EXECUTIVE SUMMARY

THE EUROPEAN SOCIAL MODEL
IN TIMES OF ECONOMIC CRISIS AND AUSTERITY POLICIES

What has been the impact of the financial and economic crisis on European social policy? What major changes did recent austerity policies bring in the social field? What are their implications not only in the short term, but also in the longer term? And what will be the outcome for –and potential role of– social policy in the EU?

This Conference will attempt to answer such questions in a multi-dimensional fashion, looking at six different pillars that are recognized as being part of the European Social Model: workers' rights and working conditions, social protection, labour market, public services, social dialogue and social cohesion. At the same time, it will investigate what are the motivations behind those changes, whether they are the result of longer term demographic and sustainability considerations, or competitiveness issues and/or whether they may have been influenced by immediate budgetary considerations. Assessing national stories of the European Social Model in 30 European countries and bringing together 12 national studies from noted European specialists, the aim of this conference and its accompanying report is to provide the necessary evidence of the recent changes in the European Social Model within individual countries, while providing a comparative and comprehensive picture of the current situation and future of social policy in Europe.

The European Social Model, intrinsic part of the European Community

Since the Rome Treaty in 1956 countries of the European Community have over the years progressively developed a coherent set of national and EU regulations and institutions on social policy. This social dimension that has accompanied the economic and monetary Union represents the European Social Model that a number of European Councils have contributed to define. This European Social Model is thus well rooted in the European construction and its different elements –that are enshrined in the treaties– constitute part of the EU *acquis* that the EU member states –of course in accordance with their different circumstances– have implemented in various ways. Compared with other countries and other regions, EU countries are also characterized by high expenditure on social protection, grounded on the principles of solidarity, equality and social cohesion that represent not only the cement but also the 'soul' of the European Union. It is around similar principles, values and policy elements that the International Labour Office has progressively built its labour standards and defined its areas of action around the world.

The European Social model used in the early period of the crisis

Social protection expenditure remained high in the first years of the crisis of 2007–2009, acting as a useful cushion to minimize the social costs of the crisis. With massive job losses and increased unemployment, the presence of unemployment benefits and social benefits and social assistance contributed to cushioning the social shock and limiting increased poverty. The fact that real public social expenditure started to increase dramatically in 2009 shows that these mechanisms acted as automatic stabilizers and limited the fall in citizens' purchasing power and thus also global domestic demand.

At the same time, a number of countries successfully used ESM tools, such as shorter working time schemes and social dialogue to negotiate alternatives to massive layoffs during the downturn.

The lack of employment reduction despite output contraction in Germany was due to the implementation of short-time working schemes that could be negotiated through social dialogue at enterprise level and represented a credible alternative to layoffs. Similar schemes were also negotiated in Austria and France. By contrast, countries without such mechanisms could not avoid immediate layoffs and high unemployment growth as it happened for instance in Estonia, Latvia and Lithuania.

But having then experienced rapid changes to face public debts

Paradoxically, despite the fact that the European Social Model with some of its different elements (unemployment and social benefits, training, social dialogue, working time or restructuring schemes) were at work during the first years of the crisis, the worsening of the budgetary situation and public debt led many European countries to abandon stimulus packages and to introduce fiscal consolidation policies in the second phase of the crisis, including a cut in social expenditure from 2010.

Diversity of national situations

The changes were most radical in the most indebted countries of the euro zone; the strategy to exit the crisis advised by the Troika (the IMF, the European Central Bank and the European Commission) called for a cut in public expenditures to reduce deficits and for lower unit labour costs to improve individual countries' competitiveness –generally to be achieved through wage cuts and weakening of collective bargaining. The United Kingdom implemented a new wave of downsizing and outsourcing of public services and of radical cuts in public spending. The countries under severe market pressure, such as Italy and Spain, also introduced radical reforms. The changes were less severe in the countries in which the debt crisis was less acute, such as France or Belgium, or marginal, as in Germany. Scandinavian countries such as Sweden, however, provide examples of a social model that is not only resilient but has been actively used in the crisis.

All main pillars and elements of the European Social Model affected

The evidence the ILO collected for this conference shows that beyond the diversity of national situations and different magnitude of the changes by country –the European Social Model being resilient in some while others have opted for its dismantling– these changes nevertheless have been considerable and have affected all the main pillars and elements of the European Social Model. While some reforms had started well beyond the crisis –especially pension or labour market reforms– under the pressure of factors such as demography, globalisation and structural unemployment, the budgetary situation accelerated those trends and pushed new areas of reforms (like wages and collective bargaining) on the policy agenda.

Workers' rights and working conditions

A number of reforms aimed at giving priority to enhanced competitiveness and economic recovery directly put pressure on wages and working conditions.

Under this strategy a number of initiatives were taken to reduce wage growth, which led to a fall in real wages and even nominal wages. Tripartite negotiations on wages were interrupted, as in Portugal, Romania and Ireland, while their results in Greece were considered unsatisfactory and thus criticised by the Troika. The tripartite pact was not fully implemented in Spain and the tripartite Council was deeply restructured in Hungary. It is in this context that minimum wage growth was frozen and thus fell below price increases in Portugal, Spain and the United Kingdom, while the minimum wage was cut in nominal terms by 22 per cent in Greece. By contrast the announcement was made by the government in Germany to introduce a statutory national minimum wage in 2016. In Greece repeated statutory interventions in the freedom of association and collective bargaining have been reported. In the United Kingdom possibilities have arisen for some employees to give up basic rights in exchange for shares in the company. These measures will undoubtedly lead to a deterioration of many workers' working conditions.

Labour markets

While labour market reforms are not new and were promoted in most European countries well before the crisis, since the crisis however and the implementation of austerity policies, reforms and changes in labour market policies have rapidly multiplied and touched all different areas.

Many countries simplified or even suppressed (as in Slovakia) procedures for both collective and individual dismissals –as in Greece and Estonia– and also reduced notification periods –as in Greece. Work contracts were also flexibilized in a number of countries, which included the removal of all limits on temporary employment in Estonia. Forms of very flexible and unprotected contracts also emerged as in the United Kingdom where the increasing use of 'zero-hours contracts' was reported.

At the same time, a 'rolling back of the state' from active labour market programmes was recorded in many countries, with the most extensive move in Hungary where all active labour market policies were abandoned and replaced with a policy based on public work. However France, Germany and Ireland increased the funding of active labour market policy and the number of participants in these policies was extended in Estonia and Latvia.

Social protection

Most European countries were engaged in long-term reforms of social protection before the crisis under the pressure of demographic changes and long-term sustainability issues, but also structural unemployment. Austerity policies in Europe however have accelerated such changes and have concerned all areas of social protection.

First, a number of countries limited access to unemployment assistance and everywhere a series of new and stricter eligibility conditions have been put in place. Second, the duration of unemployment benefits was reduced, falling most severely in Hungary, from 9 to 3 months. Third, several countries have cut the value of unemployment benefits, in Portugal for example by 20 per cent. The suppression of many universal benefits have targeted family benefits and family support programmes, thus making lives more difficult for parents and children, especially for working mothers in countries such as in Greece, Ireland and Portugal. By contrast, social assistance was increased in Bulgaria, while Sweden distributed more state aid to municipalities in order to support the provision of welfare services.

Social dialogue

The legislative reforms implemented since 2010 as part of the structural reform packages have led to a significant alteration of collective bargaining coverage and scope –particularly in the so called deficit countries– with three major trends being observed.

First the right to strike was restricted under certain conditions, as in Hungary; second, the scope of collective bargaining was reduced by restricting extension mechanisms that made it more difficult to extend collective agreements to more workers and companies, as in Greece, Hungary, Portugal, Romania and Slovakia; third, forced decentralization took place by restricting the right of social partners to negotiate at sectoral or national levels –as in Romania where the Law on Social Dialogue of 2011 abolished national collective bargaining– but also by allowing enterprises to derogate from upper level collective agreements –as in Greece and Spain.

Public sector

Fuelled by the economic crisis, budget deficits have plunged the public sector in Europe into an unprecedented wave of 'adjustments', where employment security is thus no longer the norm.

Almost all European countries have announced plans to freeze or cut public sector wage. Wage cuts have been implemented in various ways, either through a basic wage freeze or cut in Estonia, Ireland, Latvia, Lithuania, Romania and many others, or through the abolition of bonuses previously enjoyed by public sector employees such as the thirteenth month payment in Hungary and thirteenth and fourteenth month payments in Greece. A number of non-monetary benefits have also been abolished, such as for housing and meals in Portugal and Romania or for sick leave in Spain. While in some cases these adjustments may have
efficiently complemented structural reforms in the public sector, they may also have limited the effects of these institutional reforms and even halted them. Spending cuts in several countries, especially of in-kind benefits, in sectors such as health and education alongside stricter accession rules and systematic introduction of co-payments, have already led to lower-quality public services.

Social cohesion

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

Throughout Europe large-scale decentralization from state to regional authorities was accelerated with a sense of urgency during the crisis, as happened in Italy and Romania, but often accompanied by a lack or decline of funding to regions and municipalities. In the United Kingdom, regional development agencies were abolished while accelerated decentralization without sufficient funding in Italy widened the regional gap. In contrast, Sweden increased funding to municipalities, precisely to avoid increasing drawbacks at local level.

The crisis seems to have arrested some of the progress that had been made over the past decade in terms of discrimination. The growth of unemployment and social problems has led again to increased nationalism and the stigmatization of some groups, such as the Roma. Recent evidence collected for this conference is also pointing to a recent rise in problems of gender discrimination.

Effects already observed on both economic and social spheres

On the basis of the above assessment this conference aims at discussing the effects of such changes. The increase in social conflicts that resulted from these changes –for example in the public sector as well as labour market or social dialogue reforms– obviously had direct economic effects such as disruption of production. Deteriorating working and employment conditions, combined with cuts in social expenditure, have led to reduced workers' motivation, lower human capital and a lower quality of public services –directly related to the cuts in employment and wages. Cuts in education but also labour market reforms will have longer-term effects on future generations in terms of skills and employment prospects.

But it is on the social side that the picture is most alarming, with a rapid increase in poverty and exclusion, and its extension to a larger share of the middle class. While the employment outcome of current policies is disappointing, especially on youth unemployment, and will not be improved through general cuts in education and social policy, the increased proportion of low paid and working poor highlights a more general problem of increased vulnerability of those in employment. In the long term, old-age poverty is also expected to increase as a result of pension cuts and less-protected forms of employment.

Debating the future of the European Social Model

This conference aims at discussing the future of the European Social Model. What are the changes in its elements that are necessary for addressing new challenges? At the same time, what elements should be reformed, maintained or eventually brought back?
Many changes have been introduced on the grounds of the urgency of reducing current public deficits, but we can question whether they were preceded by an exhaustive assessment or cost-benefit analysis or sufficient scrutiny of their effectiveness on both the economic and the social side. Even though social policy has not been eroded everywhere in Europe we might question the survival of the European Social Model if its dismantling continues in a number of countries, especially with the aim of improving competitiveness by lower wage costs and poorer working conditions.

These issues will be debated among Ministers of Labour as well as high-level representatives of employers and workers, together with the ILO and the European Commission in order to consider how to design the framework to promote necessary changes while preserving the European Social Model.