficit. A two-pillar system consisting in a basic means-tested and a contributory pension was implemented in Greece, while a flat-rate pension was imposed in the United Kingdom, with mixed effects.

A general fall in social expenditure

This disengagement from social protection is reflected in the figures, which show a general decline of benefits both in cash and in-kind in 2010. Figure 1.3 shows that the fall continued in 2011 and 2012. While declines in cash benefits directly affect households' gross disposable income, declines of in-kind benefits do not, but nevertheless have a negative impact because they influence their access to health care services or child care.

In 2011, the declines affected most member states and both in-kind and cash benefits. Declines were particularly significant (around 5 per cent or more) in Greece, Latvia, Portugal, Romania and, to a lesser extent, Spain and continued there in 2012. They were below 1 per cent in other member states (Bontout and Lokajickova 2013).

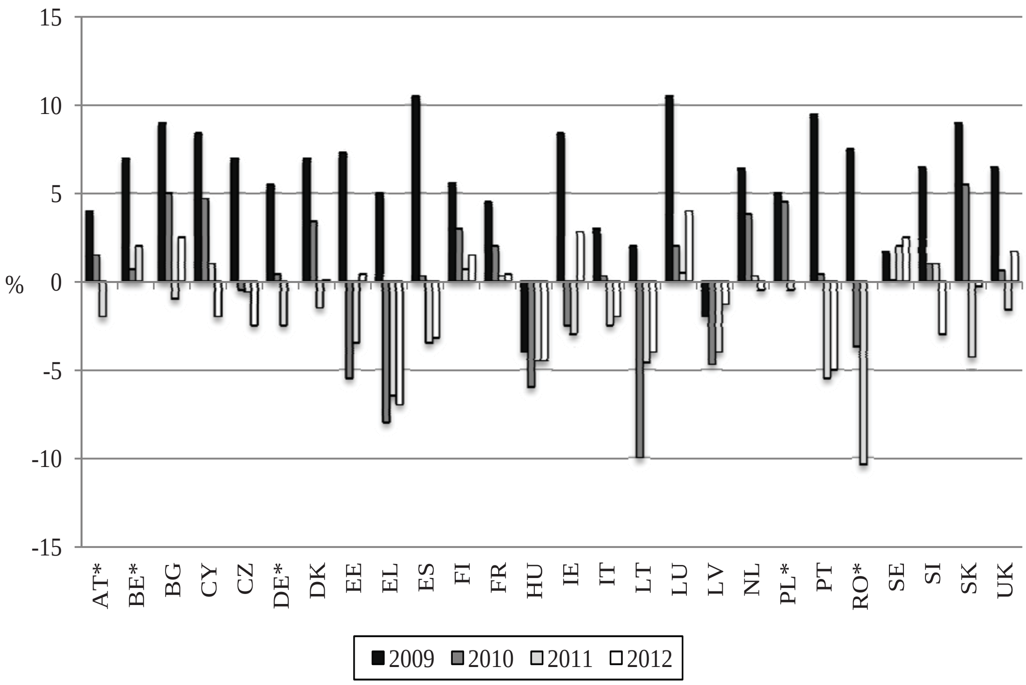

Figure 1.3 Annual percentage growth in real public social expenditure, EU countries, 2009–2012

Note: * Data for 2012 not available for Austria, Belgium, Germany, Poland and Romania.
Source: Adapted from Bontout, O. and Lokajickova, Z. (2013), 'Social protection budgets in the crisis in the EU', Working Paper 1/2013, p. 18, European Commission, Publications Office of the European Union, Luxembourg.

(iv) Social dialogue: viewed as an obstacle rather than a lever

We have seen that social dialogue has been considered a one key element of the European Social Model but also as a tool to progress in other areas (such as part-time work, fixed-term contracts, parental leave, sectoral issues and so on), able to strengthen social cohesion but also to achieve more balanced economic outcomes.

The crisis seems to have brought this role into question. The social partners were involved in the first phase of stimulus packages and anti-crisis responses, and they made important contributions. However, social dialogue was not used much during the second wave of reforms (2009–2010) that focused on reducing public deficits and led to a series of austerity measures. Trade unions in particular were generally excluded from the decisions to reduce public expenditure and to cut jobs and wages in the public sector, so that industrial action (strikes, street protests and the like) often represented their ultimate alternative to retaining a say in decision-making process. In some cases the unions resorted to court to challenge austerity measures decided unilaterally by government.[6]

Even further, social dialogue began to be seen as a constraint in the context of fiscal consolidation and the fight against sovereign debt, and a series of measures were adopted to limit its scope. In Greece this resulted in a High Level Mission by the ILO, and the ILO's Committee of Experts found repeated and extensive state interventions in free and voluntary collective bargaining and a substantial lack of social dialogue (ILO 2011). The ILO noted that 'wage reduction is one of the main objectives of the far-reaching interventions in the collective bargaining framework'.

A number of social dialogue and collective bargaining practices and mechanisms were weakened by governments throughout the European Union – especially in so-called deficit countries, such as Greece, Hungary, Portugal, Spain and elsewhere – often based on the policy prescriptions of the International Monetary Fund and European institutions. This impact of austerity packages can be reported in three major areas: (i) the weakening of the role of tripartite cooperation; (ii) the alteration of collective bargaining institutions and rights; and (iii) the weakening of social dialogue in the public sector.

Tripartite mechanisms weakened or stopped

Five key examples illustrate structural changes in tripartite institutions. It took the form of bypassing social partnership in Ireland and of reducing resources dedicated to social dialogue institutions in Greece and Italy. It went even further and involved the removal or weakening of social dialogue institutions in Hungary, Romania, Italy and Lithuania.

As underlined by the report by the ILO Director General to the 9th ERM in Oslo, most legislative changes in Europe aimed at relaxing employment protection legislation have been introduced with only limited social dialogue (ILO, 2013a: 30–31).

Table 1.3 at the end of this chapter presents the most significant examples of such a lack of social partner involvement: in all structural reforms in Greece and to a similar extent in Spain; in pension reforms in Italy, Hungary, Portugal and Slovenia; in labour market reforms in Latvia and Spain; and in public sector reforms in most EU countries (see next section). Another significant change concerns some governments' new willingness to dominate the minimum wage fixing that was previously left to tripartite consultations.

6 In Portugal, Spain and Italy, the Constitutional Courts ruled against some of the governments' reforms, mainly in the public sector.

This often led social partners to withdraw from social dialogue institutions, as in Romania. However, it should be mentioned that not all the countries in our sample undertook to weaken their institutions of national social dialogue. Tripartite social dialogue was renewed in Belgium and Finland during the crisis, with a recentralisation of national centralised bargaining, enabling these countries to react better to the crisis (Broughton and Welz 2013).

In countries such as Sweden social partners continue to play a key role through direct bipartite negotiations on wages, working conditions, labour market and pensions issues. Tripartite discussions were carried out in 2013 in Finland on labour market reforms and also the sustainability of pensions. An agreement on ‘competitiveness and securing employment’ was signed in France on 11 January 2013.

Collective bargaining under attack

The legislative reforms implemented since 2010 as part of the structural reform packages have led to a significant alteration of collective bargaining and scope in a number of countries (see Table 1.3 in annex).

Most important changes can be regrouped in three areas: (i) restriction of the right to strike under certain conditions, as in Hungary and Greece; (ii) limitation of the scope of collective bargaining, notably by restricting extension mechanisms, making it more difficult to extend collective agreements to more workers and companies. This has been the case in Greece, Hungary, Portugal, Romania and Slovakia; and (iii) forced decentralization and restriction of the autonomy of social partners notably through restricting the right of social partners to negotiate at sectoral or national levels – as in Romania where the Law on Social Dialogue of 2011 abolished national collective bargaining – and allowing enterprises to derogate from upper level collective agreements – as in Greece and Spain. As an example, in Spain in 2012, 29,352 firms opted out from collective agreements.

Transformation of industrial relations in the public sector

Negotiations and consultations with the social partners have been rare in the face of significant quantitative adjustments to reduce the budget deficit, generally carried out hastily. This neglect of dialogue in the reform process has contributed to the mushrooming of protests and strikes as an alternative outlet.

Also, reduced public sector collective bargaining is reported in most European countries, especially in Cyprus, Greece, Hungary, Romania, Spain and the United Kingdom.

(v) Public sector: unprecedented shock

Fuelled by the economic crisis, budget deficits have plunged the public sector in Europe into an unprecedented wave of ‘adjustments’, leading policymakers to favour quantitative adjustments, mainly spending cuts, but also in public sector jobs and wages. Employment security is thus no longer the norm in the public sector, where an increasing number of employees are hired on a temporary work contract and permanent employees are laid off.

Employment withdrawal: non-replacement, jobs cuts and changed work contracts

In the course of a few years employment volume and structure were radically modified in the public sector. First, a number of countries – such as France, Croatia, Greece and Portugal but also many others – have set replacement ratios (usual one hire for two) to fill the gaps left by employees leaving for retirement. In Greece, all recruitments were suspended in 2010, while the replacement ratio was set at one hire for 10 exits in 2010 and at one hire for five exits through 2012–2016. This has often been complemented by labour cuts, sometimes on a massive scale. The new coalition government in the United Kingdom, partly driven by an ideological belief that this will lead to a surge in private sector investment, has applied massive and unprecedented employment cuts, as well as a pay freeze across all areas of the public sector for 2011–2013, followed by a 1 per cent cap on pay rises since 2013. At the other extreme, Nordic countries, such as Sweden, have not announced any employment or wage cuts in the crisis – although the share of employment in the public sector has fallen in the 1990s and 2000s in Sweden. Job cuts during the crisis have been limited so far in the Netherlands, Croatia and Germany.

Quantitative adjustments have also been accompanied and often preceded by more structural adjustments in the composition of employment, mainly due to the recourse to more fixed-term contracts and also the outsourcing of a number of public service jobs. The number of temporary contracts in the public sector has increased rapidly throughout Europe. However, in Spain in 2008, before the crisis, 26 per cent of public employees had temporary contracts, but then slightly decreased – to 19 per cent in 2013 – due to lower employment in the process of fiscal consolidation. Other countries have seen significant increases, such as Sweden since the early 1990s, with temporary contracts accounting for 18 per cent of jobs in the public sector. In France such employment increased by nearly 14 per cent between 2005 and 2009, thus representing a share of 15 per cent of public sector employment. Countries such as Portugal have also modified the status of public sector employees, allowing fixed-term contracts to develop.

Another way to gain flexibility and to reduce spending is to replace jobs previously carried out in the public sector by new jobs in the private sector through outsourcing and privatization of public services. Governments' use of outsourcing has also rapidly increased in OECD countries, from 8.7 to 10.3 per cent between 2000 and 2009. This process has been implemented on a large scale in the United Kingdom (including job search services and, most recently, the national post office, 'Royal Mail'), but also in Germany. Outright privatisation has led to a reduction in the share of government expenditure and public sector employment. Outsourcing, on the other hand, risks increasing rather than decreasing public expenditure, because the growing power of multinational outsourcing companies often locks governments into long-term contracts that spiral upwards in value, with limited evidence of increasing returns either in investment or quality of public services. The net effect of such trends – which started well before the crisis but have accelerated since then (Vaughan-Whitehead 2013) – is therefore difficult to forecast. It is important to look at the potential risks of this approach, which we document later on.

Massive cuts in wages, bonuses and benefits

Almost all European countries have announced plans to freeze or cut public sector wages (Vaughan-Whitehead 2013). Wage cuts have been implemented in various ways, either through a basic wage freeze or cut in Estonia, Ireland, Latvia, Lithuania, Romania and many others, or through the abolition of bonuses previously enjoyed by public sector employees, such as the thirteenth month payment in Hungary and the thirteenth and fourteenth month payments in Greece. The magnitude of real wage cuts in 2009–2012 varied by country, from no cuts in Germany, the Netherlands (just a slight decrease in real terms) and Sweden to 5–10 per cent in Croatia, Estonia and the United Kingdom, 10–15 per cent in Lithuania and Portugal and as much as 25 per cent in Latvia. The most significant reductions, however, have been in Greece, (15–30 per cent in 2010 alone plus 17 per cent on average in 2012), Romania (25 per cent) and Hungary (37 per cent for unskilled employees). For the first time the minimum wage was cut in Greece by 22 per cent.

A number of non-monetary benefits have also been abolished, such as for housing and meals in Portugal and Romania or for sick leave in Spain.

While in some cases these adjustments could efficiently complement structural reforms in the public sector (such as better wage-fixing systems and more efficiency), they can also limit the effects of these institutional reforms and even halt them. This is what happened in Portugal and Romania.

Fall in welfare provisions

Spending cuts, especially of in-kind benefits, were massive in sectors such as health and education – with cuts in education of 33 per cent in Greece (between 2008-2013), 23 per cent in Latvia (between 2008-10) and 18.4 per cent in Portugal – with also stricter accession rules and systematic introduction of co-payments. This has already led to lower-quality public services. The effects of such a 'public sector shock' in many economic and social areas have recently been analysed in detail by a group of European researchers who provided micro-data evidence and qualitative case studies (Vaughan-Whitehead 2013).

(vi) Cohesion: neglected in the name of austerity requirements

Within the policy priority to reduce debts, expenditure seems to have been cut across the board without much consideration for what was an objective of most countries before the crisis, namely to ensure regional and social cohesion.

Regional imbalances widening

First we report throughout Europe large-scale decentralization from state to regional authorities. While this movement is not new and did not start with the crisis, it was accelerated with a sense of urgency during the crisis, as happened in Italy and Romania. Moreover it was not accompanied by the allocation of necessary budgets to the regional authorities so that they could play an increasing governance role. By contrast, funds to regions and municipalities often declined during the crisis. In the United Kingdom, regional development agencies were even abolished. The chapter on Italy in this volume also shows how the regional gap has been widening along with this accelerated decentralization without funding.

By contrast, the new central-liberal government in Hungary decided to recentralize all powers and functions from the regions to the centre, a shift that could also interrupt some autonomous policymaking and economic development at local level.

In Sweden, funding to localities and municipalities was increased precisely to avoid increasing drawbacks at local level.

The growth of discriminatory practices

The crisis seems to have stopped some of the progress that had been made over the past decade in terms of discrimination. The growth of unemployment and social problems has led again to increased nationalism and some groups were stigmatized in the crisis, such as the Roma community in Hungary, Slovakia and other countries. In Hungary all programmes for improving the integration of Roma children into the education system were either interrupted or significantly reduced. The chapter on the United Kingdom also shows increased exploitation of migrant workers.

Gender issues also arose in the crisis. While the progressive reduction of the pay gap was interrupted by the crisis in the United Kingdom (Grimshaw 2013), it increased significantly in Romania from 8 per cent in 2008 to 13 per cent in 2010, or in Latvia where women earned 17.6 per cent less than men in 2010, an increase in the gap of 4.2 per cent since 2008. Similar trends are reported in Bulgaria and many other countries in Europe. Disputes on gender discrimination in employment and working conditions also multiplied, as in Greece and Portugal (see final table in this chapter). Infringements of the right of pregnant women to maternity leave and benefits, or to resume their job after maternity have been reported in Greece, Portugal, Italy and the Czech Republic.

The public sector shock had an amplified effect among women, not only because a high proportion traditional work in the public sector – and were thus affected by massive job cuts – but also because the public sector has always offered female employees access to better skilled and better paid positions. The public sector also has better policies for reconciling work and family that were also dismantled by austerity packages (Rubery 2013). Paternity leave was removed, as in Estonia, or reduced, as in Hungary. Women were also affected by pension reforms because their retirement age was not only increased, but also adjusted to the higher retirement age of male workers. In Italy the retirement age of women was raised from 61 to 65 in 2010–11 and then to 66 the following year.

Cuts in expenditure precisely affected all policies developed over the past two decades for easing women's integration in the labour market, such as kindergarten facilities, maternity and paternity leave that were all curtailed in 2009–2013.

Tax policies acting against social cohesion

In order to reduce the debt not only was expenditure cut but also tax reforms were introduced to generate higher incomes to the state (see the reforms introduced in different European countries in Table 1.3, pillar 6). Unfortunately the tax policies promoted in recent years have often affected people across the board, regressive taxes such as increased value added tax or the flat income tax rate that was introduced in Hungary (16 per cent) or in the Baltic States. These tax policies have affected poorer income households in a disproportionate way and have thus increased inequalities. Similarly the tax burden has increased but not for the highest incomes – often with the argument that the rich are expected to contribute more to investment and economic recovery – but rather for low or middle range income families. As an example, the highest tax rate in the United Kingdom was reduced from 50 to 45 per cent, while in Greece the tax-free personal income threshold was reduced (from 12,000 to 5,000 euros for wage earners) and abolished for the self-employed. Other examples are given in Table 1.3 at the end of this chapter.

France was rather an exception by opting from 2013 to tax very high incomes, while Sweden decreased marginal and average tax for low and medium income earners.

3.2.4 The European framework: Disappearing?

While since the Treaty of Rome a strong legal and institutional framework for promoting the pillars of the ESM, the political signs given and the policies promoted since the crisis have gone in the opposite direction. In particular, the Troika – constituted by the European Commission, the International Monetary Fund and the European Central Bank – has produced very strict austerity packages that often implied (and directly recommended) the dismantling of key elements of the European Social Model. This was the case with the removal of collective bargaining rights or unilateral minimum wage reduction in Greece, labour market reforms in Spain, social dialogue undermining in Ireland, or public sector withdrawal in Portugal, Romania and a number of other European countries, all policies that are further presented in the different chapters of this volume, especially in those countries under direct influence of the Troika, that is Greece, Portugal, Ireland and Spain but also others, such as Hungary, Romania, Cyprus and Italy. For some observers, the crisis and the debt situation have only been used as an opportunity to dismantle the European Social Model.[7]

The Troika's approach to crisis management in Europe is based on the assessment that the crisis is rooted primarily in debt and competitiveness, that require, first, severe austerity policies to consolidate public finances, notably through pay cuts and freezes in the public sector; and second, fundamental structural reforms on wages, collective bargaining and labour market, aimed at allowing a sort of 'internal devaluation' and improving national competitiveness, as clearly stated in the 'Euro-Plus-Pact' (Hermann 2013; Bush et al. 2013).

Social dialogue is a significant example. While autonomous social dialogue is part of the Treaty and also a major ESM institution that the European Commission has encouraged and promoted over the past two decades – including in the EU enlargement process – the European Commission through the Troika has advised wage-setting arrangements and general collective bargaining that are rather different. Among the 'employment-friendly' reforms, the European Commission lists the following:[8]

- general decentralization of wage setting and collective bargaining;
- introduction of or wider scope for opportunities to derogate from industry-level agreements at workplace level;
- limitation or abolition of the 'favourability principle', under which the most favourable agreed term provision in a hierarchy of agreements will apply to employees. Typically, this means that workplace agreements may now provide for poorer terms and conditions than those negotiated at industry level;
- limitations and reductions in the scope for the extension of collective agreements to non-signatory employers.

In addition, the recommendations also refer directly to 'decreasing bargaining coverage' and 'an overall reduction in the wage-setting power of trade unions'. Similarly, the same indicators have been retained by the European Commission in its yearly Alert Mechanism, which is part of its Macroeconomic Imbalances Procedure. The country-specific recommendations that have been issued include the decentralisation of collective bargaining, the abolition of wage indexation, general and public sector wage moderation, as well as greater wage differentiation (Hermann 2013). At the same time, the European Central Bank has called for 'a strengthening of firm-level agreements so that wages and working conditions can be tailored to firms' specific needs'.

According to Schulten (2013), 'DG ECFIN's recommendations amount to a radical decentralization of collective bargaining, aimed not only at eroding or even abolishing national and industry-level bargaining but quite deliberately pursuing a strategy of weakening collective bargaining machinery and the role of trade unions. Although this view is not unanimously subscribed to within the EC, and has been openly criticized by the Directorate General for Employment and Social Affairs (DG EMPL), within the Troika it

7 According to Hermann (2013), 'in fact austerity and the structural reforms amount to a veritable attack on the European Social Model(s)'; similarly for Pochet and Degryse (2012, in conclusions), 'The content of these reforms, though justified in the official discourse by references to the crisis, is in no way dictated by the need for responses to temporarily adverse economic circumstances. Their purpose, on the contrary, is to dismantle whole areas of the European social model.'

8 Annex 1 (pp. 103–104) of 'The European Commission's Labour Market Developments in Europe 2012', available at: http://ec.europa.eu/economy_finance/publications/european_economy/2012/pdf/ee-2012-5_en.pdf.

is specifically DG ECFIN which, together with the ECB and IMF, sets out the guidelines that national 'reform programmes' have to comply with.'

Obviously this direction taken by the European Commission, away from its original role as the promoter and guarantor of European social policy, has had immediate and large-scale effects on individual governments' social policies and reforms.

4. DIRECT EFFECTS OF THE CHANGES

One major aim of this volume is to provide evidence of the effects of changes in the European Social Model. Obviously all the changes introduced in individual member states are not neutral in terms of both social and economic effects. While individual chapters present country-specific effects, the sections below summarize the main effects identified.

All the changes and reforms of the ESM in individual countries (that are summarized in Table 1.3 at the end of this chapter) not only led to substantial social conflicts – considered as the ultimate form of workers' expression when other social dialogue routes have been neglected – but also to a deterioration of employment and working conditions, and a

Table 1.2 Case studies in selected European countries (see individual chapters)

Country	Case Study 1	Case Study 2
Baltic States	New employment contracts and social dialogue in Estonia	Effects of education reforms in Latvia
France	Inclusiveness through minimum wage policy (SMIC)	Effects of social dialogue reforms during the 2000s
Germany	Reasons behind German low unemployment levels in the financial crisis	Redistribution of the welfare state and effects on poverty and the middle class
Greece	Effects of deregulating wage-setting mechanisms	Will changes in the social security system lead to residual social protection?
Hungary	Public works development and their observed effects	Radical changes in unemployment insurance and labour supply effects
Italy	Pension reforms and effects	Labour market reforms and outcomes
Portugal	Changes in the European Social Model and effects on the middle class	Changes in the European Social Model and the effects on future skills development
Spain	Changes in the health care system and their effects	Nature and implications of reforms in collective bargaining and collective agreements
Sweden	Changes in the Swedish Social Model in the 1990s and impact on inequalities	The impact of the financial crisis on the Swedish social model and the role of that model in recovery
United Kingdom	Effects of state reforms on housing benefits	Low pay and wage inequalities

declining quality of public services. The social price to pay is already high with increasing inequalities and growing poverty that has extended to the middle class, to which we dedicate particular attention in this volume.

At the same time these changes in social policy did not bring the expected economic results on recovery, employment and productivity. In the present volume, the different changes in the European Social Model and their effects in individual countries are illustrated by the experts through a series of case studies (see Table 1.2).

4.1 Increased Social Conflicts, Sign of Disintegration of the ESM?

The series of reforms undertaken to face the crisis and to curb public deficits has provoked an unprecedented wave of protests and even riots in a number of European countries. The protests were most extensive in countries in which the most restrictive policies were implemented, such as Greece, Portugal, the United Kingdom and Spain, but also in countries where the adjustments have been less severe, such as France and Croatia. Several of these strikes emerged in the public sector. Besides demonstrations by employees in health (doctors, nurses) or in education (teachers) we have observed for the first time demonstrations by occupations generally little inclined to demonstrate or organize strikes, such as the police (for instance, in France, Greece and other countries). Demonstrations extended also well beyond the public sector. There have been demonstrations at national level, but also at local level and in specific sectors or professions. Protests also came from 'autonomous workers' (self-employed and small entrepreneurs) protesting against 'vexatious' taxes in a situation of deep recession (for example, the 'movimento dei forconi'). A number of strikes were directly aimed at countering reforms on some key elements of the European Social Model, such as pensions, labour market reforms and social protection. More recently in Greece, the decision by the government to shut down state broadcaster ERT with the loss of 2,700 jobs as part of public spending cuts immediately led to a 24 hour general strike.

4.2 Poorer Quality of Working Conditions

The weakening of basic workers' rights, such as collective bargaining or the right to strike clearly had an impact on working conditions. The weakening of tripartite consultations also played a role. In Romania the removal of the tripartite council had a direct negative impact on the functioning of labour courts in the country because of the delay in the renewal by the CES of the mandate of worker and employer judicial assistants acting in these courts. The avoidance of involving the social partners in the structural reforms also led to more abrupt changes in labour law and working conditions, as witnessed by the new Hungarian Labour Code.

4.2.1 Wages Decline as Part of the Troika's Internal Devaluation Strategy

First, wages have been affected by the crisis in most European countries. When analysing this, it should be taken into account that the pre-crisis period was already dominated in most European countries – except the new EU member states of Central and Eastern Europe – by wage moderation, a decrease in the wage share and an increase in low pay and wage inequalities.

As recognized by the IMF, '[o]ver the past three decades, inequalities have widened in many countries, driven by various factors, including the diminishing share of wages in national income and increasing inequality within wage income . . . contributing to the emergence of imbalances nationally and internationally' (IMF 2010). The crisis and austerity packages have made the situation worse on the wage front. Real wages declined in a number of countries in 2012 and 2013 (ILO 2013b).

4.2.2 New Generation of Unsecure and Unprotected Work contracts

Second, employment contracts have also deteriorated. Job insecurity clearly increased with the last labour market reforms, as in Estonia where the new employment contract has reduced employees' security or Spain and Greece where all conditions for both individual and collective dismissals have been made easier.

While the past decade had seen contracts such as mini-jobs expanding in Germany, the crisis has generated some new and imaginative contracts proposed by employers that lack any protective features for the workers. The zero-hours contracts in the United Kingdom – full worker availability without anything in return – and the proposal by employers of shares to workers in exchange for their giving up basic rights (thus agreeing to work anytime, under any conditions) are the perfect illustration of this trend. Job polarization seems now to be a permanent feature in most European labour markets, as reported in this volume for Spain, Latvia and Lithuania.

4.2.3 Work Intensification and Degradation

This has obviously resulted in more intense working conditions. Totally new and atypical working schedules have also developed recently in Greece and Hungary. The situation has also deteriorated rapidly, with greater workloads in Spain and Portugal. The chapter on France in this volume also shows work intensification and degradation of working conditions.

Increased workloads are also typical of what happens in the case of layoffs in the public sector. This has also led to a greater number of working hours in countries such as Slovakia, Greece and Spain. The problem is that this increased number of working hours has often been accompanied by a reduction in the hourly overtime rate, as in Greece, Hungary and Portugal. One of the most important changes in working conditions for public sector employees in Portugal – apart from significant wage cuts – was the reduction of overtime rates that clearly affected those working longer, with also those working at night suddenly losing their premium compared with those working during the day.

Overtime payments have even been abolished, as in the education sector in Estonia, or for all public sector employees in Romania, where they are now compensated with free time. There are similar restrictions on overtime payments in Croatia, Lithuania and Latvia.

4.2.4 Human Capital Declining

Cuts in expenditure in education combined with lower spending by employers on training have led to a rapid deterioration of human capital throughout Europe. University loans (Latvia and Lithuania) and scholarships (Portugal) have been curtailed and school curricula have been narrowed (Hungary). Different chapters in this volume show how this is making it more difficult for young people to enter the labour market, as in Italy, either because of a lack of needed skills and/or because of over-educated profiles, while the increased working age of older people may exacerbate an inter-generational conflict.

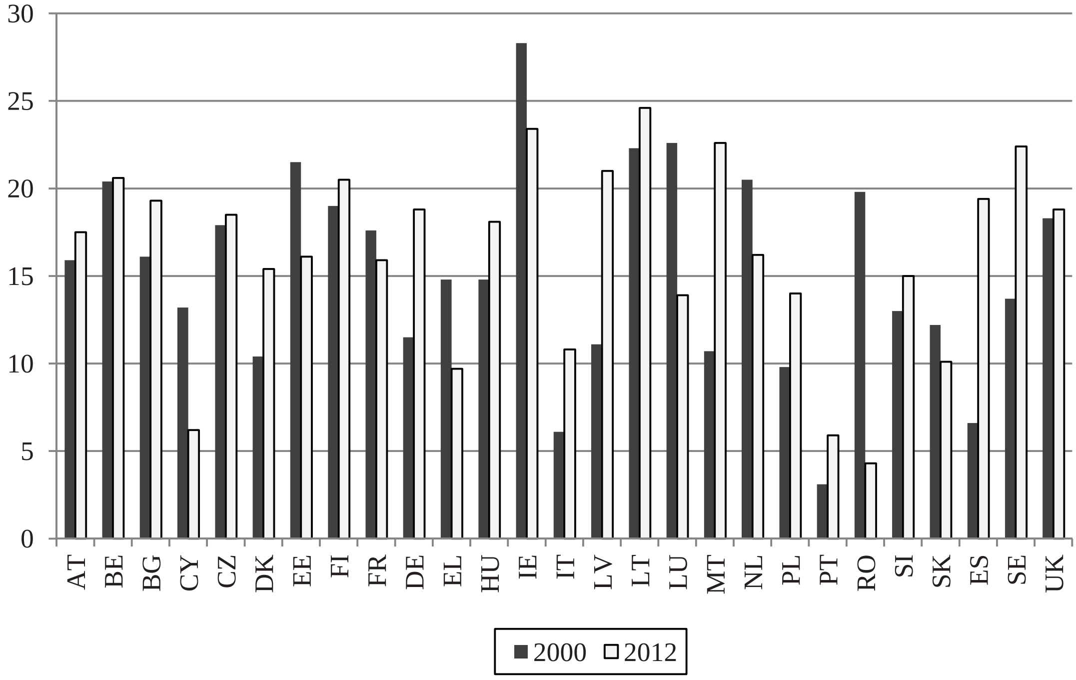

Figure 1.4 Skills mismatch between labour supply and demand by educational attainment in EU countries (2000 vs. 2012)

Source: ILO, Key Indicators of the Labour Market (KILM) database.

As shown in Figure 1.4, the skills mismatch, which is one major cause of high rates of unemployment and long unemployment in European countries, has continued to increase in recent years. The withdrawal from active labour market policies and all cuts in unemployment assistance may have contributed to such a deterioration in such a short period of time. This mismatch will continue to hamper the reallocation of labour and will put upward pressure on unemployment rates. It will also lead to increased occupational downgrading – people taking a job below their previous level of skill – and result in increasing overqualification of workers and mismatch, with negative consequences for job satisfaction, workers' wages and enterprise productivity.

4.3 Quality of Public Services Also Affected

This chain of demonstrations throughout Europe was the most immediate and striking effect of the adjustments implemented in the public sector, whose implications and costs – high both socially and economically –have yet to be evaluated. They have had a direct impact on public sector employees' motivation and productivity, and on the overall quality of public services. Interestingly, a rapid deterioration of the social climate seems to have been avoided in the countries where the government has managed to organize tripartite consultations, as in Estonia, as distinct from Latvia and Lithuania, and in Ireland over the most recent period, from the agreement concluded in 2010.

Adverse trends in the quality of human capital at enterprise level, such as the reduction in training but also lower expenditure on human capital, were also reported in the public sector. Training was reduced by a record 50 per cent in Portugal in terms of both total number of training hours and number of trainees. In Croatia, training, which is traditionally higher in the public sector, has plummeted since 2008 to private sector levels. Training expenditure was also cut by 60 per cent in the Baltic States over the past few years.

Alongside cuts in expenditure in human capital, more difficult career progressions due to austerity programmes may also have an impact.

Career development was frozen in Portugal and wage increments frozen in many parts of the UK public sector, where, moreover, public career services were even dismantled. In Greece, too, career progression has become more difficult due to the obstacles hindering public sector employees from moving up the ranking scale, even if all their performance evaluations are successful. Lower career prospects combined with cuts in wages and benefits risk affecting the public sector's ability to attract and retain staff, with high performers leaving to pursue higher-paid opportunities with private companies or abroad.

The magnitude of current public sector adjustment together with decreasing public expenditure, notably on training, will lead to significant changes in the skill composition of public sector employees.

All these changes – especially when resulting in an increasing mismatch between increasing demand and falling supply – cannot be neutral for the future quality of public services. In this context it has not been possible to achieve the aim of most of the reforms, as indicated by the OECD, namely to 'improve efficiency … using fewer resources'. The examples so far show that resources have certainly fallen, but that this has also brought a deterioration in performance and service quality.

This is already to be observed in education and health care – on such simple indicators as lower ratio of teachers/students in the classes and the waiting lists for admission in hospitals – but also threatens public administration in a substantial number of European countries (Vaughan-Whitehead 2013). Social investment has thus been affected. The quality of childcare or early childhood education has gone down alongside the cuts in economic resources. Young people are also affected, with a large and growing share of European young people who are not in employment, education or training (so-called NEETs), which points towards a lost generation (Kvist 2013).

There are other instances of deteriorating public services: cuts in security services leading to increased insecurity; longer judicial delays, along with pay reductions, leading to increased corruption; lack of skills, including IT, in the public sector due to reduced investment; lower services also in health care, including the closure of emergency centres.

4.4 Increase in Low Pay, Poverty and Inequalities

4.4.1 Increased Poverty Amplified by Austerity Packages

The crisis has reinforced the long-term low pay and related poverty trends in Europe. The 2010 Eurofound survey showed 40 per cent of workers reporting that their household had difficulties making ends meet. The situation has further deteriorated since then. While the crisis is, of course, the main cause, the policies implemented also explain such poverty outcomes. Living standards have declined in a number of countries, especially those under the most severe austerity policies. In Spain absolute poverty has increased by 65 per cent since 2007. In Latvia, people at risk of poverty increased from 36 per cent in 2007 to 40 per cent in 2011. Housing policy changes described in the chapter on the United Kingdom also had adverse outcomes, with 40,000 families homeless expected in 2013. Still in the United Kingdom the removal of lone parents' means-tested income support has led to the increased immiseration of lone parents.

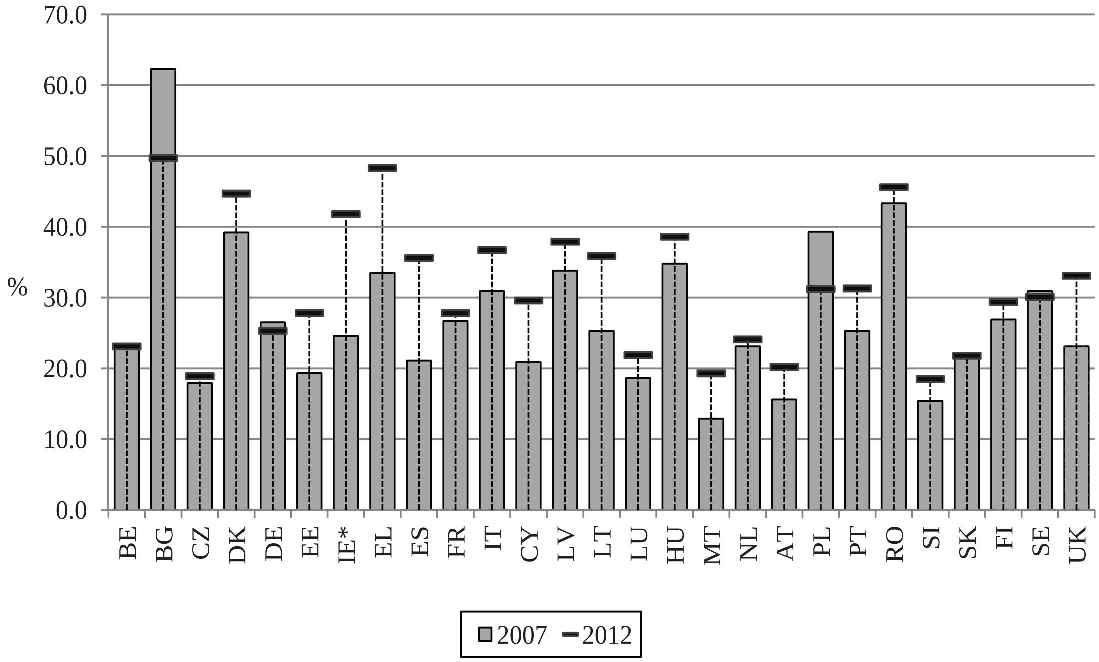

Figure 1.5 Share of young adults at-risk-of-poverty or social exclusion, 18 to 24 years (percentage of total population), EU countries, 2007–2012

Note: * for Ireland year 2011 is used in place of 2012.
Source: Eurostat (ilc_peps01).

In Italy, more cuts in social investment and expenditure, privatization and higher co-payments for social services, unfair tax and pension reforms, more labour market flexibility, changes in social dialogue and weakening of national collective bargaining have all contributed to reducing families' incomes and to some extent have broken the existing elements of a universal safety net and stopped the support that the family traditionally provided.

In Hungary the cuts implemented have led to increased child poverty with also aggravated poverty among the Roma population. The cuts in pension benefits have also increased poverty rates: a 10 per cent increase in public pension expenditure is associated with a 1.5 percentage point increase in older people's relative income (OECD, 2009). Cuts in unemployment benefits and unemployment duration have also contributed to growing poverty – contrary to the early crisis when good unemployment benefit coverage had limited social deprivation.

Young people are also increasingly at risk of poverty, due to a series of problems such as unemployment and skills mismatching, housing and other difficulties that have been aggravated by the measures described in previous sections, in terms of education, housing, and wages. The share of young adults at risk of poverty increased in almost all European countries between 2007 and 2012, especially in Ireland, Greece and Spain, and with a few exceptions, such as Sweden, Poland and Bulgaria (Figure 1.5).

4.4.2 Low Pay Persisting as a Basic Feature of European economies

The long-term increase (ILO 2010) in low-paid workers (defined as those earning less than two-thirds of the median wage) seems to have been continuing during the austerity measures implemented in countries such as Greece, Italy, Lithuania, Portugal and Spain that in 2011 displayed a higher number of working poor – due both to low pay and reductions in social protection – than the EU average, which stood at 8.9 per cent in 2011.

According to the evidence presented in the national chapters, the percentage of working poor increased in several European countries, in France to 7.6 per cent (2011), in Portugal to 9.8 per cent (2012) and in Greece to 15.1 per cent (2012) (Leahy et al. 2013).

This, again, is partly the result of wage moderation, especially among the low-skilled, and freezes in the legal minimum wage in countries such as Ireland or marginal increases, as in France and the United Kingdom. It is also notable that the number of low-paid workers has not increased in those European countries that decided instead to use the minimum wage as a protective tool against the crisis for the most marginal workers, including Poland, but also, to a lesser extent, Belgium and a few other countries (Vaughan-Whitehead 2010). Young workers also tend to have suffered more from wage declines due to their lower bargaining power, especially for the majority of them, confined in temporary and low paid employment.

Low pay among public sector employees is also a new phenomenon. The most dramatic development has been in Hungary where the abolition of the thirteenth month payment has led to a rapid increase in low-paid employees in the public sector. Low pay affected 31 per cent of public sector employees with less than secondary education in 2008, but 55 per cent in 2010. This means that more than one unskilled public sector employee in two had fallen below the poverty threshold by May 2010 (Altwicker-Hámori and Köllõ 2013). Wage cuts of 25 per cent in Romania also led to an increased proportion of employees below the poverty threshold, with similar trends also in Portugal, Lithuania and Germany where the increase in casualization (fixed-term, part-time) in the public sector has led to a rapid increase in low-paid workers. Similarly in the United Kingdom, the shift of many public sector employees from full-time to involuntary part-time has led to an increased proportion of low-paid workers among public sector employees. The proportion of those living on below 60 per cent of the national median income increased between 2008 and 2011, for instance, by more than 4 per cent in Ireland, Spain, Lithuania and Latvia (Hermann 2013). This is despite the lowering of the poverty threshold due to a decrease in the national median income due to the crisis. An attempt was made by the OECD to tackle this measurement problem by calculating the poverty threshold based on 2005 median incomes, a method that highlights more dramatic increases in the number of low paid, especially in Greece, Hungary and the Baltic states (OECD 2013; Hermann 2013).

The crisis and follow-up policies have thus reinforced long-term low pay and related poverty trends in Europe. In 2010, 17.5 million people were experiencing 'in-work' poverty in the EU27 (ILO 2010), a figure that must be much higher after all the changes implemented within austerity packages. As stated by David Begg, ITUC Secretary General, 'the gains of Social Europe for working people are being dramatically eroded and undermined by synchronized austerity across the European Union'.[9]

4.4.3 Growth of Inequalities Pointing to a Distributional Problem

Evidence collected on European countries shows that the crisis has deepened inequalities and that certain categories of workers have been hit more than others (Vaughan-Whitehead 2011). The first source of inequality unleashed by the crisis was the variegated impact

9 ICTU, 1 May 2013, available at: http://www.ICTU.ie/press/2013/05/01/congress-says-time-to-abondon-failed-austerity-and-build-a-fai-recovery

of employment adjustments imposed on the workforce. Most employment adjustments involved atypical workers on temporary or agency contracts. Evidence from France, Spain and Sweden, for instance, illustrates how temporary workers functioned as a sort of employment buffer in the crisis: for example, 90 per cent of employment losses in Spain concerned temporary workers.

Young people have also been hard hit, as witnessed by the rapid growth in youth unemployment rates, double the growth of unemployment among other age categories in almost all European countries. Increasing youth unemployment has been particularly marked in the three Baltic States, Greece, Ireland, Italy and Spain. Low-skilled workers were also in the frontline with regard to job cuts.

In the long term a serious old-age poverty problem is also to be expected as a result of pension reforms, and the growth of unemployment and non-standard forms of employment.

Inequalities also increased due to austerity measures. First, regional disparities increased. In Italy for instance, in 2012 the families in relative poverty living in the South increased by 2.9 percentage points against 1.3 percentage points in the North. The risk of poverty is now 46.2 per cent for families in the South compared with 17 per cent among families in the North (see chapter on Italy in this volume). In Portugal, autonomous regions were also impoverished. Lack of funding at regional level also increased regional tensions.

Wage differentials between the top and the bottom of the wage scale also increased since the crisis, as reported in Bulgaria, Hungary and the United Kingdom. Wage inequalities between the first and the last wage deciles have increased (ILO 2013b). This was clearly the case in Bulgaria and Hungary but also, surprisingly, in Sweden where the crisis seems to have hit the first income decile harder because the government has been protecting mainly the middle income categories. In the United Kingdom the recession had the effect of halting the pre-recession improvement in the relative position of the bottom decile wage.

OECD data focusing on the top and bottom 10 per cent of the population in 2007 and 2012 show that lower income households either lost more from income falls or benefited less from the often sluggish recovery. Across OECD countries, real household disposable income stagnated (Figure 1.6), but there were important differences between income groups: the average income of the top 10 per cent in 2012 was similar to 2007, while the income of the bottom 10 per cent in 2010 was lower than in 2007 by 2 per cent per year.

The difference of income loss between top and bottom deciles is particularly striking for Spain (–1 per cent loss for top income earners compared with –14 per cent loss for lowest decile income), Ireland (–3 per cent versus –7 per cent), Italy (–1 per cent versus –6 per cent), Greece (–4 per cent versus –8 per cent) and Estonia (–3 per cent versus –6 per cent).

In addition, between 2008 and 2011 the Gini coefficient increased significantly in Ireland (+11 per cent), followed by Spain (+8.6 per cent), Hungary (+6.3 per cent) and Estonia (+3.2).

Among the factors that may have fuelled inequalities there are many changes in the European Social Model that we described earlier, such as the lack of adjustments of the minimum wage, the introduction of a flat tax rate and lower access to – and lower levels of – social protection.

Adjustments in the public sector also contributed to an increase in inequalities. Cuts in health and education for instance in the United Kingdom and Ireland disproportionately affected disadvantaged groups. Cuts in the budget and quality of education in Ireland have hit lower-income families who have no other choice than the state system. Similarly,

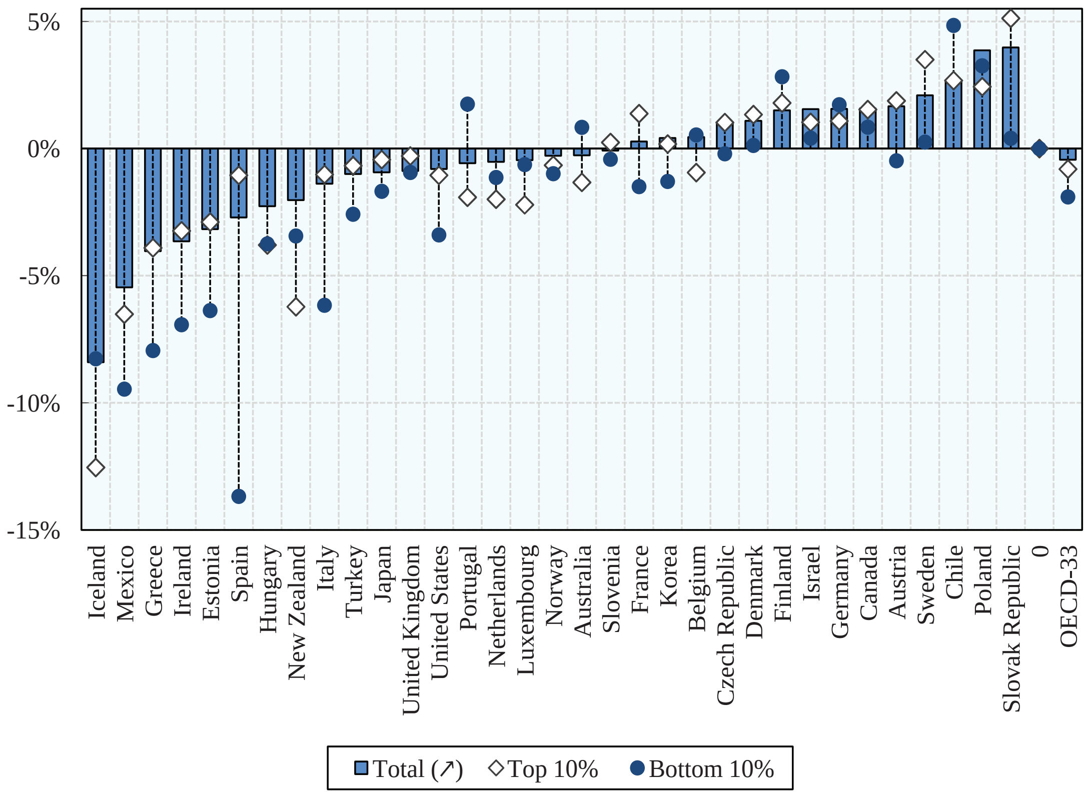

Figure 1.6 Changes in disposable income (in annual percentage) by income group, OECD countries, 2007–2010

government spending cuts have affected low-income families in the United Kingdom, where the abolition of education maintenance grants and the tripling of university fees have hit the integration of students from lower income families hard. Unequal access to the education system is also reported in France.

Unequal access to social dialogue also helps to explain increasing inequalities. Workers on the margins of the labour market, such as temporary workers, agency workers, domestic workers and the self-employed, are traditionally not covered by social dialogue; this has only aggravated the effects of the crisis on these more vulnerable categories.

4.5 Impact on the Middle Class

Vulnerable workers are not the only ones to have been affected by the changes to and reforms of the European Social Model. The middle class has also been affected notably by the progressive shift away from a universal social protection system in which it had a stake and also labour market reforms. The decreased quality of public services has also affected them directly.

4.5.1 The Shrinking of Middle Income Earners

The middle class is generally defined as the income share going to the 60 per cent of people who are in the middle of the income distribution (Atkinson and Brandolini

2011). The middle class can thus be defined by the share of income in deciles 3 to 8, as these represent the 60 per cent of the population that have an intermediate level of income (that is, they do not belong to either the 20 per cent with the lowest income level or to the 20 per cent with the highest income level). Similarly, the OECD (2008)[10] defined the 'middle class' as the distribution of real income in the middle three quintiles.

The German Institute for Economic Research (as cited in the chapter on Germany) defines the middle class as households with an equivalized disposable net income of between 70 to 150 per cent of the median income.

Chapters in this volume present some evidence on the erosion of the middle class in Europe. Studies have shown that the middle class in Spain is progressively falling into poverty; this involves 1.7 million wage earners, 10 per cent more than in 2012. In Croatia and Romania the middle class fell by 10 per cent between 2008 and 2012. According to IFRC (2013: 20) 'In Romania 20 percent of the population was classified as middle class in 2008. Today the number is about 10 per cent, the same as in Croatia and Serbia'. Not only low income families but also the middle class were impoverished in Italy as a result of increased cuts in social investment and social expenditure, privatization, and higher co-payments for social services as well as (direct and indirect) tax increases.

In Germany, between 1997 and 2012, 5.5 million middle class became low earners, while 0.5 million new ones joined the high earner ranks. In Denmark as well, the middle class decreased by 111,000 people between 2002 and 2009.[11] In France we also witness an increased polarization.

In Portugal, middle income brackets were found to lack upward mobility to higher income brackets during the crisis. The middle deciles 4, 5, 6 and 7 experienced the greatest increase in immobility between 2008 and 2011: 12.1, 11.1 and 10.3 percentage points for deciles 4, 7 and 6, respectively. This translates into fewer opportunities for career progression among the employees who belong to the middle income groups.

The middle class in Southern countries may be particularly affected as young people move from the South to countries with better employment and social investment prospects. The most mobile tend to be among the best skilled, leading to a depletion of skills in sending countries and more skills in the receiving countries, a process that can be halted only through better social investment and labour market developments in the home countries.

4.5.2 Increased Situations of Precarity

According to a recent report by the Red Cross (IFRC 2013), the middle class is spiralling into poverty and the number of people depending on Red Cross food distributions in 22 countries across Europe increased by 75 per cent between 2009 and 2012. The report found that the impact of the crisis was not confined to countries affected by the EU–IMF bailout package, but also to less affected countries such as Germany and parts of Scandinavia.

In Greece and Spain adult children with families are moving back in with their parents and several generations are living in single households with one breadwinner between

10 OECD (2008), 'Growing Unequal? Income Distribution and Poverty in OECD Countries', Organisation for Economic Co-operation and Development (OECD), Paris. Available at: http://www.mzv.sk/App/wcm/media.nsf/vw_ByID/ID_CBD2FAB-FAB495B52C1257648003959F2_SK/$File/Growing%20Unequal.pdf

11 'The Danish middle class is shrinking', *Social Europe Journal*, August 2011. Available at: http://www.social-europe.eu/2011/08/the-danish-middle-class-is-shrinking/

them. In Greece, private nurseries have faced a serious reduction in demand for their services due to the impoverishment of the middle class. There has also been a deterioration in the quality of provision in municipal crèches and nurseries due to understaffing. Still in Greece, according to the chapter in this volume 'a significant number of people in the third income quintile that constitutes the backbone of the middle class stated that were unable to meet medical needs' (Petmesidou 2013).

In Italy the international media has described the increasing number of middle-class men living in trailers, institutions for the homeless or on the streets after divorces, not being able to pay for both child support to their families and for a second home for themselves.

In Hungary, there are almost 350,000 people without jobs or social benefits, and more than 80 per cent of the middle class has no significant savings to meet unforeseen expenses. In Romania, only 20 per cent of the population was classified as middle class in 2008, a number that was reduced to 10 per cent in 2012. The number is the same, about 10 per cent, in Croatia and Serbia.

Although Germany has avoided high unemployment during the crisis, the conditions for many employees are precarious. A quarter of the employed are classified as low-wage earners. Almost half of new job contracts since 2008 have been low-paid, flexible, part-time so-called mini-jobs with little security and usually no social benefits. In July 2012, 600,000 employed in Germany with social insurance did not have enough to live on.

In the United Kingdom, half a million people were estimated to be relying on food banks in 2013, a rise linked to welfare benefit cuts. In France 25 per cent of the people receiving social assistance from the French Red Cross are still in work (or pensioners with some income).

By contrast in Sweden, the middle class has continued to have access to generous and encompassing social protection systems as well as high-quality public services. This is also why the middle class remained supportive of the Swedish welfare state and the relatively high tax burden associated with this. Sweden is thus providing an example of the importance of maintaining a universal system to keep the middle class benefitting from – and financing – the Swedish social model.

4.5.3 Impact of Tax Reforms

The declining size of the middle class can be traced back not only to the changes in the social protection systems and the lower quality of public services but also to the tax reforms that have been adopted in recent years. In order to increase tax revenues while not overburdening the lowest paid (because most vulnerable and unable to pay) nor the highest incomes (because generally they are considered to invest the most) most governments generally decided to tax middle range incomes.

In Spain, for instance, the reforms in 2011 concentrated the tax burden on the wage-earning middle class. In Greece, a new series of regressive tax measures adopted in 2011 coupled with drastic increases in indirect taxes have hit not only the middle class but also lower class incomes the worst. Income tax reform in 2013 furthered this. The main elements of the reform were: the reduction of income tax rate bands from eight to three; the elimination of selective tax credits; tax allowances for children; the tax-free personal income threshold for the self-employed and professionals; the special tax regimes based on imputed income for farmers and seamen; and the restructuring of the tax regime for corporate profits, resulting in a reduction of the gross tax rate on distributed profits from 40 per cent to 33.4 per cent. This reinforced the tax-squeeze on the lower and middle classes.

In Portugal, middle class earners experienced cuts in previous tax deductions. Moreover, public servants, a core group of the middle class, have lost monetary power by means of increased targeted taxes. Austerity measures have also been concentrated on the public sector with – as described above – cuts in wages and pensions and freezing of promotion in public careers, implemented since 2010. In Italy, tax and pension reforms have hurt both low income families and the middle class.

In Hungary, the new government deliberately has favoured the upper middle-class and upper income earners, even at the expense of the poor. The economic reasoning is to boost investment and labour supply at the top, while the political motivation is to establish a new, non-communist elite. The 16 per cent flat-rate income tax and the generous child tax-credit for high income families are intended to serve this aim.

The middle class were also hit by property tax changes. In Ireland for instance, the 'value based' property tax hit middle-class Dublin homeowners. In Italy the new property tax for primary residents also hurt middle-class homeowners and also affected small businesses.

4.6 Economic Effects: Obstacles to Recovery

While social indicators have got worse the story is not much rosier on the economic side. A majority of European countries by the end of 2012 had not fully made up for the GDP losses incurred since the start of the crisis. The economic and employment outlook continued to deteriorate in countries that adopted austerity measures and deregulated the labour market, particularly those in Southern Europe. This is clearly evidenced by Figure 1.8, showing regular revisions downwards of IMF forecasts for GDP growth.

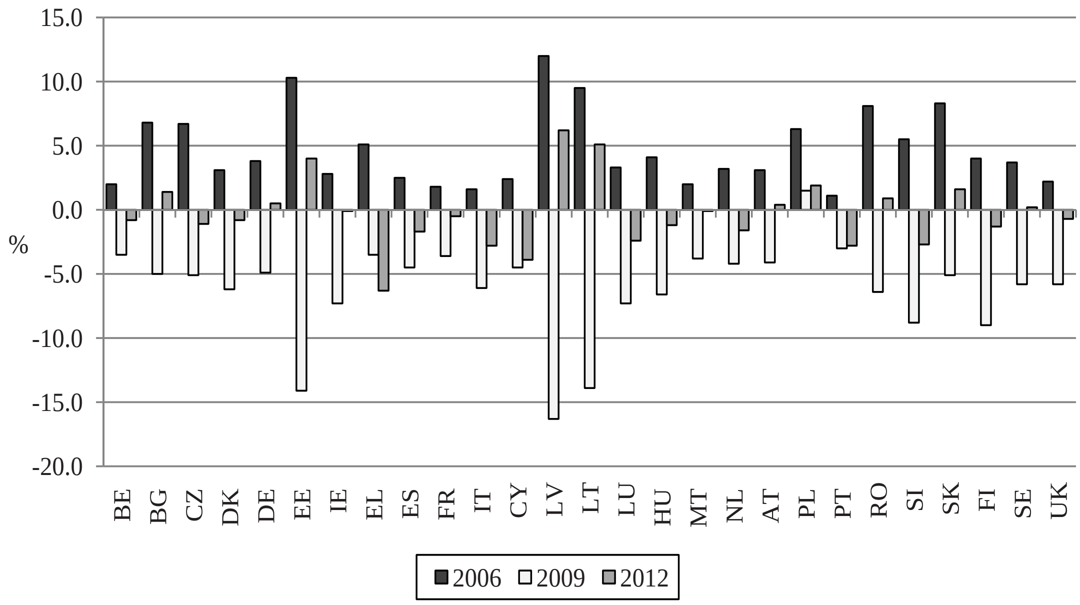

Figure 1.7 Real gross domestic product per capita (% change on previous period), EU countries, 2006–2012

Source: Eurostat [nama_aux_gph].

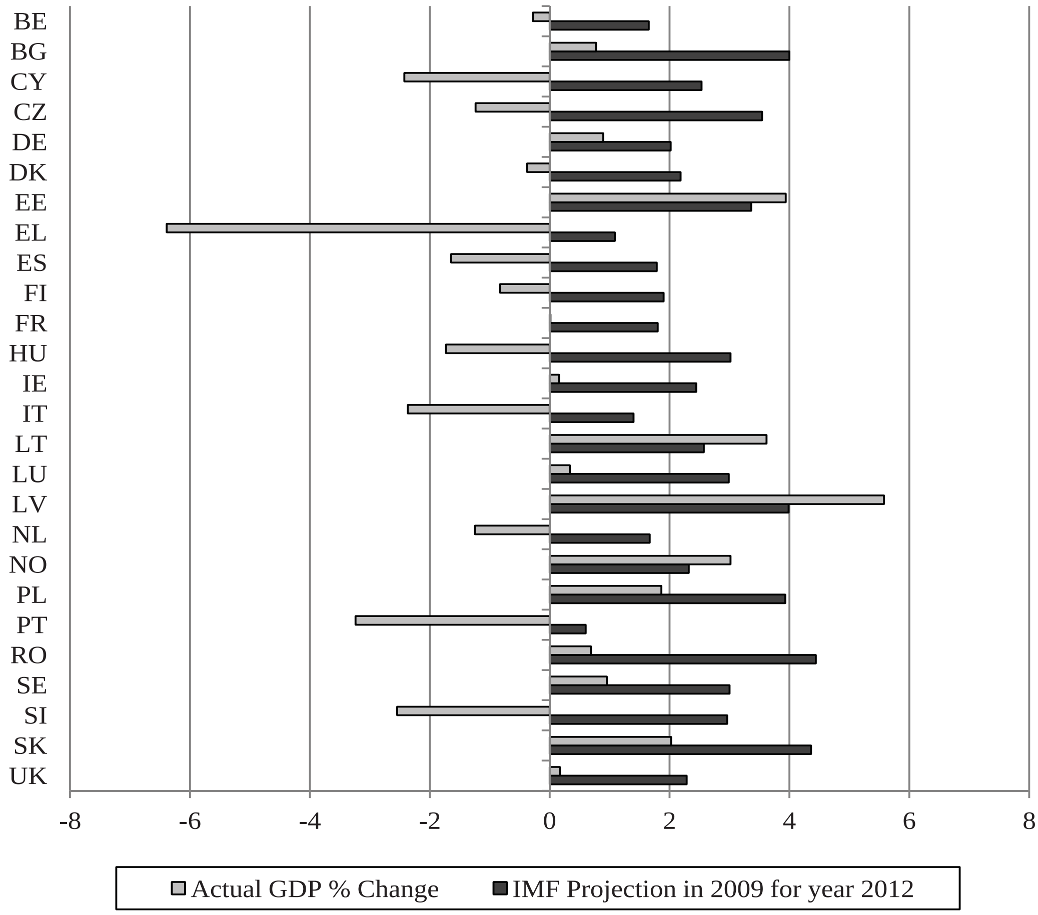

Figure 1.8 GDP: percentage change in 2012 versus IMF 2009 projections

Sources: International Monetary Fund, World Economic Outlook Database, October 2010 and World Economic Outlook Database April 2013.

The IMF itself recognized recently that its economic forecasts for Greece were too optimistic, thus implicitly acknowledging that the severe austerity measures imposed on the Greek population have gone too far. The European Commission recently recommended a pause in austerity policy and a focus on structural reforms in the face of the negative impact of austerity on the labour market and other social indicators.

The chapters in this volume also document the productivity crisis in Europe that was still not overcome in 2012–2013 (for instance –2.7 per cent in the United Kingdom in 2012), and with poor prospects in 2014 for countries such as Greece, Portugal and a few others.

This productivity crisis was not helped by the interruptions due to strikes and social action described earlier, rooted in the reforms and changes in key elements of the European Social Model. A few examples are provided in this volume. In the United Kingdom, for instance, the number of work stoppages increased from 97 in 2010 to 134 in 2011. A similar increase is reported in Spain and Italy – including in 2012–2013, Portugal (with two general strikes in 2012–2013) and Greece, where there were 838 strikes in 2011–2012.

At the same time, consumption has decreased all over Europe but especially in 2009 and in the Baltic States (Estonia, Lithuania and Latvia by –13.3, –16.6 and – 21.4 per cent, respectively, in 2009), but also in Romania (–10 per cent), Cyprus (– 9 per cent),

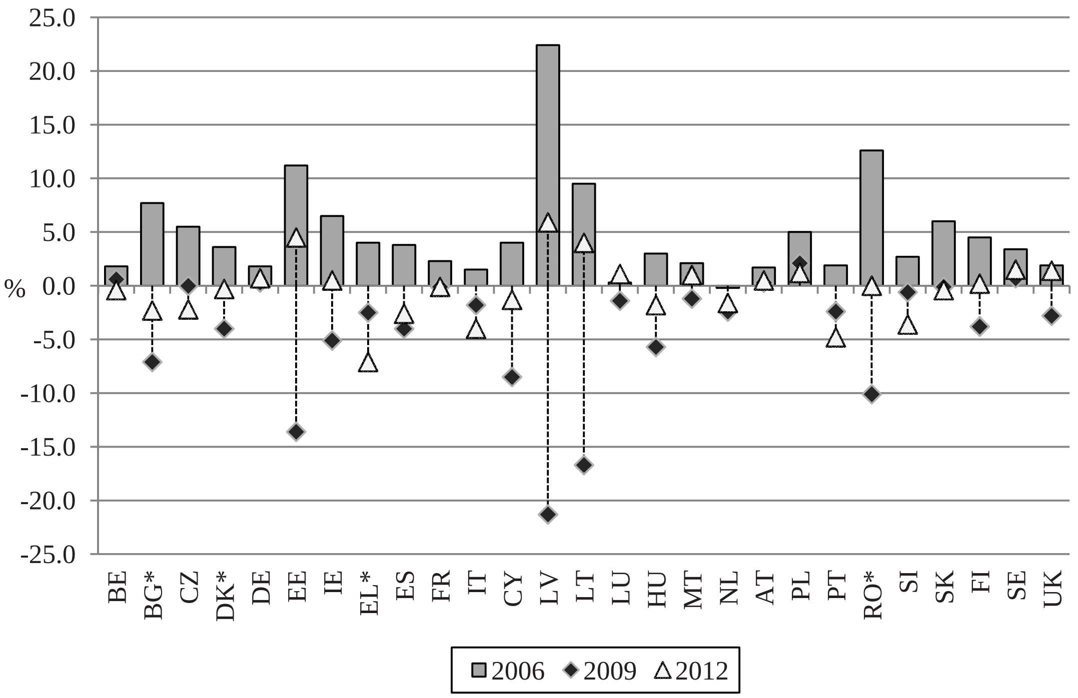

Figure 1.9 Final consumption expenditure of households (% change on previous period), EU countries, 2006–2012

Note: * for Bulgaria, Denmark, Greece year 2011 is used in place of 2012; for Romania no data is available after 2009
Source: Eurostat [nama_co3_k].

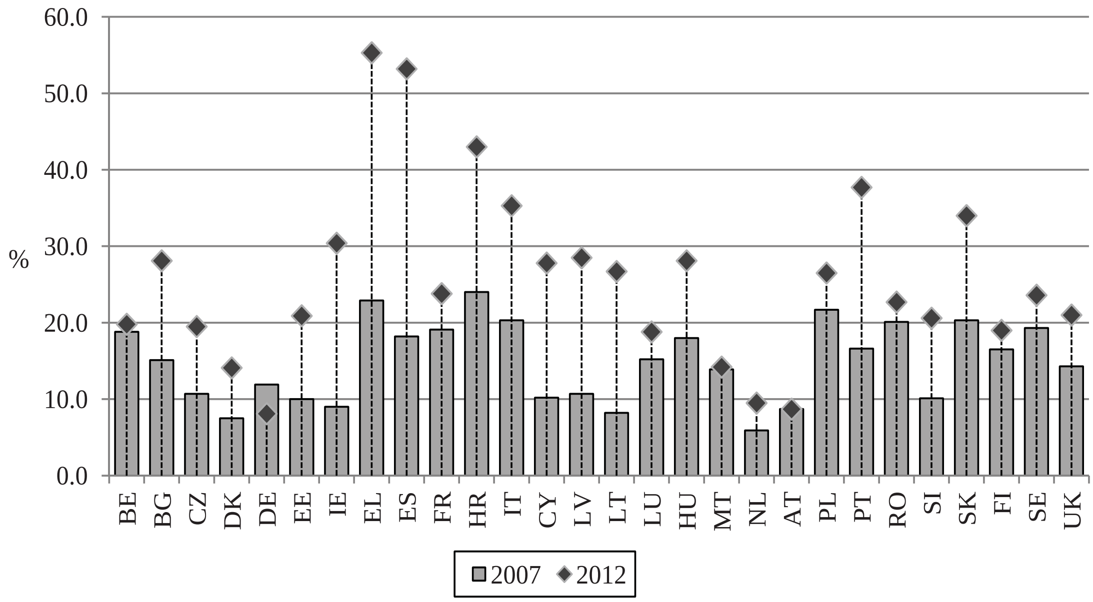

Figure 1.10 Youth unemployment rate (%) (15–24 years), EU countries, 2007–2012

Source: Eurostat [yth_empl_090].

Bulgaria (–6 per cent), Portugal, Ireland, Spain, the United Kingdom, Denmark and Finland. In Greece there was a fall of – 7.5 per cent in 2011 (–2.5 per cent in 2009). The fall in consumption is confirmed by the evidence provided by national experts in this volume.

It should be noted that consumption decreased continuously in 2008–2012 in Greece, Portugal and also Spain. The effects of the changes in the European Social Model and their impact on both low income but also middle income earners have certainly contributed to depress internal demand.

The employment cost has also been high and well documented in the literature. Slow growth in a number of European countries has been accompanied by record-high unemployment. The unemployment rate of young people in particular has reached historic highs, especially in Greece and Spain – above 50 per cent – but also in Portugal, Slovakia, Italy, Ireland and several others (Figure 1.10).

It is relevant here to compare the use of the European Social Model in the crisis by a number of countries, such as Germany and the Scandinavian countries (for example, Denmark and Sweden) and their relatively much lower unemployment rates, especially for young people. We saw that Germany relied on internal flexibility and a mixture of social institutions, such as short-time working schemes, social dialogue and vocational training that helped to stabilize employment. At the other extreme the countries that have engaged in a radical dismantling of their social policy, and also cuts in education within their austerity packages, such as Greece and Spain (which also implemented a radical reform of its labour market) have not seen much in return so far. Italy, too, does not enjoy good prospects on the employment side, while in Hungary the situation would be worse if public works were not counted in the employment figures. Unemployment has also rapidly increased in the three Baltic States which, as we described in previous sections, have not been able to benefit from social dialogue institutions that would have allowed employers and workers to negotiate possible alternatives to layoffs. It is also important to link the employment performance of the respective countries with their reforms of work contracts in the direction of increasing temporary work contracts. The large share of short-term work contracts does not seem to have caused more job creation or more rapid rotation of employment in countries such as Spain but also Portugal and others. The trends observed towards more casualization of work contracts, which undermine workers' security, still have to be converted into higher employment performance. This should trigger a more careful analysis of labour market reforms and their social and economic effects, as is done in the national chapters in this volume.

5. POLICY IMPLICATIONS

5.1 General Picture: Erosion of the European Social Model

From this systematic analysis of the different pillars – and within each pillar of their various elements – of the European Social Model, the conclusions of this volume are clear: while the European Social Model may have been called into question here and there before the crisis, the list of changes in most elements and pillars of the European Social Model since the crisis is formidable. While there are a few exceptions – such as the introduction of a new minimum wage in Germany, increased social expenditure in Sweden, or the strengthening of social dialogue in France – all other trends show a general withdrawal of the state from social policy, first through massive cuts in social expenditure and reduced funding of education, health care and other public services, and second through radical reforms in a number of areas, such as social dialogue, social protection, pensions, labour market and social cohesion in general. While the European Social Model is nevertheless resilient in a number of countries, the changes are particularly severe in those countries that implemented an austerity package under the direct influence of the Troika (the IMF, the European Central Bank and the European Commission). The countries under severe market pressure, such as Italy and Spain, also introduced radical reforms. The changes were less severe in the countries in which the debt crisis was less acute, such as France or Belgium, or marginal, as in Germany. Scandinavian countries such as Sweden, however, are examples of a social model that is not only resilient but has been actively used in the crisis. The paradox is that the European Social Model served its function in the early period of the crisis, when most European governments increased social expenditure to cushion the social shock of the crisis, and when institutional schemes – such as short-time working schemes, social dialogue and training – were used actively to negotiate alternatives to massive layoffs, a solution that worked well for instance in Germany and other countries. The debt crisis, however, led in a different direction and generated a radical transformation of social policies as a way to curb the deficits and with the willingness to enhance competitiveness.

5.2 Effects Already Observed and Longer-term Ones to Be Expected

The various authors of this volume highlight the different effects of these changes and illustrate them with case studies. These make it possible to go into more detail about the nature of the changes and to identify their effects. We have summarized the effects that have been observed so far, which are located at the crossroads of social and economic considerations. The increase in social conflicts obviously has direct effects, such as the disruption of production, while deteriorating working and employment conditions, combined with cuts in social expenditure, have led to reduced workers' motivation, lower human capital and a lower quality not only of public services – directly related to the cuts in employment and wages – but also of goods and services. Similarly, cuts in education but also labour market reforms will have longer-term effects on future generations in terms of skills and employment prospects. In the long term, old-age poverty is to be expected as a result of pension cuts and less-protected forms of employment.

The wage moderation that has been imposed in the austerity packages in the name of competitiveness has also had direct effects on consumption and growth. Greece is experiencing a very deep and protracted recession of historic dimensions, caused by an overdose of austerity which is dismantling the country's social model. The IMF recently recognised that the recessionary impact of fiscal consolidation had been seriously underestimated in the macroeconomic scenario of Greece's Economic Adjustment Programme. Extreme austerity is also responsible for recession in Portugal.

But it is on the social side that the picture is most alarming, with a rapid increase in poverty and exclusion, and its extension to a larger fraction of the middle class. While the employment outcome of current policies is disappointing, especially on youth unemployment, and will not be improved through general cuts in education and social policy, the increased proportion of low paid and working poor is highlighting a more general problem of increased vulnerability of those in employment, in terms of their wages, precarity of their employment status and general protection. The increase in inequalities also points to a general redistributional problem that will persist in the long term if we do not provide adequate social and economic responses.

5.3 Need to Reverse the Trends in Individual Member States

The extent of the changes in the European Social Model has not been well appreciated by a number of European actors. We hope that the survey of changes provided in this volume will enable more of them to become aware of what is happening. While we present areas in which the changes have been brutal and obvious – such as limitations on the right to strike or to engage in collective bargaining – this volume also aims to show how the mix of other, apparently less important or minor social policy changes may combine to change the very nature of our European Social Model, especially because those changes have occurred in all policy areas: not only social policy, but also employment, taxation and so on. We have seen that all the pillars of the European Social Model have been shaken. Not only has social protection been allowed, in an increasing number of countries, to move away from a universal system that covers a majority of citizens towards a more targeted system aimed at protecting only the most vulnerable, but other key reforms on the labour market, wage policy, in public services and social and territorial cohesion have taken place. At the same time, the instruments that Europeans used to have, such as social dialogue, have also been neglected and also overhauled significantly.

The extent of the changes obviously requires a comprehensive and general response. From individual members, the changes introduced so far should be seen in a more general perspective, and in particular within the framework of the necessary coherence of the national social model. Many changes have been introduced on the grounds of the urgency of reducing current public deficits, but we can question whether they were preceded by an exhaustive assessment or cost-benefit analysis or sufficient scrutiny of their effectiveness on both the economic and the social side. We might ask whether these changes do not contradict the social direction that was formerly taken in cooperation with other European partners and the place that social policy should have in European construction.

We must, of course, distinguish between the changes and reforms: for example, whether they are only quantitative or parametrical, or more structural or institutional. Structural changes could be still reversible if there is awareness and political will.

At the same time, as explained in the chapter on Spain, a series of small parametrical changes can also end in changing the nature of the social model in the country so that all these policy changes should be seen together as one major block. The nature of the adjustments will also help us to identify whether the changes will be eventually reversible or irreversible.

5.4 The Middle Class: Key to the Sustainability of the European Social Model?

Such analysis could not be carried out without addressing the question of the sustainability of systems that may need to be reformed. This was clearly the case with pensions systems and certainly of certain elements of national social protection systems. At the same time, most changes that we present in this volume have been taken under compulsion of the urgency of curbing deficits, without any sustainability analysis. This should come back onto the policy agenda. This might require more time but would lead to more adequate reforms. At the same time, the method of reform should be changed, with more systematic involvement of the social partners, who reflect workers' and employers' views and can thus provide invaluable inputs on the sustainability of systems.

The fact that the middle class has been seriously eroded by the changes and reforms shows that they were not well thought out in terms of future viability. More generally, European policymakers should more thoughtfully consider the place and role of the middle class in national social models. Especially since the sustainability of the model requires that we address not only the expenditure side but also the revenue side. In this respect, Sweden's welfare system had so far managed to keep the middle class on board because it also benefits from the system and thus agrees to finance it through fairly high taxes. The universal nature of the system is a basic condition of its sustainability in the long term. By contrast, could a system more and more confined to the protection of targeted groups, even if certainly less expensive, find the necessary funding mechanisms without a broader consensus? Similarly, involving the middle class in social policy should also be a priority of other countries when debating the future of their social model.

5.5 Need for Strong Political Signals and Action from the European Commission

While the European Commission has stated on several occasions that the removal of the European Social Model was not on the agenda, policies it has recommended to member states do not always support such statements. We have seen in particular that the policies recommended by the Troika – where it has been involved – have facilitated, if not encouraged the dismantling of the ESM in its six main pillars.

A different policy, more in line with the achievements of Social Europe over the past two decades, could have been expected from the European Commission. In this respect the new Communication of the European Commission (2013a) on 'Strengthening the social dimension of the economic and monetary union' is an important initiative in the current economic and social context. In particular, the document insists that 'the EU in defining and implementing its policies and activities, is obliged, under the Treaties, to take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion and a high level of education, training and protection of human health' (which corresponds to Article 9 of the Treaties). For this the document indicates some concrete lines of action, such as multilateral surveillance of macroeconomic imbalances incorporating the social dimension, but also a concrete scoreboard of key employment and social indicators as a framework for coordinating employment and social policies, and also the strengthening of EU social dialogue. Also worth mentioning is the proposal launched recently by the European Commission (EC 2013b), the Social Investment Package, aimed at setting a framework for social investments – especially to improve skills formation, development and use, along with particular attention devoted to children and young people – and to induce countries to modernize their social protection systems. This document certainly represents an attempt to shift the social policy agenda away from mainly cost-cutting exercises towards new ideas and forward-looking elements.

While these new initiatives from the European Commission, with the prolongation of the Europe 2020 Strategy, represent both a highly symbolic but also effective dimension, it is difficult not to see the discrepancy between what is promoted at EU level and the policy advice given by the European Commission (within the Troika) to some member states. As an example the strengthening of European social dialogue proposed at EU level contrasts with the recommendations for decentralization of collective bargaining, derogations to industry-level agreements and limited extension of collective agreements to non-signatory employers that were given at national level (Schulten, 2013). Similarly, current policy reforms involve a dismantling of social investment policies (Kvist 2013).

6. CONCLUSION

In this chapter we have seen that the European Social Model is well rooted in the European construction and enshrined in the treaties. Its different elements constitute part of the EU *acquis* that the EU member states – of course in accordance with their different circumstances – have all implemented in various ways: basic workers' rights and working conditions; universal and sustainable social protection; inclusive labour markets; effective social dialogue; services of general interest; and social cohesion. Compared with other countries and other regions, EU countries are also characterized by high expenditure on social protection, grounded on the principles of solidarity, equality and social cohesion that represent not only the cement but also the 'soul' of European 'social market economy' (the terminology used by the European Commission in its last 2013 Communication; EC 2013: 3).

Such social protection expenditure remained high in the first years of the crisis of 2007–2009, acting as a useful cushion to minimize the social costs of the crisis. At the same time, a number of countries successfully used ESM tools, such as shorter working time schemes and social dialogue to negotiate alternatives to massive layoffs during the downturn. By contrast, countries without such mechanisms could not avoid immediate layoffs and high unemployment growth.

Paradoxically, despite this resilience of social policy in the first part of the crisis, most European countries when confronted by public debts – in large part due to their support of indebted banks – in the second phase of the crisis have implemented austerity policies that involved significant cuts in public expenditure and social welfare, although it is recognised that social policy was not among the causes of the crisis.

This volume shows that beyond the diversity and different magnitudes of the changes by country – the European Social Model being resilient in some while others have opted for its dismantling – these changes nevertheless have been considerable and have affected all the main pillars and elements of the European Social Model (see Table 1.3 at the end of this chapter). Not only were quantitative adjustments made – particularly in the public sector – but also more structural changes were carried out, concerning for instance access to unemployment benefits, pensions, social assistance, labour market measures, public services and social dialogue. The changes were most radical in the most indebted countries of the euro zone; the strategy to exit the crisis advised by the Troika called for a cut in all expenditure to reduce deficits and lower unit labour costs – generally to be achieved through wage cuts and dismantling of collective bargaining – to improve individual countries' competitiveness. The different chapters of this volume investigate the extent to which such changes are radically changing the nature and visage of Social Europe.

Even though social policy has not been eroded everywhere in Europe we might question the survival of the European Social Model if its dismantling continues in a number of countries, especially with the aim of improving competitiveness by lower wage costs and poorer working conditions. Also important in this regard is the fact that, to date, the European Social Model has depended strongly on shared values and principles that are under threat from 'free-rider' strategies.

This volume is also aimed at documenting the effects of such changes where they happened. Undoubtedly, they have had a strong impact on the social side, with unprecedented waves of social conflicts, increased low pay and poverty, as well as increasing inequalities. These policies also have not fulfilled initial economic expectations, with increased unemployment, lack of growth recovery and falling consumption. For the first time in

Europe, a generalised erosion of the middle class could be observed, calling into question the viability of the policies implemented so far. There is no doubt that more balanced economic policies are required. They certainly require a more active place for social dialogue, social protection and social cohesion.

But besides the evidence provided in the different chapters of this book on the shortcomings of the approach on the economic side, especially in the current context, the main aim of this volume is to examine the social outcomes of this process. What elements of the national social models have been dismantled? And what have been the immediate social outcomes of this process? Which social policies need to be reformed? In the long term, is the current withdrawal of the state from social expenditure, education and other basic public services compatible with the knowledge and lifelong-learning society that was agreed on a few years ago by European nations? Is Europe ready to lose its European Social Model that is the envy of other countries and regions in the world?

This requires that EU countries discuss possible alternative policies and implement the right mix of policy reforms without losing the main elements and features of the European Social Model, which is still considered to be a point of reference in other parts of the world, thus helping Europe to preserve its soul and its identity.

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Table 1.3 Recent changes in the six pillars of the European Social Model

Changes in pillar 1: Basic workers' rights and working conditions				
Right to collective action	**Rights on wages**	**Rights on working hours**	**Health and safety**	**Other workers' rights**
Greece (Repeated infringements of the right to strike through civil mobilization orders). **Hungary** (2010 changes to law rendering strikes illegal in companies providing core services unless a sufficient level is agreed upon),	*Social dialogue on minimum wage (MW) interrupted*: **Hungary** (government no longer obliged consult unions over setting the MW), **Poland** (government took a unilateral decision on MW, because social partners set higher than proposed rate), **Romania** (government withdrew commitments under 'Tripartite agreement on MW 2008-2014'), **Greece** (as of law 4093/12, MW is no longer set by national level collective bargaining but by government legislation), **Portugal** (tripartite agreement to raise minimum wage to €500 in 2011 was not fully met) *Minimum wage (MW) cuts*: -22 % in **Greece** (-32 % for workers below 25), **Slovenia** (for companies in distress), **Hungary** (new MW set for people in public works), **Ireland** (2011 cut restored by new government), **Cyprus** (changes linked to economic conditions) *Minimum wage freeze*: **Czech Republic**, **France** (no increase above minimum level required by law as is traditionally the case), no increase in **Latvia** (in 2011) or **Portugal** (in 2012), **Spain** (freeze and decrease in real terms since 2010), **Luxembourg** (1.9% increase restricted in 2011), freezing of the rate for young workers in **United Kingdom**. *Counter developments*: **Germany** (MW extended to 12 sectors; then national MW announced end of 2015)	*Reduced working hours:* **Belgium** (possibility of 4 day work week), **Italy** (in public sector -4.9%), **Germany** (-41.3 hours per worker), **Greece** (from 37.5 to 40 hour week in public sector), -2 hours per worker in **Latvia**, **Lithuania** and **Estonia**, **Cyprus** (possibility ~~o~~f 38 hour working week on a four-day basis), **Hungary** (although greater focus on cutting workforce than hours) *Extension of short time working (STW) schemes during the crisis*: **Germany**, **Sweden**, **Austria**, **Netherlands**, **Italy**, **Luxembourg** (extension of STW Law in 2011) *or equivalent*: in **France** (partial unemployment schemes with State funding shorter week) *Increased working hours*: **Spain** and **Greece** (+2.5 per worker), **Portugal** (to 40 hour week), **Slovakia** (new 'working time account' to meet temporary needs of the company) *Other trends*: **Slovakia** (several part-time workers may share the same job), proliferation of zero-hours contracts in **United Kingdom**	*Advantages for public sector employees removed or limited:* **Spain** (abolition of wage complement for sick leave in Madrid, Valencia and Galicia), **Bulgaria** (employee entitled to pay 70% for first 3 days of sick leave, previously 100% for the 1st day), **Slovenia** (10% decrease in sick/injury compensation for absence from work), **Cyprus** (review of remuneration system (sick leave etc.) to bring in line with private sector) *Increased work-related illnesses, stress, depression:* in **Croatia** and **Portugal** *or increased health and safety violations*: in **Estonia** (by 21% in 2009) *Other trends*: **Greece** (rate of uninsured work in a sample of controlled enterprises increased from 25% in 2010 to 36.2% in 2012) *Counter developments*: **Denmark** (government plans to abolish the limited duration of sickness benefits)	*State intervention*: **Greece**: series of legislative interventions in freedom of association and collective bargaining regime (ILO 2011: 58). *Limited arbitration*: **Greece** (arbitration must be triggered by joint request of parties, restricted to basic wage demands), **United Kingdom** (access to labour tribunals has been restricted) *Overtime rates reduced*: **Cyprus**, **Hungary**, **Slovenia**, **United Kingdom**, **Greece** and **Portugal**, *or unpaid*: in **Croatia**, **Estonia**, **Latvia**, **Lithuania** but compensated by free time off in **Romania**'s public sector *Removal of holiday days*: **Portugal** (4 public holidays removed), **Slovenia** (2 January), in **Cyprus** the main employers' organisations (OEB and CCCI) are demanding a reduction of official holidays *Unilateral changes by employer*: made possible in **Spain**, in **Romania** on reduced working week and wages (workers leaving can be asked pay back training costs if employer includes a training clause in the workers' contract), **United Kingdom** (opportunities to renounce workers' rights in exchange for shares)

Changes in pillar 2: Labour markets

Promotion of non-standard forms of employment	Changing rules for individual dismissal or unfair dismissals	Changing rules for collective dismissal	Debate on/changes to wage indexation	Active labour market policies
Promotion of fixed-term or agency work: **Estonia** and **Lithuania** (liberalisation of fixed-term contracts), **Greece** (entitlement extended to government agencies), **Czech Republic** (possibility to assign employees without employment agency license), *Increased length of fixed-term contract*: **Czech Republic** (from 2 to 3 years), **Portugal** (from 6 to 36 months), **Poland** (no longer a limit on consecutive fixed term contracts), **Greece** and **Romania** (24 to 36 months) *Increased probation period*: **Czech Republic** (trial period possible for managers), **France**, **Greece** (from 2 to 12 months), **Romania** (from 30 to 90 days) *Other forms of contracts*: **United Kingdom** (zero hours contracts), new contracts with less pay and job security in **Greece** and **Spain** for younger workers (and also unskilled workers in **Spain**), **Slovenia** (special contract enables pensioners to work maximum of 60 hours a year) *Counter-developments*: **Austria** (new law on equal treatment for agency workers), **Bulgaria** and **Ireland** (agency workers entitled to same conditions as employees of user enterprise), **Slovenia** (25% cap on temporary agency workers in a company)	*Shortening notice*: Slovakia, **Spain**, **Lithuania**, **Greece** (from 24 to 4 months for white-collar workers with +20 years of tenure), **Slovenia** (from 120 to 80 days) *Simplifying/removing procedures for individual dismissal*: **Portugal**, **Italy**, **Greece**, **Estonia**, **Slovenia** (the age of old-age workers with special protection against dismissal has increased) *Severance pay cuts*: **Estonia** (from 3 to 2 monthly wages with 1 month paid by labour market service), **Czech Republic** (now based on level of seniority), **Lithuania**, **Greece** (halving of pay), **Spain** (companies in economic difficulty), **Portugal**, **Slovenia** (now conditioned by the length of service) *Other trends*: New layoff tax of €113 to fund unemployment insurance in **Austria** *Changes in rules concerning unfair dismissals*: **United Kingdom** (worker must be employed for 2 years instead of 1 to challenge dismissal), **Spain** (definition has been expanded), **Italy** (acceptance of compensation prevents return to former job), **Hungary** (maximum fine reduced from 36 to 12 monthly wages)	*Rules changed*: **Estonia** (dismissal period halved, government approval no longer necessary), **Greece** (increase in minimum number of redundant workers to qualify measure of mass layoffs; reduces employers obligation), **Spain**, **Romania**, **Slovakia** (enterprises with less than 20 employees are exempt from procedural requirements applicable to collective dismissals), **Lithuania**, **United Kingdom** (consultation period halved) *Restrictions on re-hiring*: **Spain**, **Italy**, **Romania** (eligible period for rehire cut from 9 months to 45 days), **Estonia** (no longer employers obligation if new workers have been hired) *Counter-developments*: **Belgium** (new age pyramid to prevent older workers losing jobs, and outplacements offered to all workers dismissed in restructuring), **Poland** (introduction of 'inactivity leave' for 6 months as alternative to collective dismissals)	*Lack of agreement*: in **Belgium** (EU recommendation to overhaul system has led to debate), **Malta** (among social partners on Cost of Living Allowance (COLA) adjustments), **Luxembourg** (led government to modify wage indexation for first time without social partners consent in 2012), **Spain** is also under pressure to reform the wage indexation system *Freeze of COLA*: **Cyprus** (in public sector until 2016, 2012 tripartite agreement made to implement this system throughout almost the entire public sector)	*State withdrawal*: notably through privatisation in **United Kingdom** (alongside revocation of job activation programmes by new government), **Hungary** (reduced funds for all labour market policies) Increased expenditure and/or beneficiaries: in **Ireland** (from 0.9% to 3% of GDP), **Czech Republic** (+1.8 billion CZK from 2012-13), **Greece** (beneficiaries rose), **Latvia**, **Lithuania** and **Estonia** (mainly through European Social Funds (ESF)) *Government decision to increase funds*: in **Germany**, **France** and **Sweden**. Initiatives to increase youth employment and greater assistance for job seekers in **Denmark**

Changes in pillar 3: Social protection

Unemployment cuts	Universal benefits cuts or changes	Pensions
Reduced access/coverage: **Czech Republic** (workers no longer receive benefits corresponding to value of severance pay), **Hungary** (coverage fell from 30% to 10% in 2011), **Italy** (restricted access through a new ASPI system), between 2008-13 in **Estonia** (recipients fell by 16%) and **Lithuania** (-28% recipients), **Portugal** (recipients fell from 61% in 2008 to 46% in 2012, more difficult to access for long term unemployed), **Spain** (reduced coverage from 70% in 2008 to 48% in 2013), **United Kingdom** *Reduced duration of benefit*: **Belgium** (new time limit for youth), **Finland** (paid for 400 instead of 500 days), **Germany** (during Hartz Reforms), **Greece** (caps to cumulative duration of benefits over 4 year period), **Ireland** (from 12 to 9 months with +260 PRSI paid contributions), **Portugal** (from 15 to 12 months) **Hungary** (from 9 to 3 months), **France** (minimum contribution period reduced from 6 to 4 months), **Slovenia** *Cuts in amounts*: **Belgium** (increased in first 3 months, but declines thereafter), **Ireland** (-€44 a week for those refusing to take up interviews) **Portugal** (benefit cut by 20% after the first 6 months), **Greece** (ordinary flat-rate benefit cut by 22%) **Romania** (15% reduction), **Hungary** (reduced ceiling from 120% to 100% of minimum wage), **Slovenia** (reduced from 60% to 50% for periods exceeding 12 months), **Spain** (reduction of the replacement rate of contributory benefits in 2012) *Counter-developments*: **Denmark** (duration increased from 2 to 4 years, amount reduced to 60% in final 2 years), **Estonia** (unemployment insurance premiums increased from 0.6% to 2.8% of wages), **Latvia** (increased duration to 9 months at start of crisis), **Bulgaria** (ceiling removed: all unemployed must receive 60% of their income before job loss)	*Child taxes/allowances*: **Belgium** (-0.3% of GDP between 2011-2060), **Cyprus** (abolition of mothers allowance, and other family allowances), **Latvia** (family benefits cut from 70% to 50% of wages), **Greece** (universal child tax allowances abolished, replaced by single means-tested benefit), **Denmark** (maximum ceiling reduced to €4,600), **United Kingdom** (some benefits abolished), **Portugal** (extraordinary 25% increase in child allowances was cut), **Ireland** (more stringent means testing) *Maternity/paternity leave*: **Hungary** (paid holiday cut for mothers returning from maternity leave), **Romania**, **Lithuania**, **Latvia**, **Estonia** (paternity leave removed), **Spain** (universal birth grant suspended), **Portugal**, **United Kingdom**, **Ireland**, **Slovenia** (maternity/paternity leave reduced from 2.5 times to twice the average salary) *Care/sickness benefit cuts*: **Belgium** (incapacity for work -0.1% of GDP between 2011-2060), **Estonia** (benefits for parents caring for a sick child reduced from 100% to 80% of salary), **Greece** (different eligibility for Home Help programme has left 30-40% of previous beneficiaries without cover), **Portugal** (benefits for care of disabled children cut by 30%), **Ireland** (careers allowance cut), **Lithuania**, **Spain** (long term care eligibility reduced), **United Kingdom** (mobility allowance payment cut), **Hungary** (reduced access to disability benefits) *Housing benefits*: Access curtailed and amount reduced in **United Kingdom**, **Cyprus** (housing schemes to be cut by €36 billion), **Czech Republic** (abolition of housing supplement) and other benefits: **Portugal** (2010-12 freeze of social support index), **United Kingdom** (3 year freeze working tax credits), **Poland** (proposed cut of social contributions for contracts suspected of concealing 'bogus' self-employed workers), **Greece** (more stringent qualifying conditions for means-tested pension supplement), **Cyprus** (new means testing criteria for social benefits in 2012, overall 15% cut on welfare spending) *Counter-developments*: **Austria** (€650 million added to care provision fund in 2014-15), Bulgaria (increased resources for social assistance), **France** (redistribution to low income households), **Poland** (proposed increase in maternity leave from 6 months to 1 year), **Sweden** (increased State grants to municipalities)	*Increase of statutory retirement age*: **Austria**, **Belgium**, **Bulgaria**, **Cyprus**, **Czech Republic**, **Estonia**, **Finland**, **France**, **Germany**, **Greece**, **Hungary**, **Ireland**, **Italy**, **Latvia**, **Lithuania**, **Romania**, **Slovakia**, **Slovenia**, **Spain**, **United Kingdom** and a number of other countries *Pension cuts*: **Hungary** (13th month pension abolished), **Lithuania** (average pensions cut by 8%), **Greece** (series of cuts between 5-10%) or temporarily frozen: **Cyprus** (2013 freeze), **Greece** (for 3 years), **Italy**, **Portugal** (2011 freeze, 2012 suspension of 13th/14th pension payments), **Ireland**, **Estonia** (government contributions to funded pension scheme suspended), **Latvia**, **Lithuania**, **Spain** (pension benefits frozen with exception of minimum pensions) *Change in indexation methods*: **Czech Republic** (lower pension indexation in 2013 – 2015), **Greece**, **Cyprus** (benefits indexed to prices), **Italy** (indexation on higher pensions blocked), **Portugal** (2011 pensions not indexed, 2012 inflationary adjustment for low pensions), Slovakia, **Spain** (incomplete indexation in 2010 and 2012), **Estonia** (changed to limit pension rises to 9% instead of 14%), **UK** (downgrading of annual upgrading index) *Limitation/penalties for access to early retirement*: **Austria** (access tightened), **Belgium** (increased age from 58 to 60 years, plus new seniority conditions), **Cyprus** (0.5% p/m penalty), **Czech Republic**, Finland, **Greece** (-6% of benefits per year), **Italy**, **Spain** (-7.5% per year), **France**, **Hungary** (increased service years for full pension) *Structural changes*: **France** (new pillar for private funded pension schemes), **Hungary** (compulsory private pillar nationalized), **Greece** (two pillar system: basic and contributory, to replace one-pillar pay as you go system), **Italy** (development of a second private pillar), **United Kingdom** (merger of 2 state pensions to form flat-rate pension), **Czech Republic** (introduction of voluntary pension savings[1] (second pillar))

Changes in pillar 4: Social dialogue			
Tripartism limited or weakened	**Collective bargaining restricted**	**Limited social dialogue in the public sector**	**Weakening of representative organizations**
Abolition of social dialogue institutions or tripartite mechanisms: **Hungary** (national tripartite forum for wage agreements abolished, replaced with National Economic & Social Council which no longer includes state representatives), **Ireland** (cancellation of the National Wage Agreement between the government, the main employers' group (IBEC) and the trade unions (ICTU), signified the collapse of social partnership, and led to the decentralisation of collective bargaining) *Weakening of social dialogue institutions*: **Italy** (membership has reduced without respecting proportionate social partner representation[2]), **Lithuania** (in 2011 government began delegating lower ranking officials to the tripartite council (LRTT), which prevented adoption of significant decisions during bargaining), **Romania** (government participation replaced by civil society groups in the Economic and Social Council; formation of new National Tripartite Council for Social Dialogue chaired by Prime Minister and not yet functional)	*Elimination of national collective agreements*: **Romania** (law no. 40/2011 no longer provides for the national level as a bargaining level) or their results ignored: in **Greece** (as Statutory minimum wage was set below the rate of the National General Collective Agreement) *Suppression or Limitation of extension clauses*: **Greece** (extensions suspended), **Hungary**, **Portugal**, **Romania**, **Slovakia** *Limitations to the validity or renewal of collective agreements after expiry*: **Croatia** (abolition of article 262 which allowed legal provisions to apply after expiry) **Portugal**, **Spain**, **Greece** (in force for maximum of three months, previously six), **Estonia** (unilateral power of one social partner to terminate agreement) *Introduction/or increase in opening clauses or derogation procedures*: **Spain** and **Italy** (possibilities to use opening clauses for enterprise deviations from sectoral collective agreements), **Greece** (introduction of a general priority for company agreements over branch agreements), **Cyprus** (mechanism established in public sector to impose automatic suspension and derogation procedures during adverse economic conditions), **Bulgaria** and **Slovenia** (in certain sectors) *Counter-developments*: **Belgium** and **Finland** (recentralization of national level collective bargaining)	*Lack of social dialogue in reforms*: **France** (particularly during pension reforms), **Hungary** (on dismantelling previous tripartite structure and reduced use of collective bargaining in public sector), **Romania** (new law on social dialogue impleneted largely in absence of consultation with social partners) *Followed by increased protests*: **Greece** and **Portugal** (continuous waves in all occupations), **Latvia** (several protests and strikes), **Ireland** (prior to public sector agreement, protests against pay freeze and pension levy in 2009), **Lithuania** (2009 unilateral wage resulted in strikes and 2009 National Agreement), **United Kingdom** *Broken agreements*: **Spain** (2010 agreement on wage increases broken by government), **Italy** (2010-12 national wage rounds unilaterally cancelled by government decree) *Counter-developments*: **Ireland** (public sector 'Croke Park' agreement declared no further wage or employment cuts between 2010-14 and helped to maintain industrial peace), **Estonia** (experienced less strikes than in other two **Baltic States**)	*New thresholds for representativeness*: for trade union (TU) or employers' organisations (EO) in **Romania** (to negotiate collective agreements), now only one TU may be representative (previously multiple), **Bulgaria** (to be representative at national level, 2012 law requires 75,000 members instead of 50,000 members), **Croatia** (2012 Act determines criteria to guarantee automatic entry of only a particular type of union into the negotiating committee) *New criteria to register a trade union*: in **Cyprus** (2012 draft law states that 100 instead of 20 members are necessary), **Lithuania** (simplified procedures for registration) *Organisations allowed to sign collective agreements*: **Greece** (by 'association of persons'), **Portugal** (draft law no. 46/XI foresees possibility for works councils under certain circumstances to conclude agreements that deviate from sectoral collective agreements) *Reduced subsidies*: in **Spain** (-20% to trade unions and employers' organisations) and less time off to perform trade union activities also in **Hungary** (fewer trade union officers entitlement to legal protection), **Cyprus** (increased trade union registration fees in 2012 draft law)

Changes in pillar 5: Public sector				
Change in contract and re-hiring measures	**Cuts in employment**	**Cuts in wages**	**Privatization/ outsourcing**	**Expenditure cuts**
Increased recourse to fix-term or part-time contracts: **Greece** (introduction of part-time employment in public sector and unpaid leave), **Latvia** (conversion of full-time to part-time, largely in education sector), **Portugal** (new short-term contracts for nurses hourly salary €2 less than 2011) *Temporary contracts the first to go*: **Spain** (high incidence of public employees prior to crisis-26% in 2008-targeted cuts on open ended contracts reduced this to 19% in 2013), **Greece** (reduction of employees on short-term contracts by 30% in 2010, 50% 2011 and 10% annually in 2012-16) *Restrictions on re-hiring*: in **Greece** one in ten workers replaced in 2010, in **Romania** this applies to every seventh, and every fifth in **Italy**, **Portugal** (stricter application of the rule '1 hire for 2 leaves'), **Croatia** (one for two retirees), **Cyprus** (recruitment of one on four retirees), 10% wage reduction of new hires in **Ireland** and **Cyprus** (and increased staff mobility by removing restrictions on secondments in **Cyprus**)	*Most severe employment cuts*: occurred in the **United Kingdom** (-15% in 2010-13), **Greece** (–15–30% in 2010, 17% on average in 2012), **Portugal** (-9.5% in public administration in 2005-10), **Romania** (-9.5% in 2008-11, further cuts in 2012), **Italy** (-8% in 2010-12), **France** (7% in 2008-12 in central government public service), **Latvia** (-4.3% in 2008-09), **Cyprus** (plan for abolition of aprox. 1,880 permanent posts), **Ireland** (-28,000 civil servants prior to 'Croke Park' Agreement) *To a lesser extent*: in **Lithuania** (-1.1% in 2008-09), **Sweden** (previous reduciton of -17.7% in 1991-2007, -1.4% cut in 2008-10 (95% of them short term contracts), hiring freeze in **Austria** and **Croatia**	*Public sector pay freeze:* in **Austria** (for 2013), **Belgium** (2013-14), **Cyprus** (in 2011-12), **Czech Republic**, **Hungary** (over last 4/5 years leading to 25% decrease in purchasing power), **Ireland** (between 2010-14), **Italy** (from 2010 and freeze on seniority increments by employees not covered by collective bargaining), **Poland** (from 2011 onwards), **Slovakia** (for 2011-12, partial increases for exempted groups), **United Kingdom** (since 2010), **France** ('point of index' basic wage frozen) *Pay cuts*: in **Romania** (-25% from 2010), **Cyprus** (-3% in 2014), **Greece** (–15% to –30% in 2010 and -17% in 2012), **Hungary** (cuts between -37% for unskilled and -13% for high skilled in 2008-10), **Latvia** and **Lithuania** (-25% and -15% respectively in 2009), **Croatia** (-6%, and -15% for State officials), **Spain** (-5% in 2010), **Portugal** (-5% average wages, 13th month pay cut), **Slovenia** (-8% in 2012), **United Kingdom** (wage freeze in 2010-12 led to -5% of real wages) *Constitutions against cuts*: In the **Czech Republic**, **Italy**, **Latvia**, **Portugal** and **Spain** the Constitutional Court ruled against certain cutbacks to public sector pay and pensions	*Extensive privatization programmes*: **Greece**, **Portugal** (e.g. health insurance, social care, tertiary education), **Cyprus** (to yield €1 billion by end of adjustment programme), **Spain** (commencement of the national lottery, most profitable airports, health care centres and hospitals and companies providing local and regional services), and to a lesser extent in **Ireland**, **Italy** and **United Kingdom** (including job search services, Royal Mail, social care, prisons, probation services) *Prior to the crisis*: in **Germany** (early 2000's caused erosion of inclusive wage system) and **Sweden** (17% of employment ascribed to private companies by 2010)	*Health care*: Austria (€1.4 billion of cuts through 2016), **Belgium** (-2% in 2013, -3% in 2014), **Cyprus** (measures to control expenditure e.g. increased fees for non-beneficiaries), **Greece** (2009-12 public expenditure fell 32%), **Spain** (2008-13 central government spending fell by 19.7% per capita), **United Kingdom** (promised 'ringfencing' but real spending cuts per capita), **Latvia** (in 2010-13, health care budget fell by -25%), **Estonia** (- 6%), **Portugal** (closure of health facilities) *Education*: Declines in public expenditure in **Greece** (2009-13 public expenditure fell 33%), **Spain** (2008-13 central government spending fell 41.2% per capita) **Portugal** (-18.4%), the **United Kingdom** (abolition of education maintenance grants), **Ireland** (introduction of third level fees). Between 2008-10 in **Latvia** (-23%) and **Estonia** (-9.3%), **Cyprus** (measures to control expenditure e.g. fewer teachers seconded to Ministry of Education)

Changes in pillar 6: Cohesion			
Regional / territorial cohesion	**Social cohesion**	**Gender programmes**	**Tax policies**
Decentralization: **Italy** (2011 Financial law cut financial transfers to regions compelling local authorities to divert funds from other items-only partially refinanced by Monti government), **Romania** (public services handed over to regions to reinforce power of local authorities), **Portugal** (cuts in financial transfers to minucipalities by €100 million), **France** (laws adopted prior to crisis increased competencies of local governments) *Opposed trend*: in **Hungary** (with centralization of public services leading to loss of local autonomy) *Regional funds and increased tension*: **United Kingdom** (abolition of nine regional development agencies, funding cut also), **Latvia** (disagreement between government and municipalities on which budget guaranteed minimum income should come from), **Spain** (increasing regional tensions), **Greece** (mergers of municipalities and reduction of their number by two-thirds and local government personnel by 50%) *Counter-developments*: **Sweden** (increased central government grants), **Germany** (solidarity pacts in 1993 & 2005 between German *Länder* to ensure fiscal equalisation)	*Decreased redistribution and increased inequalities in access to public service*: **France**, **Greece**, **Spain**, **Italy** (increasing disparities between North and South), **Ireland**, **Portugal**, **Cyprus** (examination of the possibility of abolishing or merging/ Non-profit Organisations/ Companies and publicly owned enterprises, and abolition of social cohesion benefits provided by the welfare services) *Growth of discriminatory practices*: **Slovakia** and **Hungary** (marginalisation of Roma community), **United Kingdom** (exploitation of migrant workers) *Counter-developments*: **Austria** (possibility for low skilled workers to combine education with part-time work, and introduction of educational grants), **Denmark** (flexi job reform, towards people with reduced work capacity; and apprenticeships and vocational training expected to help more immigrants gain employment)	*Rise in gender pay gap*: Bulgaria (by 2.8pps in 2009-10), **Latvia** (women earned 17.6% less than men in 2010, compared to 13.4% in 2008), **Portugal** (from 8.5% in 2007 to 12.5% in 2011 (data only concern firms with ≥10 employees)) and **Romania** (from 7.8% in 2008 to 8.4% in 2009, and 12.6% in 2010) *Rise in gender equality issues*: **Greece** (rise in disputes on gender equality from 11 in 2007 to 79 in 2010), **Portugal** (requests for legal opinions on gender issues from 87 in 2008 to 94 in 2009) *Infringements of the right of pregnant women*: to maternity leave and benefits, or to resume their job after maternity have been reported in **Greece**, **Portugal**, **Italy**, and the **Czech Republic** *Counter-developments*: **Austria** (extension of obligation to indicate minimum remuneration to job advertisements; to induce higher transparency), **Croatia** (the gender wage gap narrowed in 2009), **Slovakia** (ESF supported 20,134 new jobs for men and 12,899 for women), **Czech Republic** (draft legislation to expand availability of early childcare for children)	*Across the board (rather unequal) tax hikes*: **Hungary** (introduction of a 16% flat-tax, generous child tax credit for high income families), **Czech Republic** (introduction of a flat personal income tax of 19% of gross wage), **Romania** (new tax on meal vouchers and gift tickets), **Greece** (abolition of tax exemptions for disabled, large families), **Italy** (a less progressive tax system with a shift from direct to indirect taxation and increase in local taxes, have worsened conditions of low-income recipients) *Increased tax measures for high earners*: **Austria** (closure of tax loopholes), **Czech Republic** (7 % personal income tax surcharge for high-income taxpayer), **Portugal** (incomes exceeding €150,000 per year, taxed at 45%) **Denmark** and **Cyprus** (new income tax bracket for high incomes), **Spain** and **France** (special wealth tax and measures to increase tax on high earners) *High VAT increases*: in **Romania** (of all products from 19% to 25%), **Greece**, **Ireland**, **Portugal** and the **Czech Republic** have put low-income households under sever pressure *Reduced taxes*: **Slovakia** (abolition of 19% flat tax), **Sweden** (introduction of income tax credits), **Italy** (selective reductions in social contributions for unemployed youth and women in the South) *Others*: **United Kingdom** (decline in highest tax rate from 50% to 45%), **Greece** (reduction in tax-free income from 12,000 to 5,000 euros for wage earners and abolished for the self-employed)

Source: National studies and authors compilation from variety of sources.