AUSTERITY AND THE EROSION OF THE SOCIAL DIMENSION

Maria Petmesidou
Professor of Social Policy at the Department of Social Administration and Political Science of Democritus University of Thrace

There is ample evidence that, over the last few years, reform agendas in Europe have prioritized welfare state retrenchment and the weakening of universalism. Even in the bastions of the social-democratic welfare model (the Scandinavian countries), policy reforms have been introduced that scale back benefit levels and shift provision of services away from the state (e.g. in Sweden, since the late 2000s, about 50% of all primary health care services have been shifted to various types of private providers; Anell 2011). This reverses the social and political logic underlying the post-world-war II European Social Model and increases inequality, poverty and insecurity. Below I briefly address two closely related questions: whether the crisis-ridden countries of South Europe are a test-case for the social sustainability of harsh austerity, and what does this mean for the social dimension in Europe.

Are the crisis-ridden countries a test-case of how far the squeeze on the welfare state can go in Europe?

Compared to North-West Europe, Greece (and the other South European countries) lagged behind in welfare state development for much of the postwar period. Moreover, the "weak" welfare state formed in Greece in the 1980s and 1990s exhibited a high degree of fragmentation and polarization. Social programmes embraced mainly the labour market "insiders" (those who could secure a continuous work career in the formal economy), but with high inequalities in the scope and level of provisions among different socio-occupational groups. While social welfare coverage for vulnerable groups (the "outsiders", those precariously employed, particularly in the underground economy, old-age people with no rights to social insurance or with insufficient coverage, unqualified young persons, the long-term unemployed and others) remained rudimentary. As I argue elsewhere (Petmesidou 2013a and 2013b), instead of the current economic crisis providing an opportunity for redressing inequalities and improving social protection for the "outsiders", it has triggered the progressive dismantling of social rights for the "insiders". Cuts in welfare entitlements affect insurance-based schemes. Indicatively, the pension reform enacted in 2010 is estimated to reduce replacement rates for future retirees by over 40%. While, in the last few three years, successive rounds of drastic pension cuts (up to 40%-50% for certain categories of pensioners) have severely affected current retirees' incomes. At the same time, a devastating blow to social insurance was dealt by the government's decision to include the social insurance funds in the private sector "haircut" of bondholdings that took place in March 2012.

Severe cuts in benefits, in tandem with a tax raid, foreclosures because of mortgage defaults, bankruptcies and waves of redundancies (in the private and public sector) trigger steadily rising hardship among large sections of low and middle-income groups who fall into the ranks of the "new poor" (Petmesidou 2011). Public health-care spending per capita in real terms was slashed by close to 40% between 2008 and 2011 and has been declining further since then (Petmesidou 2013c). More than 2 million people have no access to public health care due to inability to pay social insurance contributions. Unmet need for medical examination has significantly increased particularly among the sick elderly who cannot afford increasing fees and co-payments for visits and clinical tests imposed in the context of fiscal adjustment, in parallel with shrinking public service provision. According to the most recent available data, about one third of the population in Greece experienced absolute poverty in 2011 (calculated on the basis of the poverty line for incomes in mid-2000s).

Overall, in Greece and Portugal (and, to one extent or another, also in the other two ailing South European countries - Spain and Italy) reform agendas are pushed trough that embrace the drastic reduction of collective bargaining and the weakening of unions, dire cuts in wages and an overhaul of the rules regulating the hiring and dismissal of employees, extensive privatization of public services, and diminishing coverage and quality of public welfare provision. Arguably a vicious circle of social dumping is supported by the Memoranda of Understanding, which Greece and Portugal signed with the international creditors, and by the ensuing "Troika" adjustment policies in respect to wage interventions and welfare reform (Degryse et al. 2013). On the ground that Greece should seek improvement of competitiveness by adjusting minimum wages and pensions to the much lower levels of its Balkan neighbours, a race to the bottom is orchestrated by the "Troika". Strikingly, such a stance is further advanced by the European Commission. In the country-specific recommendations on wages issued as part of the 2013 European Semester, the Commission developed similar arguments in respect to Spain, which is reminded that "unit labour costs are not falling as rapidly as in Greece". Italy is also warned along the same lines, while even France is advised to take stock of wage squeezes in Spain and Italy and adjust accordingly.

Alarmingly rising poverty and insecurity is not a phenomenon limited to the ailing countries. Recent data show that about 125 million people or 25% of the EU population lived in poverty and/or social deprivation in 2012. Unemployment, old-age and low wages are the main causes, with close to 10% of the employed population in the EU belonging to the "working poor".

Is austerity taking away the foundations of Social Europe?

The above statistics show a return of mass poverty in Europe. Yet, in the name of improving competitiveness, the overriding theme of austerity policy is the rolling back of the welfare state and an attack on social and labour rights. A clash between Europe' social ambitions (as inscribed in the Treaties) and European economic governance is clearly evident. A set of values and goals ("social justice", "equity" and "solidarity") constitutive of the European Social Model and defining the basis of European identity seem to be fading away. Appeal to these values has increasingly been undermined by the crisis management policy tools. The Lisbon Strategy sought to make "a decisive impact on eradicating poverty". By the end of the decade of the 2000s, to which the strategy referred, poverty increased and inequality deepened (Cantillon 2011). Moreover, persistent austerity runs counter to the renewed objective of the EU 2020 Strategy to significantly reduce the number of the poor in the current decade. Strikingly, a major shift at the level of semantics clearly discloses the paramount importance of the austerity dogma: the long-standing acronym "ESM" for the European Social Model has acquired a totally new content over the last few years, by being associated with a core tool of European governance, namely the European Stability Mechanism.

Crisis management measures (the "Six Pack" of macroeconomic policies, The Euro Plus Pact etc.) have a single objective in the ailing countries, namely structural adjustment through wage squeeze, weakening public services and social protection. Cuts of an unprecedented magnitude accompany downward adjustment that heightens divergence and polarizations in socio-geographical terms (Petmesidou 2013c). Countries in the European periphery experience fast rising unemployment (about 60% among the young in Greece and Spain) and out migration flows of young, educated individuals, while countries in the core (e.g. Germany) exert a drain on human resources of the periphery. But, even in the core countries, inequality has increased and the ranks of working poor have grown.

These conditions put at stake the very foundations of Social Europe. Whether this is an irreversible path towards permanent retrenchment and strain, even if and when the economic crisis will be over, is an open question. Yet, clinging to harsh austerity does not leave much room for solutions where the reinvigoration of the European Social Model could offer a way out of the crisis by creating jobs and stimulating the economy. Suffice it to say that, if southern European countries opted to deal with the crisis by strengthening rather than weakening their welfare states, this would provide an economic stabilizer and a strong social buffer in times of crisis, allowing the basic decency of society to survive.

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