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Southern Europe

Maria Petmesidou

Introduction

Late industrialization, a record of authoritarian regimes (and/or political instability) until late in the post-war period, and a configuration of rent-seeking statist-clientelistic practices (though of varying prevalence across the region) are among the main features of Southern European (SE) countries that, to one degree or another, account for their being laggards in welfare state formation. An upward trend of social expenditure is manifest since the early 1980s through to the turn of the century, accompanied by landmark reforms (e.g. the establishment of national health systems, devolution of healthcare and social welfare functions to regional entities in the case of Spain and Italy). Hence SE welfare states can no longer be considered rudimentary.

In light of the three welfare state regimes put forward by Esping-Andersen (1990), SE welfare arrangements starkly manifest a hybrid form (see also Chapter 11). First, there is a core element concerning income transfers (primarily pensions) developed on an occupational basis according to the Bismarckian model. Traditionally highly fragmented, social insurance systems have undergone significant changes in the direction of levelling out benefits and introducing occupational pensions and private insurance. Second, in the late 1970s to the early 1980s, a social-democratic element was introduced into healthcare, indicating a significant path shift that was accomplished with varying success in each country. Third, social care services and social assistance remain a less-developed element of social protection. Meagre provision, funded mostly through taxation, has traditionally been based on means-testing, indicating a liberal orientation. In parallel, a strong variation as to the role of non-governmental organizations (NGOs) (including religious organizations) is observed. A denser network of such welfare providers is prominent in the Latin Rim countries (Italy, Spain and Portugal) with the Catholic Church playing a crucial role, while this is not the case in the Balkan area where the values of Eastern Orthodoxy and its historical limitations of social activism did not provide fertile ground for institutionalized voluntary action. However, the recent crisis increased the level of volunteering (Clarke et al., 2015).

Most importantly, SE welfare states started expanding at a time of welfare state restructuring in Northwest Europe in the face of growing fiscal problems and the ascendancy of neoliberal forces (particularly in the Anglo-Saxon world) seeking to roll back the welfare state. Soon fiscal constraints in SE countries became highly pressing, particularly during the task of their joining
Southern Europe

the European Monetary Union (EMU). Even before the eruption of the current crisis, SE welfare states were confronted with extensive unmet needs, serious inequalities and imbalances in social welfare, and significant functional and administrative inefficiencies. The crisis hit all four countries, and as of early 2018 their economies have not fully recovered. Ensuing structural adjustment (more or less directly enforced by supranational institutions — the European Commission (EC), the European Central Bank (ECB), the International Monetary Fund (IMF) and rating agencies) embraces sweeping austerity measures exerting strong pressures upon social spending.

In the second section we briefly review the academic debate on the SE social protection model and highlight major similarities and differences in the region. The third section discusses the reforms in the 1990s and 2000s and traces the impact of the economic crisis. The conclusion raises the question of whether harsh austerity measures may deal a serious blow to SE welfare states.

The Southern European model and main explanatory perspectives

Early attempts at locating SE countries within the main classificatory schemes of the comparative literature stressed welfare residualism (manifesting a liberal ideology), as well as the central role of the Catholic Church and of the traditional family in welfare delivery (Leibfried, 1992; Castles, 1995). These approaches, however, ignored the southeast of Southern Europe, namely the Balkan Peninsula, influenced by the socio-cultural values of the Orthodox tradition and statist features (Petmesidou and Polyzoidis, 2013).

It is particularly the Bismarckian orientation of welfare state development that has attracted much attention. Katrougalos (1996) considered southern welfare states a less developed version of the conservative model. More recently, Jessoula (2007) emphasized the persistent significance of the Bismarckian design in the institutional make-up of the Italian welfare state.

Ferrera (1996) brought the southern model into sharper focus. He considers welfare configurations in SE as reflecting the male breadwinner/family care model. Gradually income maintenance and particularly pensions emerged as the most important element of the system, traditionally organized along the lines of occupationally fragmented social security funds (managed by the state and social partners), while other elements (e.g. social services and social assistance) remained undeveloped. Moreover, wide inequalities in the level of benefits offered by social security funds deepened gaps between generously and weakly protected beneficiaries. A double polarization thus emerged: (1) between workers enjoying a stable career in the formal sector and those unable to secure such conditions owing to high spells of unemployment or persistent informal activity; and (2) between peaks of generosity characterizing certain social insurance funds and inadequate protection provided by others. Weak administrative capacity in benefit distribution constitutes another serious predicament. A departure from the Bismarckian logic emerged through the establishment of national health services, though with great variation among the four countries as to the reform roadmap, organizational aspects and scope of universalism.

In light of a number of concurrent change factors transforming the social risk profile in SE countries (rapid demographic ageing; a shift towards postfordism seriously diminishing opportunities for stable work careers; changing family patterns and gender roles; eroding national policy autonomy due to globalization challenges and EU integration), Ferrera and Hemerijck (2003) stressed the urgent need for ’retuning’ the southern model. Both authors strongly criticized the pension bias of SE welfare states ‘crowding out’ resources for other social programmes (family, housing, and social assistance benefits), and argued in favour of policy ‘recalibration’ so as to transfer resources from ‘grandfathers’ to social investment in families, children and the
young unemployed, to introduce/improve social safety nets, and to promote active emplo-
ment measures.

Some critical issues may be raised here. First, traditionally social protection in SE embraced a
weak variation of the male breadwinner model. Thus the average male worker’s earnings and
social wage were not sufficient to cater for family welfare needs. Striking evidence concerns the
persistently high poverty rates in SE countries. Notably the family (and kin) traditionally played a
crucial role in pooling resources (derived from the formal and informal job market, social benefits,
‘protected’ employment in the public sector, and other sources) and distributing them to its
members. This pattern is accentuated towards the southeast of SE (in Greece and south Italy). It is
strongly linked with statist–clientelistic practices that allow families to take advantage of ‘soft
budgets’ (Petmesidou, 1996, 2006). That is, an institutional configuration is developed in which
budget imbalances for individuals, households and enterprises are transferred to the state through
strategies of income appropriation by political means. Arguably, since the late 1990s, intensified
conflicts and deadlocks of this institutional constellation have disclosed serious dysfunctions of the
southern model, critically compounded by adverse demographics and job market conditions, and
a weakening ability of the family to function as a welfare clearinghouse.

Second, the insider/outsider divide (in labour market terms) is meaningful, particularly in
countries where Fordist patterns developed more intensively in some regions (offering stable
jobs) in contrast to others (e.g. the north/south divide in Italy). Greece experienced a rapid shift
from agrarian structures to a service–oriented economy well before industrialization had deep-
ened. Among its distinctive features are the protracted dominance of statist–paternalistic forms
of social organization and an extensive informal economy. Strikingly, in this context the insider/
outsider divide has persistently been nurtured by political criteria of differential access by groups
and individuals to the rent–yielding state apparatus; hence the wide differences in the generosity
of social benefits among socio-occupational groups. Getting resources through rent-seeking
statist–clientelistic practices functioned for a long time as a substitute for a welfare state, albeit
with perverse distributional effects. Under these conditions, crossing the formal/informal divide
constitutes part of an array of family strategies to pool resources, and thus ‘informality’ does not
absolutely reflect a rigid insider/outsider divide in labour market terms. It is mostly in respect of
the steadily increasing new forms of atypical work (i.e. short–term contracts) in SE, and the
influx of immigrants lacking the capacity to benefit from family, kin support (and clientelistic
ties) that the insider/outsider divide became more pronounced in labour market terms, requir-
ing new policy measures. Particularly in Spain and Italy, a strongly marked insider/outsider
labour market divide is due to a deeper and more extensive industrialization process over the
1960s and 1970s, followed by a shift to increasingly flexible employment arrangements (in
Spain, temporary contracts have been widely used since the early 1980s).

Third, the argument that pensions should be curbed so as to secure resources for other
welfare functions does not seem to be strongly supported by the empirical evidence, although
tackling inequalities in the level and scope of benefits, and addressing rapid demographic ageing
and issues of pension sustainability have persistently been key reform challenges. Evidently, at
the time of the eruption of the economic crisis, SE countries (with the exception of Italy) lagged
behind the EU-15 average in terms of social expenditure as a per cent of gross domestic product
(GDP) (Table 15.1). Most importantly, particularly in Spain, Portugal and Greece, per capita
social spending did not improve as fast as their per capita GDP (measured against the respective
EU–15 average). This indicates that, in terms of their wealth, SE countries underspent in social
protection. The crisis contributed significantly to widening the gap with the EU–15 average
(mostly in the case of Greece where, between 2008 and 2014, per capita social expenditure at
constant prices fell annually by 2.8 per cent on average).
<table>
<thead>
<tr>
<th>Table 15.1 Social expenditure</th>
</tr>
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<tbody>
<tr>
<td><strong>Social expenditure as per cent of GDP</strong></td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>Italy</td>
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<tr>
<td>Greece</td>
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<tr>
<td>Spain</td>
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<tr>
<td>Portugal</td>
</tr>
<tr>
<td>EU-15</td>
</tr>
<tr>
<td>EU-28</td>
</tr>
</tbody>
</table>


**Notes**

* Provisional data.
** Estimated data.
Adequacy of pensions is also highly questionable, given the high risk of poverty and social exclusion among elderly people, compared to the total population, prior to the Great Recession (Table 15.2). The rate of poverty and social exclusion increased most dramatically in Greece. If measured on the basis of the 2008 poverty line, in 2015 approximately half of the population and about 45 per cent of the elderly were living in conditions of poverty. Markedly, in Spain and in Italy, elderly people have been less exposed to the risk of poverty and social exclusion during the crisis. Nevertheless, in all four countries, cuts in healthcare and social services spending have a negative impact on the living conditions of elderly people. It is also worth mentioning a condition reinforced by the recent crisis: that pension income contributes to pooling resources within the family – often in exchange for care services – particularly as unemployment significantly increased. The unemployment rate was well below 10 per cent before the Great Recession in all four countries. By 2013, it had reached record high levels in Greece (27.5 per cent) and Spain (26.1 per cent); it slightly decreased to 23.4 per cent and 19.6 per cent respectively in 2016. Youth unemployment (15 to 29 years) remains highest in Greece and Spain: 38.4 per cent and 33.3 per cent respectively, in 2016. Italy exhibited the highest rate of NEETs (young people aged 15 to 29 years who are not in employment, education or training) among the EU-28 countries in 2016 (24.3 per cent), followed by Greece (22.2 per cent), Spain (18.1 per cent) and Portugal (12.8 per cent).1

Striking a balance between reasonably equitable and economically viable reform solutions constitutes a major challenge. In this respect the EU social policy agenda has significantly influenced debate on a transition from a corrective and passive welfare state to a more proactive social investment strategy, with much greater attention paid to prevention, activation and social servicing. Nevertheless, ‘recalibration’ along these lines runs the risk of overemphasizing an ‘individualized market-centred model’ to the detriment of collectivist values supporting redistribution and equity criteria. This is all the more so in SE countries, as universalist principles and trust in welfare state institutions were never particularly strong. Retrenchment and drastic austerity, particularly since 2010, indicates a reform path of increasing flexibility, without much security.

Table 15.2 Poverty and severe deprivation, 2009 and 2015 (based on 2008 and 2014 incomes)

<table>
<thead>
<tr>
<th>Country</th>
<th>Population at risk of poverty and social exclusion* (%)</th>
<th>Older people at risk of poverty and social exclusion (65+/75+)* (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
<td>2015**</td>
</tr>
<tr>
<td>Italy</td>
<td>24.7</td>
<td>28.7 (25.6)</td>
</tr>
<tr>
<td>Greece</td>
<td>27.6</td>
<td>35.7 (48.0)</td>
</tr>
<tr>
<td>Spain</td>
<td>23.4</td>
<td>28.6 (29.9)</td>
</tr>
<tr>
<td>Portugal</td>
<td>24.9</td>
<td>26.6 (21.8)</td>
</tr>
<tr>
<td>EU-15</td>
<td>21.1</td>
<td>–</td>
</tr>
<tr>
<td>EU-27***</td>
<td>23.7</td>
<td>23.7 (18.5)</td>
</tr>
</tbody>
</table>


Notes
* Measured by Eurostat on the basis of a composite deprivation indicator.
** In parenthesis the income poverty rate anchored at 2008 (cut-off point at 60% of the median equivalized income).
*** There are no data for EU-28 prior to 2011.
Welfare reform dynamics

Following the restoration of democracy in Spain, Portugal and Greece, constrained social pressures around unmet need led to fast increasing social expenditure in the late 1970s and most of the 1980s. Italy experienced a more protracted period of welfare state consolidation since the end of the Second World War; yet it was still a welfare laggard in the late 1970s. Over much of the 1980s the impact of rapidly rising social expenditure upon public finances was not a major issue of political concern. Particularly in Italy and Greece, public deficits and indebtedness began to soar dramatically during this time partly owing to a significant expansion of earnings-related schemes (proliferation of new funds, early retirement, disability pensions). Due to some distinctive socio-political features in these two countries (such as the polarized pluralist party system in Italy for much of the post-war period, and the strong populist current in Greece over the 1980s), welfare policies came to be a crucial instrument in clientelistic-particularistic exchanges. It was largely the intense political crisis, in the early 1990s, sweeping the existing party structure in Italy, as well as the challenges of joining the Economic and Monetary Union (EMU), which gave an impetus to social reform and provided propitious conditions for social concertation around wide-ranging changes in social protection, industrial relations and labour market policies (Ferrera and Gualmini, 2004). Contrarily, policy stalemates and reform impasses characterized Greece, which persistently lacked any focal actors (think-tanks or policy communities) for driving policy debate.

Since the early 1980s Spain has embarked upon a piecemeal but steady process of rationalization and modernization of social protection (see Guillén and León, 2011). Transition to democracy through élite pacts highly influenced a reform trajectory based on negotiating compromises setting the rules of the game for policy making (the Toledo Pact of 1995 on pensions epitomizes such a negotiated, steady route to reform). In Portugal, transition to democracy occurred under large-scale revolutionary mobilizations, but soon the prospect of accession to the EU and, later on, the challenge of joining the EMU prompted a shift in policy making towards more consensual forms (through social pacts) of interconnected reforms in incomes, labour market, social security and welfare policies.

In all four countries, the economic recession in the first half of the 1990s and serious fiscal pressures in the run-up to joining the euro brought imbalances at centre-stage. Tackling great gaps and inequalities in social protection, while at the same time experimenting with new diversified welfare mixes, mostly influenced by the policy visions and options promoted by the EU (for example, the Lisbon Agenda), oriented reform (Guillén and Petmesidou, 2008). Yet, after entrance into the EMU, social pacting faltered in Italy (as well as in Portugal) and reform dynamism subsided. Interestingly, Spain continued on a steady route of (more or less) negotiated piecemeal reform. Greece ostensibly failed to deal with wide inequities and sustainability problems in social protection, a condition seriously aggravated by the severe sovereign debt crisis that the country faced in the aftermath of the financial crisis of 2008.

The 1990s and 2000s

Austerity challenges and the need for fiscal rectitude in social insurance, in the face of dismal demographics, were brought to the fore with the Maastricht Treaty. Historically social insurance relied on a public, first-pillar, earnings-related system, embracing a large number of socio-professional funds with wide inequalities in the scope and level of benefits. Social pensions on a means-tested basis for elderly people without a contributions record were varyingly introduced in all four countries during the post-war period.
In Italy, in the 1990s, an array of internal and external factors (i.e. the changing political opportunities following the corruption revelations at the beginning of the decade that swept away traditional parties, in parallel with the intensification of international competition and the fiscal pressures in joining the EMU) set in motion a rigorous reform dynamic. Between the early and mid-1990s successive technocratic governments, by putting forward the ‘fairness goal’ in social protection, gathered support by social partners for drastically reducing fragmentation in social insurance. In addition, a shift to a multi-pillar social insurance system was enacted (a first pillar operating as a notional defined contributions scheme, to which supplementary second- and third-funded pillars are added). However, a particularly prolonged phasing-in period accompanied the reform, setting a long-term horizon for system rationalization.

In Spain early reforms drastically reduced the number of social insurance funds (from over 100, in the mid-1970s, to fewer than 10), stipulated convergence of the few ‘special regimes’ to the conditions characterizing the ‘general regime’ for all salaried and wage workers, and clearly distinguished between funding sources for contributory and non-contributory benefits (the latter, together with health and social care services, were to be funded out of the state budget rather than social contributions, and managed by the autonomous regions). However, by far the most important landmark is the signing of the Toledo Pact (in 1995) that endorsed the above funding split and launched a steady context of negotiated policy making. Reforms have been predominantly parametric – that is, increasing pensionable age, reducing early retirement, extending minimum contribution periods and adjusting pension formulae so as to accommodate ageing and sustainability pressures. Importantly, minimum pensions and (social assistance) top-ups significantly increased with a positive effect on redistribution. Due to early measures of system rationalization, accompanied by a sharp increase of employment from the mid-1990s up until the bursting of the ‘construction bubble’ in 2008, the Spanish social security system recorded substantial surpluses, a condition put in jeopardy by dramatically increasing unemployment under the recent crisis.

Fragmentation of social security has been lowest in Portugal. Legislation in 2007 defined the main provider of public (contributory) pensions (the Social Security System) as the institution that eventually absorbed all remaining special schemes. As in Spain, the mandatory earnings-related contributory system has undergone several parametric changes over the past decades. Enactment of legislation in 2002 and 2007 expanded pensionable earnings so as to cover the whole work career and tightened accrual rates for pension calculation. In 2008, a sustainability factor was also introduced, a pension discount factor taking account of changes in life expectancy. Funded (occupational and private) schemes cover only a tiny section of the labour force. Social pensions are fully funded by state transfers, and elderly people are also eligible for benefit under the RMI (minimum income scheme) launched in 1996, on means-testing criteria.

High fragmentation, polarization and great gaps in coverage characterized Greece’s pension system until recently. In the early 1990s the right-wing party in power used the fiscal crisis and the Maastricht requirements to leverage in some parametric changes (among others, increasing the pensionable age and the rate of contributions, lowering the replacement rates for new entrants, and discontinuation of pension indexation to wages). In contrast to the other three SE countries, in Greece no major broad-based, consensual platform of policy reform emerged, among social partners, in the run-up to the euro. In 2000, a reform plan for dealing with the system’s fiscal and organizational problems was met with strong opposition of the unions and was aborted. The next major reform act just before the onset of the sovereign debt crisis was intended to considerably tidy up the system through large-scale amalgamations of funds, a considerable levelling out of regulations and benefits, measures discouraging early retirement and promoting active ageing, as well as supporting gender equality (in terms of early exit
pathways and parental leave provisions). Implementation of organizational changes has however been deficient, and serious sustainability issues came forcefully to the fore amidst the deep sovereign debt crisis faced by the country.

EU influence either through ‘soft policies’ (the guidelines of the EU employment and social OMC), or ‘hard measures’ (EU directives and ECJ rulings, e.g. on equal treatment of men and women in social insurance; see also Chapters 8 and 31) is more or less evident in all four countries. Major EU policy options (system modernization, adaptability, sustainability, etc.) to one degree or another have been infiltrated into national policy making. All four countries proceeded to the liberalization of employment services and, if not successfully in practice, at least in principle, they embraced the idea of promoting a more diversified mix of passive and active employment policies. Labour market rigidity (strict rules for dismissals, high reservation wages and strict work demarcations) and varieties of dualism (e.g. through a large informal economy in the case of Greece and South Italy, or deep segmentation between a ‘fringe’ of weakly protected temporary contract workers and a ‘core’ of protected permanent workers characterizing Spain) have persistently been considered major disadvantages of SE countries. Ideas and policy options entering the national debate over the 1990s and 2000s shifted attention towards ‘relaxing’ labour market rules, and introducing social protection of atypical employment and interrupted work careers. In this respect reforms signal an attempt at broadening the concept of social protection rights by weakening the link with regular employment. This is reflected in the expansion of social assistance and of integrated measures for social inclusion and family–work balance, on the basis of citizenship and need (indicating a ‘selective universalism’; Jessoula, 2007). The introduction of the RMI scheme in Portugal in the mid-1990s embraces such an integrated policy. Also, in Spain, minimum income schemes have been implemented by the autonomous regions since the late 1980s. Social assistance policy reform has been erratic in Italy, with great inequalities among regions; while in Greece this has remained an undeveloped field.

Transition from health insurance to a national health system (from the late 1970s to the early 1980s) took place at a different pacing and level of coverage and effectiveness among the four countries (Petmesidou and Guillén, 2008). In Greece, private health expenditure remains comparatively high (about 40 per cent of total health expenditure, consisting mostly in out-of-pocket payments), and a mixed funding system of the NHS persists, through both state revenues and social health insurance contributions, with wide inequalities in the range and scope of benefits among the – up until recently – large number of health funds. Distinctively in Spain and Italy reform presented a double aspect, as a deep transformation from a centralized to a regionalized system accompanied the introduction of the NHS. Universalist principles are more salient in the Spanish NHS, in parallel with a complete devolution of health powers to the regions by the early 2000s. In Italy, regionalization of the NHS started earlier but took longer, due mostly to a less marked trajectory of political devolution compared to Spain. However, since the turn of the century recognition of regional powers in health, social care and social assistance (as well as social insurance, through legislation allowing the establishment of region-specific supplementary pension funds enacted in the early 2000s; Ferrera, 2003) was strengthened.

Soon after launching changes in the health system’s architecture, all four SE countries faced serious problems of cost escalation. Innovative solutions promoting ‘managerialist models’ in healthcare organization (managed competition, regulation) and various forms of private–public mixes (e.g. contracting out various healthcare and ancillary services by the NHS) were embraced in national health policies. User charges and co-payments were also introduced (though varyingly among the four countries), in parallel with changes in the pricing system of pharmaceuticals and the promotion of generics. Changes in the contours of the private–public mix (strengthening the role of private provision) were more pronounced in Italy. In Spain the private sector remains
persistently complementary to public health activity. There are no co-payments on visits or diagnostic tests and a gate-keeping system is in place. In Greece and Portugal primary healthcare has been deficient so far. An ineffective referral system in Portugal, and lack of a gatekeeping mechanism in Greece, accounts for the overuse of expensive specialist services.

Rapid demographic ageing indicates increasing long-term care need (forecasts by the EC Economic Policy Committee set the old-age dependency ratio at 55 to 60 per cent in the four countries by 2060). Policies in this field, however, are extremely fragmented (particularly in Greece and Italy). Public provision is limited and inefficient, consisting mostly of cash benefits. Thus families largely undertake care provision, in the context of an expanding informal privatization of long-term care, with immigrant helpers providing the services. As to childcare, coverage for children between the ages of 3 and 5 significantly expanded and, for the under-3s, greatly improved in Spain, Portugal and Italy.

A significant innovation is recorded in Spain and Portugal. The enactment of the law on Dependency (2006) in Spain introduced universal coverage of long-term care through mixed funding by the central state, the autonomous regions and co-payments of users, proportionate to their incomes. Yet, the launch has been beset by serious problems, such as wide regional disparities, inefficient coordination with healthcare and too much reliance on cash benefits rather than services. Similarly, in Portugal, a national network for integrated care was established in the mid-2000s, with the aim of covering big gaps in long-term care. It embraces a wide array of (public and private) units providing post-acute, rehabilitation and long-term care. It operates under common standards of service provision, along the lines of the purchaser–provider split management model and is subsidized by the state. However, the severe economic crisis put strains on funding these newly established schemes.

Overall, during the two decades prior to the crisis, modernization/rationalization of the main pillars of the welfare state (pensions, healthcare and labour market), in parallel with redirecting welfare policy to ‘new social risks’ (i.e. to meet the needs of those affected by structural changes in the labour market, facilitate the combination of paid employment with family-life, particularly for those with dependents, etc.), guided reforms, though to varying degrees, among the four countries. Reforms in Spain exemplify some degree of policy ‘recalibration’. Such a process was slower in Italy and Portugal, and even slower in Greece (Mari-Klose and Moreno-Funetes, 2013; Guillén and Pavolini, 2015). It is in this respect that Petmesidou and Guillén (2014: 303) argue that at the time of the eruption of the global financial crisis, welfare capitalism had become “increasingly dissimilar in the four countries, putting into question the existence of a distinctive ‘model’”.

The impact of the economic crisis

With the exception of Spain where the international crisis aggravated an economic slowdown already under way owing to the building market crash, SE countries were hit by the global credit crunch with some delay and experienced primarily a serious sovereign debt crisis that soon led their economies into deep recession. In Greece and Portugal the debt crisis undermined their fiscal credibility causing borrowing costs to escalate. Bailout loan packages were agreed for Greece and Portugal by the EC–ECB–IMF (the so-called Troika) under the terms of sweeping austerity measures and structural reforms. Under the Excessive Deficit Procedure of the Council of the European Union, Spain and Italy also became subject to external pressures for significant adjustment. In Spain, such pressures were compounded by the conditionalities accompanying the ECB loan that the country obtained in 2012. Successive austerity packages, although embracing less tough measures compared to the bailed-out economies, were introduced
by the governments of Italy and Spain in order to rein in the public deficit and ease fears of a worsening debt crisis.

By and large, since 2010, we observe significant similarities among the four countries in respect of the character of the reforms, and the changes in the policy–making process (León et al., 2015; Petmesidou and Glatzer, 2015; Guillén and Pavolini, 2017). The reforms undertaken thus far consist of structural changes in the fields of pensions, industrial relations and the labour market, on the one hand, and of austerity–driven cuts in other policy fields, on the other. Structural changes include the strengthening of the insurance principle in pensions and the decrease of the (public) schemes’ generosity, as well as the curtailment of labour rights in tandem with increasing labour market flexibilization (defined by Ferrera (2012) as ‘subtractive recalibration’). Austerity measures embrace some combination of tax increases (including hikes in VAT rates and excise duties on specific commodities), spending cuts mostly in healthcare and social service programmes, a reduction in the size of the public sector and extensive privatizations. In all four countries, cuts to the social budget started being implemented in 2010.

Moreover, decision making for major social reforms and spending cuts has been significantly rescaled upward. National parliaments and other major actors (social partners, sub–national authorities) have been sidelined, as most reforms were introduced at the behest of the ‘Troika’ and under the pressure of the crisis management tools of the EU. This change in policy decisions raises serious questions about democratic deficits and domestic sovereignty, and has significantly contributed to the erosion of trust in European and national institutions among the population of SE countries, as well as to the growing unrest among the social groups worst hit by the crisis. These conditions account for the deep flux experienced by the party systems in SE countries, with the waning power of the traditionally main parties to the right and centre–left of the political spectrum, and the emergence of new parties on the far left (‘Podemos’ in Spain and the ‘Five Star Movement’ in Italy), and on the far right (the ‘Golden Down’ in Greece); or, the rise to power of previously marginal parties (e.g. SYRIZA, the Coalition of the Radical Left) in the case of Greece. Tapping into the discontent caused by austerity measures, these new political actors pledge to fight back austerity–driven reforms (albeit with no success in the case of SYRIZA, which in June 2015 made a humiliating U–turn under the pressure of the international lenders and introduced further harsh measures). Immigration is also a major issue in the political debate, particularly in Greece and Italy, which have borne a heavy burden of the refugee flows from Syria, Iraq, Afghanistan and North Africa over the past few years. This condition nurtures right–wing chauvinist sentiments regarding welfare provisions among extremist parties (Petmesidou, 2017).

Under structural adjustment, Greece embarked upon an overhaul of pensions, moving away from a highly fragmented, Bismarckian social insurance system (based primarily on the first pillar), to a unified, multi–tier system that distinguishes between a basic (quasi–universal) non–contributory and a contributory pension. In parallel with significant cuts in salaries and current pension benefits, replacement rates for future retirees are drastically reduced; pensionable income is redefined on the basis of total career earnings; stricter conditions are introduced for early retirement; measures are taken for equalizing men’s and women’s retirement conditions in the public sector (in a phased–in way); and provisions are made for linking longevity to retirement age (from 2021 onward). Securing long–term viability and eliminating accumulated privileges in a system long nurtured by clientelistic criteria are key aims. Nevertheless, fairness problems remain, while harsh cuts in current and future pensions impact negatively upon benefit adequacy. Furthermore, soaring unemployment adds extra pressure on social insurance due to drastic drops in contributions in all four countries.

The memorandum that Portugal signed with its international lenders (2012–2014) embraced nominal cuts in pensions over the time span of the bailout programme, stricter targeting criteria
for social benefits, increase in pensionable age and incentives for supplementary funded retirement schemes. In Spain, a reform introduced in 2011 increased the retirement age as well as the years taken as a reference base for pensionable income (from the current 15 to 25 years), and linked entitlements more closely to contributions. In addition, long-term system sustainability will be supported by periodically reviewing contributions and benefits (from 2027 onward) with respect to longevity. In 2011, the ‘Save Italy’ decree by the technocratic government under Mario Monti, formed amidst a deepening economic crisis, sped up implementation of the notionally defined contributions scheme for pensions (in force from 2012 for the whole working population), increased the minimum pensionable age for both men and women, and froze pensions that are over twice the statutory minimum. An upward adjustment of pensionable age to longevity every three years was also decided, in parallel with a periodic revision of the coefficient for converting notional accounts into annuities.

In all four countries more flexibility for core workers was introduced, leading to downward levelling of protection between permanent and temporary workers. The rules governing industrial relations have also changed significantly. In Spain, legal reform allows employers to ‘opt out’ of the clauses of collective agreements concerning working conditions. In Greece, legislation drastically limited trade union rights and curtailed labour protection, as regulation of the employment contract shifted from the level of collective negotiations to individual arrangements. Decentralization of collective bargaining in favour of firm-level (and individual) agreements took place in Italy and Portugal as well. In the latter country the application of collective bargaining agreements to non-unionized workers was severely limited. Also, to one extent or another, in all four countries reforms included the severe curtailment of public sector recruitment, cuts in the public sector wage bill, non-renewal of fixed-term contracts and, in the case of Greece, a public sector mobility scheme involving suspension/reallocation associated with wage reductions, and eventually dismissals. Cuts in unemployment benefits have also taken place. Yet, given the fast-rising number of the unemployed and low-wage workers, and increasing poverty, some measures were taken to meet growing need: for example, in Portugal, unemployment benefit coverage expanded, though maximum duration was cut by almost half; and in Greece, a minimum income scheme (called ‘social solidarity income’, addressed to people in extreme poverty) was piloted for two years and was rolled out at the national level in early 2017.

Between 2008 and 2015, inequality (measured as the ratio of the highest to the lowest income quintile) increased rapidly among the working-age population in Greece and Spain (Figure 15.1). A less steep rise characterizes Portugal and Italy. Among the elderly, income inequality fell slightly in all four countries as the cuts in pension benefits significantly compressed the range of pension incomes.

Drastic spending cuts have affected healthcare, social services and family policies. In Spain, the expansionary trend in healthcare followed over the previous decades came to an abrupt end. Accumulated debt for medical supplies and pharmaceuticals in some Spanish regions reached a record high level, threatening the very survival of the system. Transfer of central state funding to regional authorities for the implementation of the 2006 legislation on long-term care was significantly reduced, long-term care benefits were cut and the ‘baby cheque’ policy was discontinued. Equally in Italy, the central state budget for social care and social assistance was slashed by about 90 per cent between 2008 and 2012 (León et al., 2015: 190).

In Greece the bailout agreement embraced a sweeping overhaul of public healthcare (measures include the merging of health funds, closing down/merging of hospitals, and a significant reduction in the scope of diagnostic tests and drugs covered by social insurance, as well as a drastic decline in the number and remuneration levels of contracted medical doctors in primary
healthcare). The ‘flat (entrance) fee payment’ required for all – regular – outpatient services, which was introduced in 2011, was abolished by the SYRIZA–ANEL government in 2015, but fees are charged to outpatients in afternoon visits to specialists in public hospitals. Diminishing scope and quality of care plague the national health systems in all four countries, at a time when demand for public provision has steeply increased due to the crisis (Petmesidou et al., 2014). From 2009 to 2015, per capita public health spending (at constant 2010 prices, in euro) plummeted by 42 per cent in Greece, 16 per cent in Portugal, 8 percent in Spain and 7 per cent in Italy (Petmesidou and Glatzer, 2015). In the two countries that received bailout programmes, spending on child benefits and on local welfare provision (e.g. the minimum income scheme in Portugal) significantly decreased.

Overall, budgetary strain and sustainability concerns override equity and adequacy criteria in social reforms. The White Paper on Welfare issued by the Italian Labour Ministry in mid-2009 clearly reflects the retrenchment of public provision by stressing that “the current balance between state, market, and family should be shifted in favour of more market, more family, and less state”. Such a policy orientation starkly indicates that any trends of widening the scope of institutionalized social rights in SE (e.g. in social assistance and social care), evident in the previous decades, feel the pressure of the crisis acutely.

Conclusion

In the 1950s and 1960s social spending was limited and a familialist model of social protection prevailed in Southern Europe. Compared to Northwest Europe, welfare state expansion proceeded with a considerable time lag and embraced primarily social insurance and healthcare, while social assistance and social services developed sluggishly. Moreover, the expansion of social rights and social programmes (e.g. NHS schemes) took place in a relatively short time period amidst a turbulent economic environment (after the early 1980s). Soon SE welfare states came under strong pressure from economic and financial constraints, rapidly changing demographics, new risks, and the need to rationalize and reform institutions in the context of European integration. However, SE countries more or less differ in respect of the reform roadmap they followed in the decades of the 1990s and 2000s. In Spain, an early starting steady reform tackling serious predicaments of the pension system, and a carefully designed and executed transition to a devolved NHS, account for the very low support that issues of private provision...
garnered in public debate. In the two decades prior to the Great Recession, social reforms also embraced ‘recalibration’ for meeting new social risks. Some evidence of such a shift characterizes Portugal and Italy as well. Greece embarked upon reforms for dealing with major predicaments of its social protection system rather belatedly under the strong pressure of a severe fiscal crisis, which puts at risk its ‘feeble’ welfare state. Evidently the serious economic crisis unleashed by the 2008 global credit crunch led to policy convergence, in SE countries, along the lines of austerity measures and receding social protection. The salience of external pressures largely accounts for the similarities in the orientation of reforms, namely paradigmatic institutional changes in the pensions, labour market and industrial relations fields, and drastic spending cuts and receding public provision in healthcare and social services. These have significantly reshaped and/or curtailed social rights and weakened universal access.

In the past two years Spain, Portugal and Italy have moved out of a long recession, and unemployment showed signs of slow decline. Yet, all three economies still face daunting challenges given a heavy burden of high domestic and external debt, restrictive macro-economic policies and adverse demographics. In Greece, a weak recovery emerged in 2014, but due to the tumultuous political environment the economy spiralled down over the following years. This led to the signing up of a third bailout deal with the international lenders in mid-2015, from which the country has not yet exited. It is difficult to forecast how far SE countries will tread the path of permanent austerity by further squeezing social spending and progressively dismantling social and labour rights. Equally difficult is to predict whether the path followed thus far will have an irreversible effect on social protection. Some signs of policy reversal, in Portugal, by the minority socialist government formed following the 2015 elections (for instance, with the increase of the minimum wage and of public sector salaries and pensions, and the abolition of an extraordinary income tax introduced during the debt crisis) do not constitute enough evidence of a discontinuation of retrenchment. Moreover, a gloomy scenario of rapidly deepening socio-economic divides in the EU periphery (looking more like a ‘Latin-American’ future) is likely, so long as deeper economic and political union in Europe is not forthcoming. Albeit, the scenarios of a two (or multi)-speed Europe that have recently resurfaced in the EU debate on the future of the EU post-Brexit do not leave much scope for optimism.

Notes
2 In the decades prior to the restoration of democracy (namely in the 1960s and mid- to late 1970s) inequality measured in terms of income (Portugal) and household consumption (Greece) increased significantly (Alvaredo, 2011; Petmesidou, 1996), while social expenditure (as a percentage of GDP) remained very low: in 1980, it stood at about 12 and 14 per cent in Greece and Portugal, respectively (compared to an average of about 25 per cent in the 12 EU member countries at that time; Petmesidou, 1996: 104).
3 ANEL stands for ‘The Independent Greeks’, a small conservative-nationalist party with which SYRIZA made a coalition in order to form an overall majority.

References
Southern Europe


