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Crisis, structural reform and the dismantling of the European Social Model(s)

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Abstract

The president of the European Central Bank, Mario Draghi, stated in an interview that the European Social Model (ESM) is 'gone'. In the same interview he also underlined the need for structural reform as a precondition for renewed growth in Europe. The main hypothesis of this article is that the simultaneous mentioning of the end of the ESM and the need for structural reform was not a coincidence. Structural reforms as adopted during the crisis are threatening the European Social Model(s). This can also be seen in the growth of poverty and inequality in the crisis countries. The article, furthermore, argues that the shift from the Open Method of Coordination to Economic Governance could increase pressure on other countries to introduce similar reforms, further weakening the ESM.

Keywords

Collective bargaining, economic crisis, European Social Model, labour markets, structural reform

Introduction

The then newly appointed president of the European Central Bank (ECB), Mario Draghi, stated in an interview with the *Wall Street Journal* in February 2012 that the European Social Model is 'gone'. Draghi basically argued that there may have been a time when Europe could afford to maintain a comprehensive system of welfare protection, but given the economic problems faced by many European countries, as highlighted by the current crisis, this was no longer the case.[1] The ECB president, furthermore, noted that austerity coupled with structural change was the only option for economic renewal in Europe. A number of EU member states have followed Draghi's advice and have introduced major institutional reforms in addition to cutting

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back public spending – several of them under pressure from the ECB, the European Commission and/or the International Monetary Fund.

Perhaps Draghi's comments on the end of the European Social Model and the need for structural reforms were not coincidental. The main hypothesis of this article is that the structural reforms as adopted during the crisis are threatening the European Social Model(s) and that this process has major consequences for the development of poverty and inequality in the crisis countries. The article, furthermore, argues that the shift from the Open Method of Coordination to Economic Governance could increase pressure on other countries to introduce similar reforms even if they are not on the verge of bankruptcy.

The first section of this article provides an overview of the structural reforms that were adopted in 11 EU member states between 2008 and 2012. The reform areas covered in this section include social protection, pensions, labour markets and collective bargaining. The following part sketches out the main characteristics of the European Social Model(s) and discusses the impact of structural reforms on the ESM. The next section then analyses the consequences of austerity and structural reforms for poverty and inequality. The following section describes the introduction of a new European Economic Governance framework during the crisis and discusses possible effects for employment and social policies and for the European Social Model(s). The article ends with a brief conclusion.

Crisis, austerity and structural reform

While initially the crisis began as an American crisis, or more precisely as a crisis of the American housing market and related collateralized debt, the economic problems quickly spread to Europe. Here the crisis arrived as a banking crisis, as several European banks had purchased 'toxic' American debt obligations, and as an export crisis caused by falling demand on overseas markets (Bellofiore, 2013: 506–507; Bieling, 2012: 258; Scharpf, 2011: 25).

In a number of countries, the tightening of financial markets and the 'credit squeeze' caused by the banking crisis, revealed homemade problems in European housing markets and led to the bursting of national real estate bubbles. This put even more strain on the banking sector and demanded even larger bank rescue packages to stabilize the financial sector. The rescue packages put additional pressure on public budgets which were already stretched because of falling tax income and rising social expenditure, as well as widespread economic stimulation programmes. Some countries, including most notably Greece, were ill prepared for such a situation as they had failed to reduce public debt in the boom years that preceded the crisis (Busch, 2012).

Initially a number of countries responded to the downturn with Keynesian-inspired deficit spending in order to make up for the lack of private demand. However, from 2009 onwards Europe increasingly shifted from economic stimulation to financial consolidation (Bieling, 2012; European Commission, 2012: 37–38; Theodoropoulou and Watt, 2011). One country after the other adopted austerity packages, some of them several packages in a row. Greece and Ireland presented the most ambitious plans, cutting public spending by 18% of GDP, while Portugal was aiming for 12% (OECD, 2012: 28).

Especially in those countries that received support from the European Stability Mechanism or from the IMF as stand-alone grants, austerity measures were coupled with far-reaching institutional reforms written down in so-called Memoranda of Understanding signed by the receiving governments (Scharpf, 2011: 29). Informally the ECB also pressed Italy and Spain to introduce structural reforms such as the reform of collective wage bargaining systems and the rules regulating the hiring and dismissal of employees.[2]

Structural reforms differ from regular austerity measures inasmuch as the proposed measures not only and sometimes not even reduce public spending; the main goal instead is to change the institutional framework governing employment and welfare issues as well as other aspects of the economy (Hermann, 2014: 110). Hence while austerity measures typically have short-term effects, structural reforms show their full effects only over time. As the ECB (2011: 7) notes, structural reforms 'help … countries to strengthen competitiveness, increase the flexibility of their economies and enhance their longer-term growth potential'. The call for structural reforms is not new. The Lisbon Strategy had already underlined the need for structural reforms to make Europe the most competitive economy by 2010 (Amable et al., 2009). However, the number of voices demanding structural changes have increased considerably during the crisis, as several commentators have identified the lack of structural reforms as a major cause of the crisis and as a barrier to renewed growth in the crisis countries (Hermann, 2014).

A number of studies have already dealt with the causes and consequences of the crisis (e.g. Farnsworth and Irving, 2011; Karamessini and Rubery, 2013; Lehndorff, 2012a; Schömann and Clauwaert, 2012; Vaughan-Whitehead, 2013). Most of them, however, focus on certain countries or certain reforms areas (social policies, collective bargaining, labour legislation, impact on women, etc.). In contrast, the following paragraphs give an overview of the structural reforms introduced in 11 EU member states during the crisis in the areas of social protection, pensions, labour markets and collective bargaining. The intention is to show the common direction of the reforms in order to be able to analyse the consequences for the European Social Model(s). The countries were selected on the grounds that they were all severely affected by the crisis and, hence, subject to reform. Information on the reforms was gathered from primary documents and existing literature as part of a research project on 'The Financial Crisis and Consequences for Welfare States and Labour Relations', carried out in 2012 and published in Hermann and Hinrichs (2012). Some of the information has been updated for this publication.

Social protection

Initially, welfare state spending played an important role in mitigating the worst effects of the crisis. As the European Commission (2012: 15) notes '[s]ocial protection benefits have generally significantly cushioned the effects of the income shocks on households from the economic crisis, especially in the period 2007-09'. However, the situation changed significantly in the second phase of the crisis, when welfare expenses became a major target of budget consolidation (Feigl, 2012: 37; Heise and Lierse, 2011). Hence while in 2009 social protection expenditure increased by around 7% in the EU 27, expenditure growth levelled out in 2010, started to decline in 2011 and continued to fall in 2012. The decline affected most member states but was particularly significant in Greece, Latvia, Lithuania, Hungary, Portugal and Romania (Bontout and Lokajickova, 2013: 16–17).

Among other things, welfare cuts affected unemployment benefits. The Greek government, for example, responded to growing unemployment by cutting unemployment benefits

Table 1. Social protection spending.

	Cuts in unemployment benefits	Reduced duration of unemployment benefits	Reduced access to unemployment benefits
UK	–	–	X
Ireland	X	X	–
Greece	X	X	–
Portugal	X	X	X
Spain	X	–	X
Italy	–	–	X
Estonia	–	–	X
Latvia	–	–	X
Lithuania	–	–	–
Hungary	X	X	X
Romania	X	–	–

Sources: Compiled from European Commission (2012); Avram et al. (2013); Vaughan-Whitehead (2014) and further sources.

Table 2. Pension reforms.

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

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

by 22% (Avram et al., 2013: 34). Unemployment benefits were also reduced in Portugal, together with a shortening of the maximum period for which unemployment benefits can be claimed (Avram et al., 2013: 41). In several cases, the reform of unemployment benefits was linked to a strengthening of work obligations (Vaughan-Whitehead, 2014). Hungary, for example, reduced entitlement to unemployment benefit to three months while at the same time introducing the obligation to perform community work (Toth et al., 2012: 149). An overview of the effects on social protection expenditure is given in Table 1.

Pensions

Since pensions make up a large part of welfare spending, it is not surprising that they are a major focus of spending cuts (see Table 2 for an overview of pension reforms). However, while some of the measures have immediately reduced expenditure, others will become effective only after several years, presumably when the current crisis has long been resolved.

Among the short-term measures are pension freezes and pension cuts. In Portugal and Greece, for example, the 13th and 14th pension payments were partly eliminated (Hermann and Hinrichs, 2012: 39–42).[3] In addition to short-term measures, many countries also used the opportunity to speed up long-term pension reforms. A number of countries have increased the retirement age during the crisis. In the long-term the retirement age is expected to increase to between 67 and 70 years. Usually the changes are introduced gradually over a several year-long time period. In Italy, however, the retirement age of women employed in the public sector was raised from 61 to 65 between 2010 and 2011 and then to 66 in the following year (Hermann and Hinrichs, 2012: 40). Some countries have, furthermore, introduced 'automatic stabilizers' which assess the life expectancy every three or five years and adjust the retirement age to changes in life expectancies (Hermann, 2014: 113–114).

While the regular retirement age is increasing, access to early retirement and invalidity pensions has been restricted. Several countries have, furthermore, extended the contribution period that makes retirees eligible for a minimum or full pension. In Latvia, for example, the minimum period of contributions has been increased from 10 to 20 years (Hermann and Hinrichs, 2012: 44–45). Some countries have also extended the contribution periods upon which the pension payments are calculated. In Greece, for example, calculations are now based on the entire employment career instead of the best five of the last 10 years (Hermann, 2014: 113). The likely result of the extension of contribution and calculation periods is longer working lives and lower pensions.

Labour markets

Labour markets are another popular target of structural reform, even though labour markets reforms have no immediate effect on public budgets (Hermann and Hinrichs, 2012: 17–22; Schömann and Clauwaert, 2012: 10–12). The overall goal of the reforms is to make labour markets more flexible. However, flexibilization essentially means the promotion of non-standard employment and weakening job security (Hermann and Hinrichs, 2012: 17–22). Several countries have relaxed regulations of fixed-term employment (see Table 3). In Portugal, for example, the maximum length of fixed-term contracts has been increased from six to 36 months (Hermann and Hinrichs, 2012: 17). Some countries have introduced new types of contracts with lower wages and less employment security. Spain, for example, introduced a new type of contract which gives the employer the right to dismiss workers without reason in the first year of employment. Other countries achieved a similar situation by extending probation periods. In Greece, for example, the probation period now lasts for 12 instead of two months (Hermann and Hinrichs, 2012: 19).

Changes have also made it easier to lay off workers. In Greece the government ended the special employment protection for civil servants. In Estonia employers no longer need the consent of the labour inspectorate to lay off pregnant women, while in Hungary employees can now be dismissed while they are on sick leave (Hermann, 2014: 116). In addition to weakening special protection for particular vulnerable employees, the reforms also included a shortening of dismissal periods. In Greece workers have to be given

Table 3. Labour market reforms.

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

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

notice three instead of five months; in Spain the period has been reduced from 30 to 15 days. Layoffs have not only become easier, but also cheaper. In Greece, Spain and Portugal severance pay has been halved (Hermann and Hinrichs, 2012: 20).[4]

Mass layoffs have also been made easier. In Estonia the dismissal period has been halved and companies no longer need government approval for mass redundancies. Estonian employers, furthermore, are no longer required to reinstate workers if new employees are hired after a mass layoff. Romanian workers still have a right to be rehired – but the period for which this rule applies was cut from nine months to 45 days. Since mass layoffs are associated with additional obligations, the Greek government has increased the minimum number of workers that need to be made redundant simultaneously to qualify the measure a mass layoff (Hermann and Hinrichs, 2012: 21).

While redundancy rules have been relaxed, it has become more difficult for employees to fight unfair dismissals. In the UK a worker must now be employed for two instead of one year to be able to challenge a dismissal in court. In Spain the definition of fair dismissals has been expanded. It is now sufficient for companies to refer to technological or economic reasons to justify a fair dismissal. Even if an employee can prove an unfair dismissal, the right to be reinstated has been restricted. In Italy a planned labour market reform will still grant victims of an unfair dismissal financial compensation, but they will no longer be able to return to their former job. The Hungarian government refrained from altering the definition of unfair dismissals, but reduced the maximum fine from the equivalent of 36 to 12 months' wages (Hermann and Hinrichs, 2012: 20–21).

Table 4. Reform of collective bargaining.

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

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

Collective bargaining

Particularly dramatic are the changes in collective bargaining – again a reform area which is not connected to public finances. While in some countries the crisis initially fostered social partnership arrangements through what has been described as 'crisis corporatism' (Urban, 2012), the following structural reforms amount to a profound decentralization and erosion of collective bargaining systems (Hermann and Hinrichs, 2012: 23–30; Schulten and Müller, 2013) (see Table 4 for an overview). Decentralization has been imposed in three different ways. First, countries have abandoned national or sectorwide collective agreements. While in Romania the government suspended the national collective agreement through legislative reform, in Ireland the social partnership on which the national agreement was based collapsed after the government revised an existing agreement and unilaterally cut public sector wages (Doherty, 2011). Second, countries have eradicated the favourability principle. The favourability principle is a cornerstone of many bargaining systems and stipulates that in the case of multiple collective agreements those regulations prevail that grant the most favourable conditions for workers. As a result company agreements only have an effect when they contain better conditions than multi-employer agreements. In Greece and Spain this is no longer the case. Since the crisis company agreements apply even if they provide for poorer employment conditions than sector or regional agreements (Hermann and Hinrichs, 2012: 25). Third, countries have promoted decentralization through the granting of exceptions and the acceptance of derogation from sector-wide standards. Italy, among others, adopted a reform that allows for a wide range of derogations in essential bargaining matters (Hermann and Hinrichs, 2012: 26–27).

Decentralization is complemented by a weakening of bargaining institutions. Greece has suspended extension procedures through which agreements concluded between one or more employer organizations and trade unions were made binding for an entire sector or region. In Portugal extension procedures were initially also suspended, but meanwhile the government has introduced a reform according to which the signatory parties must represent at least 50% of the workers in the sector to justify an extension procedure (Hermann and Hinrichs, 2012: 26–27).

Collective bargaining systems also suffer from the elimination or shortening of the ‘after effect’. The ‘after effect’ means that regulations continue to apply after an agreement has expired. By doing so, they encourage employers to negotiate a new contract. In Estonia the ‘after effect’ was entirely abandoned; in Greece it was reduced from six to three months. In Spain it still lasts for two years – but this is a significant deterioration from the previous situation where agreements continued to apply until a new contract was reached (Hermann and Hinrichs, 2012: 26–27).

The crisis even encouraged governments to interfere in collective bargaining. In Greece an existing agreement between the social partners was suspended and the national minimum wage cut by the government by 22%. In Greece and Romania new legislation limits the duration of collective agreements to three and two years respectively (Hermann and Hinrichs, 2012: 28). The erosion of the bargaining systems was complemented by a weakening of trade union representation (Hermann and Hinrichs, 2012: 28–29). In Greece, for example, company agreements can now be signed by staff representatives without trade union affiliation. In smaller companies they can do so despite the presence of designated trade unionists (Voskeritsian and Kornelakis, 2011: 18–19). The combination of company-bargaining and non-union bodies signing the agreements has resulted in an average 22% drop in collective wages (Georgiadou, 2012). Romania has introduced tougher criteria for trade unions to qualify as representative organizations that can sign collective agreements, while Hungary abolished the tripartite national forum for the discussion of wage developments (Schulten and Müller, 2013).

This overview shows that the structural reforms adopted during the crisis more or less go in the same direction. The cuts in social benefits and pensions, the promotion of atypical employment and the erosion of employment protection, as well as the decentralization of collective bargaining and the weakening of workers’ interest representation are all intended to ‘free’ markets from allegedly harmful constraints. An interesting finding is that the reforms are similar despite the fact that the causes for the crisis differed in the member states (real estate bubbles, public debt, private debt, etc.) and that employment and social systems differ in the crisis countries (Becker and Jäger, 2012; Hermann, 2014: 123–124).

The European Social Model(s)

The structural reforms adopted during the crisis are affecting the European Social Model(s). The invention of the term European Social Model is commonly attributed to Jacques Delors. As president of the European Commission, the social democrat Delors introduced the idea of a European Social Model in the early 1980s to distinguish Europe from the United States (Hermann and Hofbauer, 2007: 126; Wincott, 2003: 288). As such the European Social Model initially was a political intervention, a fiction launched to strengthen the rather fragile European identity and to propose an alternative to the ultra-liberal capitalisms of American and from the late 1970s onwards British imprinting (Hermann and Hofbauer, 2007: 126). However, it was not long before an academic debate emerged on the usefulness of the concept (Goetschy, 2006).

Analytically, the term European Social Model raises a number of difficulties. According to quantitative indicators such as (per capita) GDP, inequality or unemployment, differences within the EU 27 are actually larger than differences within the United States (Alber, 2006). Institutionally, Europe combines different varieties of capitalism as well as different welfare state models (Clift, 2009; Schmidt, 2009). Some authors therefore argue that Europe has not one, but several distinct models. Ebbinghaus (1999) and Sapir (2006) identify four European social models – a Nordic, Anglo-Saxon, Continental/Centre and Southern/Mediterranean model – while Visser (2008) introduces a fifth category to account for the transition countries in Central and Eastern Europe.

While acknowledging national diversity in Europe, Hyman (2005: 11) argues that the common features in continental Western Europe are strong enough to distinguish a European Social Model from an American model of largely deregulated labour markets and a Japanese model of management-dominated company employment relations. According to Hyman (2005: 11) Europe is unique inasmuch as there are ‘substantial limits to the ways in which labour (power) can be bought and sold’. These limits constrain the autonomy of employers to ‘a degree unknown elsewhere in the world’ (Hyman, 2005: 11). The limits are primarily set through comprehensive employment protection legislation, as well as encompassing and centralized collective bargaining structures. Offe (2003: 443) makes a similar argument when he notes that in the European model of ‘social’ capitalism, economic transactions, including labour market exchanges, tend to be institutionally embedded and therefore more restricted than in other parts of the world. Schiek (2013: 4) also argues that ‘[d]espite all these differences, European national social and economic models converge on a common core’. More specifically, European Social Models ‘share the idea that there is a responsibility of societies for the individuals’ well-being, which in particular inform policies of transfer payments for periods of lost incomes and correcting labour markets through legislation and collective bargaining’ (Schiek, 2013: 4). Grahl and Teague (1997: 405) have a similar picture in mind when they define the European Social Model as ‘a specific combination of comprehensive welfare systems and strongly institutionalized and politicized forms of industrial relations’.

Following the work of Polanyi (1957) and Esping-Andersen (1990), Hermann and Mahnkopf (2010: 318) argue that ‘if there is an essence of the European Social Model it is the comparatively high level of de-commodification provided by the institutionally and politically highly disparate European social systems’. De-commodification is understood as *relative* independence from markets (Hermann and Mahnkopf, 2010: 315–316). De-commodification is primarily achieved through extensive employment regulation, constraining labour market transactions, as well as the access to non-market income, allowing workers to exist at least for some time without selling their labour power. The exceptional degree of de-commodification in core European countries is mirrored in a relatively low proportion of poverty and a high degree of equality (Ferrara et al., 2001: 174; Hermann and Mahnkopf, 2010: 315–316; Pontusson, 2005).

By promoting market forces and by weakening employment and social security, the structural reforms introduced during the crisis, including cuts in social benefits and public pensions, the flexibilization of labour markets and the decentralization of collective bargaining, precisely undo the de-commodifying features of the European Social Model(s). Schmitter (2012: 26) is therefore entirely right to state that 'the vision of Europe as the site of an alternative form of "social capitalism" has been seriously tarnished by the current crisis'.

The effects of austerity and structural reform

Contrary to the promises of Draghi and others, austerity and structural reforms have so far failed to initiate a systematic economic recovery in Europe (Lehndorff, 2012b). Except for Britain, whose growth expectations are also shaky, none of the countries covered in this analysis has fully made up for the GDP losses incurred since the start of the crisis (by the end of 2012).[5] Greece suffered from five straight years of economic contraction and lost about a quarter of its GDP. Negative or slow growth is complemented by record-high unemployment, accounting for more than 25% of all workers in Greece and Spain, and for more than 50% of young workers in both countries (for Greece, see Karamessini, 2012; for Spain, Banyuls and Recio, 2012).

Not surprisingly, growing unemployment was accompanied by an increase in poverty and economic deprivation (see overview in Table 5). In four of the 11 countries included in our sample, the proportion of those living on less than 60% of national median income has increased between 2008 and 2011 – in Ireland, Spain, Lithuania and Latvia by more than 4%. However, the measure of *relative* poverty underestimates the real effect of poverty because it does not take into account the simultaneous fall of median income in the crisis. Because of falling median income the poverty threshold decreased in all countries except for Romania, and in six countries it fell by more than 6% (in Lithuania by an astonishing 17.4%). This means that people may no longer be qualified as poor even though their income situation has deteriorated during the crisis. The OECD (2013: 6) attempted to tackle the problem by calculating the growth in poverty based on 2005 median incomes. As a result, between 2007 and 2010 poverty increased in six out of eight countries from the sample covered in our analysis. Poverty increased by more than 5% in Greece and Spain and more than 3% in Ireland.[6] This picture is confirmed by changes in the share of the population experiencing severe economic deprivation and those reporting great difficulties to make ends meet. In both cases the proportion increased in all but three countries from our sample. Particularly affected were Greece, Hungary and the Baltic states. Most of the countries that recorded increases in poverty during the crisis years already had above-average poverty rates before the downturn (Leschke et al., 2012: 263–264). Furthermore, given the pension reforms introduced in the crisis as well as the growth in unemployment and non-standard jobs, the crisis countries will face a veritable old-age poverty problem in the future – if no counter-measures are adopted (Hermann and Hinrichs, 2012: 57).

Table 5. Poverty, social exclusion and economic deprivation.

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

1. Risk of poverty or social exclusion in % (Eurostat).*
2. Changes in the risk of poverty and social exclusion in % (Eurostat).*
3. Development in the risk of poverty indicator/poverty threshold in % (Eurostat).*
4. Change in poverty when poverty threshold anchored in 2005 median incomes in % (OECD).**
5. Share of population experiencing severe economic deprivation in % (Eurostat).*
6. Change in the share of population experiencing severe economic deprivation in % (Eurostat).*
7. Share of population reporting great difficulty making ends meet in % (Eurostat).*
8. Change in the share of population reporting great difficulty making ends meet in % (Eurostat).*

Sources: * From European Commission (2012). ** From OECD (2013).

The recession not only fuelled unemployment and poverty; austerity and structural reforms also led to an increase in inequality (see Table 6 for an overview). Heise and Lierse (2011: 32) conclude from the study of austerity programmes from seven countries that ‘most countries are making savings at the expense of those on low incomes [while] only a few governments are pursuing a strategy which also involves higher earners in debt consolidation’. Avram et al. (2013: 26) attest to a more balanced approach by governments. Most of the austerity programmes they have included in their analysis had a progressive effect, demanding higher contributions from wealthier citizens.

However, in five out of the 11 countries included in this analysis the Gini coefficient, a measure of inequality, increased between 2008 and 2011. Ireland recorded the greatest proportional increase, followed by Spain and Hungary. The gap between the top and the bottom income quintile grew in six out of the 11 countries, signalling growing inequality among high- and low-income earners. Here the greatest increase was recorded in Spain, followed by Ireland and Italy.

These figures may still underestimate the different exposure of different income groups to the crisis. A comparison between the development of disposable income of the top and bottom income deciles shows that in six out of the eight countries from our sample for which data are available the top 10% proportionally lost less income between 2007 and 2010 than the bottom 10% – often half as much or less. Again Spain and Italy stand out in this comparison as here the top decile merely lost 1% of disposable income, while the bottom decile lost

Table 6. Inequality.

	2010/11	2008–2011	2008–2011	2007–2010	2007–2010	2007–2010
UK	0.33	−2.7	−5.4	0.0	−1.0	+
Ireland	0.33	11	20.4	−3.0	−7.0	+
Greece	0.33	0.3	1.7	−4.0	−8.0	+
Portugal	0.34	−4.5	−6.6	−2.0	2.0	0
Spain	0.34	8.6	25.9	−1.0	−14.0	+
Italy	0.31	2.9	9.8	−1.0	−6.0	+
Estonia	0.31	3.2	6.0	−3.0	−6.0	+
Latvia	0.35	−4.8	−9.6	–	–	–
Lithuania	0.33	−3.3	−1.7	–	–	–
Hungary	0.27	6.3	8.3	−4.0	−4.0	0
Romania	0.33	−7.8	−1.4	–	–	–

1. Gini coefficient (Eurostat).*
2. Change in Gini coefficient 2008–11 in % (Eurostat).*
3. Change in S80/S20 income quintile share ratio in % (Eurostat).*
4. Top 10% disposable income development in % (OECD).**
5. Bottom 10% disposable income development in % (OECD).**
6. Bottom 10% lost more than top 10%.

Sources: * From Eurostat Online Data Provision. ** From OECD (2013).

14% in Spain and 6% in Italy. Spain, Italy, Ireland and Greece stand in contrast to Portugal, where the losses were distributed more evenly between the rich and the poor.[7] The OECD (2014: 22–23) has also found that, '[a]t the onset of the crisis, falling capital incomes lowered top incomes while stimulus packages, along with powerful automatic stabilisers, helped ease the pain of income losses at the lower end of the income distribution'. However, as the crisis endured, 'lower income households have lost greater proportions of their incomes than the better-off … particularly in the hardest hit countries like Estonia, Greece, Ireland, Italy and Spain' (OECD, 2014: 22–23).

From the Open Method of Coordination to Economic Governance

The crisis provided European institutions with an unprecedented opportunity to interfere in member states' employment and social models (Meardi, 2014: 346; Hermann, 2014). Welfare and employment policies had long been excluded from the European integration process. Only from 1997 onwards did social policies acquire a more prominent role at the European level, not least as a response to the unemployment crisis looming in the mid-1990s in a number of member states, and as a counter-weight to the Growth and Stability Pact that was adopted in the same year (Hermann and Hofbauer, 2007: 128–129; O'Connor, 2005: 347). However, while the Growth and Stability Pact included fines for those countries which did not adhere to the fiscal rules, and thereby indirectly also set limits for social spending, the adjustment of employment policies was based on a new policy-making mechanism, the Open Method of Coordination. Rather than forcing member states to introduce certain measures, the Open Method of Coordination essentially established a process of evaluation, exchange and mutual learning with the effect that member states would voluntarily adopt the appropriate reforms of their employment systems.

In the following years the Open Method of Coordination was extended to cover other fields of social policy-making such as social inclusion, health care and pensions (de la Porte and Pochet, 2012: 338). While some commentators have welcomed the Open Method of Coordination as a new and innovative form of policy-making (Mosher and Trubek, 2003; Zeitlin, 2005), others have pointed to the limits of the ‘soft law’ or ‘soft governance’ approach to solving social problems (Jacobsson, 2004; Trubek and Trubek, 2005). There is some controversy about the actual impact of the Open Method of Coordination on member states’ social policy-making (de la Porte and Pochet, 2012: 340–344; Heidenreich and Zeitlin, 2009). However, the resulting reforms were certainly less far-reaching than hoped for by the policy-makers in Brussels. In fact, the lack of more sweeping reforms of labour markets and social systems is seen as a major cause for the persistence of the crisis in Europe.

As a result of the crisis and the alleged lack of reform in the member states, the European Union itself embarked on a major institutional overhaul resulting in the establishment of what is commonly referred to as European Economic Governance (Barnard, 2012; Klatzer and Schlager, 2011; Verdun, 2013). The new governance framework has both a preventive and a corrective arm. The preventive arm consists of extensive monitoring and alerting processes, while the corrective arm gives the EC the possibility to discipline those member states that do not follow its recommendations. Both are integrated into the so-called European Semester, an annual cycle in which the EC monitors economic data from the member states and issues country-specific recommendations for reform (Hermann, 2014: 119–120). The corrective arm includes the Excessive Deficit and the Macroeconomic Imbalance Procedure. The latter was introduced to tackle the current account imbalances which have grown significantly since the introduction of the Euro. Essentially Southern European countries have build up major current account deficits, while Germany and some neighbouring countries have registered growing current account surpluses (Arestis et al., 2013; Flassbeck and Spiecker, 2011; Hein et al., 2012).

Like the Excessive Deficit Procedure, the Macroeconomic Imbalance Procedure imposes a number of targets, which member states are expected to fulfil. Among the 11 indicators are also labour unit costs and unemployment rates.[8] The choice of indicators and acceptable scores is not free of ideological considerations. Hence the scoreboard limits the growth of labour unit costs to 3% per year, but allows for a 10% unemployment rate. If a member state fails to meet one or several targets, a formal procedure can be launched in which the respective government has to produce a strategy of how to tackle the perceived problems. The plan must then be approved by the Commission. If a member of the Euro area repeatedly fails to propose an acceptable strategy or to comply with the proposed measures, the country can be fined up to 0.1% of its national GDP (Busch, 2012: 31–32; Oberndorfer, 2012: 63). This is a significant departure from the ‘naming and shaming’ principle of the Open Method of Coordination.

Which measures the Commission has in mind when it thinks about tackling current account imbalances can be seen in the country-specific recommendations issued as part of the European Semester. Among them are the decentralization of collective bargaining, the abolition of wage indexation, general and public sector wage moderation, as well as greater wage differentiation (Schulten and Müller, 2013). As Bieling (2012: 264) notes, '[o]f course, the European recommendations on national reform and convergence programmes remain contested. However, first experiences with the European Semester show that they mainly go in one direction as they stipulate accelerated public deficit reduction, increase of the effective retirement age, labour market flexibilisation, [and] wage developments in line with or in some cases even below productivity gains.' Similar recommendations can also be found in the Euro Plus Pact, voluntarily adopted by the members of the Euro area and some additional countries (Barnard, 2012: 106–107). Hence with the shift from Open Coordination to Economic Governance member states are subjected to similar reforms as those adopted during the crisis and regardless of the particularities of the national models (wage compression, for example, is an essential element in the Swedish social model). If adopted these reforms will further weaken what is left of the European Social Model.

Conclusion

This article has argued that it is no coincidence that ECB president Draghi has announced the end of the European Social Model while at the same time stressing the need for structural reforms. Structural reforms as adopted during the crisis threaten the very essence of the European Social Model(s). Cuts in social benefits and pension payments, the promotion of atypical employment and the erosion of employment protection, the decentralization of collective bargaining and the weakening of bargaining structures and interest representation reverse the de-commodifying effect build in the European Social Model(s). Since the de-commodifying effects are also responsible for a high degree of equality it should be no surprise that austerity and structural reforms have fuelled poverty and inequality. With the shift from Open Coordination to Economic Governance structural reforms may spread to further countries, dismantling what is left of the European Social Model(s).

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Notes

1. *Wall Street Journal*, 24 February 2012.
2. The Italian newspaper *Corriere della Sera* revealed a letter sent by the ECB president to the Italian prime minister laying out which measures the ECB expected Italy to adopt in the face of the crisis. In response the ECB admitted that it had sent a similar letter to the Spanish government ('ECB letter shows pressure on Berlusconi', *Financial Times*, 29 September 2011).
3. In Greece pensioners receive a uniform compensation payment of €800 per month; in Portugal the measure was limited to pensions over €1100 per month.
4. In Spain for companies in economic difficulties.
5. The Baltic countries are close to reapproaching pre-crisis GDP levels, but in the case of Latvia and Lithuania at the cost of growing poverty and inequality.
6. Many of the countries that recorded increases in poverty during the crisis years already had above-average poverty rates before the downturn (Leschke et al., 2012: 263–264).

7. This development seems to be widespread: in 21 out of 33 countries for which the OECD found data, the richest 10% has done better than the poorest 10%. In fact Iceland was the only country were the top 10 lost more than the bottom 10 (OECD, 2013: 4).
8. Indicators include: current account balance; net international investment position; real effective exchange rate; export market shares; labour unit costs; house prices; private sector credit flow; private sector debt; general government debt; unemployment rate; total financial sector liabilities.

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