# Euro Crisis, Austerity Policy and the European Social Model

## How Crisis Policies in Southern Europe Threaten the EU's Social Dimension

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- The harsh austerity measures that, according to official policy, are supposed to overcome the euro crisis have once again plunged Europe into recession in 2012. Austerity policy has proved – in Greece, Italy, Portugal and Spain (GIPS) – to be primarily an attack on wages, social services and public ownership.

- The EU has developed a new form of wage policy interventionism (Euro Plus Pact, Six Pack). The principles of centralised collective agreements and general applicability are being undermined in the GIPS states and collective bargaining systems are being decentralised. Real wages fell in these four states from 2010 to 2012 at an above-average rate.

- As regards pension policy the GIPS states have introduced reforms that significantly curtail spending growth in pension systems. Relative pension levels will fall dramatically in these states up to 2040, measured in terms of the wage replacement rate.

- Due to the euro crisis the policy of privatising public assets in the GIPS states has been given new impetus. Greece has been hardest hit and is planning a veritable fire sale of state property.

- The abovementioned interventions in Southern Europe mean that the liberalisation of the European Social Model – which up until the crisis was to be observed mainly in western and eastern Europe – will be implemented in the EU as a whole. If the path of economic austerity, despite all opposition, is maintained until 2014/2015 and then experiences a new upswing the policy disaster for European social democracy and the trade unions will be complete.

# Content

## Introduction

The crisis of the Eurozone has been smouldering since the beginning of 2010 and exit from it is fraught with uncertainties. The EU's anti-crisis policies are accompanied, especially in Southern Europe, by harsh austerity policies, bringing in their wake growing unemployment, falling real wages, cuts in the social security system and privatisation of public property. The present text analyses this austerity policy in Greece, Italy, Portugal and Spain (the GIPS states) in the domains of wages, pensions and privatisation policy and discusses the consequences of these developments for the European Social Model.

In Section 1 the causes of the euro crisis, the macroeconomic consequences of the harsh austerity policy and the ensuing potential problems for the already jeopardised European Social Model are discussed. Sections 2 to 4 present the development of wage, pension and privatisation policies since the outbreak of the crisis in Greece, Italy, Portugal and Spain. We also look at the question of whether the »reforms« in Southern Europe include changes made in many EU states in western and eastern Europe before the crisis of 2008/2009. In the final section the consequences of these processes for the prospects of the European Social Model are discussed. Here the social, political and economic factors of influence are discussed that determine the future of the European Social Model.*

## 1. Euro Crisis and the European Social Model

The European Union is currently experiencing its deepest crisis since it came into existence. The euro is undergoing the acid test and threatens to pull the single market into the abyss along with it. Collapse of the European Union, which due to successful integration since 1987 had seemed scarcely possible, can no longer be ruled out.

The causes of this development are to be found, first, in the architecture of economic and monetary union in the Maastricht Treaty of 1993, second, in the consequences of the global financial and economic crisis for government finances and third, in the multiple policy failures since the outbreak of the crisis.

* Sections 1 and 5 were written by Klaus Busch, Section 2 by Thorsten Schulten, Section 3 by Karl Hinrichs and Section 4 by Christoph Hermann. All the authors are jointly responsible for the whole text, however.

Launching the project of a common currency without embedding it in a political union with a financial equalisation mechanism and a common economic government was an adventure that today incurs disbelief, but which 20 years ago was declared to be necessary and feasible by the political mainstream on the basis of the internal market and a strong faith in ever closer integration (Busch 1992). Even European social democrats and the European trade unions were overwhelmingly convinced by this logic.

It took the global economic crisis to abruptly bring to light the weaknesses of the Maastricht structure (see Busch/Hirschel 2011; Busch 2012):

- the lack of an economic government able to tackle economic downturns;
- the dilemma of the European Central Bank (ECB) which, despite the heterogeneity of the economic situation in the member states can apply a single interest for the Eurozone and thereby set false incentives for many countries. Thus, for example, low interest rates in Ireland and Spain promoted the production of a real estate bubble, a boom that, in the absence of European economic government, could not be mitigated by fiscal policy at the euro level;
- the no bailout clause which to date has hindered common debt management (euro-bonds, joint debt guarantee) in the Eurozone; and finally
- the system of »market states« that has contributed significantly to the development of current account imbalances in the member states.

The Maastricht system is also characterised by an economic policy philosophy that prioritises austerity policy over growth policy. This ideology has proved fateful as, in the wake of the global economic crisis, debt in many member states has risen sharply. After a brief phase of expansive economic policy to tackle the collapse of 2008/2009 EU policy – in contrast to that of the United States – switched too rapidly to austerity and thus brought about the next economic collapse, in 2012 (Roubini/Mihm 2010; Krugman 2012). The data on growth rates, new borrowing and debt ratios from 2009 to 2012 (see Table 1 to 3) illustrate this development. Where new borrowing was cut back most sharply from 2009 to 2012 – in other words, where austerity was harshest: in Greece, Portugal and Spain – economic slump in 2012 was greater than in the Eurozone as a whole and Germany, where austerity was more moderate. But here too austerity policy has left marked traces in growth rates, in contrast to which US fiscal policy, which continues to be more expansive, has generated better growth data. Because of weak growth debt ratios have risen in all the mentioned member states and most sharply where austerity has been harshest. Without the debt haircut of July 2011 Greece would not have experienced a slight improvement in its debt ratio in 2012, which instead would have been at around 200 per cent of GDP (Directorate General for Economic and Financial Affairs of the European Commission 2011: 225).

Table 1: Annual GDP growth rates at 2005 prices

| | Greece | Spain | Italy | Portugal | Germany | Eurozone | USA |
|---|---|---|---|---|---|---|---|
| **2009** | –3.3 | –3.7 | –5.5 | –2.9 | –5.1 | –4.3 | –3.5 |
| **2010** | –3.5 | –0.1 | 1.8 | 1.4 | 3.7 | 1.9 | 3.0 |
| **2011** | –6.9 | 0.7 | 0.4 | –1.6 | 3.0 | 1.5 | 1.7 |
| **2012** | –4.7 | –1.8 | –1.4 | –3.3 | 0.7 | –0.3 | 2.0 |

Source: European Commission: Statistical Annex of European Economy, Spring 2012, Table: 10 and 11, Brussels.

Table 2: New borrowing as a percentage of GDP at market prices

| | Greece | Spain | Italy | Portugal | Germany | Eurozone | USA |
|---|---|---|---|---|---|---|---|
| **2009** | –15.6 | –11.2 | –5.4 | –10.2 | –3.2 | –6.4 | –11.5 |
| **2010** | –10.3 | –9.3 | –4.6 | –9.8 | –4.3 | –6.2 | –10.6 |
| **2011** | –9.1 | –8.5 | –3.9 | –4.2 | –1.0 | –4.1 | –9.6 |
| **2012** | –7.3 | –6.4 | –2.0 | –4.7 | –0.9 | –3.2 | –8.3 |

Source: European Commission: Statistical Annex of European Economy, Spring 2012, Table: 76 and 77, Brussels.

Table 3: Gross public debt as a percentage of GDP at market prices

| | Greece | Spain | Italy | Portugal | Germany | Eurozone | USA |
|---|---|---|---|---|---|---|---|
| **2009** | 129.4 | 53.9 | 116.0 | 83.1 | 74.4 | 79.9 | 90.4 |
| **2010** | 145.0 | 61.2 | 118.6 | 93.3 | 83.0 | 85.6 | 99.1 |
| **2011** | 165.3 | 68.5 | 120.1 | 107.8 | 81.2 | 88.0 | 103.5 |
| **2012** | 160.6 | 80.9 | 123.5 | 113.9 | 82.2 | 91.8 | 108.9 |

Source: European Commission: Statistical Annex of European Economy, Spring 2012, Table: 78 and 79, Brussels.

The neoliberal austerity policy of the Maastricht Treaty has been strengthened in the course of the euro crisis by the fact that the political and economic mainstream has interpreted the main cause of the crisis as debt and, based on this reversal of cause and effect in the heavily indebted states of Southern Europe, a severe austerity policy has been implemented (Horn 2011: 160ff). Overall, it was possible to reduce public debt in the EU states before 2007 due to good growth figures and the rise in debt after 2007 can be attributed unambiguously to the necessary economic expansion policy and the bank bailouts. In the wake of the euro crisis, however, neoliberal economists have since 2010 increasingly been able to embed in the popular consciousness the quid pro quo that it was not the crisis that caused the rise in debt but vice versa. In any case, the priority given to austerity in the Maastricht Treaty was increased due to such analyses of the causes of the crisis.

The repeated hardening of the Stability and Growth Pact within the framework of the so-called Six Pack in October 2011 and the Fiscal Pact concluded in December 2011 – which permits a maximum indebtedness of 0.5 per cent of economic potential – is based on the logic that debt is to blame for everything and thus must be eliminated with an iron hand.

Because the EU is captive to the faulty design of the Maastricht Treaty and a false diagnosis of the crisis the euro crisis has got worse and worse since it began in 2010. Add to that the repeated policy failures and the refusal to learn from the course of the crisis and instigate a paradigm change. The policy failures include in particular the haircut for Greece in July 2011, which made it clear to the purchasers of European government bonds that they would have to count on a partial loss of their investments and thus drove up interest rates for the government bonds of the indebted Southern states to levels that cannot long be sustained (Horn/Lindner/Niechoj 2011). Another policy failure was the refusal, especially by Germany, to allow the ECB, together with the European Stability Mechanism (ESM/Euro safety net) to buy these vulnerable government bonds in order to bring down interest rates to tenable levels. To date, the ECB has twice intervened short term using various instruments: in late summer 2011 after the Greek haircut and at the beginning of 2012 with the help of the loan programme for European banks in the amount of 1 trillion euros – both times with only limited success. One more policy failure was the refusal to learn from the ever worsening crisis involving Italian and Spanish government bonds and the deteriorating slump in the real economy.

The false economic policy therapy and the policy of »muddling through« have not only exacerbated the economic crisis but have also brought the Eurozone into a deep social crisis and pose a threat to the welfare state (Heise/Lierse 2011).

Austerity policy has caused the unemployment rate in the Eurozone to rise to 11 per cent, the highest level since 1995. In Greece and Spain, rates are above 20 per cent; half of all young people in the two countries are without work (see Figures 1 and 2 in Section 2). Austerity policy is thus also contributing decisively to further undermine the European Social Model.

In the wake of the debates about the single market and the introduction of Economic and Monetary Union in the second half of the 1980s the then European Commission under Jacques Delors brought into play the notion of a European Social Model. They wanted thereby to signal politically that the EU was not only about deepening economic integration but equally social integration. The concept of the European Social Model has never been unambiguously defined. In the literature and in the political sphere it changes repeatedly (Platzer 2009: 88 ff., Hacker 2010: 58ff). Sometimes it describes the reality of the EU, which differs from other parts of the world, especially the United States, with regard to social policy; sometimes it concerns a normative model to which the EU should commit itself. In the context of social democratic and trade union debates on the EU the European Social Model primarily encompasses six policy objectives:

(i) pursuing a macroeconomic policy aimed at full employment;

(ii) in wage policy, allowing real wage increases that reflect productivity growth and implement European minimum wages that reduce the low wage sector;

(iii) underpin social security systems that realise a high level of protection in pension, health care and family policy, as well as in unemployment benefit;

(iv) provide for participation rights at enterprise and establishment level that give employees a high degree of codetermination; furthermore, promote social dialogue at European, national and sectoral level;

(v) maintain a strong public sector that contributes both to providing services of general interest and to stabilising the level of employment;

(vi) incorporate a social progress clause in the EU Treaty that gives basic social rights priority over market freedoms.

Although the EU committed itself to the objectives of the Social Market Economy, full employment and social progress in the Lisbon Treaty, even before the 2008/2009 crisis it experienced a number of setbacks with regard to a number of the goals of the European Social Model. For example, by and large the employment policy guidelines of the Lisbon Process could not be attained. With regard to wage policy for ten years fewer than five member states have been able to maintain real wage growth in parallel with productivity growth, while virtually everywhere there has been redistribution in favour of capital owners. Germany has been hardest hit by this process of relative wage reduction. In the Eurozone it has been the centre of a wage dumping policy that has contributed significantly to the large current account imbalances of member states.

Furthermore, in many states neoliberal reforms of social security systems have driven down pensions, health services and unemployment benefits or shifted the financing burden onto dependent employees. On the basis of similar problems – demographic change, budget deficits, unemployment and the market states system – the welfare state has been vigorously reformed in many EU member states over the past 15 years. Funded elements have been introduced into pension systems and relative pension levels cut. With regard to unemployment insurance, benefits – level and duration – have been reduced and elements of activation introduced. Reforms in the health care sector are more complex, but here too, among other things, the number of benefits have been reduced and private financing elements – self- and co-payments – have been sharply increased.

Up to the mid-1990s there was a close link between economic and social development in the EU. States with a high per capita income made more resources available to the welfare state – measured in terms of the social expenditure ratio – than states at a lower economic level, not only in absolute terms but also relatively. The variation in per capita income in the EU12 »explained« over 80 per cent of the variation in social benefit ratios. In the expanded EU27 this link is no longer so close, standing at 56 per cent in 2007 (Busch 2011: 4ff).

The following developments were observed in social benefit ratios between the mid-1990s and the outbreak of the 2008/2009 crisis:

- States with an above average welfare state cut it back in relative terms via reforms. This applies to Finland, Denmark, Sweden and the Netherlands.

- Some states that have been catching up fast economically have expanded their welfare states relatively strongly (Greece, Portugal, Hungary).

- Other strongly expanding economies, by contrast, have reduced their welfare states in relative terms over the past 15 years. In the east this applies to Estonia, Latvia, Lithuania and Slovakia, and in the west to Spain and, in particular, Ireland, even though these two states in the years just before the crisis again experienced rising social benefit ratios.

If the connection between the economy and the social domain becomes looser this indicates that some states, on the basis of a more weakly developed welfare state, can obtain – or wish to do so – competitive advantages. Such tendencies usher in social dumping because the system of market states determines the rules of the game.

In many EU states we are thus dealing with a clear tendency towards »liberalisation« of the European Social Model, based on labour market reforms, decentralisation of collective bargaining systems, wage moderation, a reduction in relative pension levels, cuts in public health services and privatisation of services of general interest, even before the crisis of 2008/2009. Dumping processes have become evident in wage and social policy. However, certain regional differences can be discerned within the EU. Broadly speaking, liberalisation tendencies in western and eastern Europe are more marked than in southern Europe. Here many reform efforts have failed, especially in labour market, wage and pension policy, in the teeth of opposition from trade unions and left-wing parties.

Since the global economic crisis of 2008/2009 and austerity policy in the wake of the euro crisis, the political and social balance of power has been changing in Southern Europe.

Under pressure from unemployment and state intervention to liberalise labour markets the power of trade unions in Southern Europe has been reduced. The adaptation programmes that the Troika has extracted from Greece, Portugal and Ireland in exchange for support credits, as well as the »voluntary« spending cuts that Italy and Spain have undertaken under pressure from the financial markets and to meet the EU's stability requirements have led to significant cuts in social security systems. Even when it comes to services of general interest the state in these countries is being rolled back with the privatisation of public property and public services.

In Sections 2 to 4 of this study these social upheavals in Southern Europe are examined empirically in some detail. Section 2 analyses the EU's new wage policy interventionism, radical interference in national collective bargaining systems in Southern Europe and the negative consequences of these policies for wage development. Section 3 presents the changes in social security systems, taking pensions as an example. Due to pension reforms in Greece, Italy, Spain and Portugal pension levels overall have fallen. The policy of privatising public property, which has been a declared EU programme since the 1990s, was taken up only hesitantly in Greece, Italy and Spain, in contrast to Portugal. Section 4 examines how these denationalisation processes have intensified due to the policy of the Troika and the pressure of the financial markets.

In assessing development tendencies with regard to the European Social Model the following questions are of particular interest when looking at reforms in Southern Europe:

(i) Do the measures constitute »catch-up« reform policy aimed at closing the gap with liberalisation processes in western and eastern Europe?

(ii) Is it possible, generally, to speak of a convergence towards a »liberal« European Social Model in the EU?

(iii) What repercussions can be expected from these changes in Southern Europe for wage, labour market and welfare state policy in the EU? Will the setbacks described above in the realisation of a normative concept of a European Social Model – which could already be observed before the crisis – go even further?

On the basis of Sections 2 to 4 these questions are answered primarily in Section 5. This section also addresses the important social, political and economic factors of influence that determine the prospects of the European Social Model in the context of the euro crisis. Three possible economic development paths and their significance for the prospects of Social Europe are discussed. Besides a collapse of the Eurozone there is also the path of overcoming the crisis by »muddling through« and the path of a radical paradigm change, ending the dominant austerity policy.

## 2. Austerity Policy and Wage and Collective Bargaining Policy in the GIPS States

Austerity in Europe is accompanied by far-reaching changes in wage and collective bargaining policy that in many European countries have led to a radicalisation of neoliberal labour market reforms and a fundamental calling into question of sectoral collective agreement systems. Against the background of a sometimes dramatic increase in unemployment a demand for »structural reforms« on the labour market has once more become the focus of political debate (Allard/Everaert 2010). For German member of the ECB Executive Board Jörg Asmussen labour market reforms are even »the key if a country wishes to remain within the euro« (*Märkische Allgemeine,* 3 July 2012). The current economic crisis in Europe is thus regarded as a crisis of competitiveness in which the main aim is to achieve comparative advantages through more flexibility on the labour market and lower labour costs.

As alleged proof of the validity of this view throughout Europe, developments in Germany are held up as exemplary, where comprehensive structural reforms in the 2000s are taken to be the main cause of the current comparatively robust position of the German economy (for a critical view see Dauderstädt/Dederke 2012). In 2010, for example, former ECB President Jean-Claude Trichet praised »moderate unit wage cost development« and »structural reforms on the labour market« as the motor of German success and extolled it as a »model« for neighbouring European states (Trichet 2010).

Europe-wide demands for »structural reforms« on the labour market are aimed at reducing employment protection and the further flexibilisation of employment, especially with regard to wage policy and the structure of collective bargaining systems (for an overview see Clauwaert/Schömann 2012). Developments at the national level are thus driven by a new European interventionism on the basis of which the EU is getting involved with national structural changes in an unprecedented way.

Up to the outbreak of the global economic crisis of 2008 the EU largely limited itself to making more or less non-binding recommendations on national wage and labour market policies as part of its economic and employment policy guidelines. At most it sought to influence national developments within the framework of »soft« forms of governance, such as the »open method of coordination«, by propagating international best practices. While in practice the influence of such initiatives on national labour market systems remained rather limited the EU was long incapable of more binding intervention. To date the number of EU legislative initiatives on labour market regulation remains extremely modest. The European Court of Justice has best been able to establish itself as a key actor at the EU level. Its judgments, however, have recently concentrated on emphasising the priority of economic freedoms against national labour market regulations which it has interpreted as protectionist.

The new European interventionism in the area of wage policy, on the other hand, is characterised by the fact that it combines European requirements for national wage and labour market policies with the threat of economic sanctions. The legal basis for this new form of »authoritarian neoliberalism« (Bruff 2012) comprises above all the Euro Plus Pact adopted on the initiative of Angela Merkel and Nicolas Sarkozy in March 2011, which is supposed to achieve a »new quality« of economic policy coordination in Europe (European Council 2011). Economic policy coordination explicitly includes wage policy which is considered the most important adjustment variable for promoting competitiveness. While in the EU Treaty a European regulatory competence with regard to wage policy is still expressly ruled out (Article 153, para 5), with the Euro Plus Pact the foundation stone of wage policy intervention at EU level has been laid.

With the so-called »Six Pack« the EU has adopted a comprehensive legislative package aimed at implementing the aims of the Euro Plus Pact. This includes the EU regulations on »avoiding and correcting macroeconomic imbalances« and on »enforcement measures to correct excessive macroeconomic imbalances in the euro area« (European Council/European Parliament 2011a, 2011b). With these two regulations a new European coordination procedure has been established. Within the framework of an annual cycle (the European semester) the economic development of international EU states is examined in terms of preset economic targets, on the basis of which the EU makes recommendations on national economic policy whose implementation it then monitors. The effectiveness of this procedure is to be ensured by applying financial sanctions to countries that in the longer term fail to meet targets and do not implement the EU's economic recommendations.

The economic figures currently monitored at the EU level include the development of unit wage costs, for which, relatively arbitrarily, a uniform highest increase – a maximum of 9 per cent over three years for Eurozone countries and 12 per cent for the other EU states – is laid down. The EU is thus for the first time attempting to coordinate wage policy, although it regards only exceeding the established guidelines as a problem, not falling short of them. The whole approach is thus asymmetric.

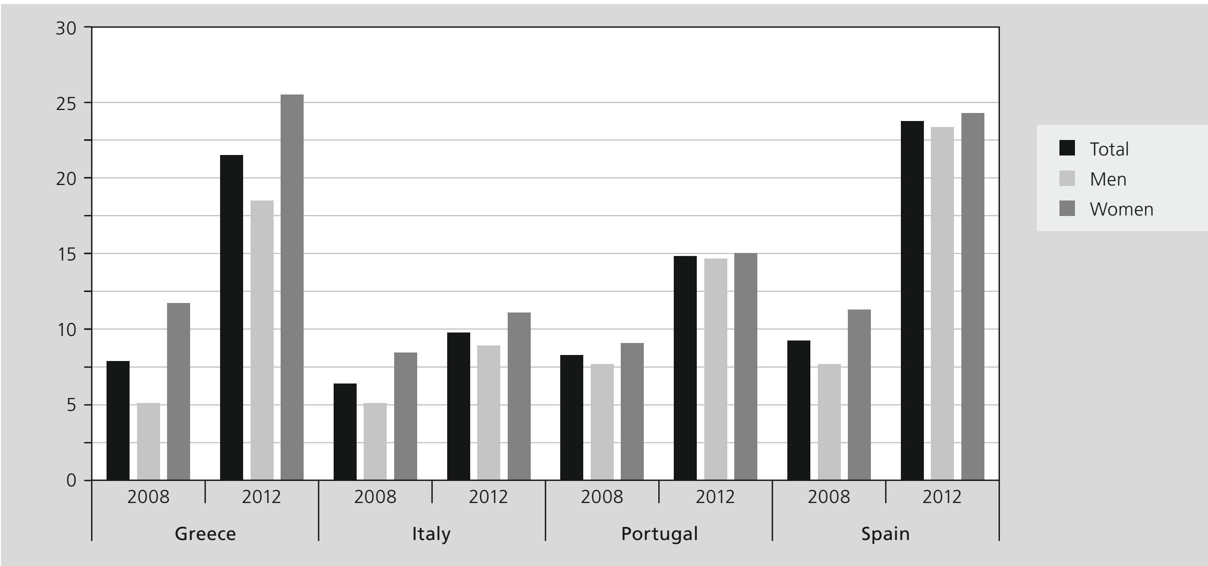
The EU's new wage policy interventionism does not seek to influence only the level of general wage development, but also has long-developed national wage and collective bargaining systems in its sights. Although the EU is explicitly obliged »to fully respect« (European Council/European Parliament 2011a) the role of the social partners and differences between national wage indexation systems within the framework of European coordination of economic policy, this does not prevent it from issuing comprehensive recommendations on reform of collective bargaining systems to international member states (European Commission 2011).

The implementation of the procedure on economic policy coordination developed as a consequence of the Euro Plus Pact and the related new role of wage policy is still in its infancy and its full effects will be seen only over the next few years. The full scope of the EU's new wage policy interventionism is already evident, however, in those states in which economic and financial pressure can be directly applied to implement certain structural reforms. This applies, on one hand, to Greece, Ireland and Portugal that currently receive money from the euro safety net the EFSF and in return had to commit themselves to comprehensive structural changes in the so-called »Memorandum of Understanding« with the Troika (comprising the EU, the ECB and the IMF). Many central and eastern European states find themselves in a similar situation, having for quite some time been receiving loans from the IMF and thus compelled to satisfy all kinds of policy requirements. In, for example, Italy and Spain, finally, it is above all the ECB that is using the purchase of government bonds to intervene massively in the policy of these states. For example, in autumn 2011 a confidential letter from the top of the ECB was leaked to the public, in which the Italian government was requested to carry out far-reaching structural reforms, including far-reaching decentralisation of collective bargaining (Draghi/Trichet 2011). Similar ECB interventions were also reported from Spain (El Pais 2011).

## 2.1 Mass Unemployment as Legitimation and Power Resource for Implementing Structural Reforms

The EU's new wage policy interventionism is taking place against the background of an explosive increase in unemployment. At the beginning of 2008 there were around 16.1 million officially unemployed in the EU as a whole: by mid-2012 this had risen by more than 50 per cent to 24.8 million. The unemployment rate rose during the same period from 6.1 per cent to 10.3 per cent (Eurostat data). However, the development of unemployment within the EU has taken an extremely varied course. While some countries – especially in northern and western Europe – experienced only a moderate increase and Germany was the only EU country to enjoy falling unemployment, in some central and eastern European states – in particular the Baltic states, as well as Bulgaria, Hungary and Slovakia – and also the so-called GIPS states (Greece, Italy, Portugal and Spain) the increase was particularly high. By far the highest unemployment rates in the EU at the beginning of 2012 were in Spain, at 23.8 per cent, and Greece, at 21.5 per cent. In both countries the unemployment rate is thus more than two and a half times what it was at the start of 2008. Portugal, with an unemployment rate of around 15 per cent, has also experienced a sharp increase. Only Italy among the GIPS states has an unemployment rate around the EU average, at 9.8 per cent.

Figure 1: Unemployment rates in the GIPS states, 2008 and 2012 (%)

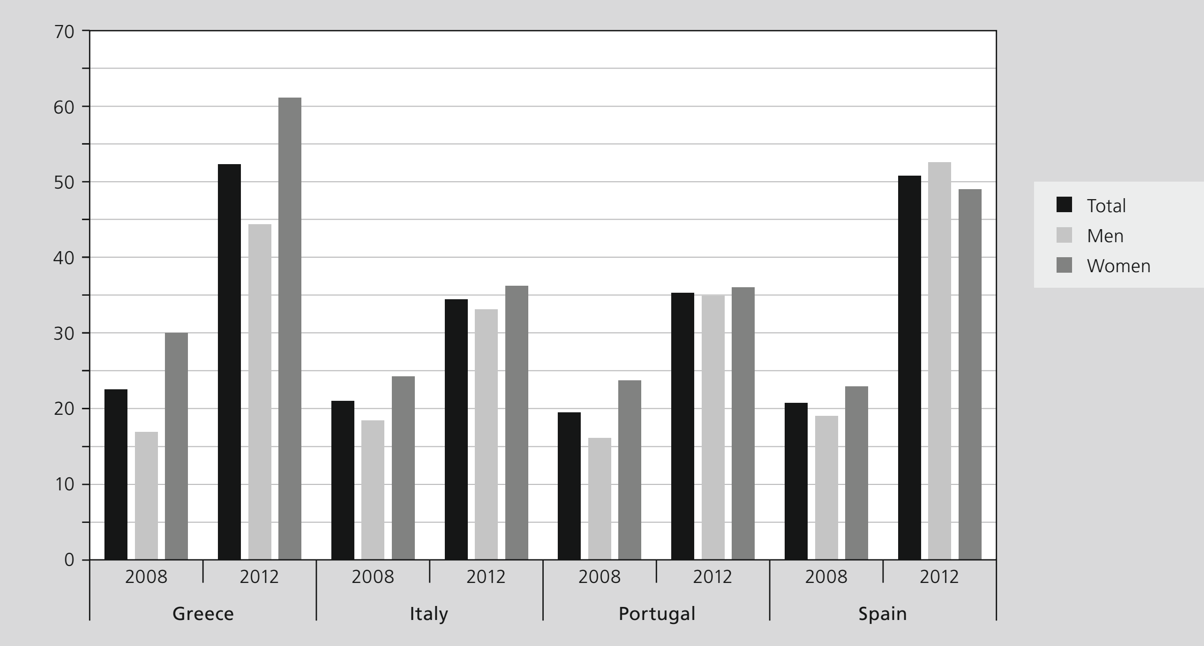



Note: Comparison of the first quarter of each year.
Source: Eurostat.

With regard to unemployment among men and women the GIPS show very different patterns. In Portugal and Spain the unemployment rates of the two sexes are very similar. Women in Greece, however, are much more likely to be unemployed than men: at 25.5 per cent their unemployment rate is 7 percentage points higher than that of men. Women in Italy also have a higher unemployment rate, although in this instance only by just above 2 percentage points.

The labour market situation for young people below 25 years of age is particularly dramatic. Youth unemployment in the GIPS countries was above the EU average even before the crisis. In the meantime, however, youth unemployment has positively exploded. With unemployment rates of over 50 per cent every second young person in Greece and Spain is unemployed. Among Greek women the youth unemployment rate is over 60 per cent. In Italy and Portugal, by contrast, on average every third young person is unemployed. Given the threatening entrenchment of these figures many are now talking of a »lost generation« (ILO 2012).

Figure 2: Unemployment rates of young people under 25 years of age in the GIPS states, 2008 and 2012 (%)




Note: Comparison of the first quarter of each year.
Source: Eurostat.

In the meantime, even within the EU it is no longer disputed that the increase in unemployment due to the crisis has been considerably exacerbated by the EU's prescribed austerity policy (see Section 1). Individuals, such as ECB President Mario Draghi, now say openly that in the short term the negative effects of austerity policy have to be accepted in order to be able to return to sustainable economic development in the longer term (Draghi 2012).

The high unemployment is congenial to the advocates of a neoliberal restructuring programme in two respects. First, it serves to legitimise the implementation of »structural reforms« by identifying the cause of unemployment ultimately as the »outdated structures« and »institutional rigidities« of the labour market. Second, it substantially weakens employees and trade unions and thus creates the conditions in which a radical reorganisation of labour market institutions at national level can be implemented. Mass fears of job losses and lack of prospects ease the acceptance of wage cuts and a willingness to make concessions makes it possible to implement far-reaching decentralisation of collective bargaining at enterprise level.

## 2.2 The Erosion of the Sectoral Collective Agreement

Among the most far-reaching structural changes currently taking place under the influence of European austerity policy is the development of the collective agreement system. This applies in particular to the GIPS states that traditionally have had highly developed sectoral agreement structures and, backed by direct or indirect erga omnes regulations and general extensions of agreements by government decree, have enjoyed extremely wide coverage, by international comparison, of 80 to 90 per cent.

In the teeth of the widespread expectation that, within the framework of location and regime competition characteristic of the European Single Market, collective bargaining structures would converge towards an Anglo-Saxon bargaining system with largely decentralised collective bargaining structures sectoral collective bargaining systems in the GIPS states have proved extremely stable (Schulten 2010). Any changes that might take place are generally path dependent, in other words, within existing systems, without fundamental systemic change. In contrast to Germany, opening clauses that

Table 4: Decentralisation of collective bargaining systems in the GIPS states

| | |
|---|---|
| **Greece** | **Laws No. 3845/2010 and 3899/2010**: Introduction of a new kind of company agreement between the enterprise and the trade unions in which provisions of existing branch collective agreements can deviate downwards.<br>**Law No. 4024/2011**: Introduction of a general priority for company agreements over branch agreements in a general abolition of the favourability principle. In companies without a trade union company agreements can also be concluded by »other employee groups«.<br>**Law No. 4046/2012**: Reduction of the continued effect of collective agreements to three months. |
| **Italy** | **National collective agreement of 22 January 2009**: Introduction of a general opening clause for wage regulations deviating from the branch collective agreement at enterprise level (the agreement was not signed by the largest Italian trade union federation CGIL).<br>**National collective agreement of 28 June 2011**: All branch collective agreements are to contain opening clauses, according to which at the enterprise level there may be deviation from branch standards under certain circumstances (economic difficulties, restructuring, introduction of significant new investment). Such deviations must be agreed in an enterprise collective agreement signed by the majority of Rappresentanze Sindacali Unitarie (RSU) (unitary workplace union structures). The workforce must confirm the deviating company agreement if one of the signatory trade unions or at least 30 per cent of the employees request it.<br>**Law No. 148 of 14 September 2011**: Company collective agreements can deviate downwards from branch collective agreements and certain labour law provisions. Possibilities to deviate from collective agreements at enterprise level concern almost all aspects of labour and employment conditions (including wages and wage structures, working time, atypical employment and employment protection). The company agreement must be signed by a majority of the representative trade unions in the enterprise. |
| **Portugal** | **2011**: Halting of quasi-automatic general extension of collective agreements.<br>**Draft Law No. 46/XII of 2 February 2012:** Possibility for works councils under certain circumstances to conclude agreements that deviate downwards from sectoral collective agreements.<br>**2012:** Introduction of new, more strict criteria for the general extension of collective agreements, according to which agreement coverage of at least 50 per cent is necessary (proposed). |
| **Spain** | **Royal Decree 10/2010:** Improved options for making use of company hardship clauses that make possible a temporary deviation from sectoral collective agreements. If agreement cannot be reached an arbitration board can be called in.<br>**Royal Decree 7/2011:** Extension of possibilities to use opening clauses for enterprise deviations from sectoral collective agreements.<br>**Royal Decree 3/2012 of 10 February 2012:** Introduction of a general priority of company agreements over branch collective agreements.<br>Possibility to deviate from sectoral collective agreements by means of company agreements. Company-level options for such deviation concern almost all aspects of employment and working conditions (including wages and wage structures, working time, social benefits and so on).<br>Limitation of the continued effect of collective agreements to one year (previously unlimited). |

Source: Baeza-Sanjuan (2012); Clauwaert/Schömann (2012); Leonardi (2012); Meardi (2012); Naumann (2012); Patra (2012).

offer companies the possibility of diverging downwards from sectoral standards have long barely played a role in the GIPS states (Keune 2011).

In the wake of the crisis, however, all these states have experienced far-reaching changes in a very short time, all in the direction of a more or less radical decentralisation of collective bargaining systems and thus harbouring the potential for a fundamental transformation of collective bargaining, leading to the complete erosion of the sectoral collective agreement. The driving force behind this development is again the Troika of the EU, the ECB and the IMF, whose neoliberally inspired staff have long been in possession of blueprints for the restructuring of collective bargaining systems. The EU, with the Euro Plus Pact, has even explicitly secured the right to »scrutinise the wage formation process and, if need be, the level of centralisation of the negotiating process« (European Council 2011). Within the framework of the European semester for coordinating economic policy the EU has already made extensive use of this new competence and has recommended reforms of the collective bargaining system to around half of all EU states (European Commission 2011).

In the case of the GIPS states the EU exercises influence much more directly. With regard to Greece and Portugal pledges of changes to national collective agreement systems are an integral part of the joint memoranda with the Troika. In the case of Italy and Spain the ECB has pushed strongly for reforms of collective agreement systems and uses the purchase of government bonds as political security for this purpose.

The core of all collective agreement reforms lies in a far-reaching shift of wage policy to enterprise level. According to neoclassical economics, this makes it possible to best meet the needs and possibilities of the enterprise.

In the GIPS states centralised collective agreement structures have remained in place formally. With regard to their scope and viability, however, they are increasingly being undermined by numerous legal reforms. Changes that have already been made or are planned for the near future include (for details see Table 4):

- the legal extension of opening clauses for enterprise-level deviations from branch collective agreements (Italy, Portugal, Spain);

- absolute priority of company agreements over all other collective agreements, with simultaneous abolition of the favourability principle (Greece, Spain);

- the possibility for deviating company agreements with non-trade union workers' representations (Greece, Portugal);

- limitation of the validity of collective agreements after expiry (Greece, Spain);

- formal restriction of the general validity of collective agreements (Portugal).

What economic competition has not been able to achieve in Europe is now being implemented by the EU's new European interventionism: the convergence of national collective agreement systems towards much more strongly enterprise-oriented negotiating structures is being achieved via more or less authoritarian demands on the part of the EU. In particular, the Italian and Spanish trade unions have found that their attempt to bring about a fairly cautious reform of »organised decentralisation« via collective agreements has been thwarted by a much more radical decentralisation policy on the part of the state (Meardi 2012).

In particular in the economies of Southern Europe, which are dominated by small and medium-sized enterprises, the increasing undermining of centralised collective agreements will lead sooner or later to a radical transformation of wage policy, accompanied by a precipitous fall in coverage. In Spain, such a development is already taking place (Gomez 2011). As a result, there has not only been decentralisation, but also a far-reaching individualisation of wage negotiations (Ortiz 2012).

## 2.3 Government Intervention in Wage Development

Besides the fundamental transformation of collective agreement systems many European states, in the wake of austerity policy, have also intervened directly in wage development. This offers them in principle three points of attack: (i) public sector wages, (ii) the statutory minimum wage and (iii) direct intervention in existing collective agreements.

The first access point for direct intervention in wage development in the majority of European states is the freezing or cutting of wages in the public sector (Labour Research Department 2010, 2012). This intervention was comparatively easy because the wages of public employees were usually not regulated by collective agreements but by law. On top of this, in many countries wage development in the public sector was also indicative for the private sector. The latter has been particularly emphasised by the EU, which since the Euro Plus Pact has had the task of monitoring whether »wage agreements in the public sector are conducive to private sector efforts to boost competitiveness« (European Council 2011).

All the countries receiving EU bailouts were obliged to implement public sector wage cuts in the memorandum with the Troika. By far the severest cuts were implemented in Greece, where the various wage cuts total around 30 per cent. In the other countries cuts range

Table 5: Wage cuts and wage freezes in the public sector in the GIPS countries

| | |
|---|---|
| **Greece** | Between November 2009 and October 2010 nominal wages were cut by an average of 14 per cent. After that, a new remuneration system was introduced in 2010 and the government expects a further reduction in wages of 17 per cent by 2013, so that total cuts amount to 30 per cent, on average. |
| **Italy** | The government has declared that it does not want to renew the expired 2009 collective agreement at least before the end of 2012, so that wages will be de facto frozen during this period. |
| **Portugal** | After wages were frozen in 2010, in 2011 there was a 5 per cent cut. Furthermore, the government has announced that wages will be frozen again until the end of 2013. Above a certain level of annual earnings for 2012 and 2013 the 13th and 14th month payments will also be cut or completely abolished. |
| **Spain** | In June 2010 wages were cut by 5 per cent and then frozen. Furthermore, working time was cut for all employees to 37.5 hours per week without any wage compensation. |

Source: Labour Research Department (2010, 2012); Sanz (2011).

from 5 to 10 per cent, with wages subsequently being frozen at the lower level (see Table 5).

Apart from public sector wages, in many European countries the statutory minimum wage also offers an opportunity for political intervention, in particular since in many instances it influences general wage development (Schulten 2012). In Portugal and Spain, at the beginning of 2012 for the first time in years the usual adjustment of the minimum wage was suspended.

The most radical minimum wage cut was decreed by the Troika for, once more, Greece, which had already cut its minimum wage by 22 per cent in February 2012 and for young people below the age of 25 by as much as 32 per cent. This is something of a new development because in Greece the minimum wage is not set on a statutory basis but laid down in a national collective agreement. In an appeal to the government the Greek employers' associations and the trade unions jointly spoke out against the cuts, although they were unable to prevent this direct intervention in free collective bargaining (Lanara 2012).

## 2.4 Consequences for Wage Development

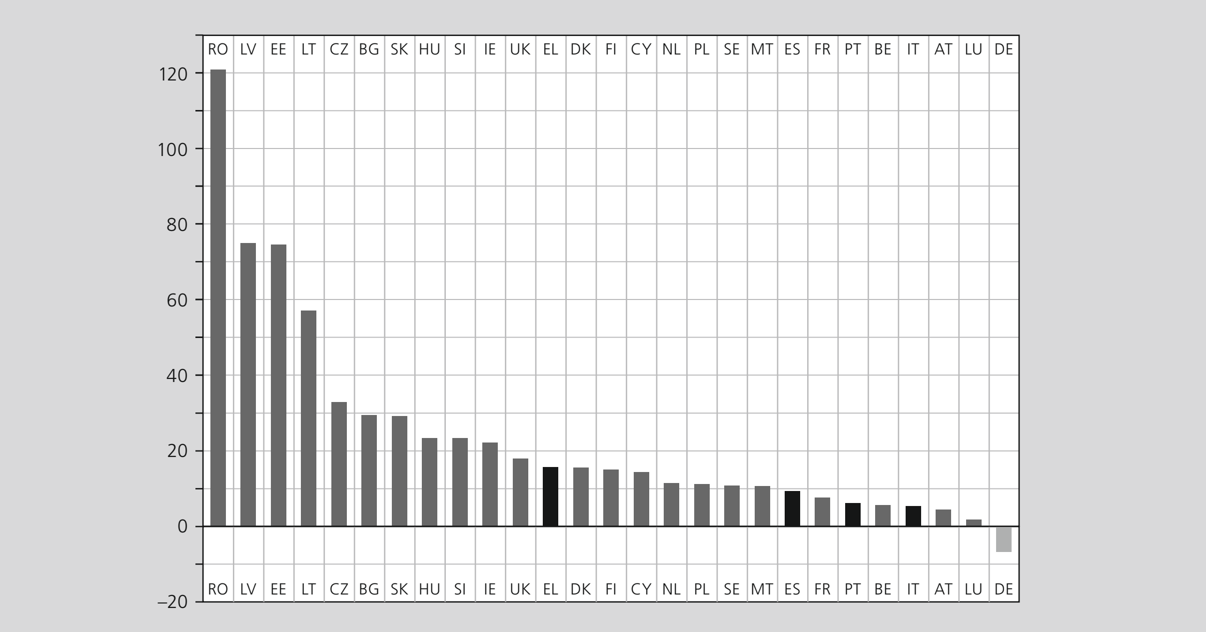
The crisis has ushered in fundamental changes in the pattern of wage policy development in Europe. In the past decade up to 2009 all EU states registered positive real wage development, stronger in Greece and more moderate in Spain, Portugal and Italy. Only in Germany did workers have to put up with a significant real wage decrease over the past decade (Schulten 2011).

Since 2010 the picture has virtually reversed. Only a few countries have registered – mainly modest – real wage increases, while in 18 of the 27 EU countries real wages have fallen. By far the biggest cut has been in Greece with a fall of 20 per cent, followed by Portugal with 10 per cent (see Figures 3 and 4).

## 2.5 Interim Summary

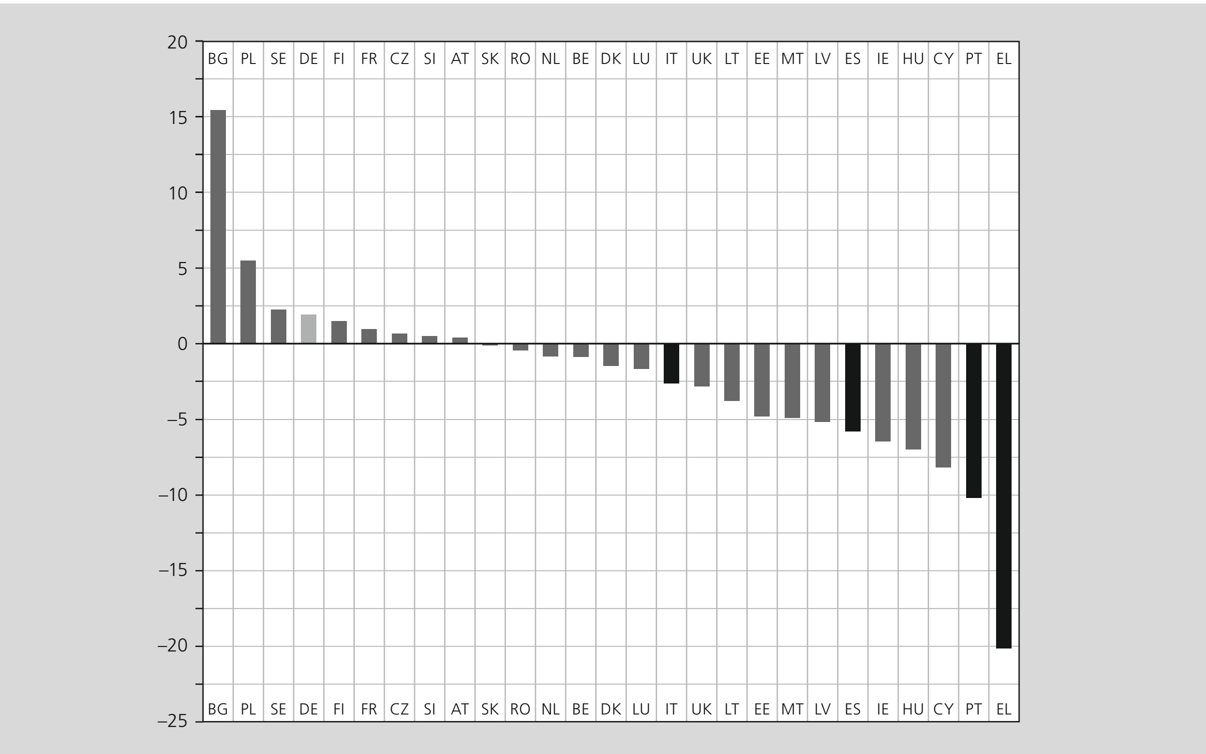
The consequences of the EU's new wage policy interventionism are thus entirely clear. They lead, on one hand, directly to a wage policy downward spiral, foster deflationary development and thus contribute to consolidating economic stagnation in Europe. On the other hand, a radical restructuring of collective bargaining systems is taking place in Southern Europe, within the framework of which in a short time historically developed institutions have been destroyed and reshaped in accordance with a neoliberal master plan under the auspices of the Troika. As a result, centralised collective agreements are being extensively undermined and wage policy is being comprehensively decentralised, which may also result in a significant reduction in collective agreement coverage.

Figure 3: Development of real wages in the EU, 2001–2009 (%)




Note: Deflated by the National Harmonised Consumer Price Index.
Source: Ameco database, WSI calculations.

Figure 4: Development of real wages in the EU, 2010–2012 (%)




Note: Deflated by the National Harmonised Consumer Price Index.
Source: Ameco database, WSI calculations (data for 2012: previous year's forecast by the European Commission).

Table 6: Indicators for pension system analysis

| | | EL | IT | PT | ES | DE | EU15 |
|---|---|---|---|---|---|---|---|
| 1 | Social spending/GDP (2010) | 29.1 | 29.9 | 27.0 | 25.7 | 30.7 | 30.3 |
| 2 | Spending on state pensions as a percentage of GDP (2010) | 13.6 | 15.3 | 12.5 | 10.1 | 10.8 | |
| | *Projection 2040* | *14.9* | *15.6* | *13.1* | *12.3* | *12.7* | |
| 3 | Employment rate 15–64 (2011) | 55.6 | 56.9 | 64.2 | 58.5 | 72.6 | |
| 4 | Employment rate 55–64 (2011) | 39.4 | 37.9 | 47.9 | 44.5 | 59.9 | 49.5 |
| 5 | Further life expectancy after reaching pensionable age | | | | | | |
| | (2010): Men | 23.9 | 23.0 | 17.0 | 18.0 | 17.4 | |
| | Women | 27.2 | 27.1 | 20.3 | 21.7 | 20.6 | |
| 6 | Old-age dependency ratio 2010 (≥ 65/20–64) | 31 | 33 | 29 | 27 | 34 | |
| | *Projection 2040* | *53* | *56* | *51* | *51* | *61* | |

*Sources:* Row 1: Eurostat Statistical Database; Rows 2 and 6: European Commission 2012a (country fiches); Rows 3 and 4: OECD Employment Database; Row 5: OECD 2012: 202–203.

# 3. Austerity Policy and Pension Reforms in the GIPS States

In the discussion about the classification of welfare states Italy, Spain, Portugal and Greece are frequently placed in a category of their own. They form either the »Latin rim« of European welfare states (Leibfried 1992; Jones Finer 1999), or their social policy arrangements are identified as the »Southern model« which, according to Ferrera (1996), is characterised by a clientistic and rudimentary design. The Southern European welfare states are »clientistic« because the employed in certain industries and occupations are privileged, and they are »rudimentary« because, among other things, family policies and labour market policy schemes are underdeveloped. Nevertheless, the social expenditure ratio in the four countries is comparatively high (Table 6), however, the structure of expenditure is strongly »age-biased« and this imbalance has increased in recent years (Lynch 2006; Tepe/Vanhuysse 2010). The causes are the hitherto very generous pension payments (at least for insiders), as well as the broad access to early retirement (discernible in the low employment rates among those 55–64 years of age) and the already high and further increasing longevity of men and women, which is reflected in an already very high old-age dependency ratio that is set to rise sharply by 2040.[1]

In the past, the European Commission and the OECD have repeatedly identified a lack of financial sustainability with regard to public pension systems. Both – in recent years increasingly the European Commission – have tried to influence national pension policy agendas and have called for massive reform efforts from these four (and other) countries. Since 2008 social policy reforms have largely concentrated on the pension domain. Thus it is obvious to direct the focus of the analysis to pension reforms in order to assess how living conditions will develop for a large part of the population as a consequence of the various cuts.

## 3.1 Old-Age Pension Systems in Southern Europe and Reforms Prior to 2008

In all four countries public pensions of the »Bismarck« type play the central role.[2] Company pension schemes (second pillar) and individual provision (third pillar) are not very widespread.[3] The income-related public systems, providing the lion's share of retirement income,

1. The old-age dependency rate is not the really decisive variable with regard to pension funding. Rather, the truly relevant figure is the economic dependency ratio, that is the ratio between the number of contributors and benefit recipients. Hence, pension funding can be improved by a rise in employment or of the employment rate.

2. Other risks are also covered by social insurance schemes in these countries. In Greece, Italy and Portugal, however, medical care is ensured by a universal tax-financed system. Co-payments by patients here – but also in Spain – are sometimes much higher than the sums/rates found in Germany.

3. Italy is somewhat of an exception. The 1993 reform laid the foundations for a voluntary redirection of employers' contributions towards statutory severance payments (Trattamento di fine rapporto/TFR) into pension

are institutionally differentiated along occupational lines – most strongly in Greece and least in Portugal – as a result of which benefit generosity varies. Besides these institutions established to safeguard living standards in old age there are provisions everywhere for avoiding old-age poverty as a result of too-low contribution-related pension entitlements.

At the latest since the 1990s, mainly the OECD, the European Commission and the International Monetary Fund have purveyed the conviction that high social security contributions and taxes have a negative effect on employment levels, thereby supporting national actors in their policy efforts to at least keep the tax and contribution burden constant. Thus, when the contributions of employers and employees to the first pension pillar are supposed not to rise (further) in future or (higher) tax-financed payments have to be made to pension schemes, only a limited number of levers remain by which further spending increases due to demographic change can be contained. First, the ratio between pensioners and contributors can be changed by raising the pensionable age. Moreover, it would be possible to lower the level of pension payments by modifying benefit calculation or changing the way in which pensions in payment are indexed. With the exception of Greece, the GIPS countries have legislated reforms affecting these central parameters of their pay-as-you-go pension schemes before 2008.[4]

In *Italy,* there was a switch from expansion to consolidation at the beginning of the 1990s when public spending on old-age pensions had reached 14.9 per cent of GDP and a further increase to 25 per cent was predicted for 2030 (Franco/Sator 2006). The reform by the Amato government in 1992 included, besides initial attempts to harmonise the regulations for different occupational groups, the gradual raising of the pensionable age from 60 to 65 years of age for men and from 55 to 60 years of age for women. Furthermore, newly awarded pensions were to be calculated on the basis of the last ten rather than the last five years prior to retirement; the procedure of adjusting pensions in payment was switched from wage to price indexing; and the condition of entitlement to an old-age pension was changed from 15 years of insurance to 20 years. In view of the criteria for being admitted to the Eurozone, these measures were not regarded as sufficient, however. After successful consultations with the social partners the Dini government decided in 1995 to change the basis of pension insurance to a notional defined contribution (NDC) system. Within the framework of a continuing pay-as-you-go scheme a funded system was emulated to the extent that pensions are calculated according to the sum of all contributions put into an individual account plus their virtual »interest yield«. In the long run this changeover will lead to a dramatic fall in wage replacement rate, but in the short term not much savings were made with this reform since the NDC system was scheduled to attain full effect only on cohorts that have taken up employment subject to social security payments after 1995. Additionally, so-called »seniority pensions«, which could be claimed after a 35-year insurance period and (originally) regardless of age, continued to give rise to high expenditure. Subsequent, although only partially successful reform initiatives ventured by different governments between 1997 and 2009 were directed at limiting access to »seniority pensions«, providing stronger incentives towards later retirement, speeding up implementation of the NDC system and standardising occupationally differentiated systems (in particular, reducing the privileges of public employees).

The expansion of the *Spanish* pension system ended in 1985 when the contribution/benefit ratio was strengthened for the first time. However, more favourable pension calculations remained for those who could show (only) a minimum pension insurance period of 15 years, and in 1991 a tax-financed, means-tested basic security scheme was introduced for people aged 65 years and older. Based on the first Toledo Pact (1995) between the government and the social partners, as well as subsequent agreements the number of insurance years taken into account in pension calculations was increased – from eight to fifteen – and a less favourable adjustment formula for pensions in payment was introduced, but at the same time benefits for pensioners with discontinuous employment records were improved. Between 1998 and 2010 the Spanish social security system ran surpluses, so that in 2011 there were 66 billion euros (around 6.3 per cent of GDP) accumulated in the reserve fund, increasingly invested in Spanish government bonds.

funds. Around 20 per cent of employees currently make use of this conversion option and can expect a company pension (Jessoula 2011).

4. If not indicated otherwise, information on the contents of pension reforms was obtained from the International Updates of the US Social Security Administration (http://www.ssa.gov/policy/index.html), the country reports of the project Analytical Support on the Socio-Economic Impact of Social Protection Reforms (ASISP) (http://www.socialprotection.eu) and publications of the European Commission (2012c) and the OECD (2012).

*Portugal,* from 2002 up to the major reform of 2007, tried various individual measures to stabilise the finances of its state pension system: Retirement opportunities before the age of 65 – persons 55 years of age after 35 insurance years or 58 years of age in the case of unemployment – became curtailed and the basis of individual pension calculations was changed (in the end, the whole working career was taken into account instead of the best 10 out of the past 15 insurance years). In 2005, 3 billion euros were transferred from the capital reserves of the special pension schemes for employees of the state-owned banks to cover the deficit of the general pension system. As part of the pension package of 2007, implementation of the new pension formula was brought forward to 2017 and a sustainability factor was introduced, linking the level of newly awarded pensions to the development of life expectancy.[5] Furthermore, the adjustment formula for pensions in payment was changed in a way that there will be increases only when the GDP is rising; incentives for the (continued) employment of older employees were strengthened; and a savings scheme for voluntary individual provision similar to the German Riester pension was introduced. The effects of this reform will be considerable: a comparison of projected pension spending in 2050 on the basis of calculations from 2005 and 2008 shows that Portugal had taken the biggest leap of all EU countries. Instead of 20.8 per cent of GDP only 13.6 per cent expenditure have been estimated for 2050 (European Commission 2009: 104).

### 3.2 Pension Reforms in 2008 and Later

*Greece* is clearly the straggler among the Southern European countries with regard to social policy reforms in general and the adaptation of old-age pension systems to changed circumstances in particular. As early as the 1990s there were complaints about the ineffectiveness and inefficiency of the Greek welfare state and disparate benefit levels – with public employees and some groups of self-employed benefiting disproportionately – and an inability to reform leading to crisis was identified (Katrougalos 1996; Venieris 1996).

Drastic pension reforms came about only in 2010 and thereafter due to obligations related to the bailouts. They aimed at reducing the deficit of the public pension system and stabilising its long-term expenditure level. A significant structural reform of the extremely complex Greek old-age pension system – consisting of an income-related general compulsory scheme and a (largely) compulsory earnings-related supplementary insurance – was introduced as early as 2008, however. The latter scheme often allows one-off payments instead of a stream of pension payments, and the hitherto 133 independent supplementary schemes, differentiated by occupation, were reduced to 13. Standardised rules are supposed to bring about greater transparency and fairness and to save on administrative costs. From 2012 all additional pension systems will be brought together into a single pension fund.

In 2010 the Greek Parliament decided to lower the accrual rate, most decisive for the replacement ratio, from 2 to 3 per cent for one year of contribution payments to 0.8 to 1.5 per cent (depending on the total length of insurance). Furthermore, the pensionable ages of men and women were equalised at age 65 until 2013.[6] In future, entitlement to a full pension will require 40 instead of 35 insurance years and pensions will be calculated on the basis of the whole working life, no longer on the best five out of the last 10 insurance years. Without reductions (6 per cent a year) only those who can prove 40 insurance years can take early retirement (from 60 years of age). The aim is to raise effective retirement age by two years to 63.5 until 2015. From 2021 the normal retirement age will be adjusted every three years according to the development of life expectancy. Two of the previous 14 monthly payments were abolished and replaced by a (largely) uniform bonus of 800 euros only for pensioners above age 60. It was also decided that the indexation of pensions in payment must not be higher than the increase in consumer prices – for the period 2011–2015 the adjustment was suspended entirely. Moreover, further measures are to be taken if projections show that there will be an increase of pension expenditure of more than 2.5 percentage points of GDP by 2060 in comparison to 2009. Subsequently, in 2012 a new (NDC look-alike) benefit formula with a built-in sustainability factor for the supplementary pension scheme was decided upon; pensions of the general scheme higher than 1,300 euros were cut by 12 per cent (in 2010 those above 1,400 euros already by 8 per cent); access to invalidity pensions

5. When longevity increases the alternatives are either pensions at the same level but with longer working lives or lower benefits (than awarded to preceding birth cohorts) at the same retirement age.

6. Beginning in 2015, a basic pension of 360 euros will be taken into account when the individual benefit is calculated. For new retirees with fewer than 15 contribution years the basic pension ist means-tested.

was made more difficult; and disproportionately high one-off payments in the area of supplementary pensions were cut. By 2015 supplementary pensions will no longer be guaranteed by the state, in other words, there will be no subsidies provided for covering deficits (European Commission 2012a: 98).[7]

The measures predating another support package for Greece in November 2012 deprived the social insurance funds of a large part of its reserves held in Greek government bonds, and the liquidity problems of the pension system were aggravated due to lower government subsidies and fewer workers paying contributions. Obligations related to the support package included a rapid increase of pensionable age to 67 years, allowing workers with 40 insurance years to retire not before age 62 (with deductions) and to cut pensions of retirees who benefited from the previously more generous calculation formula and/or prematurely claimed their pension.

Massive changes took place in the *Italian* pension system between 2009 and 2011. The harmonisation of arrangements for different occupational groups was taken further, including the alignment of contribution rates, which is important for an NDC system. Furthermore, the alignment of women's pensionable age with that of men was speeded up and will be achieved by 2018. For women employed in the public sector the rise in their pensionable age happened abruptly, going from 61 to 65 years in the course of one year (2010/2011) and then again by another year – as for all men – from 65 to 66 years (2011/2012). Also, from 2013 the standard retirement age and the age of eligibility for seniority pensions will be linked to the development of further life expectancy. Thus, for 2019 but in 2021 at latest a pensionable age of 67 years is expected for men and women in both the private and public sectors, rising to just under 70 by 2050. »Seniority pensions« – hitherto available either after 40 years of contributions or at 62 years of age after 35 contribution years – are de facto abolished since the conditions follow the rising age limits and early retirement is possible only with deductions and if the pension level exceeds the social minimum pension by one and a half times. On the other hand, corresponding supplements are expected to result in pensions that ensure the standard of living for those who continue to work up to the age of 70. Considerable short- and medium-term savings arise from accelerated implementation of the NDC system. From 2012 new pensions will be calculated pro rata according to the contribution periods before 1995 in the »old system« and the contribution years under NDC rules after 1995. Finally, the adjustment of pensions to price development for pensions over 1,400 euros is suspended for 2012 and 2013.

The recent pension reform in *Spain* is based on the Toledo Pact renewed at the beginning of 2011 between the then social democratic government and the social partners. The most substantial changes, which will come into force mainly between 2013 and 2027, include a rise in the statutory retirement age from 65 to 67 (although it remains unchanged at 65 for those with at least 38.5 insurance years). Early retirement with deductions (7.5 per cent per year) from 63 years of age is possible for persons with at least 33 insurance years, and for unemployed persons from 61 years of age, while a deferred retirement age is rewarded with supplements (between 2 and 4 per cent a year). In future, a »full« pension will require 37 instead of 35 contribution years (it will still be the case that 15 years qualifies someone for a half pension), and from 2022 pensions will no longer be calculated on the basis of the last 15 but rather the last 25 insurance years. Finally, from 2027 a sustainability factor will be introduced through which the relevant system parameters – for example, the requisite insurance years for a full pension or the statutory retirement age – will be adjusted to the development of life expectancy every five years.

In order to reduce its public deficit in the short term, *Portugal* has been obliged to only take a few pension policy reform measures in connection with the financial assistance it has received. For example, in 2011 pensions were not indexed (in 2012 there was an inflationary adjustment only for the very lowest pensions), pensions above 1,500 euros a month were subjected to a special social contribution, and the thirteenth and fourteenth monthly payments were abolished for recipients of pensions over 1,100 euros. Finally, early retirement which increased sharply after 2009 due to risen unemployment, was impeded by granting older workless people unemployment benefits only for a maximum 18 months and allowing them to receive a pension at the earliest from 62 years of age. Furthermore, employees of state-owned

7. During the period 2005 to 2008, Portugal did best in containing projected spending increases until 2050. When comparing the estimates of 2008 and 20011 Greece is ranking first: The increase would be lowered by 8.7 percentage points (from 24.1 down to 15.4 per cent of GDP) if the legislated reforms were actually implemented (European Commission 2009: 291; 2012a: 143, 328).

enterprises – banks, telecommunications – were integrated in the pay-as-you-go pension insurance system and a total of 9.3 billion euros of the capital reserves of special schemes was transferred to the state budget and, hence, reduced the deficit.

Since 2010 three of the four Southern European countries have significantly intensified their reform efforts; Portugal reformed its old-age pension scheme already before the outbreak of the financial market crisis. As a result, the predicted growth in public pension spending by 2040 will be considerably lower than was calculated for the Ageing Report 2009 (see Table 6, European Commission 2012a: 142–144). With regard to the contents of the reforms, the four countries thus caught up with changes that had been concluded in other European countries a decade earlier, and in certain respects the reforms are even more drastic than those decided on in, for example, Finland, Belgium or Austria. In Portugal, Spain and Greece public pensions remained on a defined benefit basis, but due to changes in the rules on the calculation of new pensions and suspended or less favourable indexation rules for pensions in payment benefit levels will fall swiftly, so that in the short term there will be savings in expenditure and budget deficits will be reduced. Especially in the medium and long term additional saving effects will be achieved through the standardisation of statutory retirement ages (by abolishing the differences between men and women and between occupational groups) and increased pensionable age with short transition periods. This is in accordance with the demands of the European Commission (2012b) and the OECD (2011) to close pathways into early retirement, create incentives for longer working lives and defer the receipt of a first old-age pension. All four countries also met the demands for the *financial sustainability* of pension systems by linking the statutory retirement age and other system parameters to the development of further life expectancy. They have fallen short only with regard to the demand for strengthening funded pension provision. The Southern European countries currently lack the resources to broaden coverage of private (individual or workplace) provision by means of generous subsidies or tax advantages. Only Spain announced such additional incentives in January 2012.

Given the critical situation in the economy and public finances, precautions are important which maintain the *social adequacy* of pension benefits. In Portugal low pensions of retirees who paid contributions for at least 15 years continue to be topped up to a minimum level of protection from tax revenues. Others are entitled to draw a means-tested social pension from the age of 65. Such two-tier minimum protection arrangements – after attaining a certain number of insurance years without, otherwise when reaching the statutory retirement age contingent upon a means test – also exist in Greece and Spain. In 2010, Greece even bolstered the safety net for the over 65s. The means-tested »social pension« amounts to 360 euros a month (Matsaganis 2011: 505f). Furthermore, in Portugal and Greece retirees with low pensions were exempted from nominal cuts, and only low pensions or minimum benefits continued to be adjusted to consumer prices in Spain and Portugal.

## 3.3 Consequences of Pension Reform to Date

Up to 2011, the income situation of older people in the four Southern European countries could not be considered as overly dramatic – at least not in general (see Table 7). The at-risk-of-poverty rate (less than 60 per cent of needs-weighted median income) was – with the exception of Italy – between 4 and 7 per cent above the EU15 average, but barely higher than among the working-age population (except in Portugal). This can be traced back not least to the still high wage replacement rates of the public pension schemes which, as a rule, replace a considerably higher percentage of previous earnings than it is true, for example, in Germany. The projections in the Ageing Report 2012, which presumably do not fully take into account the latest reform measures, show that wage replacement rates will fall sharply over the next 30 years, however. The figures presented in Table 7 offer only a rough perspective since wage replacement rates are usually calculated on the basis of standardised assumptions (for example, 40 insurance years and drawing a pension from the age of 65), not taking into account how representative such employment careers are in a given country or how many people of employable age actually participate in public or private schemes of old-age provision. Moreover, these calculations leave out country-specific notions of a »full pension«.

Table 7: Indicators of pensioners' incomes

| | | EL | IT | PT | ES | DE | EU15 |
|---|---|---|---|---|---|---|---|
| 1 | Wage replacement rate (gross) (2010) | 59.3 | 79.5 | 56.9 | 72.4 | 40.5 | |
| | *Projection 2040* | *46.2* | *69.5* | *51.2* | *57.6* | *34.5* | |
| 2 | Means-tested benefits in old age as a percentage of average earnings | 11.5 | 20.2 | 13.6 | 17.0 | 20.3 | |
| | Minimum pension as a percentage of average earnings | 28.6 | 19.2 | 27.1 | 27.4 | – | |
| 3 | At-risk-of-poverty rate ≥ 65 (2011) | 23.6 | 17.0 | 20.0 | 20.8 | 14.2 | 16.4 |
| | *ditto: 18–64 years of age* | *20.0* | *18.5* | *16.2* | *20.5* | *16.4* | *15.9* |
| 3 | Homeowners rate ≥ 65 (2010) | 84.9 | 80.4 | 73.3 | 88.6 | 56.2 | 71.8 |

Source: Row 1: European Commission 2012a (country fiches); row 2: OECD 2011: 109; rows 3 and 4: Eurostat Statistical Database (and authors' calculations).

Any evaluation of the living conditions of older people in Southern European countries must take into account the fact that home ownership is widespread and a key component of social policy arrangements (Castles/Ferrera 1996). More than 80 per cent of the older population in Spain, Greece and Italy owned their own home and also in Portugal the home ownership rate is markedly above that of German pensioner households (Table 7). If the value of the money saved by not having to pay rent is taken into consideration poverty rates and economic inequality are significantly lower in the Southern countries (Sauli/Törmälähto 2010). Home ownership thus partly compensates for the low means-tested transfers in Portugal, Greece and Spain, while in Italy these benefits are at pretty much the same level as in Germany. In contrast, minimum benefits are more generous, being paid under certain conditions (see above) *on top of* contribution-related pension entitlements (Table 7). These are above one-quarter of average earnings in Greece, Spain and Portugal. OECD data (2011: 109), however, although no longer entirely up to date, show the high proportion of pensioners – around 60 per cent – in Greece and Portugal who receive no more than the minimum pension, while in Italy and Spain the figure is around 30 per cent. This puts into perspective the validity of high (nominal) replacement rates in these countries.

When assessing the future income situation of the elderly population one has to bear in mind that in none of the four countries the adjustment of pensions in payments is linked to the development of wages anymore and, moreover, is temporally suspended in Greece, Italy and Portugal. These measures yield savings on expenditure in the short run and, due to the lower basis, even more considerable ones in the long term. However, when wages are rising (again), pensioners become decoupled from the overall income development (European Commission 2012c: 83). This harbours the danger that relative poverty will increase among older retirees.

Political actors striving to implement pension reforms that aim at savings on expenditure face a dilemma: long transitional periods until complete implementation reduce their effectiveness, in other words, short-term savings potential. In contrast, rapid implementation of drastic cuts can come up against resistance, especially when the measures are unilaterally imposed by the government and are not agreed with the social partners. The 2007 reform package in Portugal and all reforms hitherto in Spain have been subject to such compromises, while in Greece social dialogue has never been successful (Featherstone 2005). Because there was no alternative to the latest reform measures in Italy and Portugal, or because they were declared non-negotiable, the trade unions refrained from specific protests. All four countries have experienced mass demonstrations or strikes directed towards governments' austerity policy in general. Since a rapid increase of the retirement age has been a key element of consolidation efforts everywhere it can be assumed that pension policy also played a role in the protests. In particular, a higher retirement age is one of the most tangible and most vehemently rejected curtailments of vested rights.

Thus it cannot be taken for granted that the pension policy changes – including the quasi-automatic adjustments in the face of rising life expectancy – will in fact be implemented as legislated, especially not if unemployment, both overall and in particular among young people, remains high (see Section 2). Since staying on longer in work and thus later retirement is a key element of social policy reforms it may well be that we are in for a return of the arguments put about in the 1970s and 1980s. They amounted to taking advantage of the available options for early retirement or creating new ones in order to improve the employment opportunities of younger workers. Regardless of the potential for success of these strategies having been pursued in almost all European countries an unfavourable employment situation could delay the implementation of reforms.

Given high unemployment for the foreseeable future, the legislated pension reforms are likely to have long-term negative consequences for the incomes of future pensioner cohorts, who are generally likely to have much less favourable employment histories than their predecessors. Longer periods of unemployment and an increase in atypical employment – for example, the high proportion of fixed-term contracts in Spain and Portugal or the large number of *parasubordinati* (false self-employed) in Italy – entail gaps in insurance biographies and a less favourable lifetime income profile. This is all the more significant because everywhere – especially in Italy due to the NDC system – the relationship between contributions and benefits have been strengthened because pension calculations will be based on the whole working career and the overall pension level will decline (Hinrichs/Jessoula 2012). Inequality during working life will thus be reinforced in old age, in particular because the opportunities introduced in the past 20 years for voluntary private or company old-age provisions will operate on a socially selective basis, being taken up mainly by those in continuous employment with medium or high incomes. In contrast, those with discontinuous employment histories and lower earnings are at risk of having to rely on basic social protection benefits in old age because they lack sufficient contribution-related entitlements.

## 4. Austerity Policy and the Privatisation of Public Property in the GIPS States

Despite all the differences, social models in Europe have one thing in common: at the peak of post-War development in the 1970s they were characterised by a high degree of state ownership. This included not only the domain of traditional public services, such as post, transport and energy supply, but also state-owned banks and mining and industrial enterprises (Hermann/Mahnkopf 2009). In contrast to the United States, even the »market liberal« United Kingdom had a considerable public sector up to the 1970s, including the state-owned British Petroleum and the National Health Service. This state of affairs was taken into consideration in the founding document of the European Union, which laid down that the form and extent of the public sector were the sole concern of the member states (Huffschmid 2008: 16).

In the 1980s, a number of countries began to privatise state-owned companies (for example, the United Kingdom), while others nationalised private companies that had got into difficulties (for example, France). A coherent privatisation policy that also included public services only took shape in the 1990s, however (Frangakis/Huffschmid 2009: 13). The European Union played a key role in this. The Maastricht Treaty and the deficit limits laid down for the Economic and Monetary Union – a cap on new borrowing of 3 per cent of GDP and on total debt of 60 per cent of GDP – significantly reduced the economic-policy leeway of the member states. As a consequence, some countries switched to offloading loss-making public enterprises. In the wake of the completion of the European Single Market, from the mid-1990s privatisation was extended to previously protected sectors, such as telecommunications, energy supply, post and railways (Hermann/Verhoest 2012).

Officially, however, this was not privatisation, but liberalisation or the abolition of state monopolies. The EU adopted a series of sector-specific directives with which formerly closed markets were gradually liberalised. Although not prescribed as compulsory in the directives the abolition of monopolies was often linked to (partial) sale of former monopolists. The liberalisation of the financial markets that had been under way since the 1990s ensured that sufficient private investors were at hand to buy up the state shares which thus became available.

Despite EU coordination, processes in the member states were not synchronised (Bieling/Deckwirth/Schmalz 2008). Besides trailblazers, such as the United Kingdom, which had sold a considerable portion of its public sector infrastructure even before the adoption of the relevant EU directives, a large number of countries by and large adhered to the schedule laid down in the directives, Germany among them. A third group was made up of laggards that put off liberalisation and privatisation as long as possible, among other things by striving to have compliance deadlines extended. Besides France, this included the Southern European member states. However, that does not mean that these countries were spared privatisation before the crisis. In particular, Portugal conducted an extensive privatisation programme in the 1990s (Frangakis/Huffschmid 2009: 13).

The turbulence on the international financial markets temporarily brought Europe's privatisation frenzy to a standstill. Instead of privatisations, nationalisations were on the agenda. Besides numerous banks that had engaged in speculation in a big way, bringing them to the verge of economic collapse, in the United Kingdom and Estonia parts of the railway network were also taken back into state ownership. After private operators proved to be more expensive and had not improved quality, as promised, a number of municipalities have taken privatised services back into municipal hand in recent years (Candeias/Rilling/Weise 2008; Hall 2012). Among others, Paris and Berlin have taken the municipal water supply back from their private operators. Since the financial crisis mutated into a public budget crisis – among other things because governments had to bail out failing banks – the tide has turned once again and especially in Southern Europe the crisis has been used to get another wave of privatisations under way.

In Greece and Portugal, the granting of ESM loans was linked to extensive privatisation. Spain and Italy have also announced far-reaching privatisations under pressure from the ECB and international institutions. This is not only a matter of rehabilitating public budget deficits. In that case it would probably have made more sense to wait until a decent price could be obtained for state shares.[8] Without furnishing empirical evidence to that effect the European Commission claims that a smaller public sector and privatised public services boost a country's competitiveness, whereas in fact there are countries with a large public sector and high economic growth and others with a small public sector and low economic growth. In other words, the countries concerned were forced, on ideological grounds, to sell state assets to private investors. Not by chance some of the investors were from the very countries largely responsible for formulating conditions for the loans.

8. Among other things, president of the Athens Chamber of Commerce Constantine Michalos remarked that the economic climate in Greece was utterly inappropriate for a successful sale of state property (Privatization Barometer 2011: 49).

## 4.1 The Fire Sale in Greece

Greece is planning a veritable state fire sale (Neue Zürcher Zeitung/NZZ, 26.3.2012). Originally, the sale of state assets and the granting of concessions was supposed to bring 50 billion euros pouring into state coffers over five years. That corresponds to around 22 per cent of Greek GDP. By way of comparison, in the 30 years from 1977 to 2007 the entire proceeds of privatisation amounted to around 14 per cent of GDP. Originally, 15 billion euros were supposed to be obtained by the end of 2012 alone. In order to implement this extremely ambitious programme a dedicated privatisation authority was brought into being, the Hellenic Public Asset Development Fund (HRADF), modelled after Germany's *Treuhand*. *Die Zeit* had this to say about its supposed mission: »The privatisation fund's website is like an online shop, designed to entice wealthy investors from abroad« (*Zeit online*, 4 July 2012).

The plan was to sell a wide range of partly or wholly state-owned enterprises. To enable private operators to turn a profit from their new acquisitions additional state infrastructure was to be ceded to them. The envisaged projects include (partly) state-owned banks and industrial enterprises, public services, such as gas, electricity, post, railways and parts of water supply; public infrastructure, such as ports, airports and motorways; as well as buildings, land and licences. Almost 20 billion euros were to be obtained from the sale of buildings and land alone (Deutsche Bank Research 2011: 12). According to Marica Frangakis (2012: 64f), the current privatisation surge represents an attempt »to offload what remains of Greece's state-owned assets«. Given its extent and pace, even advocates of privatisation have expressed fears that the HRADF will make the same mistakes as the Treuhand and give away property too cheaply (*Zeit online*, 4 July 2012).

Table 8: Privatisation plans in Greece

| | Number of objects | Estimated value (in billions) | Timeframe |
|---|---|---|---|
| Listed public companies | 11 | 3.4 | 2012–15 |
| Unlisted public companies | 13 | 2.9 | 2012–15 |
| Infrastructure | 12 | 6.4 | 2012–15 |
| Gaming/digital rights | 7 | 2.1 | 2012–15 |
| Financial sector assets | – | 16.0 | 2012–16 |
| Real estate | 49 | 1.0 | 2012–20 |
| Real estate land | 70 000 | 18.2 | 2012–22 |
| Total | | 50.0 | |

Source: IMF 2012, 30.

Contrary to the commitments of the Greek government the degree of privatisation remains limited. By the end of 2011 around 1.8 billion euros had been realised. Besides the proceeds from the sale of four state-owned aeroplanes (Airbus A 340) and from the sale and renewal of mobile telephone licences, the bulk of the total was achieved through the further privatisation of the telephone company OTE. The buyers included Deutsche Telekom, which thus increased its share in the former state monopoly to 40 per cent. Give the sluggish sales the targets were revised. Although the privatisation programme has been retained in its entirety the process is now to be concluded only by 2022. By the end of 2012 another 5.2 billion euros are supposed to be realised, 9.2 billion in 2013, 14 billion in 2014 and 19 billion in 2015 (European Commission 2012: 31; see also Table 8).

## 4.2 The Portuguese Privatisation Programme

In Portugal, too, privatisation has played a prominent role in the planned budget consolidation. In comparison to Greece, however, the Portuguese privatisation programme is fairly modest. As already mentioned, Portugal implemented extensive privatisation in the 1990s. In many cases, the Portuguese state retains only a minority share in former state-owned enterprises and these are to be further reduced or even sold off completely. The programme encompasses shares to the value of 5 billion euros, corresponding to 2.9 per cent of GDP. In contrast to Greece, the Portuguese privatisation programme is already at full speed. By April 2012 receipts of 3.3 billion euros had already been realised. The bulk of the proceeds come from the sale of shares in the energy suppliers EDP (Energias de Portugal) and REN (Redes Energéticas Nacionais), including to Chinese investors. Based on the considerable interest the government reckons on privatisation proceeds of 6.47 billion euros.

In the energy sector further privatisations are planned. This includes the privatisation of the Portuguese post and the railways. Particularly contentious is the planned sale of the state water supplier Àguas de Portugal. Rounding off the programme are the government's stakes in airlines and airport operators, as well as banks, insurance companies, mining companies and industrial firms (see Table 9).

Besides privatisations, Portugal has sometimes had recourse to so-called PPPs (public–private partnerships). This involves public tasks being taken over by private partners who are compensated by the state over a long period of time. In 2010 the government launched the biggest PPP project in the country's history, a 1.5 billion euro high-speed railway. Many critics have pointed out that, in the end, PPPs represent a bigger burden on taxpayers than if the government had undertaken the relevant tasks itself.[9] Nevertheless, the European Commission and the European Investment Bank have supported PPPs (Hall 2008). In the wake of the crisis, however, the many PPPs in Portugal have proved to be an incalculable risk because nobody knows how much they will really cost the state over a period of years. In the course of the

9. In the United Kingdom there have been detailed studies on the financial effects of PPPs, for example, by Jean Shaoul of the University of Manchester. See, for example, Shaoul/Stafford/Stapleton (2008).

Table 9: The Portuguese privatisation programme

| | Sector | Public holding (%) |
|---|---|---|
| BPN | Financial | 100 |
| Caixa Seguros | Financial | 100 |
| INAPA – Investimentos, participações e Gestão, SA | Paper | 32.7 |
| Edisoft | Defence | 60 |
| EID | Defence | 38.57 |
| Empordef | Defence | 100 |
| Sociedade Portuguesa de Empreendimentos, SPE, S.A. | Mining | 81.1 |
| Hidroeláctrica de Cahora Bassa, S.A. | Energy | 15 |
| Galp Energia, SGPS, S.A. | Energy | 8 |
| EDP – Energias de Portugal, S.A. | Energy | 25.73 |
| REN – Redes Energéticas Nacionais, S.A. | Energy | 51 |
| Estaleiros Navais de Viana do Castelo, S.A. | Shipbuilding | 100 |
| CP – Carga, S.A. | Transport | 100 |
| TAP, SGPS, S.A. | Transport | 100 |
| ANA – Aeroportos de Portugal, S.A. | Transport | 100 |
| EMEF – Empresa de manutenção de Equipamento Ferroviário, S.A. | Transport | 100 |
| CP (railway operator under a concession) | Transport | 100 |
| CTT – Correios de Portugal, S.A. | Communications | 100 |

Source: Portuguese Finance Ministry, March 2012.

negotiations on conditions for financial aid the IMF, of all things, has now positioned itself on the side of the PPP critics and has declared that the Portuguese government should not launch any new PPPs until further notice (IMF 2012: 96).

### 4.3 Privatisation Plans in Spain and Italy

Spain is also under pressure to repay some of its public debt with the proceeds of privatisations. The state lottery Loterías y Apuestas del Estado, Madrid and Barcelona airports, ship canals and part of the railway system are being talked of as possible privatisation targets. The government stakes in airline IAG (arising from the merger of Iberia and British Airways), energy supply company REE and the food manufacturer Ebro Foods are also under consideration. Nothing concrete has occurred so far, however: the sale of the state lottery was cancelled and the privatisation of the airports postponed indefinitely.

The Italian government has also announced extensive privatisations. Concrete plans are to be presented only from December 2012, however. Prime Minister Mario Monti clearly wants to wait for the markets to calm down before attempting to turn state property into cash. There is thus only speculation concerning the extent and targets of privatisation. According to many reports mainly at issue are the stakes in oil and gas company Eni, energy company Enel and arms company Finmeccanica. Others mention state-owned buildings and land as the main target of privatisation. Despite the victory of the opponents of privatisation in the national referendum held at the beginning of the year the privatisation of water supply is also a constant source of speculation.

### 4.4 Consequences of Privatisation

As already mentioned, an extensive public sector and public services are among the key features of the European Social Model (see Section 1). The planned privatisations in Southern Europe will damage or even dismantle the Social Model. As a result, in the countries concerned the possibility of conducting an active economic, structural and social policy have been considerably diminished. Their dependence on the development of the world market and the investment decisions of foreign capital is increasing. As already mentioned, Deutsche Telekom now owns 40 per cent of the former Greek telecoms monopoly. The French railways have already expressed their interest in a possible sale of Greek railways. In Portugal, Chinese and Arab investors have bought stakes in the country's lucrative electricity supply.

A first consequence of Greece's privatisation plans is a massive reduction in employment. In the state-owned companies that are up for sale 44 per cent of jobs were lost in the course of two years. Many of the employees affected took early retirement. And if that was not enough, those who remained had to accept wage cuts of up to 40 per cent (European Commission 2012c: 24, 40). Especially in social services, such as health care and education, the massive job cuts have resulted in a loss of quality. Italy would like to cut 170,000 jobs in education (Glasner 2010: 31).

It is still too early to say what specific consequences privatisations will have for consumers of previously public services. But it is already clear that the Greek population will have to put up with considerable price increases. Even before a possible privatisation the cost of railway tickets and transport in Athens has been raised by up to 25 per cent (European Commission 2012: 137).

Electricity prices for private households and the craft sector will also rise significantly. In contrast to most other EU member states, in Greece electricity prices for private households and the craft sector are still state regulated. As a result, they are much lower than the prices for companies. The Troika, however, insists that this privileging of small consumers must cease (European Commission 2012e: 167). But development must not be halted in this way: in other European countries liberalisation has meant that large consumers pay lower electricity prices than small ones.

Based on experiences in other countries privatisation of the water supply can also be expected to lead to a price increase. However, higher prices do not necessarily entail more investment in network infrastructure. What the European Commission sees as »true cost pricing« means in many cases a change in the price structure, with a redistribution from small to large consumers.

Despite dubious experiences with previous policies the European Commission has not got tired of demanding further liberalisation and privatisation. In this way it has not hesitated to interfere in the ownership structures of member states and to act contrary to the expressed wishes of the population. As already mentioned, in Italy the majority of the population came out against privatisation of the water supply in a referendum. In most other EU member states there is also broad opposition to such plans. This has not prevented the European Commission from inserting privatisation of the water supply in the memoranda with Greece and Portugal.

## 5. Prospects of the European Social Model in the Context of the Crisis

In this closing section, we first summarise the results of the empirical part of this study of the changes in wage and social policy in the GIPS countries. On this basis we reflect on the repercussions of these developments for the European Social Model and thus provide answers to the questions posed at the end of section 1. Finally, in this section we discuss the prospects of the European Social Model in the context of the crisis. This involves an analysis of the social, political and economic factors that are of particular relevance for the future development of the European Social Model.

In Section 2 it was shown that, in the course of the euro crisis, the EU has developed a new form of wage policy interventionism – Euro Plus Pact, Six Pack – which has led to far-reaching interference in the collective bargaining systems of the GIPS states. The principles of central collective agreements and universal applicability have been undermined and collective bargaining systems have been decentralised. Thus the GIPS states are launching processes of change in their collective bargaining systems that were completed long ago in many other EU states.

In the public sector, as a result of the austerity policy, wages have been frozen or cut. Greece (–20 per cent) and Portugal (–10 per cent) have been at the forefront of cuts in real wages throughout the economy. Spain (–5.9 per cent) and Italy (–2.6 per cent) have also experienced above-average real wage losses (see Figure 4) during this period. This represents an opening of the floodgates in comparison to the situation before the crisis of 2008/2009.

In pension policy – as we have seen in Section 3 – Portugal introduced reforms in 2007 and Greece, Italy and Spain in 2010, which many other EU states had launched a decade previously. Besides a raising of the statutory retirement age, the equalisation of men and women, a toughening of the conditions for early retirement and the abolition of job-specific differences, individual components of pension reform – increase in the number of insurance years for standard pensions, changes in indexation methods – have been adjusted in such a way that the rise in pension costs in relation to GDP by 2040 has been slowed down significantly (see Table 6). Relative pension levels – measured in terms of wage replacement rates – will fall drastically in the GIPS states by 2040 (see Table 7).

The pension reforms that have been implemented will have long-term negative consequences, especially for the incomes of those future pensioner generations who have more unfavourable employment biographies. Longer periods of unemployment and so-called »atypical« employment conditions entail gaps in social insurance contributions and thus lower pension levels.

In Section 4, we looked at privatisation policy in the GIPS states. Despite coordination of privatisation policies by the EU since the mid-1990s the relevant processes have not taken place simultaneously in the member states. Besides trailblazers such as the United Kingdom there is a group of stragglers that put off liberalisation and privatisation as long as possible. This included France, but also the Southern European member states. However, this does not mean that these countries completely avoided privatisation before the crisis. Portugal in particular introduced an extensive privatisation programme in the 1990s.

Privatisation has taken on new impetus in the GIPS states because of the euro crisis and the accompanying austerity policy. In Greece and Portugal, the granting of loans by the EU states was linked to extensive privatisation. Spain and Italy, under pressure from the ECB and international institutions, have announced far-reaching privatisations. Among the GIPS states, Greece has been most affected and plans a veritable fire sale of state property.

For the employees of former public enterprises privatisation policy often goes hand in hand with job losses and wage cuts. For the consumers of services privatisation often brings not only price rises, but also a shift in the price structure in favour of large consumers. Furthermore, in the affected states privatisation makes it more difficult to implement active economic, employment and structural policies.

On this basis, the three questions raised at the end of Section 1 can now be answered:

(i) The liberalisation of collective bargaining systems, the reduction of real wages, the transformation of pension systems and the privatisation of public services in the four Southern European states largely represents – this is the upshot of Sections 2 to 4 – »catch-up« development. In those countries that strongly opposed these neoliberal policies the euro crisis and austerity policies are now breaking down the last bastions of resistance.

(ii) The trend towards ever more radical »liberalisation« of the European Social Model (especially in western and eastern Europe), which could be discerned even before the crisis of 2008/2009, was thus reinforced. Austerity policy has now roped even Southern Europe into this general development involving the weakening of the trade unions, the dismantling of the welfare state and the withdrawal of the state from the provision of services of general interest.

(iii) The social dimension of the European integration process has thus increasingly been sidelined in the EU. While collective bargaining systems have been decentralised and liberalised in the GIPS states, pension systems have been transformed from defined-benefit oriented to contribution-oriented systems and their ability to combat old age poverty has been reduced. Finally, as a result of intensified privatisation the welfare state has been diminished not only in these states but also in the EU as a whole. This is not a linear process, in which »the South« catches up with the reforms that »the West« and »the East« have often already implemented. The weakening of the social flank in Southern Europe in fact has repercussions for western and eastern Europe, putting the trade unions and left-wing parties under further pressure. In the market states system wage and social dumping processes are thus even more pronounced. The »liberalisation« of the European Social Model is intensifying throughout the EU.

Thus arises the question of the future of the European Social Model in the context of the current crisis. What are the determining factors with regard to whether the model will be further eroded and the dismantling of the welfare state will continue or whether the social dimension can enjoy new prospects in the integration process? In what follows, we shall discuss the key social, political and economic factors that could make a substantial contribution to answering this question. These factors of influence include the resistance of trade unions and social movements to austerity policies; the policies of social and social democratic parties in the euro crisis; and possible economic development paths as a result of the euro crisis.

## 5.1 Trade Union and Social Movement Resistance

In many member states, especially in Southern Europe, the trade unions are fighting back against the social hardships caused by austerity policies. In Greece, there have been 15 general strikes since the outbreak of the crisis and two in Spain. There have also been mass protests in Portugal and Italy, as well as in some eastern Europe states. The ETUC has also held four European days of action against unsocial austerity policies (Vasco Pedrina 2011, 2012).

In Spain in 2011, young people – the so-called *indignados* or »indignant« of the 15 May movement – occupied public places for weeks in many large cities in order to publicise their protest against their lack of prospects. However, this movement has run out of steam, among other things because it lacks organisational roots in the political arena and thus has lost relevance. It remains to be seen whether the new alliance of social movements, *Cumbre Social* (»Social summit«) – in which the trade unions are also participating – will be able to form a strong platform for the protests against austerity policies (Witte 2012).

The abovementioned trade union protests against austerity policies lack force and have little prospect of success. The trade unions in Europe have so far been unable to do much to counteract the shift in the balance of power in favour of capital owners and those in the upper income and wealth brackets. Although the euro crisis is a true European phenomenon the trade unions have barricaded themselves within their own national bastions. Defensive action is being taken primarily in the national arena. There has been no Europeanisation of protests and actions to speak of. This reflects, on one hand, the fact that employees in the EU member states have been affected asynchronously and irregularly: the south and the east have been harder hit than the north and the west. On the other hand, the European trade union federations lack effective organisations, which in any case have largely taken a pro-EU stance since their inception and thus anxiously avoid any appearance of anti-Europeanism.

## 5.2 The Policies of Socialist and Social Democratic Parties in Europe

The policies of socialist and social democratic parties in the euro crisis are extremely ambivalent. Whenever they have been in power – Greece, Portugal and Spain – they have followed the dictates of the Troika and the financial markets, implementing and defending harsh austerity policies (Malkoutzis 2012; Witte 2012; Castro Caldas 2012). In Portugal and Spain they have been voted out, while in Greece, although they remain part of a coalition government, they suffered heavily in the elections. In Portugal and Spain the socialist parties, because of their past policies when in government, are experiencing great difficulties opposing the new conservative governments with a credible alternative (Witte 2012; Castro Caldas 2012). Where social democrats find themselves in opposition – such as in Germany – they have not openly criticised the austerity policies of the »left-wing« governments in Spain, Portugal and Greece, while at the same time calling for a growth pact in Europe to alleviate the harsh austerity policies in Southern Europe. In France, the Socialists under Hollande, in the presidential election campaign, demanded a renegotiation of the Fiscal Pact, a growth pact for overindebted states and the abandonment of austerity policies. Since his election victory, Hollande has not renegotiated the Fiscal Pact, has accepted a growth pact that is no more than a sham (see Section 5.3.1) and has announced consolidation of the French public budget, which in plain terms means tax rises and/or spending cuts. In Germany, the SPD has conditionally agreed to the Fiscal Pact, although with the so-called »growth pact« the austerity policy will not change one jot. The bottom line is thus that social democrats and socialists in Europe are putting up no resistance to austerity policy, the dismantling of the welfare state and the weakening of the trade unions.

## 5.3 Economic Development Paths out of the Crisis and the Consequences for the European Social Model

The third important factor influencing the prospects of the European Social Model is the economy, which is harder to assess than the other two factors (Rodrigues 2012). Three development paths are conceivable with regard to the development of the Eurozone: muddling through, collapse or readjustment.

### 5.3.1 Muddling Through

In the muddling through scenario the aim of policy will be to avoid short-term collapse by reassuring the financial markets, primarily through the intervention of the ECB, although without abandoning austerity with regard to the real economy. This path – as shown in Section 1 – brought the Eurozone a recession in 2012, which is likely to continue in 2013 because of further austerity measures and unfavourable global economic developments (slump in the United States, problems in the emerging economies). If the dominant policy is able to avoid the many pitfalls, which could lead to a collapse of the Eurozone (see Section 5.3.2), from 2014/2015 the budgets of the Southern countries could be consolidated. Based on lower interest rates, improved competitiveness in foreign trade and rehabilitated public budgets a new phase of economic growth could commence in Southern Europe.

The decisions made at the EU summit at the end of June 2012 and the ECB's interventions in September 2012 fall into this category of »muddling through«. Accordingly, in order to stabilise the financial markets in the short term by ESM purchases on the primary market and unlimited purchases by the ECB on the secondary market interest rates for Italian and Spanish bonds should be reduced significantly. An EFSF loan in the amount of 100 billion euros, furthermore, is intended to shore up Spain's banking sector.

In the real economy the course of austerity is being maintained, although the June summit – with considerable fanfare – adopted a »growth pact«. This pact is something of a sham, however. Half of the envisaged 120 billion euros is already allocated to the structural funds and thus is not new money. The other half comprises credits that the European Investment Bank (EIB) can offer to private and public investors. However, such investors must first be found. Thus it does not involve a government stimulus package in the form of debt-financed public spending. Since, moreover, austerity policy has not been halted in the wake of it – on the contrary, Italy, Spain and France are in the process of intensifying it – the so-called »growth pact« will do nothing to encourage higher growth rates. French President Hollande has thus neither renegotiated the Fiscal Pact, delivered a growth pact nor ended Sarkozy's austerity programme.

Whatever the complex details, all in all it is clear that (a) the so-called »growth pact« changes nothing with regard to the harsh austerity policy, (b) bailout credits – such as the 100 billion for Spain's banks – increase public debt and thus reinforce the dominant logic of further austerity measures and (c) even the stabilisation of interest rates for government bonds through ESM and ECB intervention is linked to more austerity measures.

The short-term stabilisation of the financial markets, on this approach, is combined with a slump in the real economy in 2012 and 2013. The dominant policy, in the context of this high-wire act, is likely to crash repeatedly. For various economic, social and political reasons this path can come to grief. If all the pitfalls can be avoided, however, from 2014/2015 stabilisation could succeed. At this point, the public budgets of the Southern states could largely be consolidated, so that the phase of throttling government demand would be ended. Due to the massive reduction in real wages the international competitiveness of these states could be increased significantly. Finally, even a lowering of medium- and longer-term interest rates could contribute to a considerable improvement in investment conditions.

This long period of austerity, which on these assumptions would last around five years, is likely to be disastrous for the European Social Model. Save, save, save, due to the intensification of the recession, means, on one hand, higher unemployment and thus further weakening of the trade unions and falling real wages, and on the other hand, further restraints in education, health care, labour market and pension policy. The substantive goals of a solidaristic European Social Model, as laid down in Section 1, would be stymied on the dominant development path of muddling through. Furthermore, social democrats and socialists, as well as European trade unions would be brought to their knees by the »success« of this conservative-liberal approach to dealing with the crisis.

The forces in Europe committed to realising qualitative growth and full employment, productivity-oriented real wage increases and statutory minimum wages, as well as the expansion of the welfare state, would be permanently weakened politically.

### 5.3.2 Collapse of the Eurozone

If the consequences for the European Social Model of this dominant economic development path of muddling through are very negative, in the event of a collapse of the Eurozone they would be catastrophic. This worst-case scenario is not scare-mongering, but a development prospect whose likelihood has increased month by month since spring 2012. Although ECB President Draghi has tried to placate the markets and has declared the euro »irreversible« the dominant policy, despite its promises, is increasingly pushing the Eurozone to the abyss. It is not able by bold steps in the direction of banking, fiscal and political union to grant the Eurozone real prospects nor is it in a position to abandon its austerity policy, which only exacerbates the crisis. This is leading Europe deeper into recession which, in combination with the downside risks of the precarious recovery in the United States (automatic tax increases and spending cuts from 1 January 2013) and the signs of weakness in the emerging economies, could result in a global economic crisis could surpass that of 2008/2009 by some way.

For a number of reasons the Eurozone could collapse in the coming months. Economic and political risks in Greece and Spain, political risks in Germany and a new global economic crisis are all circumstances that could induce such a crash. In Greece and Spain, the intensification of unemployment and austerity policies could lead to social and political opposition and thus a collapse of the negotiations with the Troika/EU. In Germany, a broad majority of the population rejects any more support for the Southern states, as well as the ECB's intervention policy. The rejection of an increase in the ESM and further loans for Greece and Spain in the German parliament could lead to an abrupt end to crisis management in the Eurozone. The risks of a new global economic crisis have already been described here and, because of the increasing economic upheavals within Europe, have the potential to bring about the collapse of the Economic and Monetary Union.

The effects of a collapse of the euro can be described briefly. The break-up of the Eurozone would lead to export losses and slumps in growth and employment in the countries with strong currencies, while in the devaluating Southern states, due to exploding public debt and a growing interest rate burden, state bankruptcy could no longer be avoided. Access to the international financial markets would be denied to these countries. Incomes and employment would crash. Because of increasing economic problems in the north and the south in all probability a new protectionism would ensue, thus tearing apart the Single Market. This would be the demise of the EU. The fact that this would also mean the end of the European Social Model and, at national level, of the welfare state as we know it, is readily apparent.

### 5.3.3 The Path of Paradigm Change

Finally, it is also possible that the EU will learn from the crisis, abandon austerity policies and make good the deficiencies of the Maastricht Treaty. This third way cannot be ruled out entirely. The Concept Paper produced by President of the European Council Herman van Rompuy, which was sent for resubmission at the June summit, takes this approach to some extent, at least as regards institutional reforms (Platzer 2012). The Europeanisation of economic, tax and debt policy called for by SPD leader Sigmar Gabriel also requires a change of mind. Gabriel's position here is based on a paper by German professors Peter Bofinger, Jürgen Habermas and Julian Nida-Rümelin (2012) for the SPD Programme Commission, which calls for a new constitutional convention on reforming the EU treaties. Even though such efforts are not currently at the centre of political attention in Europe it cannot be ruled out that the EU, in the wake of a further intensification of the crisis, will find the strength for such a qualitative leap. In earlier profound crises the EU was in a position to pull itself out of the swamp by its own bootstraps. After De Gaulle's »empty chair« policy this was the case at the Hague summit of 1969 when the integration process was given a new impetus. It also happened in 1987 when the Single European Act and the Single Market project brought to an end a long period of stagnation with regard to integration. It is also conceivable that a more serious downturn in the global economy in 2013, which took a stronger grip even in Germany, could lead to a rethink on the part of the German government. Economic stabilisation measures in Germany, taken in a parliamentary election year, could reinforce calls for the amelioration of austerity policy in Southern Europe and for a paradigm change in Europe.

It is high time that the logic of the Maastricht Treaty was reassessed and Europe stabilised by means of a radical policy change. Besides reregulation of the financial markets (Dullien 2012) the most important elements of such an alternative programme are as follows:

- a European strategy for qualitative growth and reducing unemployment;
- common European debt management;
- Europe-wide coordination of wage, social and tax policies;
- a supranational European economic government.

What is needed first and foremost is a new European strategy for qualitative growth and employment that recognises that public debts cannot be sustainably reduced by austerity, but by growth (Dauderstädt 2011; Schulmeister 2012; ILO 2012a).

The second element of the alternative programme would be joint European debt management. The joint issue of euro-bonds would improve the credit ratings of the government bonds of the most heavily indebted countries and thus bring about a significant interest rate reduction (Delpla/von Weizäcker 2011).

The third paradigm change in Europe must be an abandonment of the market-state system, with the coordination of wage, social and tax policy. European coordination regulations must be introduced in these areas to prevent wage, social and tax dumping and thus to reduce current account imbalances.

A New Deal for growth policy in Europe, the implementation of joint debt management in the form of eurobonds and control over European-coordinated welfare state and tax policy, all this would be the task of a democratically-elected supranational economic government in the Eurozone. This is the last step in a general revision of the shortcomings of the EU treaties.

In contrast to the European Council's conception of a European economic government, which would be based on intergovernmental cooperation between the member states, in this alternative programme such a supranational government would be democratically elected (Busch 2010; Collignon 2010; Hacker 2011; Platzer 2012). This requires a further democratisation of the European Union or the Eurozone. At elections to the European Parliament citizens of the member states would have to have an equal vote. The current privileges enjoyed by states with smaller populations in the second chamber, the current Council of the European Union, would have to be reduced in the spirit of a genuine federal constitution. In the European Parliament, in contrast, the democratic principle would have to be realised fully. This Parliament would have to choose a government that would replace the current Commission.

It is vitally important that this economic government also have the competence to determine the direction of member states' budgetary policy because only in this way could a consistent European fiscal policy be implemented that would ensure the macroeconomic stabilisation of the Union/Eurozone, in cooperation with the ECB. Only in this way could responsibility be taken for the communitisation of debt policy in the form of eurobonds (for the details of this alternative programme see Busch 2012).

At the beginning of the euro crisis two and a half years ago even among socialist and social democratic parties in Europe such an alternative programme as a whole and even some of its individual components were still regarded as illusory. In the course of the crisis and its successive intensifications this view has changed considerably. There is now open discussion of a growth pact for Europe, the introduction of eurobonds and common debt management – in particular under pressure from Southern European governments – the need for a fiscal union and a European economic government and a deepening of political integration (Van Rompuy Working Group). Furthermore, with regard to short-term stabilisation of the Eurozone ideas are now being discussed that only a year ago were still being condemned as the instruments of the Devil, such as massive ECB intervention and a banking licence for the ESM. It is thus clear that due to the intensification of the crisis (which in 2013 can only be expected to get worse) and the accompanying fundamental threat to the Eurozone and the European project as a whole something of a learning process is taking place with regard to the dominant policy and what hitherto has been unthinkable is getting onto the European Council's policy agenda. Thus there is hope not only that the collapse of the Eurozone can be avoided, but also that the path of muddling through can be abandoned and the door opened to a fundamental renewal of the EU. Only in this way could the economic and social crises in Europe be overcome and the project of the European Social Model revived with new prospects. In order that such a paradigm change find strong political support, however, it is vitally important that the European trade unions cast off their ideological blinkers and develop a joint European strategy, and also that the majority view in social democratic and socialist parties favour saying goodbye to economic austerity and open up to the idea of Europe's political readjustment.

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