



EDITED BY
DANIEL VAUGHAN-WHITEHEAD

THE EUROPEAN SOCIAL MODEL IN CRISIS

IS EUROPE LOSING ITS SOUL?



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Edited by

Daniel Vaughan-Whitehead

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Foreword

For more than fifty years the International Labour Organization (ILO) has enjoyed a close relationship with what is today the European Union. The origins of the European Social Model lie in the policies developed by European countries since the beginning of the last century and since its creation in 1919, the ILO has progressively built its labour standards and taken action globally around the same principles and values. Following the signing of the Rome Treaty in 1957, the countries of today's European Union have also progressively developed the coherent set of regulations and institutions on social policy that has become known as the European Social Model. It has been a source of inspiration for many other countries and regions.

The European Social Model has led to many concrete achievements, as shown by Europe's relatively high quality of public services and access to education and health care. It has provided the foundation for stability and social peace. It has defined integrated economic and social development as part of a European identity. And yet we all recognize that in recent years the European Social Model has been subjected to unprecedented challenges.

This volume discusses the way in which many elements of the European model have changed dramatically over the last few years, especially in those countries facing fiscal consolidation. Of course, pressure from demographic changes and long-term sustainability issues, as well as structural unemployment, may mean that reforms are required to ensure the sustainability of Europe's economic and social systems. But many reforms in Europe have been implemented abruptly and in some cases arbitrarily, with important social costs. Paradoxically, even as the model is facing such challenges, many other countries around the world are enhancing their social protection. For one, China has promoted minimum wage and social dialogue institutions, and has been progressively expanding its social protection system. Similarly, Brazil and the United States have been inspired by several elements of the European Social Model in their efforts to enhance social protection and health coverage.

The experience since 2008 has been in some ways a sequential voyage. In the early years of the crisis, the European Social Model scored very highly

in terms of resilience. We saw how European economies weathered the storm of the early stages of the financial crisis better than others. Through the use of strong social dialogue and automatic stabilizers, many jobs were saved and household income protected. The strength of the European Social Model was clearly identified by many as being critically important to that positive European performance, but then another interpretation took hold as the sovereign debt crisis hit – as the unexpected buried explosives in the Euro system began to make their presence felt – austerity set in and an existential questioning of the European Social Model became evident and voluble.

It is absolutely essential to get out of the crisis, to build resilience into the model again and to do so by restoring confidence. And that goes hand in hand with restoring – where it needs to be restored – the practice of social dialogue, not just as a working method but also as a practical instrument of policy-making. It remains remarkably striking that where social dialogue has the most deeply rooted traditions and institutional underpinnings, countries have done better in weathering the crisis.

The erosion of confidence and credibility is aggravated by the fact that crisis responses have further led to a questioning of real commitments to the fundamental values of the European Social Model. Yet policy coherence involves giving proper consideration to social and employment policies while designing and implementing economic measures, including fiscal consolidation. In Europe, policy coherence means being guided by the founding values of the European Social Model, as well as of the ILO and its international labour standards. Investing in the European Social Model is far less costly than dealing with the consequences of crisis through increased unemployment benefits, and paying the price of anti-social behaviour or a permanent disconnect from the labour market. In the end, the result of such policies stands to cost societies more, with less quality and lower services than before.

So, if as is certainly true, the future of the European Social Model relies on the ability to adapt, this requires confidence in the stability of the various tenets of that model. This highlights the need to build social dialogue and all the elements of the model that are discussed throughout this volume. They provide the tools to better address our present challenges by promoting effective policy coherence – and a European Social Model that can help take us out of the crisis and serve as a model for social policies globally as well.

Guy Ryder
Director-General
International Labour Office, Geneva

1. The European Social Model in times of crisis: An overview

Daniel Vaughan-Whitehead

1. INTRODUCTION

Over the past decades Europe's low rates of illiteracy, quality of public services, high access to education and to health, and good and improving living and working conditions can all be attributed to the European Social Model (ESM). Welfare policies have guaranteed stability and social peace, and have shown that economic and social developments are interrelated. This social dimension also contributed to forge European identity, and pushed it towards the objective of 'the most competitive knowledge economy in the world' (defined at the Lisbon summit, March 2000). According to Jacques Delors (2013): 'The European social model exists and, as European citizens, we can be proud of it . . . Social matters are not an expense or a cost but the most profitable investment for the future. With the growing individualisation of our societies, Europe needs collective rules'.¹

Many countries since the 1990s engaged in long-term reforms of social protection and social policies under the pressure of demographic changes (such as ageing of European societies), a changing economic context (for example, increased competition in globalized markets), structural unemployment and long-term sustainability issues. International organizations such as the International Labour Organization (ILO), the European Commission (EC) and the Organisation for Economic Co-operation and Development (OECD) have recognized that certain elements of the European Social Model need to be adapted and reformed to ensure their performance and sustainability. Fiscal consolidation policies have accelerated such changes, and led to questions about the sustainability of a number of elements of the European Social Model.

This led sometimes to divergent 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'.² For the former 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 [show] the burden that the European productive economy has to carry in order to sustain our social model’.³ On a different note, the former President of the European Commission, José Manuel Durão Barroso 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’.⁴ For the President of the European Council at that time, Herman Van Rompuy, ‘the ESM remains an important asset and a global competitive advantage’.⁵

The aim of this book is to provide an analysis of what happened to the European Social Model in the crisis. This book is the result of a series of projects started in the early 2000s carried out jointly by the ILO and the EC to ensure regular and systematic monitoring of social policies and industrial relations.⁶

Under the pressure of the financial crisis and following the introduction of fiscal consolidation packages to reduce debt, various European countries changed many elements of that model: social protection, pensions, public services, workers’ rights, job quality and working conditions, and social dialogue. The pace of the changes was relatively rapid considering that it had taken European Union (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 on social issues. This social dimension, accompanying and even stimulating economic growth, could be considered as a central element of the EU model, reproduced by various other regions and countries in the world.

The aim of this book is to assess the situation of the European Social Model in EU member states on the basis of detailed empirical evidence of the social policies that were adapted in the crisis. This thorough analysis was carried out by a group of high-level experts who for two years collected comprehensive information on changes in social policy in their countries, distinguishing as far as possible between long-term trends and more recent developments owing to the economic crisis. They 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 after the financial and economic crisis in 2007 and alongside anti-crisis policies during 2008–14. A series of tables on European Social Model elements and changes in each chapter – summarized at the end of this

introduction – are designed to help the reader to better distinguish those changes over time.

The volume also reviews some of the effects of such changes, something that may help to better identify the future role of the European Social Model. A series of case studies is aimed at illustrating the main evidence on the implications both in the social and the economic areas. Each chapter further presents policy considerations and recommendations on social policy adjustments and reforms.

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

Perhaps surprisingly, 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 2000a). However, the different European summits helped to qualify the European Social Model (as shown in Box 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', which was also emphasized at the European summit in Barcelona in 2002 (see Box 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 has extended its coverage to new categories of workers. The European Social Model can be defined around six main pillars, as described below.

2.1 Main Pillars of the European Social Model

2.1.1 Increased rights at work and improved 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

**BOX 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'.

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 non-standard 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 non-standard 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 tried to extend to new member states.

Although the European Commission has always emphasized that it is up to 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 in EU treaties. Social protection is one of the fundamentals defined in Article 2 of the

Treaty establishing the European Community. Article 117 mentioned the need 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’ was 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 to work ‘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 EU, and so are an additional basic pillar of the European Social Model. The EU has adopted quantitative goals in active labour market policy for all member states. 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 promoted the objective of ‘more and better jobs’, thus including also qualitative goals for 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 member states 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 (UK) 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 in diverse ways, and as such constitutes a core element of governance of labour issues 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. 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. 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 (the European Trade Union Confederation – ETUC – for the workers; and the Union des Confédérations de l'Industrie et des Employeurs d'Europe – UNICE – for the employers, which was then converted into BusinessEurope; as well as the Centre of Employers and Enterprises Providing Public Services – CEEP – and the European Association of Craft, Small and Medium-sized Enterprises – 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 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 could be defined as 'shared social governance'.

The same process of bipartite social dialogue emerged at sectoral level when the Commission decided on 20 May 1998 to create sectoral social dialogue committees at EU level, which provide the social partners with a platform for sectoral social dialogue and thus induce member states to set up similar structures. In 2014 there were 43 such sectoral committees (EC 2015).

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 and enterprise) compared with full decentralization to enterprise level in the United States (US) and 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. (Schulzen 2013: 1)

2.1.5 Public services and services of general interest

The Treaty of Lisbon, Protocol No. 26 on Services of General Interest (EC 2009: 307) and Article 36 of the European Charter of Fundamental Rights (EC 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 stipulates that the EU and its member states hold 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.

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

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 member states to fight social exclusion, an approach that has been extended to all countries that more recently joined the EU, and which can be qualified as the sixth pillar of the European Social Model.

2.2 A Stimulating and Supporting European Framework

While individual member states have developed their own social policies, from the start the EU 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 can be grouped into five major categories:

1. extending minimum legal rights;
2. ensuring social solidarity at European level through a mechanism for the redistribution of European social funds;
3. establishing a more flexible and coordinated framework between member states (method of open coordination);
4. developing a dynamic space for social dialogue at European level; and
5. 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 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 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 social 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 and revised in 2010), part-time work (1997), and fixed-term contracts (1999), 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).

3. A MODEL ALTERED IN RECENT YEARS OF CRISIS AND FISCAL CONSOLIDATION

While the European Social Model has been progressively changed over the past decade (Hermann 2013), the crisis of 2008 and ensuing fiscal consolidation packages accelerated the process.

3.1 A Constantly Changing Model

Despite a number of achievements in promoting a Social Europe at Community level and in several member states, the importance of social matters has not been accepted by all. Neoliberal theorists believe in the ability of markets to determine optimal levels of wages and employment. According to these views, labour regulations when they induce labour market rigidities would also accentuate the negative impact of crises on unemployment. In particular, social measures to protect individuals from the consequences of imperfections of market forces are considered as having the direct effect of increasing the cost of labour, and undermining economic and labour market performance. 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, public social transfers – such as unemployment benefits – would have the effect of disincentivizing work and encouraging voluntary unemployment.

However, many theorists have countered that social provisions can also lead to positive economic outcomes; 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 or her search because he or she can find a job matching his or her skills and experience without having to concentrate on making ends meet; he or she may also have the opportunity to engage in further training which may turn out to be beneficial for enterprises and society as a whole. This was the response of the Lisbon Summit in 2000 that established social progress as a 'productive factor' (EC 2000b).

Beyond these different perspectives on the place and role of social policy there have been discussions about the need to make the European Social Model more sustainable, for example in light of 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.

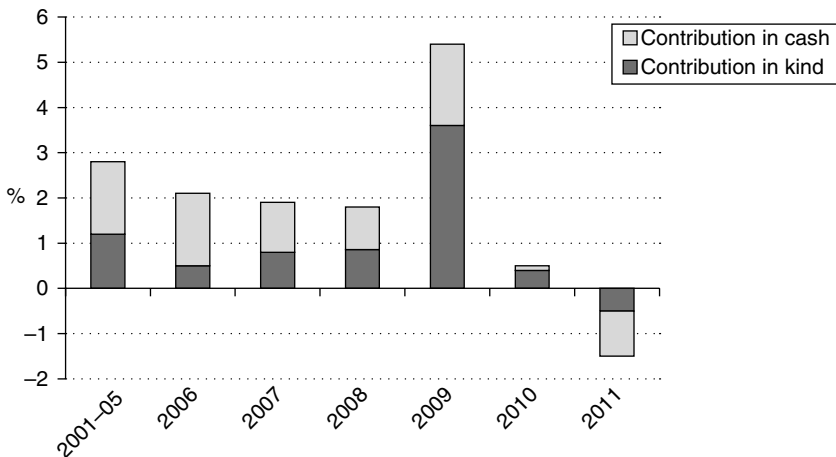
It was, however, after the crisis that many European countries entered into a period of rapid changes in social policy and started to rapidly implement decisions and reforms that in a few years stand to modify aspects of their overall social policy model.

3.2 The Crisis and the European Social Model

The crisis with its deep effects on economic growth affected the European Social Model in many ways. Two periods can be distinguished.

3.2.1 The use of social policy in the first phase of the crisis

3.2.1.1 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, unemployment benefits and other social benefits including social assistance assisted in cushioning the social shock and to limit increased poverty. At the same time, they contributed to limiting the economic impact of the crisis by avoiding a collapse of consumption, as acknowledged by the European Commission.⁷ The fact that real public social expenditure – relatively stable in 2006–08 – 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 (see Figure 1.1), an acceleration driven mainly by increases in unemployment expenditure, but also in health and disability and old age and survivors' expenditure. The increase in



Source: Adapted from Bontout and Lokajickova (2013: 17).

Figure 1.1 Annual growth in real public social expenditure, EU27 countries, 2001–11

unemployment expenditure mainly reflected increases in the number of unemployed.

From 2010 the situation reversed as public annual spending growth slowed significantly, followed by a fall in 2011. This did not mean that needs were lower in 2010–11 compared with 2009 but reflected instead a shift in governments' public expenditure policies from 2010.

3.2.1.2 Institutional solutions to the crisis The increase in social expenditure in the first phase of the crisis demonstrated the good functioning of the European Social Model, as individual countries found that the institutional schemes they had in place helped them to mitigate the employment shock of the crisis. Chapter 4 in this volume shows how the employment miracle in Germany – with not much employment reduction despite output contraction – was due in particular to the implementation of work-sharing 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 European Social Model, 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 helped the country to avoid major unemployment effects, as described in one of the case studies presented in Chapter 10 on Sweden. The external flexibility system combined with training mechanisms developed in Scandinavian countries 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 were often avoided through the negotiation of agreements between the management and the unions on shorter working hours, as in Austria, and/or lower wages as in France. By contrast, in those EU countries where social dialogue institutions were less developed, the crisis led to immediate and massive layoffs, as in Estonia, Latvia and Lithuania.

3.2.2 Social policy changes in all ESM pillars

The different findings in this volume converge to indicate the pressures on the European Social Model. During a short period of time, and beyond the diversity of national situations, the six pillars of the European Social Model experienced drastic changes that undermined their contribution and in some cases put at risk their existence.

3.2.2.1 Workers' rights and working conditions under stress The crisis and the deteriorating economic conditions generated more tensions between employers' and workers' interests. A number of reforms prioritizing enhanced competitiveness and economic recovery directly put pressure on wages and working conditions. More flexibility in the labour market was sought without always providing security to workers, whose bargaining power was undermined by increased unemployment and changes to the rules of collective bargaining.

BASIC WORKERS' RIGHTS RESTRICTED A number of countries set out new restrictions on the right to strike, for example Hungary (ITUC 2012). In Greece, there were repeated statutory interventions in free and voluntary collective bargaining; and also repeated infringement of the right to strike by civil mobilization orders (ILO 2011). The round table between the three sides on 30 September 2014 at the ILO in Geneva perhaps marked the beginning of a period of renewed social dialogue in Greece. Also to be noted is the appearance in the United Kingdom of the possibility for employees to give up basic rights in exchange for shares in the company (see Chapter 11 on the United Kingdom).

INCREASED ABILITY OF EMPLOYERS TO DETERMINE WORKING CONDITIONS At the same time, changes in labour codes gave employers more freedom to unilaterally change working conditions, such as working hours and wages, as in Spain or Romania, where workers leaving a company can be asked to pay back training costs for training received if the employer included a training clause in the workers' contract (Chivu et al. 2013).

By contrast in Germany, France, Austria and other countries social dialogue enabled employers and trade unions to negotiate alternatives to layoffs through shorter working hours.

WAGE DEVALUATION IN SOME COUNTRIES TO RECOVER COMPETITIVENESS Within 'austerity packages', some countries of the euro zone – where currency or external devaluation is impossible – and on the advice of the Troika sought greater competitiveness through an 'internal devaluation', that is, 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. Slowdown of economic growth also contributed to depress wage progression. Tripartite negotiations on wages were interrupted, as in Portugal, Romania and Ireland, and their results in Greece were ignored because considered unsatisfactory; tripartite pacts, where they had been signed, were not always respected, as in Spain or Hungary where the government stopped consulting

unions and employers on minimum wage (Komiljovics 2011). It is in this context that minimum wage growth was frozen in 2012 in both Portugal and Spain and thus fell below price increases, while the minimum wage was even cut in nominal terms in Greece, by 22 per cent for unskilled workers above 25 and by 32 per cent for those under 25, following requests from the Troika (Eurofound 2013e). Hungary decided instead to increase the minimum wage tax wedge. Furthermore many changes in the collective bargaining process broke the process of regular adjustment of wages. The weakening of tripartite consultations also played a role. Real wages declined in a number of European countries in 2012 and 2013 (ILO 2013b).

On the other hand in Germany, the decision to introduce a statutory minimum wage in 2015 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.

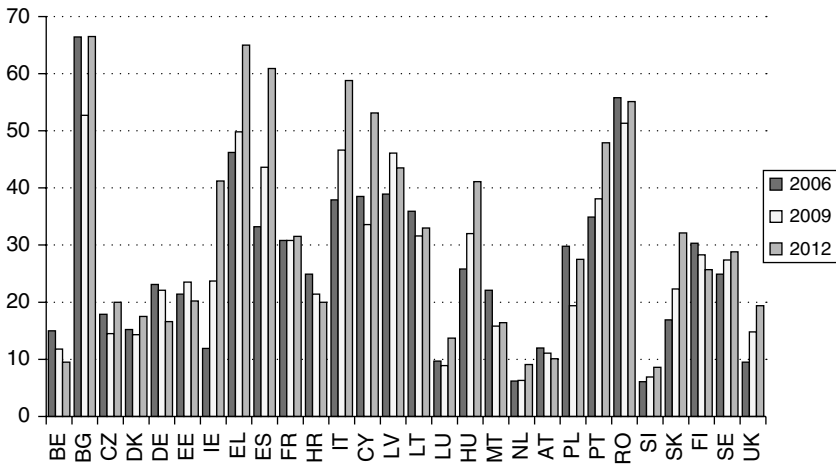
INCREASED DIFFICULTIES WITH REGARD TO OCCUPATIONAL SAFETY AND HEALTH It was shown earlier in this introduction that EU countries made consistent progress in this area over the past two decades. However, the crisis generated new difficulties and an increasing number of violations in the field of health and safety were reported in several countries, such as Estonia (+21 per cent increase). Work-related illnesses, stress and depression were reported in Portugal and Croatia. In order to survive certain enterprises had to significantly cut their occupational safety and health budgets (ILO 2014). At the same time, the budgets of public OSH structures underwent considerable reductions as part of austerity measures. Benefits for public sector employees were also removed, such as sick leave in certain regions of Spain, or reduced, as in Slovenia (Clauwaert and Schömann, 2012; Vaughan-Whitehead, 2013). New and atypical working schedules more stressful for workers developed in a number of countries.

3.2.2.2 Labour market: seeking more flexibility Flexible forms of contracts were encouraged in some countries with a view to stimulating job creation. A number of countries increased the maximum length of fixed-term contracts, from six to 36 months in Portugal, and from 24 to 36 months in Greece and Romania. Estonia and Lithuania removed some limits on temporary employment⁸ and temporary agency work increased everywhere, including in France, where it represented 90 per cent of new contracts in 2010. In Germany, temporary agency workers tripled from 2003 to 900 000 in 2011, and the number of mini-jobs rose from around 5.5 million to 7.5 million. Restrictions on temporary agency work were reduced or removed, for example in Greece and the Czech Republic (Clauwaert and Schömann 2012; Hermann 2013).

Forms of very flexible and poorly protected contracts emerged as in the United Kingdom where the increasing use of ‘zero-hours contracts’ was reported: a worker must agree in often exclusive contracts to be always available for work as required but only receives compensation for the actual number of hours worked. In order to reduce youth unemployment, new employment contracts for younger and unskilled workers were encouraged in Greece and Spain respectively, at wages below the national minimum wage (Hermann 2013).

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 30.7 to 53 per cent, and in Ireland from 11 to 41 per cent. Involuntary part-time work thus emerged as a significant phenomenon in Europe (see Figure 1.2).

FACILITATING ENTRY AND EXIT Many reforms of the labour market aimed to promote employment through offering more flexibility to employers



Note: Official EC abbreviations used in figures are: AT: Austria; BE: Belgium; BG: Bulgaria; CY: Cyprus; CZ: Czech Republic; DE: Germany; DK: Denmark; EE: Estonia; EL: Greece; ES: Spain; FI: Finland; FR: France; HR: Croatia; HU: Hungary; IE: Ireland; IT: Italy; LT: Lithuania; LU: Luxembourg; LV: Latvia; MT: Malta; NL: Netherlands; PL: Poland; PT: Portugal; RO: Romania; SE: Sweden; SI: Slovenia; SK: Slovakia; UK: United Kingdom.

Source: Eurostat (Ifsa_eppgai).

Figure 1.2 Involuntary part-time employment as a percentage of total part-time employment (15 to 64 years), EU countries, 2006–12

to dismiss employees while 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 to 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 maximum of 24 months to a maximum of 4 months.

The probation period for newcomers – during which they not only had lower wages but also lower rights – was also increased, as in France, Romania (from one to three months) and Greece (from two to 12 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).

In the United Kingdom, rights to claim for unfair dismissal were made more restrictive – eligibility was made 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 (Hermann 2013; Clauwaert and Schömann 2012).

FEWER RESOURCES FOR LABOUR MARKET POLICIES IN SOME INSTANCES Labour market reforms are not new; well before the crisis, high unemployment rates and their long-term and structural features led to a progressive reduction of passive labour market measures in favour of more active labour market policies in order to improve incentives to work, job matching, skills and to increase employment levels. Following the crisis and the implementation of fiscal consolidation policies, reforms and changes in labour market policies rapidly multiplied, touching all areas, including – in some cases – active labour market policies themselves.

This process occurred in the United Kingdom, with a withdrawal from active labour market programmes coupled with a reduction of funds allocated to the regions. A similar process was observed in Italy and Portugal, with less funding provided by central government to the respective regions.

A number of countries reduced the funds dedicated to active labour market policies, which in many cases, for example in Lithuania, Ireland and Spain, was accompanied with a shift towards passive labour market policies (Eurofound 2010b). However the most extended move occurred in Hungary where the duration of unemployment assistance was cut to only three months and active labour market policies were abandoned, replaced with a policy based on public work. In the United Kingdom, a significant job activation programme for young people was revoked in 2010, although a youth contract programme was then introduced in 2012.

On the other hand, France, Germany and Sweden increased their

funding of active labour market policy, and the number of participants in these policies was extended in Estonia and Latvia.

3.2.2.3 Changes accelerating in social protection Most European countries were 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 which had already been emphasized by the European Commission in several documents. As an example, pension reforms started long ago. Fiscal consolidation policies in Europe accelerated such changes, affecting all areas of social protection. Generally speaking, stricter eligibility conditions were introduced, involving a reduction in the access to and level of benefits – but also structural changes, for instance on pensions and unemployment assistance as documented below.

CUTS IN BOTH UNEMPLOYMENT AND SOCIAL BENEFITS When unemployment increased during the crisis a number of measures were taken by governments to reduce the total bill of unemployment benefits. Unemployment systems were modified in a number of directions. First, access to unemployment assistance was reduced by a series of new and stricter eligibility conditions. 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 47 per cent in 2013. Similarly, in Hungary coverage dropped from 30 to 10 per cent due to the sharp decline in duration, as was the case in many other countries. Second, the duration of unemployment benefits was reduced, falling for instance from 15 to 12 months in Portugal and Ireland where it was also cut by 3 months,⁹ but with the most important cut operated in Hungary (as illustrated in Chapter 6 in this volume), from nine to three months. Third, several countries cut the value of unemployment benefits, by 20 per cent in Portugal, 22 per cent in Greece and 15 per cent in Romania (Ciutacu 2010; European Women's Lobby 2012).

A SHIFT FROM UNIVERSAL TO TARGETED PROTECTION The suppression of some universal benefits, affecting many people across the social spectrum – such as access to child allowance – contributed, with the changes described earlier, to altering in some cases the principle of universality of social protection systems. In many countries, spending cuts targeted family benefits and family support programmes, thus worsening conditions for parents and children, especially for working mothers. Over the past five years, child tax allowances were abolished in Greece (as was

the universal birth grant suspended in Spain), child benefits were reduced in Ireland through more stringent means testing, the ceiling was reduced in Denmark, and in the United Kingdom the working tax credit was frozen. Maternity/paternity benefits were reduced in Latvia and Lithuania while the United Kingdom cut the value of housing benefits (Hermann, 2013).

More restrictive entitlement criteria for social protection were introduced in Italy. The social support index was frozen in Portugal (Pedroso 2014). 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, led to a system targeted more at the most vulnerable (Petmesidou 2012). Massive cuts in previously existing social benefits in Greece and redirection of public monies to means-tested benefits transformed radically the social protection system, as documented in Chapter 5 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 organized some redistribution in favour of the lowest-income households, as was also done in France.

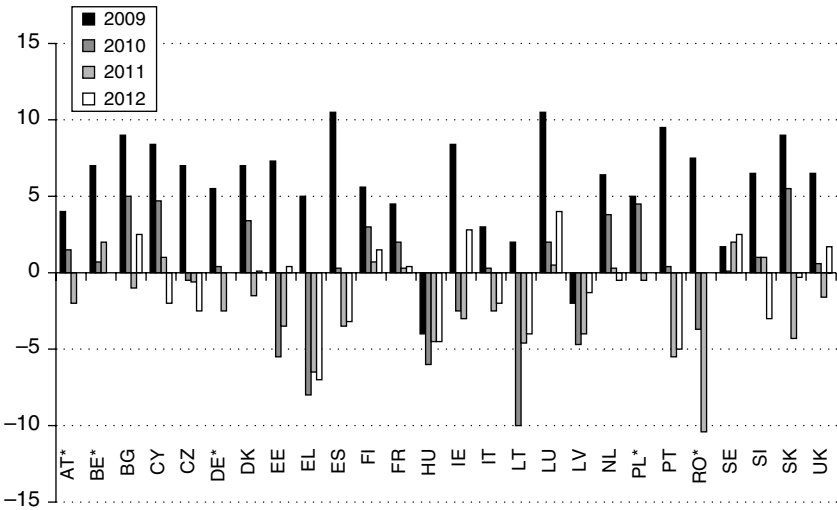
PENSIONS HEAVILY REFORMED Although pension reforms started well before the crisis to improve long-term sustainability of pensions systems, these systems represent another social area that entered a period of radical change. First, many reforms were introduced with the announced aim of ensuring sustainability 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 2013 study on 11 European countries reported pension freezes in seven of them, while four actually cut pension benefits (Hermann 2013). Another way to balance expenditures with incomes was to increase the minimum number of years of contribution, such as in France, Spain and Latvia (where the minimum period of contributions was extended from ten 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, the last 25 years and not the last 15 years were taken into account (Karamessini and Rubery 2013). The imposition of a new public service pension levy, between 3 and 9.6 per cent, occurred in Ireland. Pension reforms were also urgently introduced in Italy to make savings at the height of the financial crisis (see Chapter 7 on Italy in this volume)

Almost all countries increased the statutory pension age (eight out of

the 11 countries in the study previously cited), as advised by the European Commission.

Some countries extended reliance on the private sector. In France, the private pillar was strengthened, while it was nationalized 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 (see Chapter 6 on Hungary).

A GENERAL FALL IN SOCIAL EXPENDITURE The figures 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 may influence their access to health-care services or childcare.



Notes:

* Data for 2012 not available for Austria, Belgium, Germany, Poland and Romania.
 Official EC abbreviations used in figures are: AT: Austria; BE: Belgium; BG: Bulgaria; CY: Cyprus; CZ: Czech Republic; DE: Germany; DK: Denmark; EE: Estonia; EL: Greece; ES: Spain; FI: Finland; FR: France; HU: Hungary; IE: Ireland; IT: Italy; LT: Lithuania; LU: Luxembourg; LV: Latvia; NL: Netherlands; PL: Poland; PT: Portugal; RO: Romania; SE: Sweden; SI: Slovenia; SK: Slovakia; UK: United Kingdom.

Source: Adapted from Bontout and Lokajickova (2013: 18).

Figure 1.3 Annual percentage growth in real public social expenditure, EU countries, 2009–12

In 2011, the declines affected most member states and both in-kind and cash benefits. While in theory it might be partly explained by recovery and decreased unemployment, this was not the case in 2012. Declines were particularly significant (around 5 per cent or more) in Greece, Latvia, Portugal, Romania and, to a lesser extent, Spain and continued in 2012. They were below 1 per cent in other member states (Bontout and Lokajickova 2013).

3.2.2.4 Social dialogue during the crisis The crisis brought the role of social dialogue into question in a number of countries. The social partners were involved in the first phase of stimulus packages and anti-crisis responses, and made important contributions. However, social dialogue was less used during the second wave of reforms (2009–10) in some countries that focused on reducing public deficits. In such cases, trade unions in particular were generally excluded from the decisions to reduce public expenditure and to cut jobs and wages in the public sector, sometimes resulting in industrial action (strikes, street protests and the like). In some countries the unions introduced legal challenges to austerity measures decided unilaterally by government.¹⁰

A series of measures to limit the scope of social dialogue were introduced in some countries. 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). Subsequently, a round table on Greece facilitated by the ILO in Geneva on 30 September 2014 showed the willingness of government, employer and worker representatives to re-initiate social dialogue and collective bargaining mechanisms.

A number of social dialogue and collective bargaining practices and mechanisms were weakened by governments especially in fiscal deficit countries such as Greece, Hungary, Portugal and Spain. Three major areas were concerned: (1) the weakening of the role of tripartism (cooperation between government, employers' and workers' representatives); (2) the alteration of collective bargaining institutions and rights; and (3) the weakening of social dialogue in the public sector (see Table 1A.1, pillar 4 in the Appendix at the end of this chapter).

3.2.2.5 Public sector: unprecedented adjustments Owing to the economic crisis, budget deficits plunged the public sector in much of Europe into an unprecedented series of quantitative adjustments, mainly spending cuts including in public sector jobs and wages. Employment security was reduced in the public sector in some countries, where an increasing

number of employees were hired on a temporary work contract and permanent employees could be laid off.

EMPLOYMENT WITHDRAWAL: NON-REPLACEMENT, JOBS CUTS AND CHANGED WORK CONTRACTS A number of countries – such as France, Croatia, Greece and Portugal – as well as many others set replacement ratios (usually one hire for two) to fill the gaps left by employees leaving for retirement. In Greece, all recruitment was suspended in 2010, while the replacement ratio was set at one hire for ten exits in 2010 and at one hire for five exits through 2012–16. This was complemented by employment reductions, sometimes on a large scale. The United Kingdom applied unprecedented employment cuts, as well as a pay freeze across all areas of the public sector for 2011–13, followed by a 1 per cent cap on pay rises after 2013. At the other extreme, Nordic countries, such as Sweden, did not experience any employment or wage cuts in the crisis – although the share of employment in the public sector fell in the 1990s and 2000s in Sweden. Job cuts during the crisis were limited in the Netherlands, Croatia and Germany.

Quantitative adjustments were accompanied, and often preceded, by more structural adjustments in the composition of employment, mainly owing to the recourse to more fixed-term contracts and the outsourcing of a number of public service jobs. The number of temporary contracts in the public sector increased rapidly throughout Europe.

Another way to gain flexibility and to reduce spending was 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 rapidly increased in OECD countries, from 8.7 to 10.3 per cent between 2000 and 2009 (Vaughan-Whitehead 2013). This process was implemented on a large scale in the United Kingdom (including job search services and, subsequently, the national post office, 'Royal Mail'), and also in Germany. Outright privatization led to a reduction in the share of government expenditure and public sector employment.

CUTS IN WAGES, BONUSES AND BENEFITS A majority of European countries announced plans to freeze or cut public sector wages (Vaughan-Whitehead 2013). Wage cuts were 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 2009–12 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, were 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) (Vaughan-Whitehead 2013).

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

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 2009 and 2013),¹¹ 23 per cent in Latvia (between 2008 and 2010) and 18.4 per cent in Portugal’s 2012 budget, reducing public expenditure from 5 to 3.8 per cent – with stricter accession rules in health systems and systematic introduction of co-payments. This led to lower-quality public services. The effects of such a ‘public sector shock’ in many economic and social areas were analysed in detail by a group of European researchers who provided micro-data evidence and qualitative case studies (Vaughan-Whitehead 2013).

3.2.2.6 Social cohesion under fiscal consolidation policies Given the priority to reduce debts, expenditure was cut considerably, with some significant consequences for regional and social cohesion.

REGIONAL IMBALANCES WIDENING The studies in this volume indicate a reduction in regional funds. While this trend is not new, it was accelerated with a sense of urgency during the crisis, as happened in Italy through the enactment of the 2011 Financial Law. This Law drastically cut financial transfers to regions and municipalities thereby compelling local authorities to divert funds from other items. Chapter 7 in this volume shows how the regional gap widened in Italy in the absence of necessary funding. In the United Kingdom, regional development agencies were abolished as described in the chapter on the UK.

The new government in Hungary decided to recentralize all powers and functions from the regions to the centre.

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

THE RESULTS FOR ANTI-DISCRIMINATORY POLICIES The crisis seems to have affected some of the progress that had been made over the past decade in terms of discrimination. The growth of unemployment and social problems led to stigmatization of some groups, such as the Roma in some

countries. In Hungary all programmes for improving the integration of Roma children into the education system were either interrupted or their budget significantly reduced.

Gender discrimination issues 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 after 2008 (European Women's Lobby 2012; Vasile 2013). Similar trends were reported in Bulgaria and many other countries in Europe (see for instance the case of Estonia in ILO 2013b). Disputes on gender discrimination in employment and working conditions multiplied, as in Greece and Portugal (European Commission 2013c). Infringements of the right of pregnant women to maternity leave and benefits, or to resume their job after maternity were reported in Greece, Portugal, Italy and the Czech Republic (European Women's Lobby 2012).

The public sector shock had an amplified adverse effect on women, not only because a high proportion traditionally work in the public sector – and were thus affected by massive job cuts – but because the public sector had always offered female employees access to better skilled and better paid positions compared to private sector. The public sector also had better policies for reconciling work and family that were sometimes dismantled within fiscal consolidation policies (Rubery 2013). Paternity leave was suspended, as in Estonia, or maternity leave reduced, as in Hungary (European Women's Lobby 2012). Women were 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 affected 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 2009–13 (Rubery 2013).

TAX POLICIES AFFECTING SOCIAL COHESION In order to reduce the debt not only was expenditure cut but tax reforms were introduced to generate higher revenues (see the reforms introduced in different European countries in Table 1A.1, pillar 6 in the Appendix to this chapter). Such tax policies often affected people without regard to income; for example, 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 affected poorer income households in a disproportion-

ate way and thus increased inequalities. Similarly, the tax burden sometimes increased for low- or middle-range income families. As an example, in Greece the tax-free personal income threshold was reduced (from 12 000 to 5000 euros) for wage earners and abolished for the self-employed. Other examples are given in Appendix Table 1A.1. By contrast, Sweden decreased marginal and average tax for low- and medium-income earners.

3.2.3 Impacts on the European framework

Many elements of the European Social Model were affected by the policies followed during the second half of the crisis. Such was the case with social dialogue and collective bargaining rights during minimum wage reduction in Greece, labour market reforms in Spain and Ireland or public sector reforms in Portugal, Romania and a number of other European countries.

More generally, chapters in this volume indicate that policies implemented during the crisis have in practice affected many key elements of the European Social Model, such as social dialogue (Schulten 2013).

4. OBJECTIVES PURSUED AND POSSIBLE EFFECTS

The next sections of this chapter consider the effects of the changes in the European Social Model described above, summarizing the country-specific analysis in the individual chapters.

The studies presented in this volume generally indicate that the changes in social policy were not correlated with significant results in terms of economic recovery, employment, and productivity during the period under review. At the same time, unexpected outcomes emerged on the social side which partly explain the lack of economic improvement.

4.1 Economic Situation: Below Expectations

At the end of 2012 a majority of European countries had not fully made up for the gross domestic product (GDP) losses incurred since the start of the crisis (see Figure 1.4). The economic and employment outlook was continuing to deteriorate in a number of countries that had adopted austerity measures and deregulated the labour market, particularly those in Southern Europe. This is clearly evidenced by Figure 1.5, showing regular revisions downwards of International Monetary Fund (IMF) forecasts for GDP growth.

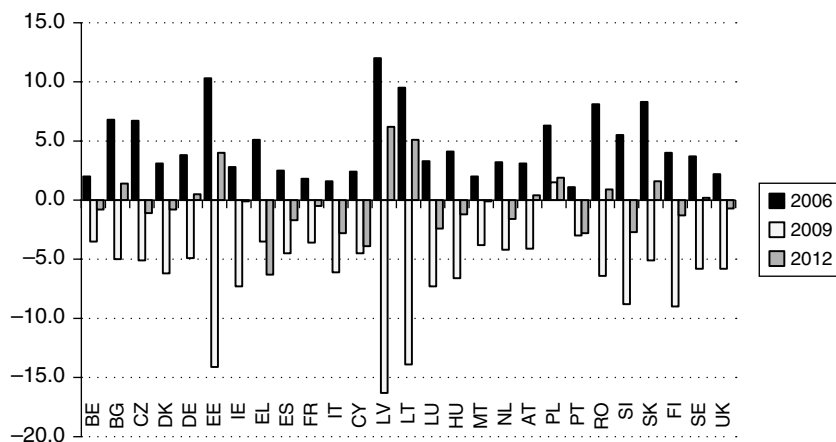
The IMF has recognized that its economic forecasts for Greece were too optimistic. According to the 2014 report of the IMF Independent Evaluation Office (IEO 2014: 33):

Table 1.1 Case studies in selected European countries (see individual chapters)

Country	Case study 1	Case study 2
Baltic States (Chapter 2)	New employment contracts and social dialogue in Estonia	Effects of education reforms in Latvia
France (Chapter 3)	Inclusiveness through minimum wage policy (SMIC)	Effects of social dialogue reforms during the 2000s
Germany (Chapter 4)	Reasons behind German low unemployment levels in the financial crisis	Redistribution of the welfare state and effects on poverty and the middle class
Greece (Chapter 5)	Effects of deregulating wage-setting mechanisms	Changes in the social security system and residual social protection
Hungary (Chapter 6)	Public works development and their observed effects	Radical changes in unemployment insurance and labour supply effects
Italy (Chapter 7)	Pension reforms and effects	Labour market reforms and outcomes
Portugal (Chapter 8)	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 (Chapter 9)	Changes in the health-care system and their effects	Nature and implications of reforms in collective bargaining and collective agreements
Sweden (Chapter 10)	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 (Chapter 11)	Effects of state reforms on housing benefits	Low pay and wage inequalities

By 2010 the IMF had endorsed a shift to consolidation in some of the largest advanced economies, coupled with monetary expansion to stimulate demand if needed to maintain the recovery. The call for fiscal consolidation provided to be premature, as the recovery turned out to be modest in advanced economies and short-lived in many European countries.

The chapters in this volume document the productivity crisis in Europe that had not been overcome by 2012–13 (for instance, -1.7 per cent in the



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Source: Eurostat (nama_aux_gph).

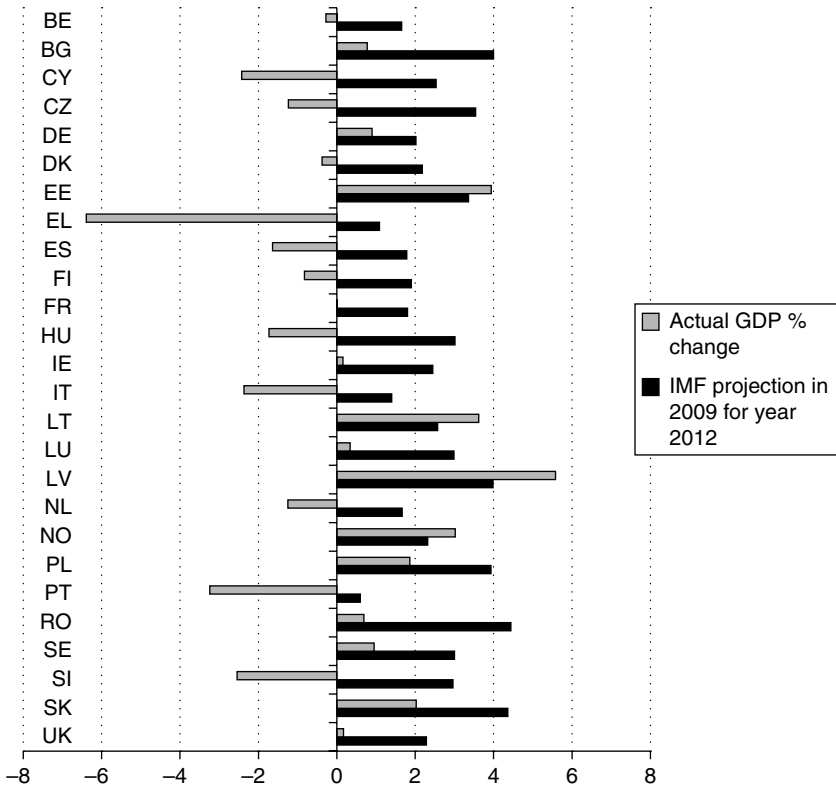
Figure 1.4 Real gross domestic product per capita (% change on previous period), EU countries, 2006–12

United Kingdom in 2012) (Eurostat 2013), and with poor prospects in 2014 for countries such as Greece, Portugal and a few others.

At the same time, consumption decreased all over Europe, most severely in 2009, for example in the Baltic States (Estonia, Lithuania and Latvia by -13.6 , -16.7 and -21.3 per cent, respectively, in 2009), but also in Romania (-10 per cent), Cyprus (-8.5 per cent), Bulgaria (-7.1 per cent), Portugal, Ireland, Spain, the United Kingdom, Denmark and Finland (Figure 1.6). In Greece a fall of 7.5 per cent was observed in 2011.

It should be noted that consumption decreased continuously in 2008–12 in Greece, Portugal and also Italy. The effects of the changes in the European Social Model and their impact on both low-income but also middle-income earners certainly contributed to depressing internal demand.

The employment cost was high and well documented in the literature. Slow growth in the European countries concerned was accompanied by record-high unemployment. The unemployment rate of young people in particular reached historic highs, especially in Greece and Spain – above 50 per cent – but also in Portugal, Slovakia, Italy, Ireland and several others (Figure 1.7).

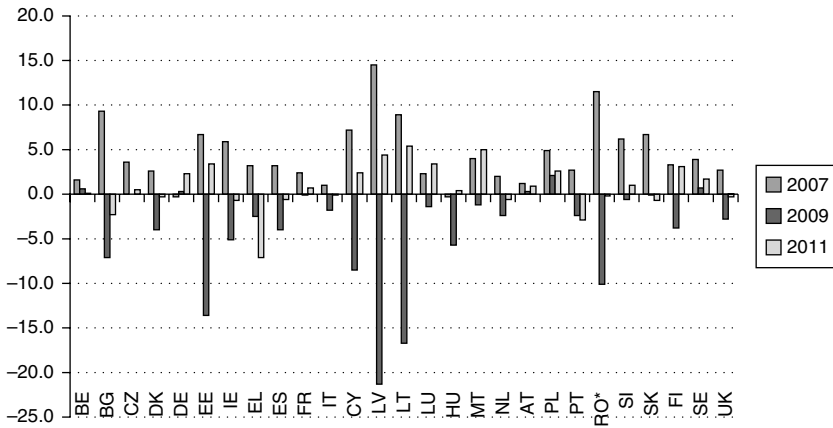


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Sources: International Monetary Fund, World Economic Outlook Database, October 2010 and World Economic Outlook Database April 2013.

Figure 1.5 GDP growth (constant prices) for year 2012, in contrast to IMF projections made in year 2009

If the economic results were initially disappointing, expectations were more positive according to the European Commission in its forecasts of November 2014. The recovery was expected to start broadening and growth to return in many of the vulnerable member states. By 2015, all EU economies were expected to grow again. Growth should hold firm in Spain and Portugal, and a moderate rebound was expected in Greece. According to



Notes:

* For Bulgaria, Denmark, Greece year 2011 is used in place of 2012; for Romania no data is available after 2009.

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Source: Eurostat (nama_co3_k).

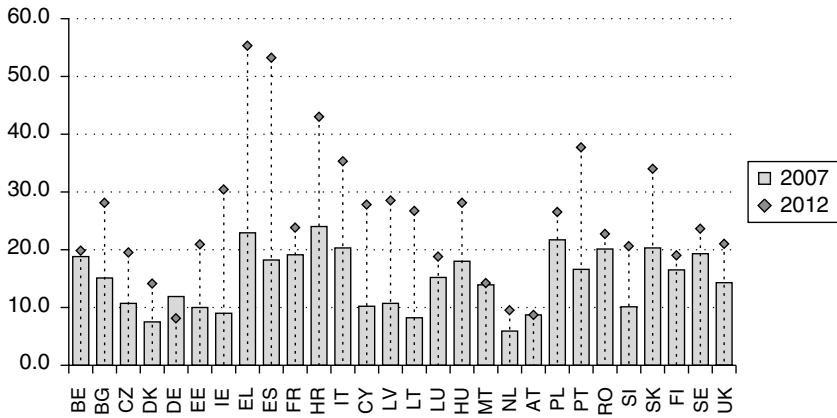
Figure 1.6 Final consumption expenditure of households (% change on previous period), EU countries, 2007–11

the same EC report ‘Internal and external adjustment in vulnerable states is progressing, underpinned in many cases by significant structural reforms that are starting bearing fruit’ (EC 2014: 2). At the same time, the report indicated that the expected growth in 2015 would be increasingly driven by domestic demand. The report confirmed that the consequences of the crisis ‘are still holding back growth and job creation and could do so for some time’ (ibid.: 1).

The next section looks at the impact on social and labour developments.

4.2 Increased Social Conflict in a Number of Countries

The series of reforms undertaken to face the crisis and to curb public deficits 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



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Source: Eurostat (yth_empl_090).

Figure 1.7 Youth unemployment rate (%) (15–24 years), EU countries, 2007–12

where the adjustments had been less severe, such as France and Croatia. A number of strikes took place in the public sector. In addition to demonstrations by employees in health (doctors, nurses) or in education (teachers) demonstrations were organized in 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. A number of strikes aimed directly at countering reforms that involved some key elements of the European Social Model, such as pensions, labour market reforms and social protection.

4.3 Quality of Public Services Affected

The series of demonstrations throughout Europe was an immediate and visible effect of the adjustments implemented in the public sector, whose implications and costs should continue to be evaluated. Initial evidence indicates that they had a direct impact on public sector employees' motivation and productivity, and on the overall quality of public services (Vaughan-Whitehead 2013).

Adverse trends for human capital at enterprise level, such as a reduction in training and other measures, 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 was traditionally higher in the public sector, plummeted after 2008 to private sector levels. Training expenditure was also cut by 60 per cent in the Baltic States over the past few years.

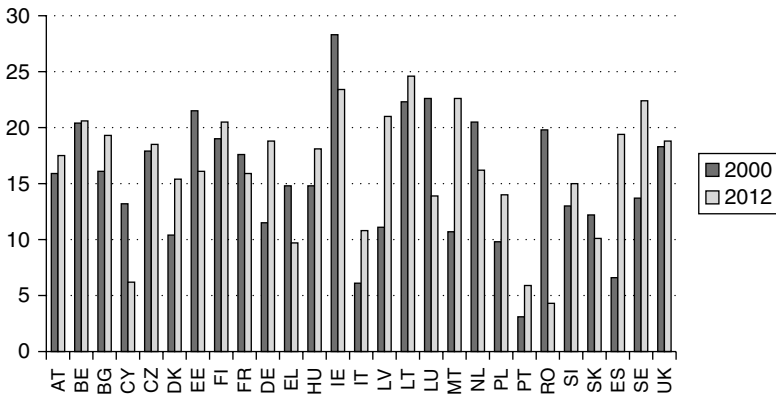
More difficult career advancement owing to fiscal consolidation policies may also have had an impact. Career development was frozen in Portugal and wage increments frozen in many components of the UK public sector (see Chapter 11 on the UK). In Greece, too, career progression became more difficult due to the obstacles hindering public sector employees from moving up the ranking scale, even if all their performance evaluations were successful. Lower career prospects combined with cuts in wages and benefits may have affected 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 public sector adjustment together with decreasing public expenditure, notably on training, may have led to significant changes in the skill composition of public sector labour force.

All these changes – especially when resulting in an increasing mismatch between increasing demand and falling supply – may have had a negative impact on the aim of the reforms to ‘improve efficiency . . . using fewer resources’ (OECD 2011). There are different instances of deteriorating public services: cuts in security services leading to increased insecurity; longer judicial delays, along with pay reductions; and lack of skills, including information technology (IT), in the public sector due to reduced investment.

This was also observed in education and health care – by such simple indicators as lower ratios of teachers to students in classes and the waiting lists for admission in hospitals – and extended to public administration in a substantial number of European countries (Vaughan-Whitehead 2013). Social investment was thus affected. The quality of childcare or early childhood education fell alongside the cuts in economic resources in a number of European countries covered in this volume. Young people were also affected (Kvist 2013), with a large and growing share of European young people who were not in employment, education or training (so-called NEETs).

This could be observed not only in the public but also the private sector in many countries in Europe. University loans (Latvia and Lithuania) and scholarships (Portugal) were curtailed and school curricula narrowed (Hungary). Different chapters in this volume show how this made it more



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

Figure 1.8 Skills mismatch between labour supply and demand by educational attainment in EU countries (2000 versus 2012)

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 and mismatching (owing to a lack of appropriate changes and investment in education), while the increased working age of older people could exacerbate intergenerational tensions.

As shown in Figure 1.8, the skills mismatch, a major cause of high rates of unemployment and long unemployment in European countries, continued to increase during the period under review. The slowdown of active labour market policies may have contributed to such a deterioration in such a short period of time. This mismatch could continue to hamper the reallocation of labour and put upward pressure on unemployment rates. It would also lead to increased occupational downgrading – people taking a job below their previous level of skill – and result in increasing over-qualification of workers and mismatch, with negative consequences for job satisfaction, workers' wages and enterprise productivity.

4.4 Increase in Low Pay, Poverty and Inequalities

4.4.1 Increased poverty amplified by the crisis

The crisis reinforced the long-term low pay and related poverty trends in Europe. A 2010 Eurofound survey (Eurofound 2010a) showed 40 per cent of workers reporting that their household had difficulties making ends meet. The situation was worse than before the crisis and subsequently deteriorated further. While the crisis was the main cause, some of the policies implemented contributed to such poverty outcomes. Living standards declined in a number of countries, especially those under the most severe fiscal consolidation policies. In Spain, absolute poverty increased by 65 per cent after 2007. In Latvia, people at risk of poverty increased from 35 per cent in 2007 to 40 per cent in 2011 (Eurostat 2013). Housing policy changes described in Chapter 11 on the United Kingdom also had adverse outcomes, with 40 000 families homeless in 2013.

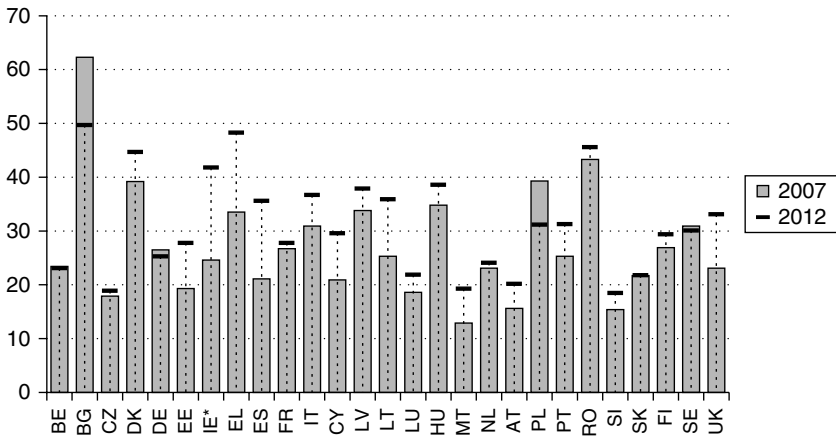
In Italy, cuts in social investment and expenditure, the modalities of privatization and higher co-payments for social services, tax and pension reforms, increased labour market flexibility, changes in social dialogue and weakening of national collective bargaining all contributed to reducing families' incomes and reduced the safety net that traditional family support represented previously (see Chapter 7 on Italy).

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

Young people became increasingly at risk of poverty, owing to a series of problems such as unemployment and skills mismatching, housing and other difficulties that were 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, with a few exceptions, such as Sweden, Poland and Bulgaria (Figure 1.9).

4.4.2 Low pay persisting in European economies

The long-term increase (ILO/IILS 2010) in low-paid workers (defined as those earning less than two-thirds of the median wage) seems to have continued during the crisis period in countries such as Greece, Italy, Lithuania, Portugal and Spain, which in 2011 displayed a higher number of working



Notes:

* For Ireland year 2011 is used in place of 2012.

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Source: Eurostat (lic_peps01).

Figure 1.9 Share of young adults at risk of poverty or social exclusion, 18–24 years (percentage of total population), EU countries, 2007–12

poor – owing both to low pay and reductions in social protection – than the EU average, which stood at 9.1 per cent in 2012 (Eurostat 2013).

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, was partly the result of wage moderation, especially among the low skilled, freezes in the legal minimum wage in countries such as Ireland, or marginal increases, as in France and the United Kingdom where increases in part-time work may have contributed. It is notable that the number of low-paid workers did not increase 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 tended to suffer more from wage declines owing to their lower bargaining power,

especially for the majority of them confined in temporary and low paid employment.

Low pay among public sector employees was an additional new phenomenon. The most dramatic development was in Hungary where the abolition of the thirteenth-month payment 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 meant that more than one unskilled public sector employee in two had fallen below the low-pay threshold by May 2010 (Altwicker-Hámori and Köllő 2013). Wage cuts of 25 per cent in Romania led to an increased proportion of employees whose wage was 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 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 employment 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 took place despite the lowering of the poverty threshold due to a decrease in the national median income as a result of 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 highlighted more dramatic increases in the number of low paid, especially in Greece, Hungary and the Baltic States (Hermann 2013; OECD 2013).

The crisis and ensuing policies 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/IILS 2010).

4.4.3 Growth of inequalities pointing to a distributional problem

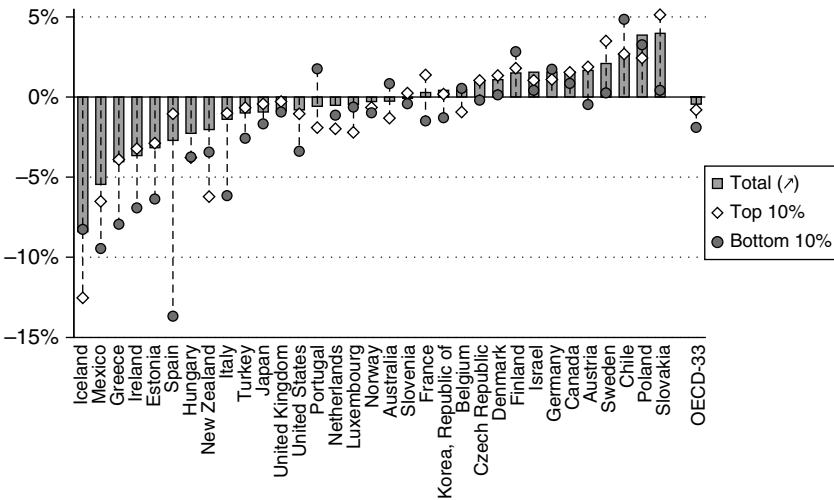
Evidence from various European countries shows that the initial phase of the crisis deepened inequalities and that certain categories of workers were hit more than others (Vaughan-Whitehead 2011). The first source of inequality due to the crisis was the variegated impact of employment adjustments, most of which involved workers on temporary or agency contracts. Evidence from France, Spain and Sweden, for instance, illustrates how temporary workers functioned as an employment buffer in the crisis (OECD 2009b).

Different types of inequalities increased. First, regional disparities increased. In Italy, for instance, in 2012 families in relative poverty living in the south increased by 2.9 percentage points against 1.3 percentage

points in the North (O’Higgins 2011). The risk of poverty therefore rose to 46.2 per cent for families in the South compared with 17 per cent among families in the North (see Chapter 7 on Italy). In Portugal, autonomous regions were also impoverished. Lack of funding at regional level also increased regional tensions.

Wage inequalities between the first and the last wage deciles also grew after the crisis began (ILO 2013b). This was clearly the case in Bulgaria and Hungary but also, surprisingly, in Sweden where the crisis appears to have hit the first income decile harder because the government was 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.

Data from the OECD, 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 recovery. Across OECD countries, real household disposable income stagnated (Figure 1.10), 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.



Source: OECD Income Distribution Database (www.oecd.org/social/income-distribution-database.htm).

Figure 1.10 Changes in disposable income (in annual percentage) by income group, OECD countries, 2007–10

The difference of income loss between top and bottom deciles was 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).

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) (Hermann 2013).

Among the factors that may have fuelled inequalities were the many changes in the European Social Model 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.

Unequal access to social dialogue also helps to explain increasing inequalities. Temporary workers, agency workers, domestic workers and a part of the self-employed that are not managers but workers on their own account, are usually not covered by social dialogue; this would have aggravated the effects of the crisis on these more vulnerable categories.

4.5 Impact on the Middle Class

Vulnerable workers were not the only ones affected by the changes in the European Social Model. The middle class was affected in various countries by a shift away from a universal social protection system in which it had a stake as well as by labour market reforms. The decreased quality of public services also affected them directly.

4.5.1 The shrinking of middle income earners

The middle class is generally defined by 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 with 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) defined the ‘middle class’ as the distribution of real income in the middle three quintiles.¹² The German Institute for Economic Research 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 fell progressively into poverty; this involved 1.7 million wage earners,

10 per cent more than in 2012.¹³ According to the 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.

A study by the Bertelsmann Foundation found that 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.¹⁴ In Denmark as well, the middle class decreased by 111000 people between 2002 and 2009.¹⁵

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 reflects fewer opportunities for career progression among the employees who belonged to the middle income groups.

The middle class in Southern countries may have been particularly affected as the most skilled young people moved from the South to countries with better employment and social investment prospects, leading to a depletion of skills in sending countries and more skills in the receiving countries. This process could have been halted only through better social investment and labour market developments in the home countries.

4.5.2 Increased situations of precariousness

According to a 2013 report by the Red Cross (IFRC 2013), the middle class was spiralling into poverty while 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 reached less affected countries such as Germany and parts of Scandinavia.

In Greece and Spain, adult children with families moved back in with their parents and several generations lived in single households with one breadwinner between them. In Greece, private nurseries faced a serious reduction in demand for their services due to the impoverishment of the middle class. There was a deterioration in the quality of provision in municipal crèches and nurseries due to understaffing. Still in Greece, according to Chapter 5 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 Hungary, there were almost 350000 people without jobs or social

benefits, and more than 80 per cent of the middle class had no significant savings to meet unforeseen expenses. Although Germany avoided high unemployment during the crisis, the conditions for many employees were precarious. A quarter of the employed were classified as low-wage earners. Almost half of new job contracts after 2008 were 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 people receiving social assistance from the French Red Cross were still in work (or pensioners with some income).

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

4.5.3 Impact of tax reforms

The declining size of the middle class can be traced not only to the changes in the social protection systems and the lower quality of public services, but also to the tax reforms that had been adopted during the crisis years. In order to increase tax revenues while not overburdening the lowest paid 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.¹⁶ In Greece, as shown in this volume, a new series of regressive tax measures adopted in 2011, coupled with drastic increases in indirect taxes, hit not only the middle-class but also lower-class incomes the worst. Income tax reform in 2013 furthered this.

In Italy, tax and pension reforms hurt both low-income families and the middle class. In Hungary, the government favoured the upper middle-class and upper-income earners. Their economic reasoning was to boost investment and labour supply at the top by establishing a 16 per cent flat-rate income tax and a generous child tax-credit for high income families.

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 affected small businesses.

5. POLICY IMPLICATIONS

5.1 General Picture: Transformation of the European Social Model

From this analysis of the different pillars – and the various elements within each pillar – of the European Social Model, it can be seen that the list of changes in most elements and pillars of the European Social Model since the crisis was significant. With 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 – most of the changes showed reduced public financing of social policy, first through cuts in social expenditure and reduced funding of education, health care and other public services, and second through a number of reforms in areas such as social dialogue, social protection, pensions, labour laws and social cohesion in general. While the European Social Model was nevertheless resilient in a number of countries, the changes were particularly severe in those countries where the economic situation was worse and that implemented fiscal consolidation policies. 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 provided examples of a social model that was not only resilient but was actively used in the crisis. Interestingly, the European Social Model served its function well in the early period of the crisis, when most European governments increased social expenditure to cushion the social and economic 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 transformation of social policies as a way to curb the deficits and with the aim of enhancing competitiveness, growth and employment.

5.2 Effects Already Observed and Considerations for the Longer Term

The various authors of this volume highlight some social effects of these changes, illustrated by case studies. The effects observed contain both social and economic ramifications. The increase in social conflicts had some direct effects, such as the disruption of production, while deteriorating working and employment conditions, combined with cuts in social expenditure, led to reduced motivation and a lower quality of public

services. Similarly, cuts in education expenditure and labour market reforms stand to have longer-term effects on future generations in terms of skills and employment prospects. In the long term, a higher level of old-age poverty can be expected to result from pension cuts and the increase in less protected forms of employment.

The wage moderation that was required by the fiscal consolidation packages also had direct effects on consumption and growth. Although there were signs of economic recovery including in the most vulnerable European countries, such growth was expected to be driven by internal demand that could continue to be depressed.

In light of the increase in poverty and exclusion documented in this volume, and its extension to a part of the middle class, it will be important to continue monitoring this process in the longer term. While the employment outcome of the policies under examination was below expectation, especially with regard to youth unemployment, and would not be improved by the impact of general cuts in education and social policy, the increased proportion of low paid and working poor highlighted a more general problem of increased vulnerability of those in employment, in terms of their wages, employment status and general protection. The increase in inequalities also indicated a general redistributive issue that could be expected to persist in the long term in the absence of adequate social and economic responses.

5.3 Growing Differentiation

The studies in this volume identified a risk of polarization or even a split between countries in the north that were able to retain the key elements of the European Social Model and those in the south taking measures to limit this model.

One direct implication of this phenomenon studied in this volume was the increased mobility leading to a departure of many skilled workers from a number of southern or Central and Eastern European countries, such as Poland, Romania, Hungary and the Baltic States, with long-term impacts upon those countries.

5.4 A Need for Addressing Changes in the European Social Model from a Sustainability Perspective

The extent of the changes in the European Social Model has not been studied in depth so far. We hope that the survey of changes provided in this volume will encourage more European experts to undertake additional research in this area. While this volume presents areas in which the

changes were drastic and obvious in some countries – such as limitations on the right to strike or to engage in collective bargaining – it also aims to show how the interaction between other, apparently less important social policy changes combined to change many more elements of the European Social Model, especially because those changes occurred in all policy areas. This affected all the pillars of the European Social Model. Not only did social protection, in an increasing number of countries, change in areas such as family allowance from a universal approach towards a more targeted system aimed at protecting only the most vulnerable, but other key reforms of the labour market, wage policy, public services and social and territorial cohesion took place. At the same time, instruments such as social dialogue were neglected or overhauled significantly in a number of countries. One must, of course, qualify the nature of these changes: for example, whether they are only quantitative or parametrical, or more structural or institutional.

As regards individual member states, the changes introduced should be seen in a more general perspective, and in particular within the framework of the coherence of the national social model. Many changes were introduced on the grounds of the urgency of reducing public deficits, but were not necessarily preceded by an exhaustive assessment or cost–benefit analysis of their effectiveness in either economic or social terms. This would have required more time but could have led to more adequate and effective reforms. At the same time, the methods of reform could have been based on a more systematic involvement of the social partners in order to reflect workers' and employers' views, and thus to obtain invaluable inputs with regard to their sustainability.

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

This volume has shown that the policies implemented during the crisis often adversely impacted the six pillars of the European Social Model.

In this respect, the 2013 Communication of the European Commission (2013a) on 'Strengthening the social dimension of the economic and monetary union' indicated an important and perhaps different approach. In particular, the document emphasized 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' (corresponding to Article 9 of the Treaties). To realize this, the document indicated some concrete lines of action, such as

multilateral surveillance of macroeconomic imbalances incorporating the social dimension, as well as a concrete scoreboard of key employment and social indicators as a framework for coordinating employment and social policies, and the strengthening of EU social dialogue. Also of potential significance was the proposal launched in the same year by the European Commission (EC 2013b) entitled 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.

5.6 Coherence and Shared Economic Governance

This volume has shown that many changes in the European Social Model in several southern countries followed an internal devaluation strategy aimed at reducing labour costs to improve national competitiveness, including through the reduction of minimum wages and of collective bargaining practices and rights.

During the conference organized on the European Social Model in Brussels at the end of February 2014, many participants contended that such policies were not in line with the EU's values of social cohesion. Many participants further questioned whether the strategy had really improved competitiveness and highlighted, on the contrary, that countries such as Greece, Spain and Portugal, as well as Italy, had experienced decreased consumption and had lost some internal production capacity. By contrast, other countries, such as the Scandinavian countries, that invested more in the strengthening of human capital, have gained in competitiveness. This raised the issue of the right balance in the context of a particular country between an approach based on internal devaluation and one based on the stimulation of consumption that would lead to higher production capacity and increased investment. Social policy could thus provide the leverage for stimulating internal demand and growth, to improve human capital and productivity, and to recover the social cohesion that was partly lost during the years of the crisis.

The infrastructure investment plan announced in late 2014 by the President of the European Commission, Jean-Claude Juncker, was precisely aimed at boosting investment, and 'to put Europe back to work'.¹⁷ According to Mr Juncker, 'This is an investment offensive . . . Yes, Europe can grow again. Yes, the European social model will persevere'.¹⁸

6. CONCLUSION

This chapter showed that the European Social Model is well rooted in the European construction and enshrined in treaties. Its different elements constitute part of the EU *acquis* that the EU member states – each in accordance with their different circumstances – all implement in various ways: fundamental 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 economies' (the terminology used by the European Commission in its 2013 Communication; EC 2013a: 3).

Such social protection expenditure remained high in the first years of the crisis of 2007–09, acting as a useful cushion to minimize the social costs of the crisis. At the same time, a number of countries successfully used European Social Model 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 were in general unable to avoid high unemployment growth.

Despite this resilience of social policy in the first part of the crisis, most European countries when tackling public debts – in large part due to their support of indebted banks – in the second phase of the crisis implemented strong fiscal consolidation policies that involved significant cuts in public expenditure and social welfare.

This volume shows that beyond the diversity and different magnitudes of the changes by country these changes nevertheless were considerable and affected all the main pillars and elements of the European Social Model (see Table 1A.1 in the Appendix to this chapter). The different chapters of this volume investigated the extent to which such changes changed the nature of Social Europe.

Undoubtedly, they had a significant social impact, with increased levels of social conflicts, low pay and poverty, as well as increasing inequalities, increased unemployment and falling consumption.

This volume's analysis indicates a case for more balanced economic policies with more room for social dialogue, social protection and social cohesion. Particularly in light of forecasts of economic recovery in 2015, including by the most vulnerable economies, it would be opportune to consider the contribution that social policies could bring to attaining sustained economic growth, creating employment and reconstructing social

cohesion. Such an optimal balance of policy reforms could facilitate economic recovery in the EU without losing the main elements and features of the European Social Model.

NOTES

1. In *The European Social Model* by Yves Barou et al. (2013).
2. '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> (accessed 16 September 2014).
3. Speech given at IIF-G20 Conference, Moscow, 15 February 2013; see reference in: <http://www.insightweb.it/web/content/also-sprach-olli-rehn> (accessed 16 September 2014).
4. Speech by President Barroso at the conference 'Restoring Socio-Economic Convergence in Europe', EC, Speech/13/802, 10 October 2013, available at: http://europa.eu/rapid/press-release_SPEECH-13-802_en.htm?locale=FR (accessed on 15 September 2014).
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 (accessed 16 September 2014).
6. For the volumes arising from these projects, see the publications by the author in the references. First projects focused on the possible effects of EU accession of Central and Eastern European countries (Vaughan-Whitehead, 2003, 2005, 2007). We highlighted the increasing interest in the minimum wage (Vaughan-Whitehead, 2010). We then analysed the effects of the financial and economic crisis on inequalities and most vulnerable workers (Vaughan-Whitehead, 2011), before focusing on one new category most at risk, public sector employees (Vaughan-Whitehead, 2013).
7. '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).
8. As of the new law on labour contracts, adopted by the Estonian Parliament (Riigikogu) in December 2008 (which came into force 1 July 2009), fixed-term contracts may be concluded for a maximum of five years, across the board. Similarly in November 2012, the Lithuanian Parliament adopted Law No. XI-2358 (State Gazette, 2012, No. 135–6859) which amended the Labour Code to liberalize the conclusion of fixed-term contracts in the private sector (Clauwaert and Schömann, 2012).
9. For more information on Ireland, see Public Service Information, Jobseeker's Benefit in Ireland, available at: http://www.citizensinformation.ie/en/social_welfare/social_welfare_payments/unemployed_people/jobseekers_benefit.html (accessed 23 October, 2014).
10. According to Hermann (2013: 1), 'in fact austerity and the structural reforms amount to a veritable attack on the European Social Model(s)'; similarly for Pochet and Degryse (2012: 11, 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.'
11. For more information on Greece, see Education in Crisis: monitoring, analysis and resources for education activists, country profile, 'Greece', available at: <http://www.educationincrisis.net/country-profiles/europe/item/414-greece> (accessed 23 October 2014).
12. OECD (2008), 'Growing unequal? Income distribution and poverty in OECD countries',

- OECD, Paris, available at: [http://www.mzv.sk/App/wcm/media.nsf/vw_ByID/ID_CBD2FABFAB495B52C1257648003959F2_SK/\\$File/Growing%20Unequal.pdf](http://www.mzv.sk/App/wcm/media.nsf/vw_ByID/ID_CBD2FABFAB495B52C1257648003959F2_SK/$File/Growing%20Unequal.pdf) (accessed 16 September 2014).
13. *Telegraph*, 'The pain in Spain: recession and the middle class', July 2012, available at: <http://www.telegraph.co.uk/finance/financialcrisis/9411367/The-pain-in-Spain-recession-and-the-middle-class.html> (accessed 16 September 2014).
 14. Demographics, 'The shrinking middle class', December 2012, as cited from a study conducted for the Bertelsmann Foundation by the University of Bremen and the German Institute for Economic Research, available at: <http://www.dw.de/the-shrinking-middle-class/a-16457570> (accessed 16 September 2014).
 15. '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/> (accessed 16 September 2014).
 16. World Socialist website, 'Spanish government imposes new tax hikes and austerity measures', 19 July 2013, available at: <http://www.wsws.org/en/articles/2013/07/19/spai-j19.html> (accessed 16 September 2014).
 17. 'Investing in Europe', speech by President Juncker in the European Parliament plenary session on the Euros 315 billion investment plan', Strasbourg, 26 November 2014, available at: http://europa.eu/rapid/press-release_SPEECH-14-2160_en.htm (accessed 27 November 2014).
 18. 'Investing in Europe', speech by President Juncker in the European Parliament plenary session on the Euros 315 billion investment plan', Strasbourg, 26 November 2014, available at: http://europa.eu/rapid/press-release_SPEECH-14-2160_en.htm (accessed 27 November 2014).

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APPENDIX

Table 1A.1 Changes in the six pillars of the European Social Model

<i>Changes in pillar 1: Basic workers' rights and working conditions</i>				
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)	<i>Social dialogue on minimum wage (MW) interrupted:</i> 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' and abolished the national collective agreement), Greece (as of law 4093/12, MW is no longer set by national level collective bargaining but by government legislation),	<i>Reduced working hours:</i> Belgium (new time credit system allows for possibility of 4-day work week among other things), Italy (2007–10 hours worked fell by 4.9%), Germany (-41.3 hours per worker, per year), -2 hours per worker per week in Latvia, Lithuania and Estonia, Cyprus (20% decrease of weekly hours), Hungary and Romania (facilitated 'longer working hours' by extended reference period for calculating working time)	<i>Advantages for public sector employees removed or limited:</i> Spain (abolition of wage complement for sick leave in Madrid, Valencia and Galicia), Bulgaria (employee entitled to 70% of pay for first 3 days of sick leave, previously 100% for the first day for the first 90 days), 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)	<i>State intervention:</i> Greece: series of legislative interventions in freedom of association and collective bargaining regime (ILO 2011: 58) <i>Limited arbitration:</i> Greece (arbitration must be triggered by joint request of parties, restricted to basic wage demands), United Kingdom (access to labour tribunals has been restricted) <i>Overtime rates reduced:</i> Hungary, Slovenia, United Kingdom,

Table 1.A.1 (continued)

<i>Changes in pillar 1: Basic workers' rights and working conditions</i>			
Right to collective action	Rights on wages	Rights on working hours	Health and safety
	<p>Portugal (tripartite agreement to raise minimum wage to €500 in 2011 was not fully met)</p> <p><i>Minimum wage (MW) cuts:</i> -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)</p> <p><i>Minimum wage freeze:</i> 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 in 2012 and decrease in real terms), Luxembourg (1.9% increase restricted in 2011), freezing of the rate</p>	<p>Austria, Netherlands, Italy, Luxembourg (extension of STW Law in 2011) or equivalent in France (partial unemployment schemes with State funding shorter week)</p> <p><i>Increased working hours for civil servants:</i> Spain, Greece (+2.5 per worker), Portugal (from 35 to 40 hour work week)</p> <p><i>Other trends:</i> Slovakia (possibility for several part-time workers to share the same job), proliferation of zero-hours contracts in the United Kingdom</p>	<p><i>Increased cases of depression or violence at work:</i> Greece and Spain (increased cases of suicide), Portugal (greater violence at work), United Kingdom (depression reported in the education system), Estonia (health and safety violations rose by 21% in 2009)</p> <p><i>Deterioration in work-life balance:</i> reported by a higher percentage of workers in Ireland, Spain and Italy</p> <p><i>Other trends:</i> softening of health and safety legislation in Slovakia (obligation of employers to perform annual joint checks of jobs was abolished),</p>
			<p>Greece and Portugal, or <i>overtime rules changed:</i> in Hungary (annual limit increased from 200 to 250 hours), Lithuania (liberalized rules by permitting up to 180 hours)</p> <p><i>Overtime unpaid:</i> in Croatia, Estonia, Latvia, Lithuania but compensated by free time off in Romania's public sector</p> <p><i>Removal of holiday days:</i> Portugal (4 public holidays removed), Slovenia (2 January)</p> <p><i>Unilateral changes by employer:</i> made possible in Spain on reduced working week and wages, Romania (workers leaving)</p>

for young workers in United Kingdom.
Counter developments:
 Germany (MW extended to 12 sectors; then national MW announced end of 2015)

United Kingdom (low-risk employers from proactive health and safety inspections now exempt)
 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/passive labour market policies (ALMP/PLMP)
<i>Promotion of fixed-term or agency work:</i> Liberalization of fixed-term contracts in Estonia and Lithuania (temporary measure), Greece (entitlement extended to government agencies), Czech Republic (possibility to assign employees without employment agency license) <i>Removal of limits on fixed-term contract:</i> Czech Republic, Greece and Romania	<i>Shortened notice periods:</i> Slovakia (minimum notice period from 2 to 1 month), Spain, Lithuania, Greece (from 24 to 4 months for white-collar workers with +20 years of tenure), Slovenia (from 120 to 80 days) <i>Simplifying/removing procedures for individual dismissal:</i> Portugal, Italy, Greece, Estonia, Slovenia (the age of old-age workers with special protection against dismissal has increased)	<i>Rules changed:</i> 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)	<i>Lack of agreement:</i> 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	<i>State withdrawal from ALMP:</i> notably through privatization in United Kingdom (alongside revocation of job activation programmes by new government), Hungary (reduced funds for all labour market policies) <i>Shift in spending from active (retraining etc.) to passive labour market policies (unemployment assistance, etc.):</i> Lithuania

Table 1.A.1 (continued)

<i>Changes in pillar 2: Labour markets</i>			
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
<p>(limit increased from 2 to 3 years), Portugal (limit increased from 6 to 36 months), Poland (no longer a limit on consecutive fixed term contracts), Spain (moratorium on 2-year limit in the same job in public sector)</p> <p><i>Increased probation period:</i> Czech Republic (trial period now possible for managers), France, Greece (from 2 to 12 months), Romania (from 30 to 90 days)</p> <p><i>Other forms of contracts:</i> United Kingdom (zero hours contracts), new contracts with less pay and job</p>	<p><i>Severance pay cuts:</i> Estonia (from 3 to 2 monthly wages with 1 month paid by labour market service), Czech Republic, Lithuania, Greece (halving of pay), Spain (for companies in economic difficulty), Portugal, Slovenia (now conditioned by the length of service)</p> <p><i>Other trends:</i> New layoff tax of €113 to fund unemployment insurance in Austria</p> <p><i>Changes in rules concerning unfair dismissals:</i> 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</p>	<p><i>Restrictions on re-hiring:</i> 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)</p> <p><i>Other developments:</i> 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)</p>	<p>Active/passive labour market policies (ALMP/PLMP)</p> <p>(participants in ALMP fell by 30% between 2007 and 2009, PLMP budget rose by 350%), Slovakia, Bulgaria (2008–10 funding for ALMPs fell by 108 million BGN), Ireland (decline in ALMP since 2008 evidenced by 4% cut in funding for National Training Fund), Spain</p> <p><i>Increase in European Social Funds to buffer ALPM activities:</i> Latvia, Estonia, Bulgaria, Slovakia – also leading to increased beneficiaries</p> <p><i>Increase in spending on ALMP:</i> Germany (from €27 billion in 2002 to €46 billion in 2012), France,</p>
			<p><i>Freeze of COLA:</i> Cyprus (in public sector until 2016, 2012 tripartite agreement was concluded in order to implement this system throughout almost the entire private sector)</p>

Sweden (in absolute terms from 4.8 billion SEK in 2008 to 8 billion SEK in 2010), Denmark, Poland (shift from PLMPs to ALMPs in 2004–08)

reduced from 36 to 12 monthly wages)

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)

Other 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 (2.5% cap on temporary agency workers in a company)

Changes in pillar 3: Social protection

Unemployment cuts	Universal benefits cuts or changes	Pensions
<p><i>Reduced access/coverage:</i> Czech Republic (workers no longer receive benefits for the period corresponding to value of severance pay), Hungary (coverage fell from 30% to 10% in 2011), Italy (restricted access through</p>	<p><i>Child taxes/allowances:</i> Cyprus (abolition of mothers allowance, and other family allowances), Hungary (nominal value of family provisions frozen in 2009), Latvia (family benefits cut from 70% to 50% of wages), Greece (universal child tax</p>	<p><i>Increase of statutory retirement age:</i> 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</p>

Table 1A.1 (continued)

<i>Changes in pillar 3: Social protection</i>	
Unemployment cuts	Pensions
<p>a new ASPI system), 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</p> <p><i>Reduced duration of benefit:</i> 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</p> <p><i>Cuts in amount:</i> 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), between 2008</p>	<p>allowances abolished, replaced by single means-tested benefit), Denmark (maximum ceiling reduced to €4600), United Kingdom (some benefits abolished), Portugal (extraordinary 25% increase in child allowances was cut), Ireland (more stringent means testing for accession)</p> <p><i>Care/sickness benefit cuts:</i> 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 (carers allowance cut), Lithuania, Spain (long-term care eligibility reduced), United Kingdom (mobility allowance payment abolished), Hungary (reduced access to disability benefits)</p> <p><i>Housing and other benefits:</i> Access to housing benefits restricted and amount reduced in United Kingdom, Czech Republic (abolition of housing supplement), Portugal (2010–12 freeze of social support index), United Kingdom (3-year freeze working tax credits), Greece (means-tested supplement to low pensions now granted to people aged 65 and</p>
	<p><i>Pension cuts:</i> Hungary (thirteenth month pension abolished), Lithuania (average pensions cut by 8%), Greece (series of cuts between 5% and 10%) or temporarily frozen: Cyprus (2013 freeze), Greece (3-year freeze), Italy, Portugal (2011 freeze, 2012 suspension of thirteenth/ fourteenth pension payments), Ireland, Estonia (government contributions to funded pension scheme suspended), Latvia, Lithuania, Spain (pension benefits frozen with exception of minimum pensions)</p> <p><i>Change in indexation methods:</i> Czech Republic (lower pension indexation in 2013–15), 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%), United Kingdom (downgrading of annual upgrading index)</p> <p><i>Limitation/penalties for access to early retirement:</i> 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,</p>

and 2010 expenditure fell per person in Estonia (by -16%) and Lithuania (by -28%), Slovenia (reduced from 60% to 50% for periods exceeding 12 months), Spain (reduction of the replacement rate of contributory benefits in 2012)

Other developments: Denmark (duration increased from 2 to 4 years, amount reduced to 60% in final 2 years), Latvia (increased duration to 9 months at start of crisis), Bulgaria (ceiling removed-all unemployed must receive 60% of their income before job loss)

over instead of aged 60), Cyprus (new means testing criteria for social benefits in 2012 and overall 15% cut on welfare spending)

Other 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 (introduction of paid parental leave up to 26 weeks), Sweden (increased State grants to municipalities), Greece (pilot implementation of a Minimum Income Guarantee scheme in two areas of the country)

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)

Changes in pillar 4: Social dialogue

Tripartism limited or weakened	Collective bargaining restricted	Limited social dialogue in the public sector	Weakening of representative organizations
<p><i>Abolition of social dialogue institutions or tripartite mechanisms:</i> Hungary (national tripartite forum for wage agreements abolished, replaced with National Economic and Social Council which no longer includes state representatives), Ireland (cancellation of National Wage Agreement between the government, the main</p>	<p><i>Elimination of national collective agreements:</i> Romania (law no. 40/2011 no longer provides for the national level as a bargaining level) or <i>their results ignored:</i> in Greece (as statutory minimum wage was set below the rate of the National General Collective Agreement)</p> <p><i>Suppression or limitation of extension clauses:</i> Greece (extensions suspended), Hungary, Portugal, Romania</p>	<p><i>Lack of social dialogue in reforms:</i> on pension reforms in France, Italy and Portugal, Greece (on majority of reforms), Hungary (on dismantling previous tripartite structure), Ireland (prior to public sector agreement), Romania (2011 social dialogue act passed unilaterally, which effectively put an end to collective bargaining, United Kingdom (on labour market reforms)</p>	<p><i>Higher thresholds for representativeness of trade unions:</i> Romania (to negotiate collective agreements, now only one trade union may be representative (previously multiple), Bulgaria (to be representative at national level, 2012 law requires 75 000 members instead of 50 000 members), Croatia</p>

Table 1.A.1 (continued)

<i>Changes in pillar 4: Social dialogue</i>	
Tripartism limited or weakened	Weakening of representative organizations
<p>Collective bargaining restricted</p>	<p>Limited social dialogue in the public sector</p>
<p>employers' group (IBEC) and the trade unions (ICTU), signified the collapse of social partnership, and led to the decentralization of collective bargaining)</p> <p><i>Weakening of social dialogue institutions:</i> Italy (by a Decree of 22 December 2011 membership of the National Economic and Labour Council (CNEL) was reduced without respecting proportionate social partner representation), Lithuania (in 2011 government began delegating lower ranking officials to the tripartite council (LRTT), which prevented adoption of significant decisions during bargaining), Romania</p>	<p><i>Followed by increased protests:</i></p> <p>Bulgaria (national protest against pension reform), Cyprus (2 major strikes – 2010 education unions, 2011 general strike), Czech Republic, Estonia (2011–12 demonstrations, followed by a 3-day strike by education union), France (series of demonstrations), Greece (extensive – 838 strikes between January 2011 and April 2012, including 46 general strikes), Hungary, Italy, Portugal (continuous waves in all occupations), Latvia (in education and health-care sectors), 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), Romania (protests against social dialogue act, which led to resignation of</p>
<p>Limitations to the validity or renewal of collective agreements after expiry: Croatia (abolition of article 262 which allowed legal provisions to apply after expiry)</p> <p>Spain (principle of 'ultraactividad' removed), Greece (agreement in force for maximum of three months, previously six), Estonia (the 'after effect' was entirely abandoned)</p> <p><i>Introduction/or increase in opening clauses or derogation procedures:</i> Spain and Italy (possibilities to use opening clauses for enterprise deviations from sectoral collective agreements), Greece (introduction of a general priority of company agreements over branch agreements), Cyprus (mechanism established in public sector to impose automatic suspension and derogation procedures during adverse economic conditions),</p>	<p>(2012 Representativeness Act determines criteria which favour 'vocational' trade unions in a way that only a particular type of trade union is guaranteed automatic entry into the negotiating committee)</p> <p><i>New criteria to register a trade union:</i> Lithuania (simplified procedures for registration)</p> <p><i>Possibilities to conclude company agreements by non-union group of employees:</i> Greece (possibility for 'association of persons' to sign company level agreements in absence of trade union), Portugal (workers' councils can negotiate at plant level in firms with at least 150 employees (compared with 250 before the reform))</p>

(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)	Portugal (possibility for works councils to conclude agreements that deviate from sectoral collective agreement) <i>Counter-developments:</i> Belgium and Finland (recentralization of national level collective bargaining)	Prime Minister and cabinet in 2012), Spain, United Kingdom <i>Broken agreements:</i> Spain (2010 agreement on wage increases broken by government), Italy (2010–12 national wage rounds unilaterally cancelled by government decree) <i>Other developments:</i> Ireland (public sector ‘Croke Park’ agreement declared no further wage or employment cuts between 2010 and 2014 and helped to maintain industrial peace), Estonia (experienced fewer strikes than the other two Baltic States)	<i>Reduced subsidies:</i> Spain (~20% to trade unions and employers’ organizations) and less time off to perform trade union activities also in Hungary (fewer trade union officers entitled to legal protection)
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Changes in pillar 5: Public sector

Change in contract and re-hiring measures	Cuts in employment	Cuts in wages	Privatization/ outsourcing	Expenditure cuts
<i>Increased recourse to fix-term or part-time contracts:</i> Croatia (fixed term workers rose from pre-crisis level of 4.9% to 7.8% in public administration), France (increase in temporary employment), Greece	<i>Most severe employment cuts:</i> occurred in the United Kingdom (–15% in 2010–13), Greece (2010 employment decreased by 10%, 150000 more cuts expected in 2011–15, corresponding to a further 20% reduction), Portugal (–9.5% in	<i>Public sector pay freeze:</i> 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 and 2014), Italy (from 2010 and freeze on seniority	<i>Extensive privatization programmes:</i> Greece, Portugal (e.g. health insurance, social care, tertiary education), Cyprus (to yield €1 billion by end of adjustment programme), Spain (commencement of	<i>Health care:</i> Austria (€1.4 billion of cuts through 2016), Cyprus (measures to control expenditure e.g. increased fees for non-beneficiaries), Greece (2009–12 public expenditure fell by 32%), Spain (2008–12

Table 1A.1 (continued)

<i>Changes in pillar 5: Public sector</i>			
Change in contract and rehiring measures	Cuts in employment	Cuts in wages	Privatization/outsourcing
<p>(introduction of part-time employment in public sector and unpaid leave), Germany (increased temporary work from 10% in 2002 to 14.7% in 2010), Latvia (conversion of full-time to part-time, largely in education sector), Netherlands (rise in temporary work concentrated in health-care sector), Portugal (new short-term contracts for nurses hourly salary €2 less than 2011), Sweden (temporary work reached 17% at onset of the crisis, declined thereafter) <i>Fewer re-hires:</i> Greece 1 in 10 workers</p>	<p>public administration in 2005–10, Romania (–9.5% in 2008–11, further cuts in 2012), France (–7% in 2008–12 in central government public service), Latvia (–4.3% in 2008–09), Cyprus (implementation of 4-year plan aimed at abolition of 1880 permanent posts), Ireland (–28 000 civil servants prior to ‘Croke Park’ Agreement), Spain (–18 000 in public administration in 2010, recruitment freeze in 2012 and targeted cuts on open ended contracts) <i>To a lesser extent:</i> Estonia (–1% in 2008–09), Hungary (increase of 4.7% in 2008–10, then slight decrease of 1.7% in 2010–11), Lithuania (–1.1% in 2008–09), Sweden (previous</p>	<p>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) <i>Pay cuts:</i> Romania (–25% in 2010, –10% in 2011), Cyprus (–3% in 2014), Greece (15–30% in 2010 alone plus 17% on average in 2012), Hungary (cuts between –37% for unskilled and –13% for high skilled in 2008–10), Latvia and Lithuania (–25% and –15% respectively in 2009–10), Croatia (–6%, and –15% for state officials), Spain (–5% in 2010), Portugal (–5% average wages</p>	<p>Expenditure cuts</p> <p>central government spending fell by 19.7% per capita), United Kingdom (promised ‘ringfencing’ but real spending cuts per capita), Latvia (in 2008–10, health-care budget fell by 25% targeting mainly hospital care), Estonia (end of 2009, prices paid to health-care service providers were cut by 6%), Portugal (closure of health facilities) <i>Education:</i> Declines in public expenditure in Greece (2009–13 public spending fell by 33%), Spain (2008–13 central government spending fell 41.2% per capita) Portugal</p>

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 and France (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)

reduction of -17.7% in 1991-2007, -1.4% cut in 2008-10 (95% of them short-term contracts), hiring freeze in Austria and Croatia (new recruitment freeze)

2010-11, thirteenth-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 and Portugal the Constitutional Court ruled against certain cutbacks to public sector pay and pensions

(18.4% cuts in the 2012 education budget reduced public expenditure from 5 to 3.8% of GDP), United Kingdom (abolition of education maintenance grants), Ireland (reintroduction of university fees). Public expenditure fell between 2008 and 2010 in Latvia (-23%, closure of 100 schools) 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
<p><i>Decentralization/cut in regional funds:</i> Italy (2011 Financial law cut financial transfers to regions compelling local</p>	<p><i>Reduced access to health-care systems due to increased costs (Eurofound 2013c):</i> Greece (43% rise in persons reporting unmet medical needs due to financial</p>	<p><i>Rise in gender pay gap:</i> Bulgaria (increased by 2.8 pps in 2009-10), Latvia (women earned 17.6% less than men in 2010, compared with 13.4% in</p>	<p><i>Across the board (rather unequal) tax hikes:</i> Hungary (introduction of a 16% flat tax; generous child tax credit for high income families), Czech Republic</p>

Table 1.A.1 (continued)

<i>Changes in pillar 6: Cohesion</i>		
Regional/territorial cohesion	Social cohesion	Tax policies
Regional/territorial cohesion	Gender programmes	Tax policies
<p>authorities to divert funds from other items-only partially refinanced by Monti government), Portugal (cuts in financial transfers to municipalities by €100 million), France (laws adopted prior to crisis increased competencies of local governments)</p> <p><i>Opposed trend:</i> in Hungary (with centralization of public services leading to loss of local autonomy)</p> <p><i>Increased regional tension:</i> United Kingdom (abolition of nine regional development agencies), Latvia (disagreement between government and municipalities on which budget guaranteed minimum income should come from), Spain</p>	<p>reasons between 2007 and 2011), costs of accessing health care were a greater barrier in 2011 than they were in 2007, in Estonia, Lithuania, Luxembourg, Malta, the Netherlands, Slovakia and Sweden. Mainly unemployed people faced greatest barriers to accessing health care between 2007 and 2011 in Estonia</p> <p><i>Reduced access to health-care systems due to increased waiting times (Eurofound 2013c):</i> greater delays in getting an appointment with a doctor in 2011 than in 2007, were reported in Cyprus, Finland, France, Greece, Malta and Poland. Official waiting time increased in Estonia (from 4 to 6 weeks), Spain (waiting time for surgery increased from 76 to 100 days)</p> <p><i>Growth of discriminatory practices:</i> Slovakia and Hungary</p>	<p>(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)</p> <p><i>Increased tax measures for high earners:</i> 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)</p>
	<p>2008), Portugal (increase from 8.5% in 2007 to 12.5% in 2011), Romania (from 7.8% in 2008 to 8.4% in 2009, and 12.6% in 2010)</p> <p><i>Rise in gender equality issues:</i></p> <p>Greece (rise in disputes on gender equality from 11 in 2007 to 79 in 2010), Portugal (requests for legal opinions on gender issues rose from 87 in 2008 to 94 in 2009)</p> <p><i>Infringements of the right of pregnant women:</i> to maternity leave and benefits, or to resume their job after maternity have been reported in Greece, Portugal, Italy, and the Czech Republic</p> <p><i>Erosion of gender equality machinery:</i> abolition of gender equality institutions/bodies in Spain and Romania, merging of these institutions with other bodies in Denmark, Ireland and</p>	

<p>(increasing regional tensions), Greece (mergers of municipalities and reduction of their number by two-thirds and local government personnel by 50%)</p> <p><i>Other developments:</i> Sweden (increased central government grants to local authorities), Germany (solidarity pacts in 1993 and 2005 between German Länder to ensure fiscal equalization)</p>	<p>(marginalization of Roma community), United Kingdom (exploitation of migrant workers)</p> <p><i>Other developments:</i> Denmark (increased use of mentoring programmes to help newcomers gain a foothold in the labour market), Finland (establishment of the 'Spurtti project' (2008–13), to build cooperation networks with other EU/EEA countries), Germany (2011 adoption of Act for recognizing qualified workers abroad, which aims at filling vacancies with skilled foreigners)</p>	<p>Czech Republic, these bodies have had their funding cut in United Kingdom and Greece</p> <p><i>Cuts in maternity/paternity benefits:</i> Hungary (paid holiday cut for mothers returning from maternity leave), Romania (cut to 65% of previous payment), Lithuania, Latvia, Estonia (paternity leave suspended), Spain (universal birth grant suspended), Portugal, United Kingdom, Ireland, Slovenia (parental leave cut from 100% of former salary to 90%)</p>	<p><i>High VAT increases:</i> in Romania (of all products from 19% to 25%), Greece, Ireland, Portugal and the Czech Republic have put low-income households under severe pressure</p> <p><i>Reduced taxes:</i> 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)</p> <p><i>Others:</i> United Kingdom (decline in highest tax rate from 50% to 45%), Greece (reduction in tax-free income from 12 000 to 5000 euros for wage earners and abolished for the self-employed)</p>
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Source: National studies and author's compilation, with the help of Sarah Doyle, from variety of sources.