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SPECIAL ISSUE EDITED BY ANA M. GUILLÉN AND EMMANUELE PAVOLINI

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This Special Issue focuses on the evolution of salient aspects of Southern European welfare states since the onset of the economic crisis in 2009, such as the reform of social protection and labour market policies, changes in public administration and decision-making processes, and the reproduction of inter-generational inequalities. As the essays included in this volume and other prior publications (e.g. Guillén and León 2011; Naldini and Saraceno 2008; Ascoli and Pavolini 2015; Petmesidou 2013a) show, Greece, Portugal, Spain and Italy have adopted different approaches to the transformation of welfare capitalism, particularly since the turn of the millennium.

The triggers of the economic crisis, as well as their previous economic situation, differed in the four Southern European countries. In the years 1995–2007, Spain enjoyed robust economic growth and limited levels of government debt and deficit although a huge construction bubble was on the make. Italy reveals a totally different pattern: low economic growth, matched by high and increasing public debt. Greece and Portugal occupy an intermediate position: the former experienced robust economic growth (especially in the years before the crisis) but also high public debt and deficit,

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whereas the latter witnessed a strong economic growth in the 1990s, followed by a slow-down and a medium-to-low level of public debt and deficit.

Despite these differences, all four countries swiftly started to experience a public deficit and debt crisis, partially related to internal structural rigidities and problems (especially in Greece, Portugal and Italy), partially as the outcome of the global financial crisis and the burst of the bubble (especially in Spain). Table 1 shows the magnitude of changes in the first years of the crisis (2008–10), compared to the previous situation: GDP growth sank, deficits skyrocketed (at least in three of the countries; only Italy showed a more stable trend, albeit in a situation of huge public debt).

Table 1. Economic growth, public debt and deficit before and after the onset of the crisis: the four Southern European countries compared

<table>
<thead>
<tr>
<th></th>
<th>GDP growth (annual %)</th>
<th>Total central government debt (% of GDP)</th>
<th>Surplus/deficit (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>3.7</td>
<td>–0.8</td>
<td>48.2</td>
</tr>
<tr>
<td>Greece</td>
<td>3.8</td>
<td>–3.4</td>
<td>114.4</td>
</tr>
<tr>
<td>Italy</td>
<td>1.6</td>
<td>–1.6</td>
<td>113.8</td>
</tr>
<tr>
<td>Portugal</td>
<td>2.5</td>
<td>–0.3</td>
<td>62.7</td>
</tr>
</tbody>
</table>

Source: World Bank Open Data online database

The need for heavy borrowing in international markets to fund governments’ budgets and deficits became dramatic in 2009–2011 and so did the pressure from these markets and supranational institutions, starting with the European Commission (EC) and the European Central Bank (ECB), which were also worried about the impact of the debt crisis on the overall stability of the Euro. If previous trends in economic growth and public debt, together with different choices in relation to welfare state innovation and restructuring, had already allowed for diversification among Southern European welfare states, the responses to the crisis, as far as social and labour market policy reforms are concerned, have been very similar, a sort of one-size-fits-all catalogue of remedies. This has resulted in further divergence among the four countries considered here.

Strong external pressures for economic policy and structural change were exerted on all Southern European countries. Greece and Portugal introduced reforms in the context of a Memorandum of Understanding (MoU), which was implemented in both countries under the close supervision of the so-called Troika, consisting of the EC, the ECB and the International Monetary Fund (IMF). Italy did not sign a MoU, but took instructions on reform guidelines at crucial moments from the leadership of the ECB and the EC (Pavolini et al. 2015; Sacchi 2015). Spain obtained a loan from the EU
to deal with the difficulties of its banking system. Policies of fiscal consolidation and market liberalisation constituted the cornerstone of the common reform process that was put into effect.

The next section spells out how the different articles in this Special Issue contribute to the analysis of the transformations that occurred during the crisis period in the four main Southern European welfare states.

1. CONTENT AND AIMS OF THE SPECIAL ISSUE

This Special Issue contains a series of articles which, from different angles, analyse what has taken place and is still taking place in Southern European welfare states. The relevance of this analysis goes beyond the Mediterranean region. Two of the largest EU countries/economies of the Eurozone are in this area: Italy and Spain. Moreover, as will be explained, some of the issues that have become central for welfare state policy and decision-making in Southern Europe are very relevant for the whole EU scenario.

Not all potential issues are covered by this set of articles, but many salient ones are considered in terms of both policy fields and common topics. The Special Issue is innovative for at least three reasons. First, because it compares all four Southern European major economies (Portugal, Spain, Italy and Greece) and provides a comparative assessment and interpretation (as opposed to single country studies) of what has been taking place in this European region. Secondly, it takes into consideration a considerable time-span, focusing on the years preceding the outbreak of the crisis and 2013/14. Thirdly, it provides an interpretation and an understanding of the trajectories of change not only in single social policy fields and their outcomes but also of how the whole decision-making process has been deeply transformed.

The research results of the different articles may be summarised under three headings: (i) policy changes; (ii) decision-making transformations; and (iii) social and political outcomes in relation to inequality issues.

2. SOCIAL AND LABOUR POLICY CHANGES IN SOUTHERN EUROPE

The article by León et al. analyses reforms in Spain and Italy, whereas that by Petmesidou and Glazer focuses on the dynamics of reform in the two bailed-out Southern European countries, Greece and Portugal. The article by Moreira et al. and that by Sotiropoulos include comparative analyses of labour market and public administration (including public employees’ governance) reforms in the four welfare states. These two issues are closely connected with each other.
The overall result of the comparative analysis of the four countries and of different policy fields reveals a process of retrenchment of workers and citizens’ rights with few and weak hints of recalibration. What has often taken place is what Ferrera (2012) has described as ‘subtractive recalibration’: differences between ‘outsiders’ and ‘insiders’ have decreased not mainly because the former have started to be treated better by new welfare state regulation, but because the latter have become less well protected. Moreover, welfare states, such as the Spanish one, that tried to invest in covering ‘new’ social risks before the crisis (for example by introducing new schemes and funding for child and elderly care, fostering reconciliation and introducing active labour market policies), experienced a slow-down or came to a halt in the process of implementing new policies.

Policy changes took two different forms: radical institutional changes in the two main traditional pillars of the welfare state (pension and labour market policies); and severe cuts, but without radical institutional changes, in other social policy fields (although with a potential ‘transformative’ effect in the medium term).

Pensions and labour market policies experienced major reforms. The direction of these reforms was mainly towards a reduction in the generosity of the programmes and a strengthening of the insurance principle in the pension field (Natali and Stamati 2014) and towards more flexibility (for core workers) in labour market programmes. For the first time in several decades, labour market reforms did not take place ‘at the margins’, given that the intention of the reforms was to reshape the overall functioning of the labour market and, especially, the position of ‘insiders’.

Reductions have taken place in relation to the level of security enjoyed by labour market insiders while they are unemployed. Although these reductions have been very significant, restrictions in the provision of unemployment benefits seem not to have been as pronounced as those in the field of employment protection, i.e. the access to unemployment benefits was not lowered. Rather what has taken place is a decrease in the generosity of unemployment benefits to labour market insiders matched by attempts to expand protection to previously unprotected groups.

The article by Moreira et al. shows that Southern European countries were not the only ones to reduce the level of protection given to regular workers: almost all countries in the Eurozone have followed a similar pattern. Nonetheless, after the reforms, Italy and Portugal reached a level of security in relation to unemployment that resembles the German one but with a lower level of employment security. Greece has increased its distance from Germany in terms of security both in employment and unemployment. Spain provides less security in employment and a similar level of security in unemployment when compared to Germany (see Table 2).
Table 2. Labour market regulation of ‘insiders’ before and after the onset of austerity reforms: A comparison between Southern European countries and Germany

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Greece</td>
<td>2.83</td>
<td>2.37</td>
<td>0.11</td>
</tr>
<tr>
<td>Italy</td>
<td>2.98</td>
<td>2.75</td>
<td>0.09</td>
</tr>
<tr>
<td>Portugal</td>
<td>3.38</td>
<td>2.73</td>
<td>0.19</td>
</tr>
<tr>
<td>Spain</td>
<td>2.61</td>
<td>2.24</td>
<td>0.17</td>
</tr>
<tr>
<td>Germany</td>
<td>2.95</td>
<td>2.95</td>
<td>0.15</td>
</tr>
</tbody>
</table>

Source: elaboration from Moreira et al. (Table 1 – Annex) (2015, this issue).

If Moreira et al. provide a clear a comparative analysis on what has happened to ‘insiders’, three other essays in this special issue (namely those by Petmesidou and Glatzer, León et al., and Sotiropoulos) add further insights on labour market transformations during the crisis period. In particular, Sotiropoulos’ article on changes in Southern European public bureaucracies after 2009 indicates how the response to the crisis was similar in all four countries in relation to administrative reforms, namely through an intensification of New Public Management (NPM) reforms. These reforms involved a reduction in the size of public employment, in the cost of labour, and a shift towards the adoption of performance criteria and a results-based culture. In contrast to other EU countries, the four Southern European states implemented large-scale cuts in public employment, through nil or minimal replacement of retirees, hiring freezes, and non-renewal of temporary and fixed-term contracts, followed, in some countries, by dismissals of permanent employees. Moreover, while other EU countries also granted small increases in pay or imposed pay freezes, in Southern Europe pay freezes were often matched by pay cuts and also by reductions in the pension benefits of retirees. In short, public employment was hit, not just ‘insiders’ in private enterprises.

Petmesidou and Glatzer look at how a weakening in social protection was also achieved through other means. They underscore how public-sector reforms contained wage reductions, a freeze on new appointments and mobility schemes involving suspensions/reallocation connected with wage reduction and, eventually, with dismissals in Greece and Portugal. Moreover, employment agreements have increasingly shifted away from the national/industrial sector level to the decentralised/enterprise level, thus substantially dismantling the collective regulation of working conditions. León et al. show that similar patterns have taken place in Spain and Italy. For example, in Spain, the 2012 labour market reform enhances the capacity of employers to unilaterally modify employees’ working conditions by opting out of the
clauses contained in collective agreements, thus eroding the protective capacity of collective bargaining.

If radical reforms took place in pension and labour market policies, all the other domains of social protection were affected by severe cuts starting from 2010. Healthcare and education, as well as social assistance and family policies, were all policy domains heavily affected by financial cuts to an extent that could jeopardise the meaning of universalism (in the case of healthcare and education) or the simple presence of a safety net (in the case of social assistance) in the medium term. In the case of Greece, this risk already seems to be present in the short term. As the articles by Petmesidou and Glazer and by Leon et al. illustrate, cuts have been implemented in a situation in which no government has declared its intention to shift to new institutional settings.

3. DECISION-MAKING TRANSFORMATIONS: SUBVERTING SUBSIDIARITY AND MULTILEVEL GOVERNANCE

The articles in this Special Issue focus extensively not just on policy change and its direction but also on what appears as a very relevant transformation (time will tell if it is contingent to the crisis or structural) in policy-making processes and, in the end, in the way democracy has worked in the last decade in Southern Europe.

The four countries look similar in relation to the direction taken by the policy-making process as well as in the seemingly limited relevance of the political orientation of governments in terms of the reforms adopted in response to the crisis. Overall, as Petmesidou and Glazer argue, austerity measures have fostered a ‘rescaling’ process of decision-making, in terms of a reconfiguration of the appropriate actors for dealing with social problems (who decides and how), and the repartition of competencies among different actors and layers of government.

Before 2010, the typical EU approach in social and labour policies was grounded in a multi-level and flexible governance model based on tools such as the Open Method of Coordination (De la Porte and Heins 2015), matched in a large part of Europe (as well as in Southern Europe) by a relevant role played by national parliaments (as expressions of different societal and political interests), the social partners, sub-national governments (especially in federal countries and in those member states, like Spain and Italy, that devolved substantial powers to regions) and a good number of civil society stakeholders and organisations.

Starting in about 2010, this structure changed. On the one side, a major shift took place in EU supra-national governance toward stricter and binding conditions for the bailed-out countries and those member states in need of financial help, towards erosion of political and (further) economic sovereignty. On the other, partisan politics, parliamentary debates, interaction with organised interests, subnational governments and other organisations came to a standstill at the national level. In other words, policy-making has been significantly rescaled upwards. Reforms have
become a top-down process with two key central players: non-elected supra-national authorities (the EC, the ECB and, for the bail-out countries, the IMF) and the peak of the national governments. All the other main traditional players have lost most of their former influence on national policy-making.

Supranational institutions have followed an agenda in which it is difficult to disentangle ideology (the preference for neo-liberal ideas and policies based on fiscal consolidation) from fear of a spreading of the economic and financial crisis from the Southern European countries to the entire Euro-zone. National governments have become the main and most important player in policy reforms throughout Southern Europe. Pressures to take decisions hastily in response to the crisis and the need to monitor reforms across many policy sectors called for an organisational response on the part of national governments based on a rapid concentration and centralisation of power at the peak of the executive, as indicated by many articles in this Special Issue (see, in particular, Sotiropoulos, León et al. for Spain and Italy, Petmesidou and Glazer for Portugal and Greece).

This process of strengthening executives took two forms. First, the Prime Minister’s Office (PMO) has become central in promoting and monitoring the reforms, acting as a strong gate-keeper for coordination among Ministries, and in turn gaining increased responsibility for reporting to the ‘Troika’, in the case of Greece and Portugal, or to EU institutions, in the case of Spain and Italy. Secondly, the control of administrative and welfare state reforms by the Finance Ministry has increased markedly, with this Ministry becoming the second key player inside government: the most important decision-making competences have been essentially taken away from other Ministries and transferred to the Ministry of Finance in order to pursue fiscal consolidation.

As underlined in the articles by Leon et al. and by Sotiropoulos, this rapid concentration and centralisation of power at the peak of the executive took place under conditions of ‘permanent strain’, that have allowed national governments to justify bold retrenchment policies and cuts in social spending through a ‘there is no alternative’ or TINA legitimation strategy, aimed both at their constituencies and at appeasing the markets.

Parliaments have been sidelined: an approach based on ‘legislating by fiat’, as Sotiropoulos defines it, is easily traceable, in all four countries. A large number of significant legal changes, either explicitly or implicitly required by the international lenders, were turned into law, not through parliamentary procedure but by ministerial and presidential fiat. Parliaments could only either approve or reject these decrees in toto.

The social partners have also been pushed aside (see in particular the article by Luque Balbona and González Begega on this specific issue). Mediterranean countries lacked the tradition of strong neo-corporatism that is characteristic of Central and Northern Europe. During the 1990s and the 2000s, an increase in forms of collaboration and social pacts between governments and the social partners took place. However, since 2010, some governments have quite openly stated their change of attitude, declaring that dialogue is over. Consultation (without room for a veto) has
become the new keyword. A generalised drift from ‘bargaining to imposition’ can be detected in relation to socio-economic governance at national level.

The reaction of trade unions to this shift has been to resort to strikes and mass protests, with a strong intensification of general strikes since 2010. Nonetheless, strikes and demonstrations have so far failed to block reform. Even more worryingly from a trade union point of view, other social movements and political parties have arisen and they have shown a greater capacity to mobilise social discontent. These new social movements have often been critical of national governments and supranational institutions, as well as trade unions.

Not only have parliaments and the unions lost a good part of their input into decision-making since 2010 but so too have local governments. This process has taken place, especially in the two Southern European countries which had decentralised their welfare states most in the previous decades (see in particular the articles by Del Pino and Pavolini on this issue, and also by Petmesidou and Glazer in relation to what has happened in Greece and Portugal).

Forms of recentralisation of decision-making have occurred, matched by severe financial cuts in Central Governments’ transfers to local authorities for the tasks delegated to them. Sub-national governments have been forced to accept significant cuts and greater control over or supervision of their budgets. As the most important part of regional budgets is spent on social policies, local welfare systems have inevitably been affected both in scope and in the way in which decisions are made.

Furthermore, sub-national governments have been the layer of government that has been hit hardest by austerity plans. Central governments’ arguments for defending these cuts were similar in all the countries: cuts are necessary (TINA); there is no time to discuss and to negotiate them, due to international political and financial pressure; if sub-national governments complain, either they do not understand the drama of the economic situation, with the sacrifices it requires, or they do not accept that they have to do their part and reduce wasteful spending (after years of misuse of public resources on their side).

Finally, as far as the colour of governments is concerned, the adoption of retrenchment polices has been typical of both (Centre-)Right and (Centre-)Left governments in all four countries. Politico-ideological differences do not seem to have played an important role in the type of reforms and policy changes adopted, or in the styles used to pass these reforms. For example in Portugal the outgoing Socialist Party signed the bailout deal with the support of the incoming centre-right Social Democratic Party that undertook its implementation without strong opposition. In Spain, the Zapatero’s Socialist government acted not that differently from 2010 to 2012 from Rajoy’s Centre-right majority government from 2012 onwards. In Italy, since 2011, coalition governments with Centre-Right and Centre-Left parties have been in power and, no matter who has been the President of the Ministers’ Council, action has been quite similar.
4. SOCIAL AND POLITICAL OUTCOMES OF OLD AND NEW INEQUALITIES

A typical feature of Southern European welfare states has been that their comparatively higher level of inequality has increased during the crisis (Matsaganis and Leventi 2014). Dualism in the labour market has been matched by dualism in access to income maintenance rights (Ferrera, 1996; Guillén and León 2011; Ascoli and Pavolini 2015). For instance, many Southern European countries have historically invested a large amount of resources in pensions (this applies to Italy, Greece and Portugal; Spain stands at the EU-15 average), but, at the same time, the risk of poverty among the elderly has remained high and above the EU-27 average. In these countries a large part of old-age spending is concentrated on a restricted group of pensioners (Petmesidou 2013b).

Some of the articles in this Special Issue address this problem. Petmesidou and Glatzer focus explicitly on what has happened in recent years to the traditional structure of labour market and to welfare state inequalities in Portugal and Greece. Their conclusion is negative: inegalitarian tendencies persisted and equity has been absent from the agenda. Moreover, a clear shift of competences is detectable from the public to the private domain. In Greece, pension reform has fostered the rollback of the first pillar and an eventual shift towards occupational/private (funded) schemes. Given the high unemployment rates and the strong presence of ‘outsiders’ in the labour market, this pension reform will probably deepen inequality in social insurance among future retirees. In Portugal, the tightening of eligibility criteria for non-contributory pensions and a marked decrease in spending on social assistance and child benefits indicate a hastening retreat of public provision and a weakening of local welfare policies.

In healthcare the cuts have meant a drastic rollback of public provision in both Greece and Portugal and an intense privatisation of expenditure or, given the desperate economic circumstances of parts of the population, simply a reduction in the ability of some households to ‘cure’ themselves. In general, the reforms have had strong negative effects on access, equity and the quality of services in both countries (Petmesidou, Pavolini and Guillén 2014). León et al. also describe the impact of the reforms in terms of persisting inequalities in Spain and Italy, although some hints of recalibration, at least in the labour market and in pensions may be detected. However, as explained above, this recalibration has often borne a ‘withheld’ character.

Shortcomings in the functioning of Southern European welfare systems in terms of equality and equity is the specific focus of the study of Raitano’s article on the intergenerational transmission of inequality from a comparative perspective. Raitano finds clear differences among the European welfare regimes in relation to mechanisms of the intergenerational transmission of inequality. In Nordic and Continental countries, the influence of parental background on earnings appears entirely mediated
by intervening factors such as educational attainments and the process of occupational sorting so that there are no additional ‘direct’ effects. On the other hand, in Anglo-Saxon and Southern European countries, educational and occupational achievements do not exhaust at all the mechanisms of influence of parental background on children’s incomes. Raitano’s findings confirm, in the field of inequality transmission, the well-established classification of European welfare regimes: in Nordic countries, followed by Continental countries, the direct background effects are really small while the opposite is the case in Anglo-Saxon and Southern European countries.

In recent years old problems (inequalities), new ones (the economic crisis and its impact on millions of workers and households) and changes in the ways in which decisions are made (with an upward rescaling of policy decisions that raises serious questions about democratic deficits and domestic sovereignty) have all come together to create the basis for relevant political tensions, protests and (potential) changes.

In all four countries, trust in parties and politicians and support for the EU have fallen sharply. Public protest has become an important component of socio-political dynamics throughout Southern Europe. Resistance movements have gathered momentum and have stimulated public debate. New or traditionally peripheral parties have entered the political arena and gained space and electoral support. So far Greece has been the most visible case. In Spain, changes have been also far-reaching although they have not gone as far as in Greece. In Italy, the situation is more blurred, although it is clearly fluid. The Portuguese party system is the one that has remained the most stable throughout the crisis years.

To close, the contributors to this Special Issue provide an analysis of novel and hitherto unheard-of processes of economic, political and social reform and transformation. The assessment of such processes has to be tentative because the crisis and the adjustment to it have not yet come to an end in Southern Europe. This affects not only the national cases under scrutiny but also the whole future of the EU and its relations with other advanced and emerging economic powers. We consider our conclusions very much as work in progress. In fact, the novelty of the specificities and singularities in the trajectories followed by Southern European countries in the great recession call for further research efforts and for the development of new theoretical instruments in order to fully understand and explain what is happening in the domains of policy governance, policy reform and policy outcomes. An increasing heterogeneity among Southern European welfare states can be observed, to a point which leads us to question the continuing validity of the ‘Mediterranean model’. It is in this spirit that this Special Issue aims to stimulate academic curiosity and further policy-focused research on developments in Southern Europe.
REFERENCES


THE CRISIS IMPERATIVE, 
REFORM DYNAMICS AND RESCALING 
IN GREECE AND PORTUGAL

MARIA PETMESIDOU and MIGUEL GLATZER*

Abstract

This article compares the welfare reform dynamics and rescaling processes over the last few years in Greece and Portugal. It comprises four main sections. After an introduction, the second section briefly describes the salient features of social security, healthcare and labour market policy in the two countries in the years prior to the crisis. It also sets out the major dimensions of comparison. The third section provides a short account of the unfolding of the crisis and the common pressures for structural adjustment, while the fourth section examines the policy options and outputs in the above three policy domains under the bail-out. In the light of the major points of comparison put forward, the interplay of external and internal factors in welfare state reform and rescaling are analysed in section five. The conclusion briefly points to restrictions and challenges in the post-crisis era.

Keywords: bail-out; Greece; Portugal; reform dynamics; rescaling; welfare state; sovereign debt crisis

1. INTRODUCTION

This paper examines the socio-political dynamics of welfare reform and rescaling in Greece and Portugal during the crisis. Some distinctive features of socio-political integration and policy – which have been characteristic of the two countries for a long time, such as the preponderance of a ‘consensual’ mode in Portugal, and of a

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conflictual/clientelist pattern in Greece, are crucial for this comparison. Equally important are the common pressures for structural adjustment exerted on both countries under crisis conditions and ‘bail-out’ conditionalities. Rescaling social welfare constitutes a crucial dimension of reform. We define rescaling in a two-fold manner: as a reconfiguration of the appropriate actors for dealing with social problems (who decides and how) and as a repartition of competencies along public/private and central/local dimensions.

The next section provides a summary account of the two countries’ policy profiles in three main areas (social security, health and labour market policy) in the decades prior to the crisis, and sets out the major dimensions of comparison. The following two sections focus on the common pressures for structural adjustment under the financial and sovereign debt crisis and on the ‘rescue deals’ in the two countries. We briefly trace the reforms in the above three policy areas and highlight the underlying policy choices. Then we move to an analysis of the reform dynamics and the major aspects of welfare rescaling, in the light of the dimensions of comparison set out in the previous sections. The conclusion summarises the main points of the comparative analysis, briefly hinting at the post-crisis challenges.

2. POLICY PROFILES UNTIL THE ONSET OF THE CRISIS

2.1. THE TWO COUNTRIES COMPARED

Following the restoration of democracy in both countries, previously constrained social pressures led to rapidly increasing social expenditure in the late 1970s and most of the 1980s. In Greece, due to the strong populist current throughout the 1980s, welfare policies came to be a crucial instrument in the clientelistic-particularistic exchanges that characterised socio-political integration in the country. Studies in political science define socio-political integration in Greece as an ‘eccentric majoritarianism’ that for a long time combined the ‘logic of populism’ with electoral overbidding in clientelist concessions and rent-seeking behaviour (see, for instance, Kovras and Loizidis 2014). In the policy studies literature these features are described as a ‘statist pattern’ with ‘extensive and all-pervading state intervention that, however, did not lead to the formation of effective and efficient socio-economic planning processes’ (Petmesidou 2006: 30).1

Rather than building comprehensive, rights-based welfare arrangements, policy measures involved favourable provisions, such as early retirement schemes for some socio-professional groups, disability pensions, and the expansion of social insurance coverage to groups which had never paid any contributions (for instance, Greek

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1 See also Monastiriotis and Antoniades (2009: 3), who aptly describe Greek reform pathologies as ‘reform activism with little change in policies and outcomes’. 
repatriates from Eastern Europe and the former Soviet Union). These imposed considerable strains on the finances of social insurance organisations.

In Portugal, the transition to democracy occurred under large-scale revolutionary mobilisation. But soon the prospect of accession to the EU and later the challenge of joining the EMU prompted a shift in policy-making towards more consensual forms of interconnected reforms in income, labour market, social security and welfare policies through social pacts. Although the frequency of social pacts diminished after entrance into EMU, the institutional structure remains in place.

Table 1 depicts the rapid rise of social expenditure (as a percentage of GDP) from 1980 until the eve of the crisis (from 12.2 per cent of GDP in Greece and 14.7 per cent in Portugal, in 1980, to 26 per cent and 24.3 per cent respectively, in 2008). Although these increases are remarkable, social spending per capita lagged behind increases in GDP per capita (both measured in Purchasing Power Standards or PPS, as compared to the corresponding EU-15 rates), indicating that the two countries underspent in social protection in terms of their wealth. This runs counter to the argument that welfare state expansion is a main reason for the deterioration of public finances. Moreover, the effect on redistribution has historically been low in both countries (particularly in Greece). The poverty rate was comparatively high at the onset of the crisis, and has increased further since then.

Table 1. Social expenditure and poverty

<table>
<thead>
<tr>
<th>Social expenditure as percentage of GDP</th>
<th>At-risk-of-poverty rate, 2009/2012*</th>
<th>Per capita social expenditure (in PPS**, EU-15 = 100)</th>
<th>GDP per capita (in PPS**, EU-15 = 100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>19.4/24.0</td>
<td>27.8</td>
<td>18.4/19.4</td>
</tr>
<tr>
<td>Greece</td>
<td>12.2/22.0</td>
<td>26.0</td>
<td>19.7/23.1</td>
</tr>
<tr>
<td>Spain</td>
<td>18.2/19.9</td>
<td>22.7</td>
<td>20.1/22.2</td>
</tr>
<tr>
<td>Portugal</td>
<td>14.7/16.3</td>
<td>24.3</td>
<td>22.4/22.6</td>
</tr>
<tr>
<td>EU-15</td>
<td>–</td>
<td>27.1</td>
<td>16.2/16.8</td>
</tr>
<tr>
<td>EU-27</td>
<td>–</td>
<td>26.4</td>
<td>16.4/16.9</td>
</tr>
</tbody>
</table>

Notes:
* Income data refer to previous year (cut-off point: 60 per cent of median equivalent income).
** Purchasing Power Standards.

The economic recession in the first half of the 1990s and serious fiscal pressures under the EMU criteria brought imbalances to the fore. With greater success in Portugal than in Greece, reforms sought to tackle gaps and inequalities in social protection, while at the same time experimenting with new welfare mixes, many influenced by policy visions and options promoted by the EU, e.g. the Lisbon Agenda (Guillén and Petmesidou 2006). Nevertheless, in both countries, from the mid-1990s until the
credit crunch, the goals of welfare state reforms were similar. They included cost containment and rationalisation in the main policy domains matched with new programmes in social assistance and social care.

Three factors shed light on the different socio-political dynamics of policy-making in the two countries, and provide the basis for comparison. First, Greece failed to develop the processes of negotiated reform that were prominent in Portugal. No major platform of social dialogue for large-scale reform emerged, think tanks and policy communities that might drive the policy debate were absent, and industrial relations remained highly politicised, fragmented and conflictual.

Second, the ways in which political parties related to their social base differed markedly between the two countries. In Greece, but not in Portugal, electoral support was maintained through clientelistic exchanges and patronage networks that extended to trade unions. The current crisis has significantly restricted the resources for political overbidding (and rent-seeking). However, it remains to be seen whether the underlying logic of this mode of socio-political integration will wane. Overall, the legitimacy of political parties (and trade unions) has declined precipitously and the party system has experienced a deep flux. Support for the two main political parties which were alternately in power (the right-wing New Democracy, and the centre-left PASOK) reached record low levels, and new parties on the far-right, centre and left have emerged.

In Portugal, a stronger tradition of compromise and a difference with Greece in respect to the unfolding of the political cycle account for the resilience of political structures (Afonso 2013). The outgoing Socialist Party (PS) signed the bail-out deal with the support of the incoming centre-right Social Democratic Party (PSD) which undertook its implementation without strong opposition. In Greece, PASOK bore the brunt of the blame for dragging the country to the so-called troika (the three international creditors – the European Central Bank (ECB), the European Commission (EC) and the International Monetary Fund (IMF) and fervently implementing its stringent austerity measures. This alienated huge swathes of voters in the mid-2012 election and brought the party to its nadir in the January 2015 elections.

Third, compared to Greece, Portugal did not experience a ‘boom and bust’ trajectory in the 2000s. Excessive deficit procedures stemming from anaemic growth led Portugal, on several occasions, to engage in cost containment and fiscal retrenchment well before the crisis. Hence, the turn towards the bail-out austerity measures was not as abrupt as in Greece.

Interestingly, amidst the crisis (in 2009), the major election campaign slogan of PASOK (the Panhellenic Socialist Party) was ‘There is Money’ (for the state to spend). In the same vein, SYRIZA’s (the Coalition of Radical Left) election campaign, culminating in a decisive victory on 25 January 2015, adopted a similar, though admittedly milder, stance.
2.2. PENSIONS, HEALTHCARE AND LABOUR MARKET POLICY

Historically, in both countries social insurance relied on a public, first pillar, earnings-related system. The 1990s and 2000s saw various attempts to improve horizontal equity (amalgamating plans) and to adjust to population ageing (e.g. increasing the pensionable age, adding a sustainability factor, and discouraging early retirement). However, rationalisation has progressed further in Portugal. Despite some steps towards consolidation, fragmentation continued to be much higher in Greece.

Table 2 depicts the rapidly rising old-age dependency ratio in both countries and related social spending (pensions, health and long-term care) as a percentage of GDP. Due to timely attempts at system rationalisation prior to the crisis, old-age related spending in Portugal is not forecast to increase as rapidly as in Greece (in 2035 and 2060). Early intervention also accounts for the fact that forecasts before and after recent reforms do not exhibit any further significant decline in spending (as is the case for Greece).

Table 2. Old-age dependency ratios and public expenditure

<table>
<thead>
<tr>
<th>Old-age dependency ratio</th>
<th>Old-age-related public expenditure 2007–2060 (pensions, healthcare and long-term care), as percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
</tr>
<tr>
<td>Italy</td>
<td>30.5</td>
</tr>
<tr>
<td>Spain</td>
<td>24.2</td>
</tr>
<tr>
<td>Greece</td>
<td>27.7</td>
</tr>
<tr>
<td>Portugal</td>
<td>25.9</td>
</tr>
<tr>
<td>EU-27</td>
<td>25.4</td>
</tr>
</tbody>
</table>

Source: EU Commission 2009 and 2012.
* The forecasts take into account the recent reforms briefly discussed below.

Despite a pension-heavy welfare state, in both countries the risk of poverty among the elderly (aged 65 and older) remained high (19.2 per cent and 22.4 per cent in Portugal and Greece respectively, in 2008; EU-27 average of 14.7 per cent). In part this reflects the very low rates of minimum pensions, as well as the large number of people in non-contributory schemes (introduced in both countries after the restoration of democracy). Currently, in Portugal, 40 per cent of old-age spending accrues to the wealthiest 5 per cent of the population, while in Greece about a third of old-age retirees receive a pension at the level of the non-contributory social pension (Petmesidou 2014).

Both countries introduced a National Health System (NHS) in the late 1970s and early 1980s respectively, but a mixed system (in terms of funding and service delivery)

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3 Funded (occupational and private) schemes cover only a tiny section of the labour force.
continued to operate, as both countries combined the NHS with special insurance schemes (a large number of occupational-based health insurance funds in Greece, and ‘health insurance subsystems’ with more generous provisions, mostly for public employees, in Portugal). Since the 1990s both countries have faced problems of cost escalation, but for different reasons. At 1.5 per cent per year, the rate of growth in Portuguese health spending from 2000 to 2009 was the second lowest in the OECD (OECD average of 4 per cent) and at the opposite end of the spectrum from Greece, which had average annual growth of 6.9 per cent. However because Portugal had very low economic growth, health spending increased faster than GDP for all but two years (2006 and 2007) during this period, and reached 10.2 per cent of GDP in 2009 (as it did in Greece).

Persistent overuse of expensive specialist services is accounted for by an ineffective referral system in Portugal, and lack of a gate-keeping mechanism in Greece. Some forms of private-public mixes (e.g. contracting out various ancillary services by the NHS) were embraced in national health policies in both countries, and de-concentration was attempted through the creation of regional health administrations. Both countries also introduced user charges, changes in the pricing system for pharmaceuticals and the promotion of generic drugs. However, in Greece these policies were not particularly successful, given the fact that spending on drugs increased on average by 9.9 per cent yearly (in real terms) between 2000 and 2008 (2.3 per cent in Portugal), and regional reorganisation was not rigorously pursued (Petmesidou, Pavolini and Guillén 2014).

As regards labour market policy, both countries proceeded to the liberalisation of employment services and, if not successful in practice, at least in principle, embraced the idea of promoting a mix of passive and active policies. Reforms signal an attempt to broaden 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 work-life balance, particularly through EU funding (e.g. in the home help programme in Greece, which, since the late 1990s, has aimed to improve work-life balance and support female employment). The introduction of the minimum income scheme for social inclusion (Rendimento Social de Inserção (RMI)) in Portugal, in 1996, also embraced an integrated policy. Nevertheless, expenditure on active labour market policies remained low in both countries (it stood at a tiny 0.22 per cent of GDP in Greece and 0.59 per cent in Portugal in 2010/2011).\footnote{Data retrieved from www.oecd.org/employment/onlineoecdemploymentdatabase.htm.} Stringent rules on dismissals, high reservation wages\footnote{This refers to the lowest wage rate at which a worker would be willing to accept a particular type of job.}, strict work demarcation, and varieties of dualism (e.g. through a large informal economy in the case of Greece and segmentation between a ‘fringe’ of weakly protected temporary contract workers and a ‘core’ of protected permanent workers in Portugal), have persistently been major predicaments.

Overall, welfare state development followed similar paths in the two countries. In Portugal, a socio-political context conducive to dialogue among major stakeholders...
(trade unions, political parties and advocacy groups) – though with a highly varying scope and breadth over time – can be considered a major factor in explaining some early attempts at system rationalisation (in social security and healthcare) and recalibration (e.g. with the introduction of the RMI). In contrast, a stalemate is evident in Greece.

3. THE SOVEREIGN DEBT CRISIS AND THE BAIL-OUT

The debt crisis has both domestic and international causes (Armingeon and Baccaro 2012; Lapavitsas 2012). Heavy borrowing in international markets to fund the government budget and current account deficit, in tandem with weak revenue collection and structural rigidities in the economies of both countries, are among the common domestic causes. Yet this is most starkly the case for Greece, while in Portugal it is the global financial crisis that triggered the ballooning of the public deficit and debt (in 2010 the public debt reached 148 per cent of GDP in Greece and 94 per cent in Portugal, while the respective rates of the public deficit were 15 per cent and 9.8 per cent of GDP). Equally important are external macroeconomic parameters, such as the inherent flaws of the Euro project (a monetary union of unequal economies with divergent interests and subject to asymmetric shocks, without any forthcoming transfer union⁶), in parallel with easy access to capital at low interest rates that accession to the Euro area implied for both countries.⁷ An analysis of these issues, however, is outside the scope of this article.

In the wake of escalating borrowing costs following the revision of the budget gap in late 2009, Greece was cut off from the markets and pressed to enter into a bail-out agreement with the troika in March 2010, on condition that a large-scale structural adjustment and harsh austerity measures were implemented. As the crisis deepened, the rescue plan was revised several times, and in October 2011 a fresh loan was agreed (in parallel with a 50 per cent debt restructuring for private bondholders) with stricter conditionality requirements. Strikingly, when the country entered the bail-out, the troika expected that growth would resume in 2012, unemployment would peak at about 15 per cent in the same year and start falling afterwards, and the country would recover full market access in 2013. All these assumptions proved to be wrong. GDP contracted for six consecutive years (between 2009 and 2013, its nominal decline was 27 per cent), real domestic demand collapsed by around 30 per cent (Varoufakis 2013), while unemployment reached 26.4 per cent in mid-2014 (and youth unemployment

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⁶ i.e. political union (meaning a kind of centralised, federal European union) with redistribution functions.

⁷ The narrative of fiscal laxity and administrative inefficiency of Southern European countries as the main cause of their debt crisis, overstated by the media and orchestrated by the EU political elite and their domestic supporters, is a one-sided view hiding the more complex interplay of internal and external causes (Armingeon and Baccaro 2012: 254–255).
rocketed to 52 per cent). The long-awaited return to growth remains an issue of contention, as tentative signs of recovery forecast an anaemic trend in the medium-term.

The troika’s forecasts for Portugal were also overly optimistic and the recession was longer and deeper than anticipated, although it did not reach the depths of the Greek calamity. Portuguese GDP declined by 5.7 per cent from 2010 to 2013, and unemployment climbed to 17.6 per cent (36 per cent for youth unemployment) in mid-2014. Exiting from the bail-out does not mean the country has a clean bill of health. Private sector deleveraging will continue for some time, servicing the high debt will consume revenue, and the prospects for robust growth are small. The future is therefore unlikely to include rapid employment growth. Given high levels of social need stemming both from developments prior to the crisis and as a result of it, along with continued population ageing, the likely scenario for social spending in Portugal is one of continued constraint.

Despite the IMF’s embrace of ‘a philosophy of parsimonious conditionality’ after strong criticism of the way it dealt with the Asian crisis (Stiglitz 2002; IMF 2002), the ‘rescue deals’ for Greece and Portugal can be characterised in terms of extensive conditionality eroding political and economic sovereignty. This also indicates a major shift in EU supra-national governance with respect to social and labour market policies: namely from the flexible governance of the Open Method of Coordination, to a raft of strict and binding conditions for the bailed-out countries. A report commissioned by the European Parliament with the aim of tracking the main themes of EC documents monitoring the structural adjustment plans of both countries shows that ‘fiscal consolidation, structural reform and privatisation’ are the themes occurring with the highest frequency in the programme documents (mentioned, on average, 2.06 times per page in the case of Greece and 1.79 times in the case of Portugal), whereas the frequency with which ‘unemployment’, ‘poverty’, ‘inequality’ and ‘fairness’ are mentioned is negligible (Sapir et al. 2014).

Below we briefly review social policy change under the common pressures of the crisis and the bail-out conditionalities, with an emphasis on the policy choices guiding the reforms.

4. POLICY REFORMS

Assessments of structural adjustment measures to date (Armingeon and Baccaro 2012; Degryse, Jespen and Pochet 2013; Sapir et al. 2014) highlight many negative

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8 Unless otherwise stated, all statistics are drawn from the Eurostat webpages at http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/.

9 In a total of about 2,000 pages of EC programme documents on Greece, the term ‘poverty’ is mentioned 59 times, while there is only one reference to inequality. In a total of about 1,000 pages of EC programme documents on Portugal there is no reference whatsoever to either poverty or inequality.
effects. First, they demonstrate how the sovereign debt crisis created fertile ground for the strategic actors in Europe (ECB, Directorate General for Economic and Financial Affairs (ECFIN), Economic and Financial Affairs Council (ECOFIN)) to push forward the ‘self-regulating market’ mode of economic governance, where social and labour policies are the main adjustment variables of the monetary union (through internal devaluation). Second, they clearly illustrate the undermining of democratic legitimacy at the national level (as the ‘Memoranda of Understanding’ (MoUs) leave little room for policy choice and negotiation by national governments and other domestic actors). Finally, they provide evidence of the vicious circle generated by structural adjustment. Austerity leads to contraction, increases unemployment and depresses state revenues, and this requires further austerity measures, trapping the countries in a ‘downward spiral’. Dangerously high levels of long-term unemployment (18.5 per cent in Greece and 9.3 per cent in Portugal in 2013; EU-28 average 5.1 per cent)\(^{10}\) have resulted in serious concerns regarding structural joblessness that can have the opposite effect on competitiveness and productivity to that intended by the ‘rescue’ policies.

4.1. **PENSIONS AND HEALTHCARE: EMPHASISING FISCAL SUSTAINABILITY OVER ADEQUACY AND EQUITY**

In both countries the issue at stake is whether the prevailing fiscal consolidation can be balanced with policies redressing inequalities and guaranteeing benefit adequacy. As yet, however, particularly in Greece, a downwards equalising bias to a low common denominator predominates. Here, the 2010 path-breaking reform replaced the Bismarckian social insurance system (based primarily on the first pillar), with a unified, multi-tier system that distinguishes between a contributory and a basic (quasi-universal) non-contributory pension. The combination of shrinking pensionable income and lower replacement rates will significantly reduce pensions for future retirees, when new regulations come into force in 2015. The above two tiers will need to be complemented by funded occupational pension schemes and private savings, a condition that will seriously impair adequacy (and collective solidarity). Current pensioners’ incomes have also been drastically reduced through successive rounds of cuts (on average, of 30 per cent, going up to 60 per cent for the high pension benefit brackets) compounded by a tax increase over the last three years that disproportionately hit middle to lower incomes (Petmesidou 2014).\(^{11}\)

\(^{10}\) Strikingly, the average waiting time before finding a job in Greece has increased to more than 9 months, surpassing not only Spain, but also South Africa (ILO 2014a).

\(^{11}\) According to a simulation study by Matsaganis and Leventi (2014), if the poverty threshold is fixed at 60 per cent of the 2009 median equivalised disposable income (adjusted for inflation), the poverty rates for people aged 65 years and over between 2009 and 2013 increased by 20.4 and 6.4 percentage points in Greece and Portugal respectively. For an account of cuts in pensions in both countries, see also Zartaloudis (2014).
In both countries, concerns about benefit adequacy are completely missing from the reform agendas (as are any projections of the effects of the ongoing reforms on poverty). Most importantly, sustainability – the flagship of the reform – is highly questioned in Greece. The social funds’ revenues have been severely strained by steeply falling wages and salaries, escalating unemployment and the inability of the self-employed and small businesses to continue paying contributions. But above all, a devastating blow to social insurance was dealt by the government’s decision (under the rescue deal) to include the social insurance funds in the private sector ‘haircut’ of March 2012. A large part of the funds’ reserves are, by law, invested in government bonds. Their inclusion in the ‘haircut’ led to over 50 per cent losses. This surely undermines the actuarial valuations (and forecasts) guiding current reforms. Benefits will thus be driven further downwards increasing the poverty risk among pensioners.12

In Portugal, cost containment measures were introduced well before the bail-out. In mid-2010, means testing of non-contributory social benefits became obligatory, and the majority of non-contributory benefits were frozen. Later on, pensions for 2011 were frozen and public employees’ contributions increased (by 1 per cent). Expenditure on the RMI was cut by 20 per cent, and child benefits decreased.13

Since March 2011 the Portuguese MoU has introduced a wider array of reforms. Initially, pensions above 1,500 euros were reduced, but later all but the lowest pensions were also cut (on a progressive scale), tax exemptions for pensions were curtailed and a special social solidarity levy on pensions above 5,000 euros was introduced (a similar levy was introduced in Greece in mid-2010 – ranging initially between 3 per cent to 10 per cent of gross monthly (basic) pension income, but increased to 14 per cent in early 2012). In both countries, the 13th and 14th month pensions were suspended (in Portugal, for pensions over 1,100 euros). In the latter, in April 2013 the Constitutional Court ruled against these measures (particularly the 14th month payment in the public sector, on the grounds that it was discriminatory relative to private sector). The government responded immediately with alternative measures in the public sector, including changes in the status of public employees, an increase of the retirement age to 66 years and an additional tax averaging 10 per cent on pensions above 600 euros. A new ruling by the Constitutional Court in August 2013 introduced further limits on some of the new measures.

Equally in healthcare, achieving fiscal balance has been the overriding aim. Rising user charges, the rolling back of public provision, and rationing through increasing waiting times and other stalling mechanisms (e.g. in Greece, the introduction of

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12 A decrease in social insurance contributions by 3.9 per cent (embraced in the second MoU signed in February 2012), for wage and salaried workers, which came into effect in July 2014, will further squeeze revenues of social insurance organisations.

13 Between 2010 and 2012, further cuts were implemented totalling, for the RMI, 28.8 per cent; for child benefits, 32.3 per cent; and for survivors’ benefits, 7.7 per cent (Bernardo, Silva and Correia 2014: 110).
ceilings on the number of patient visits for which doctors under contract with the public healthcare system can be paid, as well on the number of prescriptions and laboratory tests they can issue) have had negative effects on access, equity and service quality in both countries (Petmesidou, Pavolini and Guillén 2014).

In Greece, health insurance was reorganised under a single entity (EOPYY – the National Organisation for Healthcare) in a move to improve horizontal equity. Yet, since its establishment, EOPYY has been seriously underfunded (its debt is currently set at about two billion euros). There are plans for a purchaser/provider split: EOPYY is assigned the function of a funding organisation, while its polyclinics have merged with health centres run by the NHS to create a unified primary care network (PEDY – The National Primary Healthcare Network) that will operate under the Regional Health Authorities. However, so far, major issues regarding primary care reform remain unresolved. For instance, which criteria will be used for the redeployment and merging of existing units in the new primary care network? What role in the network will the private sector play? What kind of contracts will be signed by EOPYY and the various providers? Meanwhile, a drastic downsizing of public health centres is evident, as only about half the number of the medical personnel previously employed in them agreed to join PEDY.

In Portugal, a number of reforms were made to expenditure on pharmaceuticals, prescriptions, wage costs and user fees in order to achieve savings of 670 million, the amount specified in the MoU. As in Greece, measures included much greater use of generic drugs (achieved through electronic prescriptions and robust monitoring of doctors’ prescriptions) and the promotion of competition.

Centralising the purchase of medical goods and reducing the costs of hospitals (through closures and the amalgamation of hospitals and clinics, more drastically pursued in Greece) have also been high on the reform agenda. In both countries sizeable increases in user charges have affected access and quality (Karanikolos et al. 2013). In Greece, this dismal procedure has been compounded by the diminishing range of public provision. There are over two million uninsured people, unmet medical needs have sharply risen, and infant mortality, mental disorders, cardiovascular disease, unhealthy practices (like alcohol and drug addiction), HIV rates, and suicides (Kentikelenis et al. 2014) have all been on the increase.14 Equally in Portugal, mental disorders have been prevalent, while spending on mental healthcare has declined. As early as 2011, neonatal deaths increased in nine municipalities, with a working class suburb of Lisbon reverting to the mortality rates of 2002. Support by charitable organisations (Médecins sans Frontières, religious organisations, and others) cannot adequately substitute for diminishing public coverage. Particularly in Greece, an eruption of expensive morbidity is highly likely, causing a boomerang effect on system sustainability – the flagship goal of reform.

14 New legislation provides for free access to primary care units by the uninsured; yet barriers remain due to very stringent means-testing criteria and the absence of specialist and hospital care coverage.
4.2. WEAKENING OF LABOUR PROTECTION

Successive legislation under the MoUs significantly changed the rules governing industrial relations. In Greece, public sector reforms embraced wage reductions, a recruitment freeze and a mobility scheme involving suspension/reallocation associated with wage reductions, and eventually dismissals.\(^{15}\) In the private sector, legislation boosted flexible and precarious employment, facilitated redundancies and reformed the collective bargaining system.

In February 2012, the General Collective Agreement among the social partners in force at that time was abolished by law. A 22 per cent reduction of the minimum wage (to 580 euros, gross) was imposed and sub-minimum wages for youth introduced; this also reduced unemployment benefit to 360 euros. Reforms facilitated enterprise labour contracts and the individualisation of employment conditions accompanied by reduced remuneration (and an increase in uninsured labour).\(^{16}\) Legislation provided that minimum wages will be set by law, thus nullifying the role of autonomous collective negotiations. The requirement of prior consultation (by the Ministry) with the social partners before legislating on minimum wages only pays lip service to the trade union right to free collective bargaining. Regulations also embraced a pay freeze, suspended the application of industry-wide and occupational agreements for all employees in a sector or occupation, and restricted the ability of employees to seek arbitration, as it banned unilateral recourse to arbitration and also severely limited its scope to minimum wage issues. By facilitating the drawing up of employment agreements at the business level, even in very small enterprises and by informal associations of workers, legislation under the MoU effectively dismantled the collective regulation of working conditions. It also set up barriers to striking and significantly weakened the role of unions (Dedoussopoulos et al. 2012). In response to the trade unions’ appeal filed in 2012, the Council of State recently issued a ruling that found the restrictions in arbitration unconstitutional, but rejected the appeal against the entire spectrum of reforms seriously limiting labour rights.\(^{17}\)

\(^{15}\) The MoU stipulates that until 2015 the public sector must shed 150,000 employees (including retirements). Until the end of 2014, far fewer dismissals were made than stipulated by the MoU. In early 2015, the newly formed coalition government of SYRIZA and the Independent Greeks pledged to rehire dismissed workers.

\(^{16}\) Among the enterprises inspected in the last few years, the percentage of undeclared labour rose from 25 per cent in 2010 to 36.2 per cent in 2012. In the first quarter of 2012, for the first time part-time employment and job rotation recruitments surpassed full-time ones; while the conversion of full-time contracts into flexible employment contracts increased significantly (Labour Inspectorate 2013).

\(^{17}\) Strikingly, the government only partly complied with the judgment (unilateral recourse was reinstated but the scope of arbitration remained limited to minimum wages). In its election campaign, SYRIZA pledged to restore collective bargaining and increase the minimum wage to its 2012 level (that is, to 751 euros). However it remains to be seen how these manifesto pledges will be reconciled with the international creditors’ demands.
In Portugal, labour market reform under the MoU purportedly aimed to address labour market dualism, which, despite this, has been growing. Labour costs have been significantly reduced. Dismissal has been made easier by reducing severance payments and widening the criteria for fair dismissal. The regulation of fixed-term contracts was redesigned to allow for longer terms and a greater number of extensions to a maximum of 18 months. Overtime pay was reduced by 50 per cent, four public holidays were abolished, paid holiday entitlements (the 13th and 14th month) were reduced, and the minimum wage was frozen at 485 euros monthly (from January 2011).

Collective bargaining agreements were altered to significantly reduce their application to non-unionised workers. Given Portugal’s low union membership (20 per cent), this has had a significant impact. According to the Portuguese Ministry of Employment, from 2008 to 2012, the number of private sector workers covered by collective agreements dropped sharply from about 1.9 million to 327,600.

In order to increase unemployment benefit coverage in Portugal from a very low level, the necessary contribution period to access benefits was lowered from 15 to 12 months. However the maximum duration of benefits was cut by almost half, from 30 to 18 months. In Greece, an extra benefit of 200 euros for the long-term unemployed was introduced (for up to 12 months). However, due to the highly restrictive eligibility criteria, only 1.5 per cent of the registered long-term unemployed currently receive it.18 Unemployment benefits were also extended to some categories of self-employed workers in both countries.

5. REFORM DYNAMICS AND RESCALING

In light of the foregoing analysis we attempt to unravel the reform dynamics and welfare rescaling, and to critically position the main issues of the current debate in this respect. The distinctive features of socio-political integration and the economic trajectory in each country, which we singled out as crucial for explaining reform options prior to the crisis, as well as the common pressures during the crisis, provide the basis of the comparison (Table 3, below, summarises the main trends).

5.1. POLICY DECISIONS RESCALED UPWARDS

The strict conditionalities of the rescue deals have overridden sovereignty, as reforms have bypassed governments and parliaments. Greece provides a striking example of a situation where a large number of significant legal changes which were either explicitly or implicitly required by the international lenders became law, not through parliamentary procedure, but by ministerial and presidential decrees allowed by the Constitution.

18 Data obtained from the Greek Manpower Employment Organisation.
only in cases of emergency. Under the combined effect of directly imposed structural adjustment by the bail-out and the crisis management tools of the EU (the ‘Six Pack’ of macroeconomic policies, the Euro Plus Pact etc.) decision-making for major reforms in social and labour protection has been significantly rescaled upwards.

In both countries trust in parties and politicians and support for the EU have fallen sharply. Yet the structure of the Portuguese party system has remained remarkably stable throughout the crisis. The collective share of the vote, in parliamentary elections, for the two main parties (PSD and PS), has diminished only slightly, from 73.8 per cent in 2005, to 65.67 per cent in 2009, and to 66.71 per cent in 2011. In Greece, by contrast, the crisis caused a deep transformation, with the collapse of PASOK (its vote shrank from about 44 per cent in 2009, to 4 per cent in 2015) and the significant decline of New Democracy (from about 33.5 per cent in 2009, to 27.8 per cent in 2015), the emergence of an extremist anti-immigrant and anti-EU right-wing party (Golden Dawn), and the rapid ascendance of a previously marginal party on the left (SYRIZA), which secured an election victory in January 2015 and formed a coalition government with the centre-right Independent Greeks.

Table 3. Policy dynamics and rescaling

<table>
<thead>
<tr>
<th>Decision-making with regard to:</th>
<th>The overall structural adjustment policies – Public protest</th>
<th>Labour market reform</th>
<th>Healthcare and social security reform Transfer of competences</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bypassing parliamentary procedures</td>
<td>The balancing role of the Constitutional Court</td>
<td>Public protest</td>
<td>Upwards/downwards rescaling involving limitations to labour rights</td>
</tr>
<tr>
<td>Greece</td>
<td>++</td>
<td>–/+</td>
<td>++</td>
</tr>
<tr>
<td>Portugal</td>
<td>+</td>
<td>++</td>
<td>++</td>
</tr>
</tbody>
</table>

Note: ++ = high, + medium, – = low, –/+ = low during the first years of the crisis, but increasing subsequently, ++/+ = high during the first years of the crisis, but diminishing subsequently

* Only by the UGT.

19 Also, lengthy and complex legal texts enacting a range of stipulations by the international creditors are passed through parliament as urgent bills in a couple of days, leaving no room for parliamentary scrutiny.

20 Strikingly, even for the countries not under a bail-out, EU policy settings like the European Semester indicate a shift towards a stronger supra-national intervention in social and labour policy, as the recommendations issued by this economic coordination tool embrace strong pressures of wage and social dumping in Europe (Degryse, Jespen and Pochet 2013).
As shown above, these differences can be accounted for by the significantly greater intensity of the crisis in Greece, the different bases of party support in the two countries, and a greater diffusion of responsibility for the crisis in the Portuguese case. Nonetheless, public opinion suggests that the opportunity structure for the emergence of a new party is present in Portugal.²¹

While upward rescaling of policy decisions raises serious questions about democratic deficits and domestic sovereignty, for at least three reasons these are arguably less acute in Portugal than in Greece. The first is that the party system in Portugal has long represented clearer differences in ideological positions than the one in Greece, where clientelistic articulation with voters has been much stronger. Moreover, because of a dismal economic performance during the 2000s, many influential actors and a considerable portion of the electorate see at least some of the structural reforms demanded by the troika as overdue. The second is that the Portuguese Constitutional Court has played a moderating role, in more than one instance limiting the ability of the government to enact MoU-induced austerity. Finally, there is a rich debate in the country regarding both the need for structural reforms and the importance of equity considerations.

Issues of democratic deficit (and diminishing sovereignty) with regard to the austerity-driven reforms have triggered a number of critical reviews by international organisations (the UN Human Rights Council, ILO, ETUC and others). In a brief review of the social effects of structural adjustment in Greece, the UN Expert on Foreign Debt and Human Rights emphasises the detrimental impact of the austerity programme in a country where 'the social protection system is ill-equipped to absorb the shock of unemployment, salary cuts and tax increases'.²² The report is highly critical of diminishing access to healthcare and considers the unprecedented rise in unemployment a severe violation of the right to work. It also considers a pilot scheme guaranteeing a minimum income that began in late 2014 (with a meagre budget of about 20 million euros) to have minimal effects on combating poverty and social exclusion.

Overall, the critical debate by supranational bodies (including the EU Parliament through its recent review of the troika actions in the bail-out countries) reveals that the crisis management measures by the troika run counter to basic principles in the EU Treaties. Direct intervention by the bail-out programmes in the field of social rights not only contradicts the principle of subsidiarity, but further violates Articles 9 and 168 of the Lisbon Treaty. The former requires that the EU take into account the guarantee of adequate social protection when designing and implementing new policies; the latter forbids interventions that negatively affect human health protection. In addition, the Council of Europe has condemned the pension cuts in

²¹ For instance, on the right-wing political spectrum, as attitudes towards immigrants are by no means particularly progressive in Portugal (Baum and Glatzer 2014).

Greece, considering them a violation of Article 12 of the European Social Charter of 1961 and Article 4 of its Protocol. However, the media and governmental authorities have extensively downplayed the significance of these critical reviews, while major social actors like the trade unions have not been very successful in using this discourse to broaden debate on welfare reform challenges.

5.2. ‘HOLLOWING OUT’ OF THE SOCIAL DIALOGUE

As stated above, social dialogue has been persistently weak in Greece. Though in formal terms a consultation procedure is in place, its relevance in terms of substance has always been low and has further weakened under structural adjustment. According to an ILO report (Dedoussopoulos et al. 2013: 40), ‘the troika considered social partners part of the problem, not part of its solution’, and pushed for reforms that turned social dialogue and collective negotiations ‘into an empty shell’.

Undoubtedly the clientelist mode of political integration accounts, in part, for the weak institutionalisation of social dialogue. Trade unions remain fragmented and highly dominated by public sector interests, while union density has remained low (24 per cent in 2008). Labour union political factions (affiliated with the governing party and with those in opposition) have functioned in accordance with party political expediency and have not constituted an autonomous structure capable of delivering efficient services to their members (through social dialogue, collective action and a significant role at the workplace). This has had a negative effect on trust in unions, a condition further aggravated by the crisis.

Successive legislation under the MoU has progressively rescaled labour market arrangements both upwards and downwards. The February 2012 dissolution (by fiat) of the General Collective Agreement and the transfer of responsibility for setting minimum wages to the Ministry of Employment indicates a centralisation that is at odds with the liberalisation/deregulation mantra. Yet, at the same time, and in tune with the latter, a sharp downwards rescaling is recorded. Over the last three years, a large body of legislation has drastically limited trade union rights and shifted regulation of the employment contract from the level of collective negotiations to individual arrangements that have seriously curtailed labour protection.

In Portugal, a narrative appealing to the social rights enshrined in the ‘Constitution’ has been a central motif in political debate from the 1970s to the present and a bulwark against welfare retrenchment. Also, as stressed earlier, social dialogue (even though not on a regular basis) has deeper institutional roots, compared to Greece. Nevertheless, austerity-driven reforms have significantly transformed labour market policy in substance and in process. Unemployment benefits were reduced, dismissals were made easier and working time increased. But social dialogue

23 Written at the height of the left-wing revolution in the mid-1970s, it embraces a detailed and lengthy description of social rights. See also Fishman 2013.
and tripartite bargaining were also affected. The institutional and consultative roles of the unions as social partners have been weakened by decentralising wage agreements, devolving them to lower levels, and ending the process of the automatic extension of the results of collective bargaining to non-unionised workers.

The ILO has voiced serious concerns that the sidelining of the social partners and processes of social consultation violates core ILO Conventions. Similarly, a survey of the changes, prepared for the Employment and Social Affairs Committee of the European Parliament, concludes that ‘an attempt to radically change the former system of industrial relations is underway’ (Valente and Marques 2014: 8).

Both the CGTP (Confederação Geral dos Trabalhadores Portugueses) and the UGT (União Geral de Trabalhadores) have reacted by resorting to strikes and mass protests. While there were five general strikes in the first 35 years of democracy (1974–2009), there have been an equal number since 2010. The CGTP adopted a hard-line stance and refused to sign any social pacts during this period, while the UGT followed a dual strategy of supporting industrial action but also participating in collective negotiations. Since 2008, it has signed three pacts with the employers’ federations. Nonetheless, neither strikes nor social pacts have blocked the MoU-instigated reforms from being implemented.

A distinctive feature of the reform dynamics in Portugal concerns the prominent role of the Constitutional Court in overseeing social rights. It has repeatedly opposed government attempts to cut select social and labour market provisions, generally on arguments of equity and equal treatment found in the Constitution, or on Article 53, which prohibits dismissals without just cause.

In April 2013 the Constitutional Court rejected four of the nine austerity measures of the state budget designed by the government to comply with the demands of the troika. It ruled that the cuts in pensioners’ and public servants’ holiday bonuses, as well as reductions in sickness leave and unemployment benefits, were unconstitutional. In August 2013, the Court constrained the ability of the government to reduce the size of the public sector, arguing that the criteria for recruitment of state workers into a special mobility scheme was likely to be arbitrary and unfair and would violate the constitutional principle barring dismissal without just cause. In November 2013, it ruled against parts of the revised Labour Code of 2012, declaring unconstitutional some of the provisions regarding individual dismissals in the private sector, again for violating Article 53 of the Constitution. It also protected the autonomy of collective bargaining, finding that the government could not violate prior agreements on matters such as rest time and increases in annual leave.

The frequent rulings of the Constitutional Court against austerity-driven measures legislated by the Parliament stand in marked contrast to the Greek case. Appeals to the Council of State in Greece for violations of social and labour rights have increased over the last few years, but the rulings have not substantially countered austerity

24 The Right to Organise and Collective Bargaining Convention (No. 98), the Minimum Wage Fixing Convention (No. 131), and the Social Security (Minimum Standards) Convention (No. 102) (ILO, 2014b).
measures. We mentioned above the recent ruling against changes in the process and scope of arbitration. But the trade unions’ petition regarding measures to dismantle collective bargaining was rejected by the Council of State. Recently it ruled positively in respect of petitions about pay reductions filed by the armed forces, the judiciary and university academic staff, but overall, the government’s compliance with the rulings has been poor.

Public protest is also an important component of the socio-political dynamics in both countries. On the eve of the crisis, resistance movements gathered momentum and stimulated public debate. They distanced themselves from labour anti-austerity actions, a condition accounted for, at least in the case of Greece, by the low levels of trust in the unions. Particularly in Greece, repressive measures against mass protests by the police and propaganda by powerful media in order to defuse opposition to structural adjustment, have contributed to the diminishing momentum of mass mobilisations. So far, in neither country have mobilisations been able to trigger a comprehensive debate on issues of justice and equality and articulate an alternative pathway.

5.3. RESCALING ALONG THE PUBLIC/PRIVATE AND CENTRAL/LOCAL DIMENSIONS

Prior to the crisis, Portugal had gone much further than Greece in developing integrated interaction between local authorities, associations of municipal councils and NGOs in social assistance, social care and social insertion policies (particularly through the implementation of the RMI (Glatzer 2014)). In Greece local welfare provision has been fragmented and deficient. An expansion of social programmes and functions undertaken by local government (and municipal enterprises) throughout the 2000s drew primarily on EU funding, and took place in an uncoordinated way, with a high risk of activities being discontinued as soon as external funding stopped. Furthermore, the revenue and expenditure of local authorities as a proportion of general government revenue and expenditure have persistently been the lowest among the EU-15 countries (Petmesidou 2006).

Most importantly, reforms in the three main policy domains reviewed above strongly indicate a transfer of competences from the public to the private domain. In Greece this exists in the rollback of first pillar pension benefits and an eventual shift towards occupational/private (funded) schemes. In combination with the high unemployment rates, forecast to continue over the coming years (if austerity measures persist), these conditions will deepen inequality in social insurance for future retirees. In Portugal, the tightening of eligibility criteria for non-contributory pensions and a sharp decrease in spending on the RMI (and child benefits) indicate a hastening

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25 Issues discussed in this section for Portugal and Greece are also contemplated in Del Pino and Pavolini (this volume, p. 247) for the cases of Spain and Italy.
retreat of public provision and a weakening of local welfare policies. In Greece, the funding scale of a belated piloting of a safety-net scheme hardly allows us to forecast the strengthening of local authorities and other major local actors in welfare provision.

In healthcare, ‘rescaling’ is linked to drastic rollback of public provision, particularly in Greece, where about a third of public spending was slashed from 2009 to 2012, and a further estimated 1.2 billion euros cut during 2013–2014. In Portugal total public health spending fell from 11.6 billion euros in 2012 to 8.3 billion euros in 2013, a drop of 28.5 per cent. Rescaling is also linked to the purchaser/provider split recently introduced in Greece, and the, as yet not clearly designed (or implemented), transfer of management and coordination of primary care provision to Regional Health Authorities. As indicated earlier, deconcentration in healthcare hardly proceeded beyond a small-scale administrative rearrangement in the past and ongoing reforms to date present a blurry picture of the extent and mode of repartition of responsibilities between central and regional/local bodies.

In Portugal a regional administrative reorganisation took place much earlier (in 1993 and 2003). Under the MoU a further reorganisation of primary healthcare (Agrupamento de Centros de Saúde) is in progress with the aim of fully transferring primary healthcare to regional/community level authorities. But cost cutting predominates and reinforces pre-existing trends with regard to greater use of purchaser/provider splits, experimentation with internal markets and competition between public and private providers (Vieira da Silva 2012).

Last but not least, a sideways rescaling (towards civil society solidarity initiatives and international/domestic NGOs) is evident in both countries. It embraces increasing third sector provision during the crisis. In Greece, NGOs and solidarity networks (‘We Can’, ‘Allies of Health’, ‘Metropolitan Community Clinic’, Médecins du Monde and others) providing food, medicine and services have emerged over the last few years in response to the growing need for support. Given the country’s poor record in social engagement, these constitute a new expression of social solidarity. From 2010 to 2013 there was a 44 per cent increase in the number of Greeks taking part in volunteer projects and solidarity activities (Malkoutzis 2013). More critically oriented solidarity movements embrace the ‘Can’t Pay, Won’t Pay’ movement that started as a mass road toll non-payment campaign but expanded to other areas. In the health sector, this movement is supported by a number of healthcare workers who occasionally occupy the cashier office of outpatient hospital departments allowing patients free entrance.

In Portugal, third sector involvement in welfare provision was prominent even before the crisis, in the context of a more integrated local welfare system. By the mid-1990s about two thirds of the central government’s social assistance budget was distributed to the over 3,000 non-profit social welfare associations, intricately linked with central state and local authorities in the delivery of welfare provision. A Social Emergency Plan, adopted by the government during the current crisis, increased financial support to third sector social welfare organisations. It widened the scope of their activities, reduced red tape in their operation and encouraged voluntarism.
Nonetheless, the funding allocated to third sector organisations under the Plan is insufficient to meet the increased levels of need.

6. CONCLUDING REMARKS

In this article, we have compared the welfare state profiles of Greece and Portugal prior to, and during, the crisis. We concentrated on three major policy areas: social security, healthcare and the labour market. As outlined in the first section, some crucial aspects of socio-political integration in each country, such as the way political parties are linked to their social base and the modes of policy decision-making, in combination with the trajectories of their economies in the last decade, provide the major dimensions of our comparison.

Both countries experienced an expansion of welfare policies during the 1980s and 1990s. In Greece, clientelistic exchanges and patronage networks (extending to trade unions and industrial relations) have, for a long time, provided the basis for the expansion of welfare policies. Political overbidding and rent-seeking have reproduced extensive fragmentation and inequality in social protection and generated a highly conflictual industrial relations environment. These conditions were conducive to policy stalemates. Hence, the reform impasse regarding the pronounced inegalitarian tendencies of the pension system, the incomplete transition to a fully-fledged NHS, and the persistently weak role of sub-national government levels in social welfare.26

In Portugal, after the restoration of democracy, the prevalent mode of socio-political integration has reflected, more or less, the ideological congruence between social groups and political parties. Moreover, a tradition of compromise has played a significant role in social reform, although its presence has varied significantly over time. Portugal embarked on rationalising social insurance earlier than Greece and also achieved a higher degree of NHS integration. Nevertheless, inequalities in pension incomes and healthcare coverage persisted. Importantly, Portugal took some steps towards the recalibration of social protection, e.g. with the introduction of the RMI and community level social (and labour market) integration schemes in the mid-1990s.

In both countries, the sovereign debt crisis placed great strains on social protection. Unmet need rapidly increased and sustainability, adequacy and equity issues became prominent. Yet the MoU-instigated reforms have clearly been controversial. The rhetoric of system rationalisation (for improving sustainability and equity) permeates reforms. But rolling back social and labour protection emerges as the major adjustment variable in the rescue deals. In both countries, austerity measures have impacted directly upon fundamental social and employment issues: they have rescaled decision-making, funding and provision; they have seriously affected the

26 The vertically controlled clientelistic ties of the statist-clientelistic system of socio-political organisation leaves little room for decentralisation (not to mention devolution) of policy responsibility.
balance of power in the industrial relations system to the detriment of labour; and they have intensified conflictual positions between the social partners vis-à-vis the major bail-out-stipulated reforms.

Nevertheless, some differences between the two countries can be observed in the socio-political dynamics under which reforms have been carried out. In Portugal, social dialogue has weakened in the face of significant budget cuts and the determination of the state to enforce changes to wages, work conditions and social protection. But the institutional channels for public debate and negotiation remain in place, even though the unions’ representative role in them has been squeezed. The controversy and conflicts surrounding the unions in Portugal contribute to this as they react critically to austerity plans and take part in negotiations. In Greece, any formal processes of social dialogue, which were very weak even in the good times, have been drastically curtailed. Furthermore, low levels of trust in the unions account for their inability to forge alliances with civil society anti-austerity movements.

In Portugal, the very active role of the Constitutional Court has been an important and distinctive component in the dynamics of reform. Contrarily, in Greece, we frequently observe the use of ‘emergency powers’ by the government to bypass parliament and legislate through presidential or ministerial decrees. Checks by the Greek Supreme Court have been few and have not significantly buttressed social rights. Furthermore, political fluidity in Greece has tended to favour short-term trench warfare around social and labour policy issues among political actors, a situation that has seriously limited the contours of public debate. In Portugal there has been a robust public debate on post-crisis reform challenges among academics, specialists and politicians. Nonetheless, in neither country has there been any clear articulation of an alternative pathway or of its risks and benefits.27

The long-term repercussions of austerity-driven reforms depend inextricably on both internal and external factors. The clash between Europe’s social ambitions (as inscribed in the Treaties) and the pursued European economic governance through a wage squeeze and the weakening of public services and social protection has been a critical factor in affecting whether countries will continue to tread a path of retrenchment. Equally important have been the fiscal limitations imposed by protracted high debt-servicing costs in both countries (and in the case of Greece, by an admittedly non-sustainable level of sovereign debt). How to find solutions – in the governance and provision of social protection and the public/private mix – that balance sustainability with equity and benefit adequacy criteria, in the post-bail-out era, are pressing policy questions. But, so far, no substantial breakthrough in public debate on these issues has emerged in either country.

27 At the time of writing this article, SYRIZA’s rise to power, in Greece, on the back of promises to end austerity-driven measures, seems to open up new prospects. Yet, it is highly unclear how successful the new coalition government will be in delivering on its promises.
REFERENCES


WELFARE RESCALING IN ITALY AND SPAIN: POLITICAL STRATEGIES TO DEAL WITH HARSH AUSTERITY

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Abstract

By looking at the main welfare state reforms undertaken by the Italian and Spanish governments since the outbreak of the financial crisis, this article explores changes resulting from the implementation of austerity policies. In light of the way in which unpopular fiscal adjustment measures have been introduced in both countries, especially since 2010, we call for a revision of the existing literature on welfare retrenchment and political strategies. We argue in this article that under conditions of ‘permanent strain’, bold retrenchment policies and cuts in social spending have been justified by the Italian and Spanish governments through a ‘there is no alternative’ or TINA legitimation strategy, which creates limited interaction space between social and political actors. We tentatively conclude that this political strategy does not entirely fit the notions of blame avoidance or credit claiming as currently formulated in the specialist literature. We call for further empirical testing of the arguments made in this paper.

Keywords: austerity; Italy; political strategies; retrenchment; Spain; welfare reform

1. INTRODUCTION

This article analyses welfare rescaling during the economic crisis in Spain and Italy. It also seeks an interpretation of the political strategies used to confront harsh
austerity. Since the outbreak of the economic crisis, the policy-making process has been substantially altered in both countries. Partisan politics, parliamentary debates and interaction with organised interests and other civil society actors came to a standstill during the central years of the crisis. The pressure for welfare reform from the European Commission, the International Monetary Fund and the Central European Bank visibly reduced national sovereignty. The question that still needs an answer is how governments have attempted to publicly legitimate strong cuts in services and reforms that curtail social rights giving rise to high social unrest and demonstrations.

By building on the re-formulation of the concept of ‘credit claiming’ recently proposed by Bonoli (2012), we interpret that highly unpopular and harsh reforms have been enacted so far following a ‘there is no alternative’ or TINA strategy by the Italian and Spanish governments. Although the Troika has been a key player in influencing policy changes in both countries, the Italian and Spanish governments have not tended, particularly in recent years, to use the EU as a scapegoat in the domestic domain for blame avoidance and legitimation purposes. Instead, credit has been claimed by trying to persuade the respective populations about: (a) the absence of an alternative; (b) the appropriateness of the strategy adopted to ‘save’ existing social protection policies and resume economic growth; (c) the need to overcome opposition forces and veto players that traditionally prevented change, even when certain policy changes (for instance reforms of the pension systems) had been outstanding for some time. In our opinion, welfare state cutbacks in Italy and Spain over the last four years in the context of large demonstrations and strong support for the welfare state call for a revision of the ‘enduring sources of political resilience’ which, in Pierson’s opinion back in 1998, made the dismantling of the welfare state seem highly unlikely (1998: 540).

The article is structured as follows. The next section defines our analytical approach. The third section consists of an analysis of the evolution of expenditure trends and policy changes during the last two decades with the purpose of briefly eliciting previous reform trajectories and, then, turns to focus on the crisis period. The fourth section describes how policies have been presented in the public arena by national governments, adopting a TINA argument, substantially reducing room for consultation and interaction with other traditional institutional actors in the welfare policy field and, in particular, with trade unions. The penultimate section considers briefly the implications of austerity for voting intentions and the upsurge of new political parties. The article closes with a tentative discussion of the findings and a call for further theoretical and empirical work.

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1 Margaret Thatcher’s famous slogan was formulated to justify cuts and privatisation in a period of rising unemployment with the argument that under capitalism, neo-liberal politics were the only possible way ahead. German driven EU ‘ordoliberalism’ seems to be formulated and defended in a similar fashion by the Italian and Spanish governments.
2. UNDERSTANDING NEW PATHS OF INSTITUTIONAL WELFARE REFORM

We now have sufficient evidence to claim that European governments have initiated new paths of institutional welfare state change. As a consequence of the financial crisis, the EU has relied on tax cuts to stimulate the economy and on spending reductions to achieve fiscal consolidation (Pontusson and Bermeo 2012; De la Porte and Heinz 2015). For the welfare state, this has implied greater labour market flexibility (more employment ‘at the margins’), reductions in spending on universal services such as education and healthcare, and greater restrictions on accessing social entitlements. These new paths of institutional welfare state change have gone hand in hand with new forms of EU governance. The mechanisms for policy coordination put forward to guarantee the functioning of the Eurozone (i.e. the ‘adjustment processes’ of the Six Pack and European Semester) have notably increased surveillance, enforcement and conditionality towards Member States by the EU. In totally unprecedented ways, mechanisms introduced to guarantee the financial stability of the common currency are having a direct impact on welfare reforms introduced by governments. This is, to a considerable extent, undermining national sovereignty and the legitimacy of the so-called ‘European Social Model’.

Member states that the EU has financially rescued, either fully or partially (Greece, Ireland, Portugal, Spain and Italy), have been obliged to comply with the rules imposed by the Excessive Deficit Procedures (EDP) and implement very tough adjustments. In our own research (Pavolini et al. 2015; León and Pavolini 2014; Petsemidou and Guillén 2014) we have seen that, especially since the end of 2010, retrenchment in Italy and Spain has been put forward as a way of obtaining economic consolidation. The fiscal imbalances of the economy have implicitly been converted into the fiscal problems of the welfare state. The main adjustments have been introduced through cuts in public administration, healthcare and education and by means of labour market and pensions reforms.

This ‘new age of permanent strain’ (Pavolini et al. 2015) entails a decision-making process characterised, as we will see, by extreme haste, scarce public debate, intense tensions and growing social unrest. However, far from national governments putting the blame on the EU as a sort of ‘negative constraint’, domestic elites have, to a large extent, taken responsibility for their actions. This might appear as somewhat counter-intuitive since austerity politics seem to have brought about significant negative consequences in terms of popular support for the political parties that have enacted the reforms. Although we do not attempt to establish any causal relationship between the strategy that was adopted and its consequences in the ballot box (a causality that is in any way hard to test – see Wenzelburger 2014), we do explore the potential and the limits of current interpretations of welfare reform in periods of austerity in explaining our case.

In 1996, Pierson criticised previous interpretations of welfare retrenchment by arguing that welfare state retrenchment functions in a different way from that of...
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expansion. In the latter case, problems with resistance on the part of voters arise right away, posing a limit to broad reforms. Pierson used concepts developed by Weaver (1986: 371), who argued that ‘politicians are motivated primarily by the desire to avoid blame for unpopular actions rather than by seeking to claim credit for popular ones’. And yet, Pierson pointed out, the age of ‘permanent austerity’ (increasing cost of ageing populations, low fertility, changing employment conditions, etc.) makes some unpopular welfare reforms unavoidable. Hence, ‘blame avoidance strategies’ are needed to ensure the success of retrenchment, be it by reducing the visibility of reforms, using ‘divide and rule’ strategies or by delaying the effects of reforms. A ‘path of least resistance’ has been put forward in the literature as the safest way (in electoral terms) of executing retrenchment. This concept refers to a political strategy in which the consequences of retrenchment are focused on groups that are less likely to become veto players (mainly ‘outsiders’: young people, migrant workers, etc.) leaving pretty much unaffected groups that are more likely to become veto players such as labour market insiders or old age pensioners. Long-phased pension reforms and labour market deregulation at the margins are examples of the adoption of a ‘path of least resistance’.

In turn, the concept of ‘credit claiming’ offers a different account of the process of change. Governments can be expected to seek credit for their reforms (potentially also for retrenchment decisions) if credit is expected to increase their chances of re-election (Hood 2002). More recently Bonoli (2012) has combined the two concepts arguing that, in specific situations, governments can introduce retrenchment policies but adopting credit claiming strategies, rather than blame avoidance ones, to increase their chances of reelection. In his view, the policy objective of retrenchment today is incompatible with vote seeking. However, in some extraordinary situations, the two objectives can be pursued simultaneously. This can be the case when the economic and budgetary situation of a country is considered to be disastrous by a large majority of actors and by the general public. Under such circumstances, the author argues, parties in government can pursue the two goals simultaneously. In his own words: ‘a situation of major crisis probably reduces the payoffs associated with inaction rather than increasing those associated with retrenchment ( … ). In a severe crisis, inaction may become more unpopular than retrenchment’ (2012: 96–97).

In fact, a neat distinction between blame avoidance and credit claiming cannot always be made. For example Weaver describes a ‘find a scapegoat’ blame avoidance strategy situation when governments blame a global financial crisis for forcing them to take drastic measures. In analysing the retrenchment reforms in the early 1990s in Sweden, Wenzelburger (2014) argues that these were presented to the public as a ‘find a scapegoat’ blame avoidance strategy, whereas Bonoli (2012) interpreted these reforms in terms of credit claiming.

The austerity measures adopted in Italy and Spain during the crisis took place exactly under the conditions Bonoli describes, i.e. in an economic and budgetary situation that, in the opinion of the large majority of actors and the public, had reached its limits as far as levels of debt and stagnation were concerned. As demonstrated in the
following pages, the measures adopted did not follow either a ‘path of least resistance’ strategy (the ongoing reforms affected insiders as well as outsiders), nor simply a blame avoidance strategy. Blame avoidance, although used in previous decades, has been more difficult to adopt during the crisis period by the Spanish and Italian governments because of the danger of dramatically increasing disaffection with the EU.

Current austerity measures in both countries are the outcome of, on the one hand, the impossibility for nation-states of adjusting their macroeconomic mechanisms to the economic cycle and the limited room for manoeuvre by national governments, and, on the other, of external conditionality. This is why we argue that ‘bold retrenchment policies’ are being justified by governments through a specific mix of credit claiming and blame avoidance that can be defined as a ‘TINA strategy’ due to the way the introduction of harsh austerity measures has been defended in front of electorates, especially during the toughest years of the crisis (2011–2013).

### 3. POLICY CHANGES IN ITALY AND SPAIN

Since the 1990s, and until the onset of the economic crisis, reform paths differed in Italy and Spain. In the case of Italy reforms had mainly had a retrenchment impact on the overall functioning of the welfare state. This characteristic of the Italian situation has been the outcome of cuts in traditional policy fields (in particular pensions and labour market), unmatched by any real recalibration in new social risks fields (Ascoli and Pavolini 2015). In the case of Spain, on the other hand, there were signs of recalibration: cost containment and rationalisation measures in the more traditional social and employment domains coexisted with the introduction of policies dealing with new social risks (Rodríguez Cabrero, 2011).

However, since the onset of the economic crisis both Italy and Spain seem to be characterised again by a similar pattern of reforms, in terms of timing and content. In relation to timing, two phases can be detected in the period up to the end of 2014: a first one, from 2008 to mid-2010, which can be characterised as a ‘mild expansion’ phase; and a second one starting in mid-2010, which can be defined as the ‘harsh austerity’ phase. In the first years of the crisis (2008 to mid-2010), neither country introduced relevant changes in their welfare state systems (Ascoli and Pavolini 2015; Guillén and León 2011). Instead, there was an expansion of expenditure, especially due to rising needs related to unemployment, which was especially acute in the Spanish case: the unemployment rate went up from 8.2 per cent to 17.9 per cent in Spain and from 6.1 per cent to 7.8 per cent in Italy between 2007 and 2009 (Table 1). Total social expenditure rose at an annual rate of 7.4 per cent in Spain and 2.6 per cent in Italy (compared to 4.2 per cent in the EU-15) between 2007 and 2009. All the policy fields considered in Table 1 experienced a rise in expenditure in both countries, but the magnitude of this expansion was particularly strong in unemployment protection (around +33–34 per cent vs. +15 per cent in the EU-15).
Starting in 2010, and continuing into 2011, the situation changed dramatically. Reforms and major cuts were introduced at a very rapid rate. Changes took two different forms: radical institutional changes in the main two traditional pillars of the welfare state (pension and labour market policies); and severe cuts, but without radical institutional changes, in the other social policy fields (although with a potential ‘transformative’ effect in the medium term).

### Table 1. Social protection expenditure in Spain and Italy compared to the EU-15 average

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<th>Purchasing Power Standard (PPS) per inhabitant</th>
<th>Euros per inhabitant – average annual % variation (at constant prices)</th>
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<td><strong>Total expenditure</strong>*</td>
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<td>EU-15</td>
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<td>70.6</td>
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<td>Italy</td>
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<td><strong>Old age</strong></td>
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<td>Individuals over 64 (percentage of total population)</td>
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<td>EU-15</td>
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<td>Spain</td>
<td>60.0</td>
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<td>Italy</td>
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<td><strong>Unemployment</strong></td>
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<td>Spain</td>
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<td>Italy</td>
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<td><strong>Sickness/Health care</strong></td>
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</tr>
<tr>
<td>(secondary level)**</td>
<td></td>
<td></td>
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<tr>
<td>EU-15</td>
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<td>100.0</td>
</tr>
<tr>
<td>Spain</td>
<td>97.5</td>
<td>99.7</td>
</tr>
<tr>
<td>Italy</td>
<td>88.0</td>
<td>85.8</td>
</tr>
<tr>
<td><strong>Family/Children</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EU-15</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Spain</td>
<td>54.2</td>
<td>58.4</td>
</tr>
<tr>
<td>Italy</td>
<td>54.5</td>
<td>57.6</td>
</tr>
<tr>
<td><strong>Social exclusion</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individuals at-risk-of-poverty (percentage of total population)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EU-15</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Spain</td>
<td>62.6</td>
<td>49.9</td>
</tr>
<tr>
<td>Italy</td>
<td>3.0</td>
<td>14.4</td>
</tr>
</tbody>
</table>

**Notes:**

* Education expenditure not included.

** Annual expenditure per student.

Sources: Eurostat ESSPROS database (2014); Euridyce (2013) for education expenditure data.

Pensions and labour market policies were the subjects of major reforms. The nature of these reforms was mainly a reduction in the generosity of the programmes and a
strengthening of the insurance principle in the pension field and more flexibility (for core workers) in labour market policies: for the first time in decades, labour market reforms were not ‘at the margins’, given that the intention of the reforms was to reshape the overall functioning of the labour market and, especially, the positions of ‘insiders’, allowing easier dismissals for workers with permanent full-time contracts.

Some recalibration took place in both countries, with the attempt to provide better cover for traditional ‘outsiders’ (for instance, those with fixed-term contracts) and there was an expansion in expenditure. However, what often took place is what Ferrera (2012) defines as ‘subtractive recalibration’: differences between outsiders and insiders have decreased not mainly because the former have started to be better treated by the new welfare state regulation, but because the latter have become less well protected.

Italy has been rightly defined a ‘pension welfare state’ (Fargion, 2009). In 2007 the per-capita expenditure was around 19 per cent, higher than the EU-15 average (table 1). In terms of policy reforms in this policy field, nothing relevant happened after the two broad reforms of the 1990s until 2011. After the onset of the crisis, pension reform gained momentum and, at the end of 2011, at the peak of the financial crisis hitting Italian public debt, a broad reform was passed. The system definitely embraced a strict ‘insurance’ approach, in which the concept of solidarity will become less and less relevant in that each individual will receive a pension income reflecting their entire career. Among other issues the reform sped up the shift to a ‘pay-as-you-go’ system with a contribution-related method applying to everyone and there was a considerable increase in the retirement age (in 2018 the retirement age for all workers will be 66 years and 7 months and this will increase automatically on the basis of life expectancy trends).

In the heat of the financial crisis (2011–12), a broad labour market reform was also passed in Italy. For the first time in decades, the reform enacted in 2012 was not ‘at the margins’: it tried to reshape the overall functioning of the labour market and, especially, the positions of ‘insiders’, allowing easier dismissals for workers with permanent full-time contracts. The 2012 reform had many goals: making the labour market more flexible and less ‘dualistic’ by reducing the precariousness of many labour contracts and promoting more stable youth employment as well as expanding the possibility of dismissal in medium and large enterprises; transforming the system of social shock absorbers, which will be gradually replaced by an unemployment benefit scheme, with broader coverage including some atypical workers; strengthening active labour market policies and fostering women’s employment through new forms of reconciliation. Some comments on the new reform are positive, even if they underline the fact that it does not solve the issue of income support for those who cannot access or are no longer eligible for the new unemployment benefit programme (Sacchi 2012). Moreover the 2012 reform does not seem to be capable of solving one of the core problems of unemployment policies in Italy: the low level of public intervention (the expenditure level is quite limited in comparison with the EU-15 average, as Table 1 shows).
In comparison with Italy, Spain revealed a different situation in the pension field. In 2000 the per-capita expenditure was a good deal lower than the EU-15 average. Relevant rationalising reforms were introduced in the 1990s and then continued in the 2000s. After the onset of the crisis, it was only in 2010 that the first retrenchment measures were introduced, first with the freezing of pensions and then with pension reform (August 2011). This reform entailed the postponement of the official retirement age from 65 to 67 and an expansion of 10 years (from 15 to 25) in the number of salaried years used to calculate the initial pension, thus lowering the replacement rate in the medium term. The new law also limited access to early retirement by introducing a sustainability factor to guarantee the financial stability of the system.

On the recalibration front, several bills were passed in Spain up to 2010 with the aim of improving the income maintenance conditions (including pensions and unemployment benefits) of the self-employed and salaried agrarian and domestic workers by incorporating them into the ‘general regime’ for salaried workers. However, implementation has met with delays because of austerity measures.

Spain also introduced a labour market reform in early 2012. The cost of dismissals was drastically reduced for workers with permanent full-time contracts, and further flexibility measures were introduced. The labour market reform was preceded by a Royal Decree Law on Urgent Measures to Reform Collective Bargaining (June 2011). This reform enhanced the capacity of employers to unilaterally modify employees’ working conditions by opting out of the clauses contained in collective agreements, thus eroding the protective capacity of collective bargaining in Spain (Molina 2014: 373). This, together with a reduction of public sector employment, implies that the number of ‘outsiders’ or ‘unprotected’ workers has increased. As regards passive unemployment protection, the level of public spending in this field was already above EU average in 2007 (146.4 per cent) given high levels of structural unemployment even during periods of economic growth. The staggering growth in unemployment rates has been an enormous burden on the Spanish public welfare state since the onset of the crisis. In 2012, Spain spent 84 per cent more per capita than the average in the EU-15.

A first hint of how labour market reforms have affected workers’ rights in the two countries can be grasped by looking at Table 2. The Employment Protection Legislation (EPL) Index, as calculated by the OECD, shows a lowering of the employment protection in both countries although the labour market reforms seem to have had a stronger impact on the Spanish labour market than on the Italian one. The strictness of employment protection (in terms of individual and collective dismissals) for regular contracts decreased for the EU-15 as a whole, and in Spain and Italy between 2007 and 2013. Spain has in fact become less strict than the average EU-15. This difference between Italy and Spain might explain why, in the second part of 2014, the new Italian government decided to introduce a new labour market reform with the aim of lowering the protection for individual and collective dismissals. The Senate of the Republic passed the new bill in October 2014.
If radical reforms took place in pension and labour market policies, all the other policy fields were affected by severe cuts from 2010 onwards, as Table 1 shows quite clearly. Healthcare and education, as well as social assistance and family policies, were policy domains that were heavily affected by financial cuts, which could jeopardize the meaning of universalism (in the case of healthcare and education) or the simple presence of a safety net (in the case of social assistance) in the medium term. All these policy domains have seen cuts in recent years of such a magnitude that not only is a negative expenditure growth sign detectable from 2010 on, but the level of expenditure since 2007 actually decreased in real terms and the distances in terms of per-capita expenditure in PPS between the EU-15 average and the two Mediterranean countries also increased.

Cost containment has been the keyword in all these reforms. Cuts have been achieved through staff-freezes on public sector employees and the postponement of the implementation of previous reforms. This was the case in relation to the Long Term Care law – *ley de Dependencia* -- in Spain and the simple reduction in national social transfers to regional and local authorities. For example, in the second part of 2010, the Spanish government introduced measures entailing a reduction in the salaries of public sector employees by 5 per cent and in the size of government by 15 per cent. Other additional measures included the cancelation of the ‘baby cheque’ and the reduction of long-term care benefits, amounting in total to a cut of 15,000 million euros. This was the first of many austerity packages that were to come. In the Italian case, the Central State financing of social care and social assistance was cut by 91 per cent (from 2.5 billion euros to 0.2 billion euros) between 2008 and 2012 and substantial salary freezes were introduced for all public workers (Basile 2011). Quite recently, in 2014, the national government decided to cut transfers to regional governments by 4 billion euros (with most of these resources traditionally devoted to health and social care provision): these recent cuts were on top of similar cuts implemented in previous years. Moreover both countries reformed the Constitution to introduce an institutional threshold for public debt, a potentially strong incentive to cost-containment in social policies.
4. CHANGES IN THE POLICY-MAKING PROCESS AND LEGITIMATION STRATEGIES

Since the onset of the crisis, Italy and Spain can be characterised by a similar pattern of policy change in terms not only of timing and content, as already noted, but also as regards the politics of reform. In particular there are many similarities between the two countries in relation to the shape taken by the policy-making process as well as the limited impact of the political orientation of the majority in government in relation to the enacted reforms.

Table 3 summarizes the main characteristics of the two phases introduced in the previous section. Phase one represents the political arena before harsh retrenchment and can be used as a reference point for what changed afterwards.

<table>
<thead>
<tr>
<th>Definition</th>
<th>2008–Mid-2010</th>
<th>Mid-2010–</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of institutional change</td>
<td>Incremental</td>
<td>Radical change + gradual (but potentially) transformative</td>
</tr>
<tr>
<td>Strategy</td>
<td>Attempts to cope with the crisis</td>
<td>A mix of blame avoidance and credit claiming (TINA)</td>
</tr>
<tr>
<td>Effects</td>
<td>No relevant effects</td>
<td>Retrenchment (with hints of recalibration)</td>
</tr>
</tbody>
</table>

Both in Spain and Italy the shift from the first phase to the second phase in 2010–11 represented a moment of relevant transformation of the policy-making process. The deep worsening of the financial and economic situation around 2010 and the increasing pressure for reform exerted by EU institutions (Pavolini et al. 2015) are at the heart of what took place. At this point, external legitimation and claiming credit at the behest of the Troika and the markets acquired absolute prominence. The period of ‘harsh austerity’ led in both countries to an oversimplification of the policy-making process. Decisions were centralised at national government level, leaving less
and less space for parliament and the social partners, especially the trade unions, or to sub-national units of government. At the level of discourse, welfare reform decisions were sustained through a TINA argument, a sort of mix, we argue, between blame avoidance and credit claiming. Finally, political/ideological differences do not seem to have played a key role in the type of reform and policy change adopted by governments, or in the manner used to pass these reforms.

The Italian and Spanish governments started to promote policy change (which was often radical in terms of its content) by arguing that there was no time for discussion. As reported below, on many occasions the Prime Minister and Ministers asserted that the crisis was so dramatic that, although discussion in parliament and with social partners was important, there was a risk of running out of time. Thus, many reforms were passed at a breakneck speed. Two institutional tools were often used to speed up the passing of new legislation: the use of government bills (where parliamentarians can either vote in favour or against the proposal but have little opportunity to intervene in the drafting of the legislation) and, in the Italian case, the use of the so-called ‘Fiducia Parlamentare’. Both these tools reduce the capacity of Members of Parliament to intervene and to modify major reforms and, at the same time, tie the MPs of the parliamentary majority to the will of their governments.

The need to accelerate reforms, in order to placate financial markets and EU institutions, is at the base of another relevant shift: the type of interaction with social partners. Mediterranean countries do not enjoy a tradition of strong neo-corporatism, however the 1990s and the 2000s saw an increase in forms of collaboration and in social pacts between social partners and the government. This type of dialogue has been set aside since 2010. Substantive moves towards the decentralisation of collective bargaining have taken place in the last few years, leading in the Spanish case to a virtual abandonment of tripartite social dialogue (Molina and Miguélez 2013). Governments were quite open about their change of attitude, declaring that dialogue was over. Consultation (without any real veto) became the new keyword.

If governments have played an increasingly central role (and other social and political actors have been more marginalised) and if reforms have been adopted hastily, a transformation has also taken place in terms of the political rhetoric underlying reform. Until 2010, governments adopting retrenchment used a mix of devices in order to avoid blame (lowering the salience of negative consequences by diffusing these consequences over time; reducing traceability by blurring the link between programme cuts and the public policies that caused them; adopting a ‘divide and rule’ strategy by either compensating some of the potential opponents of the reform or delaying the implementation of the cuts) as in many other countries (Pierson, 2001). Since 2010, however, the strategy changed as the reforms also hit ‘insiders’ in the labour market and in the welfare state system; political leaders were open about

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2 The Government linked its action to the vote in favour of a certain piece of legislation; in cases where it did not receive support in Parliament, the Government would be dissolved and new elections might be called.
the cuts they introduced, adopting TINA legitimation strategies. The idea behind the change has been that the price of inaction would have been higher than the costs of retrenchment, as in Bonoli’s hypothesis: certain reforms were considered necessary even before the crisis, but they had not been passed before due to the veto powers of entrenched interests. The crisis made it clear that failing to reform (failing to cut and retrench) would have had a higher cost than retrenchment itself, and reform was seen as a necessary medicine for sustaining economic growth and employment.

The final common element of the reforms in Spain and Italy since 2010 is the fact that the colour of government has tended to become of minor salience for explaining the content and the process of reform. In other words, both Centre-Left and Centre-Right governments have tended to follow similar courses of action. As will be shown below, in Spain the Zapatero government’s approach was not that different from the Rajoy government’s in relation to the main welfare reforms analysed here. In Italy, since 2011, coalition governments involving Centre-Right and Centre-Left parties have been in power and, no matter who has been President of the Ministers’ Council, their approaches have been quite similar. Moreover the President in office in 2014, Matteo Renzi, although coming from the main Centre-Left party (the ‘Partito Democratico’) embarked on a really deep confrontation with the trade unions that would have been unthinkable a few years ago.

To support what has been stated so far, we now turn our attention to the ways in which the reforms have been presented in the two countries since 2010. In May 2010 Prime Minister Zapatero, after two years of expansionary intervention (especially in the field of unemployment benefits), undertook a U-turn and announced urgent reforms to reduce the public deficit. That was the first time that Spaniards heard the expression ‘there is no alternative, it needs to be done’ which would subsequently be repeated by other political leaders. To pass these reforms, Zapatero’s own political party PSOE was the only party that gave him support in parliament. The trade unions were not consulted and felt betrayed, calling for a general strike. A well-known journalist was not joking when he wrote that the Prime Minister made the decision in ‘the intimacy of his mobile phone’ (Romero, 2010). His hope was to reduce the public deficit from over 11 per cent to 6 per cent in two years.

This was however far from enough. The situation in the financial markets kept worsening and, just a month later, on 15th June 2010, the European Commission (EC 2010) communicated that further action was needed to bring an end to the situation of excessive government deficit. It then asked the Spanish government to ‘enact labour market and pension reform without further delay’. On 5th August 2010, Zapatero announced a reform of the public pension system (Law 32/2010) and on 17th September a labour market reform (see previous section). The latter was introduced via Royal Decree as an urgent measure. In doing this, the government exposed itself to fierce criticism from all political parties and from the trade unions.

As we have argued elsewhere (Pavolini et al. 2014), the pressure from the EU has been decisive in the introduction of reforms in both countries. Besides formal
enforcement mechanisms, informal pressure exercised by the ECB has also been strong. The two letters that the Head of the European Central Bank, Mr. Trichet wrote to the Spanish and Italian Primer Ministers influenced, in a fundamental way, national policy-making processes in the subsequent weeks and months. Marking the two letters as ‘confidential’, Trichet’s writing had an ‘amicable’ tone. The Head of the ECB ‘invites’, ‘suggests’ and ‘encourages’ both Prime Ministers to take action. The sequence of events indicates nevertheless that both governments only had a marginal space for reaction. Following Trichet’s letter, and within a rather curtailed time frame, both Zapatero and Berlusconi introduced express reforms of their national Constitutions to introduce a threshold for public deficit. From the point of view of the decision-making process, this can only be seen as an extraordinary event. In the Spanish case, the Constitution approved in 1978 had not been modified since, despite the fact that for many years there had been contentious issues that required a change in the Constitution.3

International market pressures, the debt issue, the big defeat in the local elections of May 2011, plummeting polls, and falling support even among his closest party allies made Zapatero’s government unable to carry on. The Prime Minister called for general elections in November 2011, which were due in March 2012. The crisis, the cuts, and the political consequences of doing something he had always argued he would not do, they all combined to secure a total defeat for the governing PSOE party in the general elections. Without major surprise, the Conservative Popular Party (PP) won with an absolute majority. ‘Bold retrenchment’ became the norm under the new PP government, backed by its absolute majority in parliament, resulting in a reform path based on numerous governmental decrees via urgent measures. Reforms had to be enacted very swiftly due to the sovereign debt crisis, leading to rocketing differentials and increased pressures from the Troika. Especially during 2012, Spaniards got used to fearing the restrictive measures announced every Friday after the meeting of the Council of Ministers. It was not until mid-2014 that some sign of tripartite dialogue with the social partners became evident (see Luque Balbona and González Begega this issue).

The political strategy used by the new majority government of the PP was clearly linked to TINA legitimation strategies. The PP rapidly introduced restrictive measures, beginning in December 2011. Prime Minister Rajoy’s claim to govern in solitude was widely commented on in the media. His public appearances have been, and still are, rare. In April 2012, in a situation of mounting unrest and after a general strike, he declared that he had decided to comply with the reduction of the deficit and to extend

3 The legal text establishes that any change has to be agreed by a three fifths majority in Parliament. Two great challenges have always been the territorial distribution of power and access to the throne (only male descendants can access the Crown). Central governments have always been fearful of the consequences of opening that Pandora’s Box. The amendment had no consequences in the short term since it would not be implemented until 2018; it did nevertheless send signals of control to the EU and some member states, especially Germany.
this obligation to the regions (Autonomous Communities) (*El País*, 10 April 2012). Also in April, a reduction of 10 billion euros was announced in education and health policies. Again, justification for this measure was phrased by the Prime Minister in a meeting of his party in Madrid as ‘there is no alternative left’. He stated that more cuts would be enacted until the end of the legislature: ‘Reforms will continue each Friday. Next Friday, too’ (*El País*, 10 March and 29 March 2012).

Still, the main austerity package was decided in July 2012 and came into effect immediately. This was therefore the period when the most significant declarations regarding the political legitimation strategy took place, both in public and in parliamentary appearances. The reform package included the suppression of extra Christmas pay for public employees in 2012, a reduction of unemployment benefits after the first six months, reduced social services and a thinning of the structure of public administrations. For this purpose, a further reduction of 65 billion euros in the public budget was passed, just with the support of PP members of parliament. In the discourse before the plenary of the lower chamber on 11 July 2012, Rajoy insisted on the fact that the government was moving ‘between one evil and a greater evil’ and therefore evil measures had to be imposed: ‘There is no other remedy’. He stated that these were measures he profoundly disliked, but that the priority was to reduce public deficit and such measures were unavoidable. The Minister of Labour, Fátima Báñez, in the same plenary introduced another attempt at legitimation: adjustment would be done by means of ‘sensitive’ moves, or, in other words, by trying to avoid deepening inequality. Rajoy closed his speech by underscoring that ‘the sacrifice will not be sterile and a reward awaits us at the end’ (*El País*, 11 July, 12 July and 18 July 2012). Declarations along these lines have continued until now. All the aforementioned ones are proof of the adoption of a ‘TINA strategy’.

The Italian case is quite similar to the Spanish one, only the timing is slightly different. The real change started in 2011 when a coalition government, consisting of Centre-Right and Centre-Left parties, was nominated and Mario Monti, a former EU Commissioner and university professor of economics, became President of the Council of Ministers. Between autumn 2011 and spring 2013 (when new elections took place), the Monti government reformed the pension system and labour market regulation (see section 3 above). Moreover, severe cuts (which had been partially planned and implemented by the previous Berlusconi government in 2010) hit other policy fields (from education and healthcare, to family policies and social assistance).

In early December 2011, when Monti set out to pass the pension reform and the whole package of austerity measures, facing opposition from trade unions and political parties, he declared: ‘If I stop in my action of reforms, the whole country will break down’, ‘the reform package I propose should be called ‘Save-Italy’… the alternative is ending up in three months just like Greece’, ‘The Parliament is sovereign, but we are running out of time and the margins for manoeuvre are very, very limited’ (*La Repubblica* 2 December, 4 December and 6 December 2011). At the same time he
requested a ‘Fiducia Parlamentare’ vote for his reforms, forcing the parties supporting him to vote for his proposal or to risk an immediate call for general election.

As in Spain, the trade unions declared a general strike. The government’s answer can be well synthesised with the words of the Welfare Minister, E. Fornero who declared that: ‘it does not help to call for social conflicts… we are running out of time… of course we will meet with trade unions but we will meet with them separately… too crowded meetings don’t help and we need to be fast and effective’ (La Repubblica, 2 January 2012). In the same context another member of the Government added: ‘the discussion with trade unions will not go on forever. We will listen to their priorities and will take them into consideration but we cannot risk to wait too long and therefore at the end the Government will decide what to do’ (ibid.).

A few weeks later the government announced it intended to reform the labour market legislation and stated that the ‘reform will pass with or without social dialogue and we have to draft it in two to three weeks’ (Minister Fornero, 2 February 2012). At the end of March, Monti declared, referring to the same issue: ‘we listen to social partners, but nobody has a veto power…there is not going to be any agreement signed with social partners on this issue… it is time to leave dialogue behind us. It helped in the past to strengthen relations between governments and social partners, but it also offloaded its cost down to the collectivity’ (La Repubblica, 20 March-2012). In June 2012 the reform was approved by the Parliament after another ‘Fiducia Parlamentare’ vote.

In Spring 2013, after the national election, no clear majority was present in Parliament, although the main Centre-Left political party (the PD) gained the largest number of MPs and became the pivotal party in Parliament. After a first government that lasted few months, at the beginning of 2014, Matteo Renzi, the secretary of the PD, became President of the Council of Ministers. So far only two acts have been relevant in relation to welfare state and labour market issues. It is interesting to discuss them as they support the general interpretation of what has been happening since 2010.

The first act is a four billion euro expenditure cut to the regions (see section 3). Given the fact that more than 80 per cent of regional budgets goes on welfare provision (above all on healthcare), it is quite plausible that such a huge cut will have an impact on social policy provision at the regional and local level. Such cuts are very much in line with what took place in previous years. The second act is more interesting to consider in terms of the policy-making approach adopted by the new government. In Spring 2014, a few weeks after his nomination as President of the Council of Ministers, Renzi started to attack trade unions, something that had never taken place before in the party which inherited the Italian communist tradition. At the beginning of May, Renzi declared that his intention was to take power away from trade unions and to foster their change (La Repubblica, 4 May 2014). In September he proposed a reform to facilitate even more dismissals of open-ended contract workers. Some commentators defined the change as the biggest one in the Italian Left, something similar to a ‘Bad Godesberg’ (Corriere della Sera, 9 December 2014). Also, on this
occasion, the proposal took the form of a government decree and it was passed in the Senate of the Republic through a ‘Fiducia Parlamentare’ vote.

Almost on the same day as the ‘Fiducia Parlamentare’ vote, the Government agreed to meet with social partners allocating one hour to discussions with the trade unions (from 8 a.m. to 9 a.m.) and then another hour to discussions with employers’ representatives. The meetings ended up with the Government ‘providing information’ to trade unions about the contents of the reforms and the leader of the main left-wing trade union, the CGIL, describing Renzi as a sort of ‘Iron Lady’: ‘the absence of social dialogue in Europe has happened just once, with Mrs Thatcher’ (La Repubblica, 8 October-2014). The Senate, after a really strong debate inside the PD, approved the reform.

5. CHANGES IN THE POLICY-MAKING PROCESS AND NEW POLITICAL STRATEGIES: IMPLICATIONS FOR VOTING INTENTIONS AND THE UPSURGE OF NEW POLITICAL PARTIES?

In Spain, the party in office applying the most intense austerity measures has suffered from an almost constant downward trend in public opinion polls. Support for the PP fell by 12.73 percentage points between the general elections in November 2011 and April 2014 (from 44.63 per cent to 31.9 per cent). The main opposition party, PSOE, also experienced a loss of support, although this was less steep than the government party (it fell from 28.76 per cent to 26.2 per cent). The votes lost went mainly to parties in the centre or on the left of the political spectrum, denoting discontent with both the traditional major parties. Therefore, one cannot claim that the party in government (PP) has been able to hold on to its electoral support. Rather, it has managed to keep its distance from the other major party, the PSOE, despite change in the leadership of this party and renewal of its proposals for reform. Hence, it seems clear that the party system has been profoundly altered due to bold retrenchment. Overall, however, despite the intense use of TINA strategies, the price paid for bold retrenchment has been quite negligible for the political stability of Spain.

In Italy, the main party in government in recent years, the Centre-Left PD, increased its vote between the national election of February 2013 (when it obtained almost 30 per cent) and the European election (when it obtained around 41 per cent), whereas the other main party in the political arena in the last two decades, PdL (Berlusconi’s party, now named ‘Forza Italia’), dropped from 29 per cent in 2013 to 17.5 per cent in 2014.

In both countries, first in Italy and then in Spain, new parties have arisen in recent years. The ‘Five Stars Movement’ in Italy obtained around 25 per cent of the votes in the 2013 national election (it was not represented in parliament in the previous 2008 election) and in the following European elections received around 20 per cent of the
vote. Looking at voting intention (Demos and PI, November 2014), it seems that its support has stabilised at around 20 per cent and it has therefore become the second most popular party in Italy.

Dissatisfaction, uncertainty and the worsening of social conditions have resulted not only in protest and conflict in Spain, but in the upsurge of the civic platform, ‘Podemos’ (‘We Can’ in Spanish), in April 2014. Podemos ranked fourth (after the PP, PSOE and IU) in the European elections of May 2014, reflecting the dissatisfaction with the political situation felt by that part of the population most affected by the crisis. By July 2014, Podemos had already improved its relative position in terms of voting intentions for general elections. In November 2014, the Barometer by CIS (Centro de Investigaciones Sociológicas) showed an even more pronounced increase for Podemos (22.5 per cent of voting intention), a percentage similar to the ‘Five Stars Movement’ in Italy. With the support of 19.4 per cent of voters, the most recent polls also testify the rapid expansion of ‘Ciudadanos’, a previously regional party which, in all probability, could also threaten the hegemony of the two main traditional parties in the forthcoming elections by occupying the centre of the political spectrum (El País, 13 March 2015).

6. CONCLUSIONS

It is difficult to assess the degree to which changes in the policy-making process and the adoption of different strategies has been politically successful. Following a ‘blame avoidance’ logic in which governments try to minimize the visibility and/or impact of welfare retrenchment, research shows that, in many countries, parties introducing retrenchment policies have not paid a price in electoral terms (for instance, Armingeron and Giger 2008, Giger and Nelson 2011). Nonetheless, because of the expansion of austerity politics since the outbreak of the financial crisis, recent studies call for a revision of previous assumptions and evidence. Giger and Nelson (2013: 1091) argue that retrenchment might be accepted by public opinion if it becomes associated with restoring economic competitiveness: ‘(…) the perceived economic strain of social spending (…) makes many voters relatively more tolerant of a retrenchment agenda’.

Our case studies show that not only have the welfare reforms implemented since 2010 borne an explicit retrenchment character but they also have implied a significant alteration of the policy-making process. New legitimation strategies have been adopted by parties in office: external legitimation needs have become a must while internal ones have consisted of persuading the electorate of the absence of alternatives to harsh austerity, this latter being presented as the only way to recover economic stability and growth. However, such strategies have been much more successful in terms of gaining external credit than in persuading citizens and voters of the need for austerity. Traditional political parties may have to pay a high electoral price and to
confront intense competition with new parties. It is beyond the reach of this article to provide a final conclusion on the extent to which the Italian and Spanish governments have or have not been punished by voters for implementing harsh austerity through TINA legitimation strategies. Still, the tentative reflection undertaken in this article on the evolution of voting intentions and changes in the party system may cast some light for further research.

A longer time frame and further research efforts are needed in order to assess the links between welfare retrenchment, the legitimation strategies of political parties in government and the apparently deeply unstable political climate. It is clear that turbulent times in political, social and economic terms throughout Europe call for a revision of established theories of welfare transformation. However, to blur the picture even more, it should be noted that the rise of protest movements and new political parties in Spain and Italy has taken place in times when, as well as the economic crisis and austerity measures, political scandals have hit the most consolidated and traditional political parties. Thus the Italian Five Stars Movement and the Spanish Podemos seem to combine in their political positions a critique on austerity measures with an attack on political corruption, arguing that there is a strong correlation between the two phenomena.

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AUSTERITY-DRIVEN LABOUR MARKET REFORMS IN SOUTHERN EUROPE: ERODING THE SECURITY OF LABOUR MARKET INSIDERS

Amilcar Moreira*, Ángel Alonso Domínguez**, Cátia Antunes***, Maria Karamessini****, Michele Raitano***** and Miguel Glatzer******

Abstract

The sovereign debt crisis in the Eurozone and increased pressures for ‘structural reform’ have led to a period of intensive change in labour market policy in Southern Europe. Examining the cases of Greece, Portugal, Spain and Italy, this article focuses on the security of labour market insiders, a key group in labour markets that is highly segmented. The security of labour market insiders is conceptualised as consisting of security in employment (protection against dismissals) and security in unemployment (protection against drops in income provided by unemployment insurance and assistance). Using changes in national laws, the article charts and compares labour market change along these two dimensions across these four Southern European countries. Because labour

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Austerity-Driven Labour Market Reforms in Southern Europe

market reform has not been restricted to Southern Europe, the article also compares these developments to broader changes in the countries of the Eurozone, using OECD and MISSOC data. Having demonstrated the degree to which the security of labour market insiders has diminished, the article concludes with an agenda for research on the policy dynamics of Southern European labour market reform in the wake of the financial crisis.

Keywords: employment security; Greece; Italy; labour market policy; labour market insiders; Portugal; Southern Europe; Spain; structural reform

1. INTRODUCTION

Following the eruption of a sovereign debt crisis in May 2010, the Greek government adopted an Economic Adjustment Programme in exchange for financial assistance provided by the European Commission, the European Central Bank and the IMF, commonly referred to as the Troika. This event marked the start of a period of intensive institutional change in the South of Europe. Under pressure from financial markets, international institutions and creditor countries within the European Union, countries in the South were prompted to introduce ‘structural’ reforms in the way they regulate their labour markets.1 As is evident from Table 1, labour market reform activity was both intensive, involving numerous reforms over a very short period of time, and comprehensive, covering a wide range of areas, from employment protection legislation, wage-costs, internal flexibility and unemployment protection to collective bargaining and even active labour market policy.

Cross-national studies of the reforms introduced in this period are limited, and often focus on a broader set of cases. There is, of course, a growing base of country-specific analysis of the reforms (see Baylos 2012; Bentolila and Jansen 2012; Martín Puela 2011; Valdés Dal-Ré 2011; Loy 2012; Raitano 2012; Papadimitriou 2012; Matsaganis 2013; ILO 2011; Loy 2012; Raitano 2012; Papadimitriou 2012; Matsu

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1 In addition to labour market reforms, Southern European countries have also been prompted to introduce reforms to the regulation of product markets, often through the opening up of regulated professions and services (e.g. Greece, Italy and Portugal).
Table 1. Labour market reforms in the South of Europe: 2010–2013

<table>
<thead>
<tr>
<th>Category</th>
<th>Greece</th>
<th>Portugal</th>
<th>Spain</th>
<th>Italy</th>
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<tbody>
<tr>
<td><strong>EPL</strong></td>
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<td>Individual dismissals</td>
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<td>Collective dismissals</td>
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<td>Atypical contracts</td>
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<td><strong>Unemployment Benefits</strong></td>
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<td>Generosity of benefits</td>
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<td>Activation requirements</td>
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<td>Fiscal incentives</td>
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<td><strong>Wage Costs</strong></td>
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<td>Minimum wage and other wages</td>
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<td>Non-wage costs</td>
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<td><strong>Working-Time/Internal Flexibility</strong></td>
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<td>Cost of overtime</td>
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<td>Working-hours regulation</td>
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<td>Lay-offs</td>
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<td><strong>Collective Bargaining</strong></td>
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<td>Level of collective bargaining</td>
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<td>Use and scope of collective bargaining</td>
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<td>Access and scope of arbitration</td>
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<td><strong>ALMP</strong></td>
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<td>Recruitment incentives</td>
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<td>2011</td>
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<tr>
<td>Training/Apprenticeships/Internships</td>
<td>2010</td>
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<tr>
<td>Incentives to self-employment</td>
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</table>

The significance of these reforms lies, first of all, in the way they reshape the model of labour market regulation in the South of Europe. As Muffels (2013: 218) points out, Southern European labour markets share an insider-oriented segmented labour
market, characterised by high levels of employment protection for labour market insiders and a large number of atypical workers with very low levels of security. Karamessini (2008: 517) has argued that, historically, the stringent legislation against individual and collective dismissals was meant to protect male breadwinners. It reflects the legacy of authoritarian corporatism coupled with a family-oriented ideology, along with the social unrest and political change of the 1970s and 1980s. Although the four countries examined here followed different paths to flexibility from the 1980s to the late 2000s, these invariably reinforced labour market segmentation by creating flexibility on the margins of the labour market while leaving those with permanent contracts largely protected. In line with this, this article assesses whether the reforms introduced between 2010 and 2013 affected the level of security enjoyed by labour market insiders in the South of Europe.

The article is structured as follows. Section 2 describes the policy changes introduced between 2010 and 2013. Section 3 assesses how these reforms changed the institutional setting that defines the security of labour market insiders in the South of Europe (Portugal, Spain, Italy and Greece). In order to better understand the significance of these reforms, this section also expands this exercise to include all countries in the Eurozone. Section 4 concludes by reflecting on how the results presented here can help shape future research on the impact of the crisis on the regulation of Southern European labour markets.

1. RESEARCH METHODOLOGY AND DATA COLLECTION

We used a two-pronged research method in this study. For Section 2, we reviewed national laws in Greece, Portugal, Spain and Italy to develop a list of changes to dismissal procedures, unemployment insurance and unemployment which we then grouped into distinct categories. For Sections 3 and 4, we used data from the OECD Benefits and Wages Indicators and MISSOC databases. We applied these data to modified versions of the indices of security in employment and security in unemployment developed by Papadopoulos (2005). Detailed information on the procedures is discussed in the relevant sections.

2. REDEFINING SECURITY IN SOUTHERN EUROPEAN LABOUR MARKETS

In this section we look at how reforms introduced during the period between 2010 and 2013 have redefined the security of labour market insiders in Southern Europe. Following Papadopoulos (2005: 20–22), we argue that the security of insiders depends on the degree to which labour market institutions offer protection against two fundamental risks: (1) the risk of (individual or collective) dismissal, i.e. security
in employment; and (2) the risk of a sustained drop in income after the loss of employment, i.e. security in unemployment.

2.1. SECURITY IN EMPLOYMENT

As can be seen from Table 2, in recent years the level of employment security of regular workers in Southern Europe has been subject to significant change. Reforms introduced during this period were mainly concerned with lowering the cost to employers of dismissing regular workers (for an overview of reforms in Greece and Portugal under the Memoranda of Understanding, see also Petmesidou and Glatzer 2015). In Portugal, the new Labour Code, introduced in 2012, cut severance payments from 30 to 20 days per year and set a benefit ceiling of 12 times the employee’s monthly wage or 240 times the minimum wage. In Greece (in 2013), private sector employees saw the notice period for individual dismissals reduced from a maximum of 24 to a maximum of 4 months and the level of severance pay cut from 2–24 months to 1–6 months (with prior notice) or 2–12 months (without prior notice). Severance pay for workers with more than 17 years of service was reduced from 24 to 12 months’ wages (Karamessini 2015).

In Spain, in 2010, the Socialist government decided to expand the use of the Contrato de Fomento del Empleo, which was originally restricted to young people up to age 30, to those up to age 44 (Law 35/2010 of 17 September). This law provides lower compensation in the case of dismissal (33 days per year, compared to 45 for regular workers) and requires neither advance notice nor payment of interim wages. Later, in 2012, the Conservative government reduced severance pay to 20 days per year of tenure, with a maximum of 12 times the Spanish minimum monthly wage.3

Perhaps to soften the impact of these cuts in severance payments or perhaps in response to deteriorating economic conditions, Portugal (2013) and Italy (2012) introduced dismissal compensation funds (see Table 2). In Portugal (in 2013), the Conservative coalition introduced not one but two schemes4 – the Fundo de Compensação do Trabalho (FCT) and the Fundo de Garantia de Compensação do Trabalho (FGCT) – both funded by employers. FCT is an individualised fund that each employer must create for each employee, which capitalises on monthly contributions corresponding to 0.925 per cent of the worker’s wage, and can be used by the employer to pay up to 50 per cent of the total severance pay. FGCT is a mutual fund which capitalises on monthly contributions corresponding to 0.075 per cent of one’s wage, and can be used by the employee if s/he does not receive at least 50 per cent of the severance pay s/he is due.

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2 This applied to both new and old contracts, although only to the time spent in the company since November 2011. Law no. 23/2012, Article 366, no.1.
3 Law 3/2012 of 6 July.
4 Law 70/2013.
Besides reducing the cost of individual dismissal, countries in the South of Europe have sought to weaken the regime that protects regular workers against the risk of unfair dismissal. In Italy, following the 2012 labour market reform, firms with more than 15 employees are no longer automatically required to rehire employees in the event of unfair dismissal due to economic reasons. The duty of reinstatement was replaced by monetary sanctions that range from 6 to 24 months’ wages depending on the length of employment (Clauwaert and Schömann 2013c: 7–9). In Spain, the Conservative government in 2012 reduced compensation for unfair dismissal for permanent contracts from 45 days of wages per year of tenure (with a ceiling of 42 months’ wages) to 33 days per year of tenure (with a ceiling of 24 months).5

In Spain, consecutive governments have sought to broaden the ability of employers to dismiss employees for economic reasons. In 2010 new legislation allowed dismissals in the case of persistent drops in sales or revenues.6 In 2011, this regime was further expanded and dismissal permitted when it was part of a process of technological or organisational change aimed at improving the company’s situation. In 2012, to reduce challenges to dismissals in the judicial system, the Spanish government introduced legislation that specifies that dismissals for economic reasons are only possible when the employer is able to demonstrate drops (including expected drops) in sales or revenues for three consecutive quarters.7

In Portugal, as part of the 2012 Labour Code, the government introduced profound changes with the goal of facilitating individual dismissals. This involved broadening the interpretation of fair dismissal in the case of unsuitability for the task, eliminating the regulation that protected senior workers in cases of dismissal, and eliminating the requirement that employers offer an alternative job in cases of unfair dismissal (Ramalho 2013: 9). However, in 2013, the Constitutional Court deemed these changes to the Labour Code unconstitutional.8 As a consequence, in 2014, the Portuguese government introduced legislation that defines the new criteria that employers must use when determining individual or collective dismissals.9 Under these new rules priority for dismissal is given to individuals with the lowest evaluations of performance, the lowest qualifications, the highest costs to the company, the lowest level of experience, and the fewest number of years in the company (in this order).

5 Law 3 /2012 of 6 July.
6 Law 35 /2010 of 17 September.
7 Law 3 /2012 of 6 July.
8 The elimination of the requirement that employers follow seniority when extinguishing a given position was deemed to open the way for the employer to discriminate among workers, which would violate the prohibition against unfair dismissal enshrined in Article 53 of the Constitution. The Court found that the elimination of the obligation to find a compatible position for a worker before his/her dismissal also violated the constitutional prohibition against unfair dismissal (see Constitutional Court Ruling no. 602/2013 in Diário da República (24 /10/2013).
9 Law 27/2014.
Table 2. Changes to security in employment in Southern Europe 2010–2013

<table>
<thead>
<tr>
<th>Policy Area</th>
<th>Country</th>
<th>Year</th>
<th>Policy Changes</th>
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<tbody>
<tr>
<td><strong>Notification Procedure</strong></td>
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<tr>
<td>Greece</td>
<td>2010</td>
<td>–</td>
<td>Notice period reduced from maximum of 24 to maximum of 6 months</td>
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<tr>
<td></td>
<td>2013</td>
<td>–</td>
<td>Notice period reduced from maximum of 6 to maximum of 4 months</td>
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<tr>
<td>Spain</td>
<td>2011</td>
<td>–</td>
<td>Notice period reduced from 30 to 15 days</td>
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<tr>
<td><strong>Severance Pay</strong></td>
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<tr>
<td>Greece</td>
<td>2010</td>
<td>–</td>
<td>Severance pay cut from 2–24 months’ wages to 1–6 months (with prior notice) or 2–12 (without prior notice)</td>
</tr>
<tr>
<td></td>
<td>2013</td>
<td>–</td>
<td>Severance pay for workers with more than 17 years of service reduced from 24 to 12 months’ wages.</td>
</tr>
<tr>
<td>Spain</td>
<td>2012</td>
<td>–</td>
<td>Simpler modalities for economic redundancies, compensated at 20 days per year</td>
</tr>
<tr>
<td>Portugal</td>
<td>2012</td>
<td>–</td>
<td>Cut and introduction of a ceiling to severance pay</td>
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<td></td>
<td>2013</td>
<td>–</td>
<td>Introduction of dismissal compensation fund</td>
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<tr>
<td>Italy</td>
<td>2012</td>
<td>–</td>
<td>Introduction of a dismissal compensation fund</td>
</tr>
<tr>
<td><strong>Length of Trial Period</strong></td>
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<tr>
<td>Greece</td>
<td>2010</td>
<td>–</td>
<td>Extension of the probation period from 2 to 12 months</td>
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<tr>
<td><strong>Unfair Dismissal: Definition, Compensation &amp; Reinstatement</strong></td>
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<tr>
<td>Spain</td>
<td>2010</td>
<td>–</td>
<td>Economic reasons become a justifiable reason for dismissal</td>
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<td></td>
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<td></td>
<td>Compensation for unfair dismissal reduced</td>
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<td></td>
<td>2011</td>
<td>–</td>
<td>Definition of fair dismissal was extended</td>
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<td></td>
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<td>Obligation of reinstatement in the case of unfair dismissal is replaced by monetary sanctions</td>
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<td></td>
<td>2012</td>
<td>–</td>
<td>Compensation for unfair dismissal is reduced from 45 days’ wages for every year worked (up to a ceiling of 42 months’ wages) to 33 days (with a ceiling of 24 months’ wages)</td>
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<tr>
<td>Portugal</td>
<td>2012</td>
<td>–</td>
<td>Factors that justify dismissals broadened</td>
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<tr>
<td>Italy</td>
<td>2012</td>
<td>–</td>
<td>Restrictions to the right to reinstatement in case of unfair dismissal due to economic reasons</td>
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<tr>
<td>Greece</td>
<td>2013</td>
<td>–</td>
<td>Protection against unfair dismissal reduced.</td>
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<tr>
<td><strong>Definition of Collective Dismissal</strong></td>
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<tr>
<td>Spain</td>
<td>2012</td>
<td>–</td>
<td>Collective dismissals are no longer dependent on authorisation from public authorities</td>
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<td></td>
<td>Persistent or foreseen drops in sales/revenues (in three consecutive quarters) become a reason for fair dismissal</td>
</tr>
<tr>
<td>Greece</td>
<td>2010</td>
<td>–</td>
<td>Increase in the minimum threshold for collective dismissals from 2–3% to 10% of employees</td>
</tr>
<tr>
<td>Portugal</td>
<td>2012</td>
<td>–</td>
<td>Seniority is no longer a criteria for determining dismissals</td>
</tr>
</tbody>
</table>
In addition to making individual dismissals easier, almost all countries have taken steps to facilitate collective dismissals (see Table 2). In Greece, in 2010, the minimum threshold for collective dismissals was increased from 2–3 per cent to 10 per cent (Karamessini, 2015). In Spain, since 2012, collective dismissals are no longer dependent on authorisation from national, regional or local authorities. Moreover, the period between notice and dismissals was reduced (OECD 2013: 96).

2.2. SECURITY IN UNEMPLOYMENT

As can be seen in Table 3, there have been substantial changes to the systems of unemployment protection in the South of Europe. The most common measure was a cut in the level of unemployment insurance benefits. Thus, in 2012, the Greek government decided to cut unemployment insurance benefits by 22 per cent (Matsaganis 2013: 20). In Spain (in 2012), the Conservative government decided that, after 6 months on benefit, unemployment insurance recipients would get only 50 per cent of their previous salary, not 60 per cent as was previously the case.

In Portugal, in 2010, the Socialist government cut the unemployment benefit from 65 per cent of gross earnings in the previous job, to the lower of 75 per cent of net earnings or 3 times the Social Support Index (SSI). In 2012, the Conservative government introduced further cuts in the level and duration of unemployment insurance benefits. The cap on unemployment insurance benefits was reduced from € 1,257 to € 1,048.10 In addition to this, the Government introduced a 10 per cent cut in benefits after 6 months.11 Still, the Government did approve a 10 per cent increase in benefits for unemployed couples (and lone parents) with children.12 However, later in 2013, the government decided to impose a 6 per cent tax levy on unemployment benefits above € 419.13

Besides cutting the level of payments, some countries decided to slash the duration of unemployment benefits. This was the case in Portugal where, in 2012, the maximum duration of unemployment benefits was reduced from 900 to 540 days.14 It was also the case in Greece where, in 2011, the government introduced limits on the number of days a person could receive unemployment insurance over a period of 4 years, to 450 days in 2013 and 400 days in 2014 (Matsaganis 2013: 20).

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10 Law no. 64/2012, Article 29, no. 1.
11 Law no. 64/2012, Article 28, no. 2.
12 Law no. 64/2012, Article 2, no. 1.
13 Law no. 51/2013, Article 10, no. 2.
14 See Law no. 220/2006, Article 37, no. 1 and Law no. 64/2012, Article 37, no. 1.
Table 3. Changes to security in unemployment in Southern Europe 2010–2013*

<table>
<thead>
<tr>
<th>Policy Area</th>
<th>Country</th>
<th>Year</th>
<th>Policy Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment Insurance – Eligibility</td>
<td>Portugal</td>
<td>2012</td>
<td>Minimum contributory period reduced from 450 to 360 days</td>
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<td></td>
<td>Italy</td>
<td>2012</td>
<td>New unemployment insurance scheme (ASpI), which extends protection to apprentices and artists.</td>
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<td>Introduction of the Mini-ASpI, replacing the previous reduced requirement unemployment benefit.</td>
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<td>Elimination of the ‘Mobilità’ allowance (for workers in medium and large firms)</td>
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<td></td>
<td>Greece</td>
<td>2012</td>
<td>Unemployment insurance extended to self-employed</td>
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<tr>
<td>Unemployment Insurance – Generosity of Unemployment Benefits</td>
<td>Spain</td>
<td>2012</td>
<td>Cut in benefit after 6 months of receipt is strengthened (from 60% to 50% of previous salary)</td>
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<tr>
<td></td>
<td>Portugal</td>
<td>2010</td>
<td>Benefit cut from 65% of gross earnings in the previous job, to 75% of net earnings</td>
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<td>Introduction of a € 1257 ceiling on benefits</td>
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<td>2012</td>
<td>Benefit ceiling cut from € 1257 to € 1048 Euros</td>
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<td>Benefit cut by 10% after 6 months</td>
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<td></td>
<td></td>
<td>2013</td>
<td>UI Benefit cut by 6% (tax levy)</td>
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<tr>
<td></td>
<td>Greece</td>
<td>2012</td>
<td>Flat-rate unemployment benefit reduced by 22%</td>
</tr>
<tr>
<td>Unemployment Insurance – Duration of Unemployment Benefits</td>
<td>Portugal</td>
<td>2012</td>
<td>Cuts in the duration of benefits – maximum duration reduced from 38 to 26 months</td>
</tr>
<tr>
<td></td>
<td>Italy</td>
<td>2012</td>
<td>New unemployment insurance scheme (ASpI), extends duration of payments.</td>
</tr>
<tr>
<td></td>
<td>Greece</td>
<td>2012</td>
<td>Limit to the number of days a person is entitled to receive benefits over a period of 4 years (450 in 2013, 400 from 2014 onwards).</td>
</tr>
<tr>
<td>Unemployment Assistance</td>
<td>Spain</td>
<td>2011</td>
<td>6 month special allowance (PRODI) for people over 45 was eliminated and replaced by an individual retraining programme (PREPARA)</td>
</tr>
<tr>
<td></td>
<td>Italy</td>
<td>2012</td>
<td>New unemployment assistance scheme (Mini-ASpI) for employees with reduced contributions.</td>
</tr>
<tr>
<td></td>
<td>Portugal</td>
<td>2010</td>
<td>Tightening of means-test (less generous equivalence scale)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2012</td>
<td>Duration of benefits cut by half for recipients under 40</td>
</tr>
<tr>
<td></td>
<td>Greece</td>
<td>2012</td>
<td>Annual income threshold that serves as a means-test increased from € 5,000 to € 12,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2013</td>
<td>Annual income threshold that serves as a means-test reduced from € 12,000 to € 10,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Cap on public expenditure on unemployment assistance</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Unemployed assistance extended to young long-term unemployed</td>
</tr>
</tbody>
</table>

Note:
* This does not include the withdrawal of stimulus measures introduced as a response to the ‘Great Recession’.
In a context of rapid growth in unemployment, there were modest efforts to expand the coverage of unemployment insurance schemes. In Spain, Law 32/2010 established a voluntary contribution to unemployment benefit for the self-employed, even if, due to excessive requirements, fewer than 20% of requests were resolved favourably.\(^{15}\) In Greece (2012), unemployment insurance was extended to self-employed workers. However, due to stringent eligibility criteria, very few of the self-employed who found themselves out of business had access to benefits (Karamessini, 2015).\(^{16}\) In Portugal (in 2012), the mandatory contributory period to be eligible for unemployment insurance benefits was reduced from 450 to 360 days (in the last 730 days).\(^{17}\)

Probably the most substantial effort to improve the coverage of unemployment insurance benefits in the South of Europe was the introduction, in Italy in 2012, of the Assicurazione Sociale per l’Impiego (ASpI) scheme, which replaced a rather broken web of individual schemes with a more unified system of unemployment protection that also encompassed apprentices, who were previously not covered. Under the new scheme, all employees who had started to work as an employee at least two years before becoming unemployed and who have worked at least 52 weeks since then are entitled to unemployment protection for a period of 12 months. The benefit amounts to 75 per cent of the previous wage, up to a threshold, which starts to decrease after 6 months of receipt (Raitano 2012).

While it attempts to expand the coverage of unemployment protection, the new system still contains important gaps in coverage. As it maintains the eligibility requirements of the ordinary unemployment benefit, the ASpI fails to protect some categories of workers – employees working for less than two years, or with an intermittent working history – who are particularly prevalent among the younger generations. Moreover, the new scheme does not create new guarantees for the self-employed and, in particular, for para-subordinate workers, i.e. continuous and project collaborators, whose designation as self-employed is often questionable (Raitano 2012).

It should also be noted that, starting in 2015, the 2012 reform abolished the mobility allowance. This was the most generous unemployment benefit in Italy because it lasted up to two years with an 80 per cent replacement rate. However, the mobility allowance was granted only to those working either in industrial firms with at least 16 employees or in service firms with at least 50 employees.

Although they are less relevant to the protection of labour market insiders, Southern European countries have also made important changes to the eligibility

\(^{15}\) Available at www.segsocial.es/Internet_1/Estadistica/Est/Otras_Prestaciones_de_la_Seguridad_Social/ceseactividadRETA/ Ceseactividad2013/index.htm.

\(^{16}\) The unemployment insurance scheme is now open to self-employed workers whose annual personal income is below € 10,000 (or with annual family income below € 10,000, averaged over the two years prior to claiming) who have ceased their activity after January 2012, and have paid social contributions for at least 12 months in the last three years, and are not in debt to social security (Matsaganis 2013: 21).

\(^{17}\) Law no. 64/2012, Article 22, no. 1.
and generosity of non-contributory unemployment benefits. In 2010, as part of an initial attempt to deal with the onset of the sovereign debt crisis, the Portuguese government introduced a series of welfare cuts which involved, among other things, the tightening of eligibility for assistance-based schemes, accomplished through the introduction of a less generous equivalence scale (Moreira et al. 2014: 247). Later, in 2012, the Conservative coalition cut by half the duration of unemployment assistance for recipients under 40. In Spain (in 2011) the Socialist government decided to eliminate the 6 months special allowance (PRODI) that was previously available to people over 45 who had exhausted their unemployment insurance right. In its place, the government introduced PREPARA, an individual retraining programme which acts as a safety-net for unemployed persons who have exhausted all benefits and allowances.

In Italy, where there are no non-contributory unemployment benefits, in parallel to the introduction of the ASpI programme, the government introduced the Mini-ASPI scheme. It is paid to employees who do not fulfil ASpI requirements and replaces the previous reduced requirement unemployment benefit – traditionally, directed at seasonal workers or at those with very short working periods. Benefits are calculated using the same formula as in ASpI (the replacement rates are the same), but payments only last half of the previous worked weeks, with a maximum of six months. Under the scheme, entitlement to unemployment protection is possible if the individual has worked for the 13 weeks prior to the dismissal.

Possibly as a consequence of the complexity of the Greek political situation during this period, we find a number of contradictory developments regarding the final safety-net for unemployed workers. Thus, in 2012, the Greek authorities introduced a (small) reform, which involved raising the annual income threshold that serves as a means-test from € 5,000 to € 12,000, to broaden the coverage of the unemployment assistance scheme. However, this was followed by a decision to reduce the annual income threshold to € 10,000 from January 2014, and to limit government expenditure on the scheme to € 35 million, which in effect restricts the number of recipients to about 14,500. In another change, in 2013 the Greek government decided to expand the scheme to cover the young (and not just the old) long-term unemployed (Matsaganis 2013: 21).

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18 The previous legislation used a fairly generous equivalence scale, which entitled each adult, up to two adults, to 100 per cent of the amount of the Social Pension and each adult, from the third, to 70 per cent of that amount. Each minor, up to two, was entitled to 50 per cent of the amount of the Social Pension and, from the third minor, received 60%. The new Act adopts the OECD equivalence scale, in which the second adult in the household receives 70 per cent of the benefit of the head beneficiary, and each child receives 50 per cent (Moreira et al. 2014:247).

19 Decree 64/2012.

20 PREPARA replaces the Temporary Unemployment Protection and Insertion Programme (PRODI) (Royal Decree-Law 10/2009 of 13 August), launched in August 2009, whose goal was also to provide some income to workers who had exhausted their unemployment benefit or subsidies.
3. REDRAFTING THE BALANCE BETWEEN SECURITY IN EMPLOYMENT AND SECURITY IN UNEMPLOYMENT FOR REGULAR WORKERS IN THE SOUTH OF EUROPE

The previous sections described the set of labour reforms introduced in the period between 2010 and 2013 in Southern Europe. In this section, we assess comparatively the impact of these reforms on the level of security enjoyed by labour market insiders in these countries. Following Papadopoulos (2005), we have put together two (composite) indexes that aim to measure the degree of security enjoyed by workers while in employment and while unemployed.21

Box 1. Measuring Security in Employment

By security in employment we mean the degree of protection regular workers enjoy against the risk of both individual and collective dismissal. This is measured by a composite indicator that uses OECD (2013) data to measure:

- The protection of regular workers against individual dismissal
- The protection of regular workers against collective dismissal

While we broadly reproduce the methodology adopted by the OECD (2013) to measure the level of employment protection, our indicator does not cover the regulation of temporary forms of employment.

Following the methodology adopted by the OECD (2013: 1–2), the sub-indicator that measures the level of protection of regular workers against individual dismissal is composed of nine items, covering:

- The length of the trial period
- The notification procedures that regulate dismissal processes, i.e. whether someone needs to be notified/give permission for the dismissal to occur, or length of the notice period
- The rules that define the compensation (severance pay) in case of dismissal
- The definition of fair/unfair dismissal; and the changes to the rules that define the compensation in case of unfair dismissal

The sub-indicator that measures the level of protection against additional collective dismissal is composed of four items, covering (2013: 1–2):

- The definition of collective dismissal
- Additional notification requirements in case of collective dismissal
- Additional delays involved before notice can start
- Other special costs to employers

21 While we follow the approach of Papadopoulos (2005), there are important differences in how the level of security of workers (both in employment and in unemployment) is measured. For instance, unlike Papadopoulos (2005: 15) our analysis of the level of security enjoyed by regular workers in employment does not include the regulation of temporary forms of employment. A more fundamental difference concerns the way security while unemployed is operationalised. Whereas, in Papadopoulos (2015: 15), the level of security in unemployment is measured by an (adjusted) indicator of expenditure on unemployment benefits and active labour market programmes, in this paper we look at the rules that determine the ease of access and generosity and duration of unemployment rates (see Box 2, Annex).
In line with the methodology adopted by the OECD (2013: 1–2), we have given a greater weight to the sub-indicator that measures the protection of regular workers against individual dismissal (0.75).

Building on OECD data, the first index measures the degree to which workers are protected against the risk of individual and collective dismissal (see Box 1). The second index uses comparative data (from MISSOC and the OECD) on labour market institutions to capture the degree to which unemployment insurance benefits protect workers against a sustained drop in income, which can be seen as a function of the ease of access to unemployment insurance and the level of income security while unemployed. The latter, in turn, is a product of the (gross) replacement rate secured by unemployment benefits and their maximum duration (see Box 2).

Box 2. Measuring Security in Unemployment

By security in unemployment, we mean the degree to which the system of unemployment protection protects regular workers against a sustained drop in income after the loss of employment. Using data on the rules that govern the entitlement and generosity of unemployment benefits (see OECD Benefits and Wages database\(^\text{22}\) and MISSOC),\(^\text{23}\) we created a composite index of security in unemployment. However, this is limited to unemployment insurance schemes.

This indicator covers two major dimensions of the protective ability of unemployment protection systems:
- The ease of access to unemployment insurance benefits
- The level of income security provided

In order to measure the ease of access to unemployment benefits, we created a sub-indicator that measures the number of social security contributions required to be entitled to unemployment insurance benefits. The underlying assumption is that the lower the number of contributions, the easier it will be for an individual to access the unemployment insurance benefits.

In order to make this indicator comparable across countries, we compare the ease of access for a ‘typical’ labour market insider, with the following characteristics:
- Age 35
- Employee
- Employment and Contributory career: In uninterrupted employment for two years, with insurance contributions paid for the same period

In addition to this, we have made a number of simplifying assumptions:
- In cases where there is only an employment requirement, we assume that the employment period is equal to the contribution period.
- In cases where the legislation imposes a minimum hours of work requirement, we assume the individual complies with this requirement.

In order to measure the ability of unemployment systems to protect against a drop in income, we calculate the gross replacement rate for an individual with the following characteristics:
- Age 35
- In two earner couple, with two children

\(^{22}\) Available at www.oecd.org/els/benefitsandwagesoecdindicators.htm

\(^{23}\) Available at www.missoc.org/MISSOC/INFORMATIONBASE/COMPARATIVETABLES/MISSOC DATABASE/comparativeTableSearch.jsp
Austerity-Driven Labour Market Reforms in Southern Europe

As can be seen in Figure 1, in all four Southern European countries, the security of regular workers while in employment has been reduced. There are, however, some important differences between the four countries. The most obvious concerns the greater depth of the cuts in Portugal and Greece, compared with the more moderate changes introduced in Spain and Italy. In addition, in contrast with Italy and Spain, the cuts made in Portugal to the protection against individual dismissals clearly outweigh the cuts made to the protection against collective dismissals. It should be noted that our data underestimates the impact of the reforms in Greece, as it does not capture the effect of the measures to facilitate collective dismissals introduced in Greece in 2013 (see Table 1, Note b, Annex).

While confirming a reduction in the level of security enjoyed by labour market insiders while in unemployment, Figure 2 seems to suggest that the severity of the cuts made in this area are not as strong as in the field of employment. In other words, cuts in protection against dismissal appear to be greater than cuts to the system of unemployment benefits. To a certain degree, this reflects the fact that some of the most relevant reforms introduced during this period have not affected the security of regular workers as they were meant to expand unemployment protection to groups traditionally not covered by unemployment insurance, such as self-employed persons (Greece, Portugal and Spain) or apprentices (Italy) (see Section 2.2).

Figure 1. Security in employment in the South of Europe and Eurozone, 2010 and 2013
However, what seems to happening here is a statistical artefact that results from the decision to use gross replacement rates to measure the degree of income security offered to unemployed workers.\textsuperscript{24} As replacement rates are calculated for (ideal-typical) individuals who received the average wage in the previous year, they are very vulnerable to how wages change over time. Depending on whether, and how, wages evolve, gross replacement rates can underestimate or overestimate the impact of welfare schemes on the actual living standards of individuals.

This limitation becomes obvious when we look at how the Greek case is reported here. As mentioned above, in 2012, the Greek government decided to cut by 22 per cent the minimum wage for unskilled workers (see Section 2.2), which is used as the benchmark for calculating the unemployment insurance rate (Karamessini 2012). However, as can be seen in Figure 2, the severity of this cut is not really reflected in the indicator that measures the changes in the income security of unemployed workers in Greece. While, to a certain degree, this can be explained by the fact that there were no changes to the duration of the benefit, it mainly reflects the fact that, between 2009 and 2012, the average worker wage decreased by 9.7 per cent – which means that the gross replacement rate underestimates the effect of the severe cut made to unemployment benefits on the living standards of the unemployed in this country.

\textsuperscript{24} There is a long tradition of using gross replacement rates to compare the ability of welfare programmes to substitute incomes from work (Esping-Andersen, 1990; Huber and Stephens 2001), even if these are not without limitations (see Martin, 1996; Scruggs 2007).
Despite these limitations, the data does confirm the impression that reforms introduced in Southern Europe in the period between 2010 and 2013 reduced the level of protection provided for regular workers who are unemployed. Still, as can be seen in Figure 2, access to unemployment benefits was not diminished. This suggests that reforms in this domain are less about retrenchment, and more about recalibration – i.e., reductions in the generosity of unemployment benefits to labour market insiders ran parallel with attempts to expand protection to previously unprotected groups (see Section 2.2).

As we have demonstrated, reforms introduced in the period between 2010 and 2013 have meant a significant reduction in the level of security enjoyed by labour market insiders in the South of Europe. As can be seen in Figure 3, when we put the developments in both areas in context we can conclude that, while there were important cuts in the level of security while in unemployment, the real significance of this period of reform lies in the substantive reduction of the level of protection enjoyed by labour market insiders in the South of Europe. The question that now remains is what these developments signify in terms of the process of European integration.

3.1. SOUTHERN EUROPE IN CONTEXT

Having shown that the reforms that were introduced between 2010 and 2013 have significantly reduced the level of protection for labour market insiders, in this section we expand our analysis to the other countries in the Eurozone (see Table 1, Annex). In order to make the depth of cuts more visible, we decided to plot the change in the level of protection given to regular workers relative to the lowest performing country in that year.
Figure 4. Security in employment: Difference to lowest performing country between 2010 and 2013*

Note:
* Lowest performing country in 2010 is Estonia. Lowest performing country in 2013 is Ireland (see Table 1, Annex).

Figure 5. Security in unemployment: Difference to lowest performing country between 2010 and 2013*

Notes:
* Lowest performing countries in 2010 are Slovak Republic/Slovenia.
** Lowest performing country in 2013 is Ireland (see Table 1, Annex).
This exercise shows that Southern European countries were not the only countries to reduce the level of protection given to regular workers during this period. In fact, almost all countries in the Eurozone did so. As can be seen in Figures 4 and 5, cuts to the protection of regular workers in employment are (far) more substantial, with the deepest cuts introduced in Belgium and in the Slovak Republic, even though they were not subject to conditionality from international institutions.

Similarly, the Netherlands made the second-largest cuts in the level of protection given to regular workers while unemployed, even though it too was not subject to external conditionality. Among Eurozone countries, only Ireland made deeper cuts.

4. CONCLUSION

The sovereign crisis that hit Europe at the beginning of the decade prompted a wave of labour market reforms in the South of Europe. In this article, we showed that reforms introduced between 2010 and 2013 amounted to an important reduction in the level of security for labour market insiders both in employment and while unemployed. We then showed that this reduction was not exclusive to the South of Europe, which suggests an ongoing process of moving towards a model of labour market regulation characterised by lower levels of security in employment within the Eurozone.

While relevant, these findings must be put into perspective. First, the methodology used to measure the generosity of unemployment benefits tends to underestimate the effect of absolute cuts in the level of unemployment benefits in some countries (in particular Greece) on the income protection of labour market insiders when unemployed. Second, and most important, the above indicator cannot capture important gaps in the coverage of unemployment benefits in Southern Europe. With an unemployment rate of 26 per cent and a coverage rate by unemployment benefits of only 9 per cent of the unemployed in August 2014, Greece is the extreme case in this respect.

Last but not least, the developments reported here cover only half the story. For instance, our analysis does not cover changes made to the status of a special group of labour market insiders: public sector workers. In Greece, for example, employees in public enterprises saw the abolition of all clauses on tenure provided for by collective agreements and saw their labour contracts transformed into open-ended ones; while in public administration, labour reserve and mobility schemes were created in order to receive personnel made redundant, of whom a certain number have been dismissed (Karamessini, 2015).

Most importantly, the developments reported here do not take into account changes to the policies that regulate the security provided to labour market outsiders. Studying these changes is important in order to examine whether cuts in the security of labour market insiders are part of a de-segmentation strategy, or if they go hand-in-hand with a similar deterioration of employment conditions at the lower end of the labour market.
Still, these results raise important questions regarding the process of institutional change currently underway in these four Southern European countries. As shown above (see Section 3), the pattern of change in employment protection legislation - clearly focused on retrenchment - is quite different from the recalibration that characterises change in the system of unemployment protection. Despite the introduction of cuts in the generosity and duration of benefits, there are also efforts to expand unemployment protection coverage to previously unprotected groups. This raises the issue of whether these efforts to expand unemployment protection coverage are (a) the product of compensation strategies (Glatzer, 1999; Pierson, 1994) adopted by policy-makers to make the introduction of cuts to unemployment protection more easily acceptable; (b) a reflection of a shift in the balance of power between labour market insiders, outsiders and employers, given that labour market institutions are an arena for the power dynamics between different social groups (Korpi 2001; Rueda 2005); or (c) simply, the result of a policy response to the rapid growth in unemployment in these countries to unprecedented levels.

The results in this paper also pose the question of the degree to which these developments are reflective of a new model of economic governance in Europe and an external policy agenda imposed through the conditionality associated with the provision of financial assistance, and the extent to which they reflect internal dynamics among local actors. Finally, and consequentially, these results raise the fundamental question of whether this period of reform signifies the dissolution of the Southern European model of labour market regulation, characterised by the protection of labour market insiders along with insecurity for outsiders.

REFERENCES


## Table 1. Security in employment vs. security in unemployment in the South of Europe and Eurozone 2010 and 2013*

<table>
<thead>
<tr>
<th>Country</th>
<th>Protection Against Individual Dismissal (A)</th>
<th>Protection Against Collective Dismissal (B)</th>
<th>Ease of Access to Unemployment Benefits (C)</th>
<th>Income Security (D)</th>
<th>Security in Employment (A \times 0.75) + (B \times 0.25)</th>
<th>Security in Unemployment (C \times 0.50) + (D \times 0.50)</th>
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</thead>
<tbody>
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</table>

Notes:
* Excludes Latvia, Malta and Cyprus.
** Information for this year refers to the legislation in place on 1 January 2013. Therefore, it does not cover reforms introduced during 2013, namely in Greece.
*** Lowest performing country in 2010.
**** Lowest performing country in 2013.
For sources and methodology please see Boxes 1 and 2 in the text.
Abstract

Before the economic crisis erupted, the public bureaucracies of Greece, Italy, Portugal and Spain had embarked on public administration reforms reflecting Neo-Weberian and New Public Management influences. After the onset of the crisis, which functioned as a critical juncture, reforms of public administration and the structures and functions of government decision-making were hastily effected. Administrative reforms reflected almost exclusively New Public Management concerns, whereas reforms of government indicated a rapid concentration and centralisation of power at the summit of the executive. A combination of ‘goodness-of-fit’ and historical institutionalist theories and fiscal pressures exerted by the international economic and institutional environment may explain the abruptness, extent and direction of reform. Southern European governments and public bureaucracies have preserved only some of the historical legacies of government and bureaucratic organisation, but have hurriedly adapted to externally induced pressures to reform.

Keywords: crisis; government; public administration; reforms; Southern Europe

1. INTRODUCTION

In Greece, Italy, Portugal and Spain after the onset of the economic crisis in 2009, three main factors characterised the economic and political environment in which...
government organisation and public administration reforms were attempted. First, strong external pressures for economic policy change and structural change were exerted on all South European countries. The governments of Greece and Portugal engineered reform under the conditions of a Memorandum of Understanding (MoU), which was implemented in both countries under the close supervision of officials of the so-called Troika, consisting of the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF). It is evident that at times exogenous pressures to reform were actually translated into exogenous coercion to reform as the case of Greece shows (Ladi 2014: 205). Italy did not sign a MoU, but at crucial moments took instructions on reform guidelines from the IMF and the leadership of the ECB (Verney and Bosco 2013). Like the other South European countries, Spain obtained a loan from the EU to help its ailing banking system and followed policies of fiscal consolidation and market liberalisation.

Second, popular reactions to the economic crisis and the mismanagement of the crisis brought about government turnover. In all South European countries there was a change of government during the course of the crisis, largely as a result of the crisis. Greece and Italy experimented with short-lived governments led by technocrats, while all the mainstream parties were tied to neo-liberal reforms. The latter provoked the emergence of new contenders for power. In 2012, in Greece the radical left party, Syriza, and in Italy the anti-establishment party, Five Star Movement (M5S), emerged as main contenders of power, challenging traditional parties of the centre-right and centre-left. In Greece, Syriza, in fact, won power in 2015. By contrast, the PSD and PS in Portugal and the PP and PSOE in Spain, which had dominated Portuguese and Spanish politics respectively since the 1980s, alternated in government in the wake of the same austerity policies, but met with resistance from the left, namely the communist-led trade union in Portugal and the new left-wing party Podemos in Spain. In other words, in all four countries reforms were attempted in the context of an unstable political environment.

Third, the modernisation of government (i.e., the structures and functions of government decision-making) and public administration (i.e., the public bureaucracy), which, in a context unrelated to emergency measures, might have obtained wider legitimation, faced the opposition of public employees and the distrust of the rest of the population. In contrast to the other three South European countries, Portugal had already embarked upon an austerity programme before the crisis erupted. After 2009, across Southern Europe, public employees saw their wages and salaries slashed. In the course of South European governments’ efforts to achieve fiscal consolidation, they also witnessed their pensions being cut and their job security being put at risk.

In view of the fact that the four South European countries encountered unprecedented economic problems, what explains changes and continuities in South European public administrations and government structures after 2009? In what follows, we first summarise the characteristics that, in the past, used to set South European public bureaucracies apart from West and North European bureaucracies.
and then discuss the changes in public administration that had already started to unfold before the onset of the economic crisis. These included changes in the size of public employment, administrative decentralisation, and changes in the relationship between society and administration, but above all a situation in which a mix of administrative reforms were implemented, some which were permeated by a Neo-Weberian logic, whereas others were inspired by the tenets of New Public Management (NMP).

After 2009 there were large-scale changes in the public bureaucracies and in the organisation of government in Greece, Italy, Portugal and Spain. We argue that, despite the fact that the origins of the economic crisis were different in the four South European countries, the responses to the crisis, as far as administrative reform was concerned, namely an intensification of NPM reforms, were similar. These involved a reduction in the size of public employment and in the cost of labour, a shift towards performance criteria and a results-based culture, a further facilitation of society-administration relations and changes in levels of administrative decentralisation. Moreover, we discuss the ways in which South European governments, in attempting to steer their economies out of the crisis, embarked on changes in strategic planning, inter-ministerial coordination, legislation by fiat, communication of government policy and control of the state’s finances and executive agencies from above.

In the concluding section, we argue that the economic crisis has brought about a one-directional process of hurried changes in South European government and administrative organisation, which cannot be explained solely through applying the theoretical lens of Europeanisation.

2. THEORETICAL FRAMEWORK AND RESEARCH HYPOTHESIS

Administrative reform can be interpreted in the context of the impact of EU integration on national public administrations, even though there is no common EU administrative policy comparable with other EU sectoral policies, such as regional or agricultural policy (Knill 2001). Administrative reform remains strictly within the national competences of EU Member States (Mangenot 2005). Yet, owing to the need to coordinate the implementation of EU policies across Member States, and particularly the adoption of acquis communautaire by Candidate Member States, the concept of European Administrative Space (EAS) has emerged (Olsen 2003). The principles of EAS include the reliability and predictability of the legal framework, openness and transparency, accountability, efficiency and effectiveness (OECD 1999). National administrations are not forced to adapt to the EAS but are subjected to exogenous, EU-driven pressures to become Europeanised. The EU’s soft tools of community method are used to that effect, along with the relevant decisions of the European Court of Justice (ECJ).
As is well known, the literature on Europeanisation discusses if, how and to what extent exogenous pressures exerted on domestic political systems produce changes in the institutions and policies of EU Member States. At the start of this process the regulations, rules and practices of individual Member States differ a lot but, under pressure from the top, they gradually converge. According to the ‘goodness-of-fit’ approach (Duina 1999; Green Cowles, Caporaso and Risse 2001), the pressure to adapt is higher on Member States which initially differ somewhat from the models adopted by the EU.

Thus, in accordance with the aforementioned literature on Europeanisation, the first research hypothesis examined in this article is that domestic reforms will take the form of adaptation in response to pressures from the EU in those national systems which diverge but are not completely at odds with EU policies. The second is that, if national systems have to cover a very long distance to meet the EU requirements for change, then the most probable result is not adaptation to exogenous pressures, but inertia. A third possibility is that national systems may already be very close to the EU ‘prototype’, and in that case there will be neither policy and institutional adaptation nor inertia, but rather adoption of EU guidelines. This approach has been criticised (Haverland 2000; Mastenbroek and Keading 2006) on various grounds: that ‘goodness-of-fit’ is too wide as a concept and may mean different things to different people; that the domestic institutions and policies under investigation may themselves be in a transient phase for reasons different from the exogenous pressures exerted by the EU and we may thus be looking at a moving target; that the pressure to adapt may be ineffective because itself it is too soft, as in the case of the Open Method of Coordination (OMC); and that institutional and policy changes may take place irrespective of EU pressures.

Indeed, before the crisis erupted, reforms in public administration reflected a worldwide trend dating back at least to the 1980s, associated with the rise of the New Public Management (NPM) approach (Pollitt and Bouckaert 2011). As it is well known, this trend was based on a combination of academic research on NPM and the rise of the neo-liberal governments who were in power in the UK and the USA after 1979–1980. Even though the NPM approach was adopted primarily in the Anglo-Saxon countries, converging trends towards introducing private management methods into public administration emanated from other sources too, such as the aforementioned EAS.

The principles of EAS and the tenets of NPM differ somewhat. The principles of EAS serve as a set of desirable ends which national public administration should adopt in order to support the process of European integration, while the tenets of NPM aim to endow public administration with economy, efficiency and effectiveness. EAS is more value-neutral and allows room for governments of variable ideological orientations to steer public administration. NPM has an elective affinity with neo-liberalism. Yet EAS and NPM coincide on a number of strategic aims. These include a leaner public administration, indicated by a smaller public employment force and
reduced labour costs; devolution of power to regional and local authorities; a shift away from a legal culture to a results-based culture and a link between performance and compensation for public employees; and the digitalisation of services offered to citizens and businesses. Obviously these aims do not exhaust what one would expect to see in a Europeanised public administration. Still, they constitute a measurable core against which the ‘goodness-of-fit’ of national administrations can be assessed. This is discussed in the next two sections of this article.

Although after the eruption of the economic crisis, governments concentrated on these reform aims, the economic crisis revealed, among other things, the need to reshape not only administrative but also government structures. Facing the challenges of crisis management, governments themselves changed, as they had been trying to change public administration. The inter-governmental nature of decision-making in the EU, pressure to take decisions quickly in the midst of the crisis and the need to monitor reforms across many policy sectors called for an organisational response on the part of national governments. In this context, our second research hypothesis is that the governments’ response was to concentrate decision-making power and centralise administration.

The third research hypothesis of this article is informed by the approach of historical institutionalism (Thelen 1999). The hypothesis is that long-delayed reforms follow tortuous paths. Rather than occurring in a continuous flow, reforms are implemented at ‘critical junctures’ (Collier and Collier 1991; Hall 2010). At such points in time, an external stimulus, such an economic crisis, makes the passage of reforms irresistible. A critical juncture is crucial for making a reform break-through, regardless of its merits. We hypothesise that abrupt change occurs because the accumulated pressure for reform to take a particular path, such as the direction of NPM in administrative reform, becomes hegemonic. In the heat of the moment, under time pressure and financial constraints, any other possible alternative reform paths vanish from the radar screens of reformers.

3. TRAJECTORIES OF ADMINISTRATIVE REFORM IN SOUTHERN EUROPE BEFORE THE ECONOMIC CRISIS

Before the crisis struck, although the public administrations of Greece, Italy, Portugal and Spain were different in terms of size and administrative culture, they were all variants of the Napoleonic administrative tradition and shared legacies of bureaucratic structure and functions. Common features of the four public administrations included a propensity to staff the lower levels of administrative hierarchy on the basis of patronage criteria and an extensive politicisation of the higher and even the middle echelons of these hierarchies (Sotiropoulos 2004). Notable differences among the four cases were the far more decentralised character of the Spanish and the Italian administrations compared to the Greek and the Portuguese, and the existence of an administrative elite in Spain, which is less discernible in Italy and much less discernible in Portugal and
Greece. In other words, the distance between the typical West and North European public bureaucracies and the bureaucracies of Greece and Portugal was larger than the distance between the former and the Spanish or Italian bureaucracy.

Later on, as global economic and technological challenges required faster and more flexible responses than those a traditional bureaucracy could offer, contemporary administrations across Europe and America themselves became more politicised (Peters and Pierre 2004). South European administrations themselves had started to embark on modernisation and NPM-like reforms before the onset of the economic crisis.

3.1. PRE-CRISIS TRENDS IN PUBLIC EMPLOYMENT

Over time South European public bureaucracies expanded in size after the transition to democracy in the mid-1970s in Greece, Portugal and Spain, as welfare systems grew and as voters and politicians continued the traditional exchange of votes for public sector jobs. In other words, clientelism and welfare state development led to the phenomenon of over-staffed public bureaucracies in Southern Europe, at least in comparison with North and West European bureaucracies in the 1990s and the early 2000s (Sotiropoulos 2004).

3.2. PRE-CRISIS NEO-WEBERIAN REFORMS

Bureaucratic transformation along neo-Weberian lines would entail, among other things, a ‘containment’ of excess politicisation, more transparent and verifiable patterns of recruitment and promotion for civil servants, clearer lines of hierarchy, free of informal channels of influence on policy decisions, and a culture of professionalism accompanied by a civil service esprit de corps. Between the mid-1970s and the mid-2000s there were reforms along these lines in all South European bureaucracies.

However, such reforms fell into the ‘implementation gaps that, overall, appear to have been larger than those experienced in some Anglo-Saxon and also North European countries’ (Ongaro 2008: 110). In fact, successive governments in Southern Europe pursued institutional reforms more persistently and more successfully than managerial reforms (Ongaro 2008: 111; Spanou and Sotiropoulos 2011). Establishing new institutions proved less costly in electoral terms and in terms of obstruction by entrenched bureaucratic interests than introducing new managerial processes. Initially, institutional reforms were limited to the appointment of party cadres of the winning party in national elections to ministerial cabinets and management positions in the public services. Later, reforms included consultation with civil service unions on changes affecting employment status, compensation and benefits and the creation of new institutions, such as the Ombudsman, which was given the role of intervening with the administration on behalf of citizens.

Since the 1990s there has been a shift of emphasis towards the professionalisation of the civil service and the rationalisation of bureaucratic structures. For instance, the
regulations for hiring and promoting civil servants were standardised and became more transparent than in the past, and institutes for the in-service training of civil servants were established. Despite the existence of loopholes not justified by a typical Weberian model of bureaucracy, such as the hiring ‘through the back door’ of masses of Greek and Italian temporary public employees who were the government’s political clients, South European bureaucracies became more predictable in their structure and functions. Spain had a longer and more stable tradition of Weberian-like bureaucratic organisation and a legacy of higher civil service corps, meritocracy, transparency and chains of command than Greece, Italy or Portugal. In the latter three countries, the effort to complete the Weberian project took the form of a ‘juridification of administration’ in reaction to ‘strong post-war politicisation’ in Italy (Kickert 2011: 813) and, in the post-authoritarian period, in Greece and Portugal (Sotiropoulos 2006). In other words, successive waves of legislation and court decisions regulated the functioning of public administration, all the way from the pay scales and grade scales of the civil service down to the minutest detail of the day-to-day functioning of administration. Spain, however, had a shorter distance to travel in public administration reforms in order to approximate dominant administrative trends in the EU.

3.3. PRE-CRISIS PATTERNS OF ADMINISTRATIVE DECENTRALISATION

Between the mid-1970s and the mid-1990s extensive decentralisation occurred in Spain, Italy and even Greece, but not in Portugal. In the latter country substantive decentralisation was rejected twice by referendum. In the former three countries, and particularly in Spain, democratisation was associated with the devolution of power to regional authorities. Such authorities were created in Spain by the Spanish constitution of 1978, in Greece, through the introduction of regional governments above the level of prefectures after 1986; and in Italy, through a process of devolution of power from central government to regional authorities dating back to the 1970s (Kickert 2011: 813).

3.4. PRE-CRISIS TENDENCIES IN SOCIETY-ADMINISTRATION RELATIONS

Already before the onset of the crisis, South European countries had changed the citizen-administration nexus. They had brought public administration closer to citizens and improved the quality of services offered to them. For example, by the early 2000s, Greece had created a popular nationwide network of one-stop shops, named Centres of Services to Citizens (KEP). Portugal had reformed its Public Employment Services for the unemployed and, after 2005, introduced new technologies into public administration, simplified administrative procedures, offered citizens better access to public services and engaged in consultation with citizens (the Programme for the Reform of the Central State Administration – PRACE; Magone 2011: 777).
3.5. PRE-CRISIS REFORMS INSPIRED BY NEW PUBLIC MANAGEMENT (NPM)

As early as 1989 in Spain, 1992–1994 in Italy and the early 2000s in Greece, successive governments had tried to import administrative reforms inspired by the NPM approach, which involved, among other things, measuring the output of public administration and dismembering the central administration through the creation of agencies entrusted with specific tasks (agencification). However, NPM reforms took a long time and some remained on paper or were subsequently halted.

For example, in Spain already in 2003–2008 performance management constituted a priority in the context of budgetary reforms, which enabled Spain to achieve budget surpluses in the mid-2000s. As early as 2006 the Spanish government passed a law promoting the foundation of autonomous agencies (Alba and Navarro 2011), although, owing to budgetary constraints imposed after the onset of the crisis, agencification was halted in 2011 (Bezes and Parrado 2013: 40–41).

Similarly in Portugal, in the late 1990s, the government created the autonomous Public Institutes, in which the recruitment and compensation of public employees and management practices were more flexible than in the central administration. A new accounting system was put in place, and civil servants aspiring to become managers took advanced courses in public management. In the first half of the 2000s the Portuguese government upgraded the capacity of ministries to formulate policies, reinforced the regulatory role of the state and implemented market-type innovations to improve service provision. Moreover, NPM-inspired reforms promoted horizontal mobility across the civil service and contractual posts instead of traditional tenure-track ones (Corte-Real 2008: 219–220).

In Italy, agencies were created in the mid-1990s and ministries were restructured. The private regulation of civil service employment, based on collective bargaining, was introduced, salary levels were linked to performance assessment, the mobility of managers to and from the private sector was enhanced and management by objectives was introduced by legislation (Gualmini 2008: 82 and 84; Ongaro and Valotti 2008: 187–188). However, after 2000 the re-introduction of recruitment procedures reminiscent of the ‘spoils system’ worked in the opposite direction, constraining and controlling managerial autonomy at the higher levels of administration.

Greece was the country least affected by NPM reforms, although such reforms were formally adopted by law (Spanou 2008: 168–169). In the late 1990s and the first half of the 2000s, successive governments established agencies, but these remained at arms-length from ministries. Management by objectives and performance management were also introduced, but these were given low priority by government ministers and met with indifference by civil servants. NPM made such small inroads into the Greek public administration because of a traditional legalistic culture and a lack of skills on the part of civil servants, two obstacles which may, to a lesser extent, apply to other South European cases (Gualmini 2008: 92). Greece stands apart from
the rest of South European cases because of the more extreme politicisation of its public administration (Kickert 2011: 816). For NPM reforms to become implanted, a minimum of autonomy and distance between public administration and the day-to-day national political scene is required, and this precondition has not been met in the case of Greece.

4. THE DIFFERENT ORIGINS OF ECONOMIC CRISIS AND THE SIMILAR RESPONSES TO THE CRISIS IN SOUTHERN EUROPE

Since the onset of the global financial crisis, governments in most EU Member States have been under pressure to make rapid decisions on administrative reforms, lest the pressure from international markets became uncontrollable, as happened in Greece in 2010. Governments were cornered because of time constraints: in contemporary democracies which work on the presumption of social dialogue between social partners and in open economies which are exposed to international economic shifts, the pace of policy change is much slower than the rate of change of short-term economic fluctuations. The latter produce shocks that governments and administrative systems may normally need a lot of time to absorb. All this changed in Southern Europe because of the economic crisis.

Compared to the pre-crisis period, changes across the EU in the style of policy-making about matters of public administration and in the substance of the relevant policy measures took place. In Southern Europe, governments decided unilaterally on major policy issues, such as civil service salary levels and the hiring or dismissal of public employees. Previously such issues were decided upon after extensive consultation with civil service trade unions. This practice continued in EU Member States, with the exception of France and the four South European countries. In the latter countries, governments put aside social pacts (Bach and Bordogna 2013: 283–284). Moreover, the most important decision-making competences in the field of public administration were essentially taken away from the Ministry of Interior or the Ministry of Public Administration and transferred to the Ministry of Finance, which pursued fiscal consolidation.

The reforms were monitored by the Prime Minister’s Office (PMO) which in turn was responsible for reporting to a Troika of the EC, the ECB and the IMF in the case of Greece and Portugal, or to EU authorities in the case of Spain and Italy. In the four South European countries, administrative reform became a top-down process, and ‘top’ now meant not only the summit of the government but also non-elected supranational authorities. The letter addressed by the Governor of the ECB (Trichet) and the governor of the Bank of Italy (Draghi) to Italy’s Prime Ministry (Berlusconi) in August 2011 is a case in point. Thus, the four countries under study differed from many other EU countries with regard to style of policy-making.
The content of adopted measures of administrative reform after 2008, while not precisely the same, was similar in many EU countries. This held true even where the measures concerned countries which faced economic challenges vastly different from those affecting South European countries. Examples of such measures taken by indebted and not-indebted countries alike included salary cuts and freezes in public administration, public employment cuts or a shift to hiring employees on temporary contracts, and the rolling back, if not retrenchment, of social security regimes for public employees. Such measures (e.g. deeper salary cuts) were adopted to a greater extent in the South European countries than elsewhere.

To sum up our argument up to this point, the four countries under study differed from other EU Member States both in terms of the extent and the type of the administrative reforms they embarked on after the crisis started. Beforehand, in Southern Europe, reformers had subscribed to different ‘logics’, rather than necessarily to the logic of NPM. In some cases reforms were couched in Neo-Weberian terms, in other cases in NPM terms. In the wake of the economic crisis however, reforms were almost exclusively based on NPM, as the following evidence indicates.

4.1. REDUCING THE SIZE OF PUBLIC EMPLOYMENT

All four South European countries proceeded to drastically downsize public employment. As Table 1 shows, between 2010 and 2013, the personnel of the public administration decreased in absolute numbers in all four countries. In terms of percentage change, the observed downsizing amounted to 11 per cent in Greece, 2 per cent in Italy, 4.5 per cent in Portugal and 4 per cent in Spain. In other words, Greece made deeper cuts in personnel than Portugal, Italy or Spain. This difference may be accounted for by the fact that throughout 2010–2013, in contrast to Italy, Portugal and Spain, Greece’s problem was primarily perceived as a fiscal problem and fiscal consolidation was subsumed to the monitoring of the so-called Troika, which closely oversaw the implementation of policy measures.

Table 1. Absolute number of people employed in public administration, including public health and compulsory public education 2010–2013

<table>
<thead>
<tr>
<th>Country</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>976,200</td>
<td>946,100</td>
<td>893,600</td>
<td>873,000</td>
</tr>
<tr>
<td>Italy</td>
<td>4,465,100</td>
<td>4,460,200</td>
<td>4,432,300</td>
<td>4,378,600</td>
</tr>
<tr>
<td>Portugal</td>
<td>1,004,000</td>
<td>991,400</td>
<td>969,500</td>
<td>958,800</td>
</tr>
<tr>
<td>Spain</td>
<td>3,832,400</td>
<td>3,889,100</td>
<td>3,779,500</td>
<td>3,663,900</td>
</tr>
</tbody>
</table>

In contrast to the other EU Member States which opted out of employment freezes or low replacement rate of retirees, the four South European states proceeded to cuts in public employment, adopting measures in the following sequence: first, no or minimal replacement of retirees by new personnel, then a hiring freeze, and finally non-renewal of temporary and fixed-term contracts, followed by dismissals of permanent employees. Among all of the South European cases, Greece, which was the furthest away from a lean model of public employment, proceeded with the heaviest cuts in employment.

4.2. DEPRESSING THE COST OF LABOUR IN THE PUBLIC SECTOR

While in other EU Member States governments either granted small increases in pay or imposed pay freezes (Bach and Bordogna 2013: 283–284), in the four countries under study pay freezes in the first or the second year into the crisis were followed later on by pay cuts and by reductions in the pension benefits of retirees.

As Table 2 shows, in 2010–2013 the total compensation of public employees was downgraded to a larger extent in Greece and Italy than in Portugal and Spain. In other words, Spain, which had previously spent proportionally larger amounts of money compensating its public employees, continued to do so after the start of the crisis. By contrast, Greece, which had also previously spent a great deal on the salaries of public employees, made abrupt cuts over the same period. Greece and Spain were furthest away from the EU-27 average (Table 2), as Spain continued a relatively high spending pattern while Greece was forced to make salary cuts. This contradicts the ‘goodness-of-fit’ hypothesis, from which one would expect that both countries would move closer to the EU-27 average. In contrast to the Spanish government, the Greek government did not have a free hand on this issue, as incomes policy was closely supervised by the Troika. Moreover, in Portugal, salary cuts, which were initially very deep, were partly reversed by the Constitutional Court, which ruled that they were unconstitutional (Afonso, Zartaloudis and Papadopoulos 2014: 10).

<table>
<thead>
<tr>
<th>Country</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>24.2</td>
<td>24.0</td>
<td>23.2</td>
<td>20.4</td>
</tr>
<tr>
<td>Italy</td>
<td>22.0</td>
<td>21.4</td>
<td>20.8</td>
<td>20.8</td>
</tr>
<tr>
<td>Portugal</td>
<td>23.8</td>
<td>23.0</td>
<td>21.1</td>
<td>22.1</td>
</tr>
<tr>
<td>Spain</td>
<td>26.0</td>
<td>25.8</td>
<td>23.4</td>
<td>25.3</td>
</tr>
<tr>
<td>EU-27</td>
<td>22.0</td>
<td>22.0</td>
<td>21.6</td>
<td>21.6</td>
</tr>
</tbody>
</table>

Higher civil servants in Greece and Portugal were not paid much more than other civil servants. In Italy the situation was vastly different: relative to their country’s GDP per capita – on an annual basis, Italian senior managers were extremely well paid and in fact earned over three times the OECD’s average annual salary, topping all other OECD countries, including Australia, New Zealand and the United Kingdom. In these Anglo-Saxon countries, in contrast to Italy, highly paid senior managers earned less than twice the OECD average (OECD 2013: 107, Figures 5.5 and 5.6). The case of Italy may be accounted for by the large role played by state-owned conglomerates in Italy’s economic development since the interwar period and by the – until recently – strong trade unions representing civil servants.

4.3. IMPLEMENTING PERFORMANCE MANAGEMENT AND A RESULTS-ORIENTED CULTURE

In the context of the economic crisis, administrative reform in Greece and Italy included the establishment of stricter performance ratings using detailed criteria stipulated by law rather than by ministerial discretion or by decision of heads of units such as Directors General or Directors; and the establishment of periodic internal and external reviews and the diffusion of indicators measuring the performance of administrative units and administrators alike as a means of improving the quality of public services and rationalising government expenditure. In Greece and Spain the total number of working hours for public employees was increased. Horizontal mobility across public services was legislated for in Greece and Portugal, where the compartmentalisation of, and turf-wars among, services has been a problematic legacy in the larger context of the absence of strong coordinating mechanisms.

As for agencification, after the crisis started it entailed the establishment of new executive agencies, controlled by ministers but lying outside the remit of ministries. Agencification was deemed necessary for tasks such as privatisations in Greece and the provision of health care in Italy. These reform efforts were not completed, either before or after the onset of the crisis. As far as changes in management, working conditions and job evaluation are concerned, one cannot claim that any individual South European country was more ‘fit’ than another and thus more fully adapted to pressures of Europeanisation. As Kevin Featherstone puts it, ‘performance management is an alien concept in the Napoleonic tradition’ (Featherstone 2014: 12).

4.4. DECENTRALISATION

In Greece, Portugal and even Italy (which has developed regional authorities), although not in Spain, government employment is over-concentrated in central administration. Although, in 2011, less than 20 per cent of Spanish government employees worked at the central level, in Italy over 50 per cent of government employees, and in Greece and Portugal over 70 per cent of government employees did so (OECD 2013: 105, Figure 5.3).
The crisis has not facilitated further decentralisation. In Italy the crisis put strain on the devolution of funds and administrative competences from the centre to the periphery as central government attempted to balance its budget. Tasks delegated to municipalities in Greece, Italy, Portugal and Spain had often been inadequately funded and the situation worsened after the crisis erupted. For instance, in 2010 in Greece, the realisation that local government was a kind of a ‘black hole’ into which state funds vanished led to the merging of all municipal enterprises into a single enterprise per municipality. On the other hand, as the example of Spain shows, in decentralised systems fiscal consolidation at the level of central government is not necessarily accompanied by a similar consolidation at the regional level. Indeed, several Spanish regional authorities (‘Autonomous Communities’) have experienced fiscal derailment (for the cases of Spain and Italy, see Del Pino and Pavolini, this issue). In terms of the ‘goodness-of-fit’ hypothesis, after the crisis started, there were a few or no changes resulting from Europeanisation pressures. The least decentralised countries, Greece and Portugal, did not really narrow the gap which separated them from a model of truly decentralised administration. At the same time decentralised administrative systems, such as the Spanish one, faced difficulties resulting from the economic crisis.

4.5. IMPROVING THE RELATIONS BETWEEN SOCIETY AND ADMINISTRATION

In the wake of the crisis, South European governments accomplished, to a large extent, the online transfer of documents within and among ministries and public entities and electronic payments. The latter were primarily payments of taxes and social security contributions made by citizens and businesses to various branches of public administration, with the aim of reducing administrative burdens and facilitating citizen-administration relations. In fact, as OECD data shows (OECD 2013: 156, Figure 9.4), in 2011, in contrast to Italy and Spain where only a small number of private firms used the internet in their transactions with public authorities, in Greece and Portugal a large proportion of private firms did so. Portugal in particular was near the top in that respect, while Italy and Spain were close to the bottom. If part of the Europeanisation process is the establishment of digital infrastructures and electronic communication between the administration and businesses, then Greece and Portugal, which used to be laggards, have made great strides towards that direction, as one would expect from the ‘goodness-of-fit’ hypothesis.

However, interaction between citizens and administration presented a different picture from business-administration interaction. In 2011 in the context of all of the OECD countries, Greece, Portugal, Spain and above all Italy were among the worst performers, in the sense that only a minority of citizens used the internet to interact with public authorities (OECD 2013).

To sum up this section, with regard to administrative reform the responses of the four countries to the crisis were similar, in the sense that they embarked on the same
road to reform. They can be said to have become more Europeanised, where this term refers to a mix of EAS and NPM. The extent to which each country followed the same road differed. Greece made the most severe cuts in the size of public employment and the compensation of employees, whereas Spain made the least severe cuts. None of the four countries was ahead of the rest as far as introducing performance management and a results-oriented culture were concerned. With regard to decentralisation, Greece and Portugal did not really catch up with the more decentralised systems of Spain and Italy. And on society-administration relations, Greece and Portugal converged towards a somewhat more business-friendly model of public administration, while none of the four countries distinguished itself on facilitating citizen-administration relations. In view of these very variable outcomes, it is impossible to confirm the 'goodness-of-fit' research hypothesis.

5. REFORMING THE STATE’S CAPACITY TO MANAGE REFORMS

Up to this point we have discussed aspects of change in public bureaucracies in the wake of the crisis. However, what matters most is the government’s capacity to steer a public bureaucracy, to implement policies and to change itself. The state’s management capacity depends on the democratic accountability of the government, on trust in institutions and on financial, infrastructural and human resources and the performance of public administration. The state’s management capacity is higher when strategic planning is integrated into the policy-making process. After the start of the crisis, South European countries changed along these dimensions.

5.1. THE STRATEGIC PLANNING OF ADMINISTRATIVE REFORM

In the past in Southern Europe, strategic planning was available only intermittently, specifically in periods in which governing elites (or even just an 'enlightened' minister) embarked on long-term reforms. An example is the reform of education, research and technology development in Portugal which started in the early 2000s.

Today in Spain and Portugal there are units at the highest level of the government entrusted with strategic planning, which produce short- and medium-term policy plans. By contrast, in Italy and Greece, little strategic planning takes place at the summit of the government, but there is strategic planning in the Greek and Italian Ministries of Finance.

Since the crisis erupted, strategic planning has been shared between national and international authorities and, in the cases of Greece and Portugal, planning was closely monitored by the Troika (Bertelsmann Stiftung 2014). Greece and Portugal formed task forces and sought external help (e.g. from the OECD) in order to improve strategic capacity, reviewing the operation and effectiveness of the government. In
Greece and Spain there were mergers of ministries, although these occurred without previous assessment of how ministries functioned; while in Italy such reforms were not part of the agenda of successive coalition governments.

5.2. INTER-MINISTERIAL COORDINATION

The capacity to steer an economy out of the crisis also depends on coordination among ministries by the summit of the government, which in South European countries denotes the Prime Minister’s Office (PMO). In Spain the ‘Moncloa’ has ample sectoral expertise to evaluate draft bills but, in Portugal, Italy and Greece, the PMO often lacks in-depth policy assessment capabilities and limits itself to providing legal advice and political oversight of initiatives taken by ministers. However, in all four countries, the PMO is a strong gate keeper (Bertelsmann Stiftung 2014).

In Portugal and Spain there is much more consultation between the PMO and line ministries (e.g., the Ministry of Social Welfare and the Ministry of Education) at the policy preparation stage than there is in Italy and Greece. In the latter countries, the interaction between the Prime Minister’s Office (PMO) and the line ministries takes place after a draft bill has been formulated and submitted to the PMO. In brief, Spain and Greece can be treated as contrasting cases. In Spain the summit of the government may have been strengthened but it still relies on other parts of central government (Parrado 2012: 212) while in Greece the summit, namely a small circle of decision-makers around the Prime Minister, has become a strong coordination mechanism because it is itself closely monitored by the Troika.

In all four countries, the coordination and management of government policies are also pursued through inter-ministerial Cabinet committees, composed of ministers. With the exception of Portugal, where such committees filter or settle issues before meetings of the Cabinet, Cabinet committees meet rarely and have formal competences in specific policy areas (e.g. foreign policy). There is, of course, extensive informal coordination among ministers.

There are also inter-ministerial committees composed of senior ministry officials, for instance, general secretaries of ministries. With the exception of Greece, which has the most ‘top-down’ type of government coordination, such officials in the South European countries meet periodically and prepare the government’s programme. However, below the level of senior officials there is much less coordination among ministries. The role of civil servants of line ministries is minimal in Italy, Greece and Portugal, but remains enhanced in Spain.

5.3. LEGISLATING BY FIAT

Until the eruption of the crisis, the Spanish government consulted with social partners in a more or less systematic manner. Consultation primarily took place at the policy preparation stage. However, with the adoption of austerity measures in the wake of
the economic crisis, consultation broke down in all four countries. For example, in Italy in 2009 and in Greece in 2010, governments passed legislation to impose limits on collective bargaining over the wages and salaries of civil servants and public employment regulations (Mascio, Natalini and Stolfi 2013: 25).

Moreover, under conditions of urgency, South European governments proceeded to govern almost by fiat by issuing presidential decrees (in Greece) and royal decrees (in Spain). This is not uncommon in many democracies today, but in 2010–2014 in Southern Europe two alarming trends coincided: the social partners were pushed aside in Greece, Italy and Spain and also parliament was sidelined, in the sense that decrees of the kind noted above were not discussed in detail by parliament (Parrado 2012: 208). They could only be approved or rejected ‘in toto’ by parliament.

5.4. CONTROLLING THE PUBLIC FINANCES AND EXECUTIVE AGENCIES FROM ABOVE

After Greece’s bailout in 2010, the compliance of ministries increased as the Troika itself paid periodic visits to line ministries to ensure that the Greek government fulfilled the conditions of the bailout. Generally, in the wake of the economic crisis, the PMO strengthened the monitoring of line ministries in all South European countries.

On the other hand, in Spain, ministries were more able to monitor the finances and programme execution of executive agencies than in Portugal, Italy and Greece. In the three latter countries, ministries monitored executive agencies _ex ante_ by influencing the appointment of their senior managers, while there was little _ex post_ monitoring of the actual functioning of agencies. However, after the bailouts to Greece and Portugal (in 2010 and 2011 respectively), the compliance of executive agencies in these two countries probably increased, owing to the pressure put on supervising ministries by the Troika.

To sum up, we conclude from our analysis of governments’ internal organisation and management capacity that, in the wake of the crisis, all of the South European governments encountered planning and coordination problems, with the Portuguese and Spanish governments being more capable than the Italian government and a lot more capable than the Greek government to deal with the rapidly deteriorating economic environment. In Greece and Portugal, the two countries under bailout programmes, government decision-making and monitoring of policy implementation in crucial sectors was shared between the government and the Troika.

6. CONCLUSION: LINGERING PROBLEMS OF NON-REFORM IN SOUTH EUROPEAN GOVERNMENTS AND PUBLIC BUREAUCRACIES

This article has argued that, after the onset of the crisis, South European governments, pressed or at least monitored by external actors, such as the Troika in Greece and
Portugal, the IMF and the ECB in Italy and the EC and the ECB in Spain, embarked on similar public administration reforms and similar reforms to the organisation of government. In the wake of the crisis these two types of change, namely administrative reforms and government organisation reforms, were closely connected. Crisis-related reforms included cuts in the size of public employment and in the compensation of public employees; the implementation of performance management and a results-based culture; and improvements in the relations between society (citizens, businesses) and public administration. By contrast, agencification and further administrative decentralisation were arrested. The ‘goodness-of-fit approach’ cannot fully account for the administrative reforms that took place during this period. Thus, our first hypothesis, based on this approach, cannot be confirmed. Regarding government organisation, in all four countries the summit of the government and in particular, the PMO was strengthened, while the power of the Finance Ministry increased, even if it did not assume complete control over, administrative reforms. In other words our second hypothesis about the concentration and centralisation of power was confirmed.

We suggest that national administrative and government organisation systems change at crucial transition points, regardless of the extent to which there is a ‘goodness-of-fit’. Changes become accelerated when the wider economic environment, within which the government and administration are embedded, reaches a threshold beyond which the national economy, and along with it government and administration, may collapse. In the wake of the economic crisis, the governments and public bureaucracies of Southern Europe reacted as if approaching such a threshold, i.e., they embarked on accelerated reforms. To be sure, in reality, the four countries did not face the same challenges. Notably, it seems sufficient for governments to believe that a critical junction is in sight or that a crucial challenge is imminent, even if these beliefs are not justified. Judging from the comparable reactions of the four South European countries, the critical juncture, or challenge, became real in its consequences, even in cases such as Spain where reforms were considered much less urgent than in the case of Greece. In sum, our third hypothesis was confirmed. Long-delayed reforms in Southern Europe were implemented at the ‘critical juncture’ of the economic crisis which made the passage of the reforms irresistible.

Adapting to external pressures to reform government and administration does not mean that the direction of reform is obvious or given. However, after the crisis started, all four countries resorted to the same repertoire of reforms, i.e. NPM reforms, because this repertoire was available, had already been partly tried before the crisis, and no alternative was in sight. Despite cross-national variation, with regard to public administration and government organisation, a situation reflecting the mentality of TINA (‘There Is No Alternative’) has emerged. This non-economic TINA can be summarised as a trend towards NPM reforms in all South European public administrations.

Not all reforms have been completed, and in fact most are still ongoing. As expected, there is always a time lag between the passage of new regulations and their
implementation. If one is to judge from the extent of implementation of regulations affecting health care, conditions of hygiene and safety, environmental protection and commercial activity in the four countries under study, policy implementation is, and will be, an ongoing problem (Ongaro 2008). Impediments to implementation differ by country. In Spain it is difficult for the government to coordinate implementation in the 17 regions (‘Autonomous Communities’). In Italy implementation has fallen victim to the fragility of government coalitions. In Portugal and Greece, lack of monitoring and control mechanisms and a skilled civil service have impeded implementation.

The economic crisis arrested some developments in public administration and government organisation and accelerated others. An example of arrested development was the ending of the devolution of funds and funding sources from the national to sub-national governments. An example of accelerated development was the strengthening of the powers of the head of government vis-à-vis ministers and the endowment of the PMO and the Ministry of Finance with further monitoring and decision-making authority. In sum, Southern European governments and public bureaucracies are in a state of limbo. They have preserved some of the historical legacies of government and bureaucratic organisation, but have hurriedly adapted to externally induced pressures to reform.

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DECENTRALISATION AT A TIME OF HARSH AUSTERITY: MULTILEVEL GOVERNANCE AND THE WELFARE STATE IN SPAIN AND ITALY FACING THE CRISIS

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Abstract

Decentralisation was one of the most relevant trends in the institutional development of the Spanish and Italian welfare states up to the onset of the economic crisis. The present article tries to answer two questions. How have central government – sub-national government relationships and models of welfare governance evolved? What has happened to territorial inequalities in access to welfare state provision before and after the onset of the crisis and the introduction of austerity policies?

Before the crisis, territorial differences in the operation of the welfare state across regions were more pronounced and intense in Italy than in Spain. With the onset of the crisis and austerity, the differences between territorial clusters in Spain have remained relatively stable or have decreased, whereas in Italy they have often increased. In both cases, regional governments have, in recent years, been more dependent on central government. In fact, to receive support or extra funding, regional governments have accepted the conditions imposed by central government. Sub-national governments have been forced to accept significant cuts and greater control or supervision of their budgets. As the largest part of the regional budget is spent on social policies, regional welfare systems have inevitably been affected both in scope and in the way in which decisions are made.

Keywords: austerity; decentralisation; governance; retrenchment; Italy; Spain

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1. INTRODUCTION

Decentralisation was one of the main trends in the institutional development of the welfare state in Western Europe from the 1970s to the 1980s (Kazepov 2010). Spain and Italy were among the countries that moved in this direction. Coming from a tradition of strong centralisation, both countries have drastically changed their modes of operation: Italy starting in the 1970s (Fargion 1997) and Spain since the 1980s (Aja 2003). Moreover, the 1990s and the 2000s witnessed an acceleration of this process of devolution of political and administrative powers to regional and local authorities.

In both countries, the decentralisation process has been the result of factors: on the one hand, the need to build a more effective and participatory welfare system; on the other, to provide responses to increased political pressures and demands. In both countries regionalist parties – the Northern League in Italy, Catalan and Basque nationalist parties in Spain – grew stronger and started to demand more politico-administrative autonomy.

Decentralisation has taken place in countries characterised by significant socio-economic territorial differences. Both in Italy and Spain there has been, and still is, a relevant gap, for example in terms of GDP per capita, between areas such as, on one hand, Catalonia, Madrid, the Basque Country, and Northern Italy, and, on the other, Southern Spain and Southern Italy.

These facets of decentralisation in the two largest Southern European countries have had to face relevant challenges since the start of the crisis in 2007–2008 and the subsequent austerity plans. Before 2008, particularly in Spain, but also in Italy, decentralisation of welfare competences went along with an expansion of expenditure at the sub-national level (see, for example, Pavolini and Guillén 2013, for health care), although the scenario changed afterwards due to the crisis. The present article seeks to examine whether the financial crisis has had an effect on the regional welfare systems from two perspectives.

On the one hand, we address the questions of whether, and in what way, the central government–sub-national government relationships and models of welfare governance have evolved since the onset of the crisis and austerity. Several analyses have determined that decentralised systems coped with the crisis through a wide variety of responses regarding their modes of governance (Braun and Trein 2014). In the case of Italy and Spain, we show how the room for manoeuvre for sub-national governments was reduced due to the problematic economic situation, which prevented them from obtaining capital from markets to finance their policies and forced them to turn to the central government.

On the other hand, we focus on what has been happening to territorial disparities or inequalities in the access to welfare state provision before and after the onset of the crisis. In decentralised welfare systems, a clear tension exists between pursuing goals of equality in the whole country and guaranteeing the autonomy of sub-national governments (Rodríguez-Pose and Ezcurra 2010). Partly as a result of
the implementation of austerity policies and partly due to these changes in modes of governance, it is highly likely that the scope of welfare provision in regions has been affected. For example, while the crisis might have made poorer regions more vulnerable, at the same time, central government intervention could have served as a counterweight to these trends. To analyse territorial inequalities we use a set of indicators measuring the functioning of welfare state provision at the regional level.

The article is divided into three sections. Section 2 describes the institutional setting of social policies in the two countries and how it changed with decentralisation before the crisis. Sections 3 and 4 assess how changes since the onset of the crisis and the development of austerity plans are affecting the previous decentralisation model. In particular, Section 3 looks at whether, how and in what direction the relationships between central and sub-national governments are evolving. Section 4 focuses on the issue of territorial inequalities and disparities in accessing welfare provision. Finally, Section 5 synthesises the research findings.

2. THE INSTITUTIONAL SETTING OF DECENTRALISATION IN SPAIN AND ITALY

The 1978 Spanish Constitution, which re-established democracy after four decades, recognised and empowered several Autonomous Communities (ACs) through an extensive decentralisation of governmental power. To some extent, the creation of the so-called Estado Autonómico (Autonomic State) and the building of a modern welfare state were two parallel developments in Spain (Moreno 2001; Gallego and Subirats 2011). Among the 17 ACs that were created, some regions had already been devolved responsibility for education and health policies in the 1980s, while others took on these policies in the early 2000s.

Currently, the constitutional distribution of power in Spain shows elements of both dual and cooperative federal systems. Some powers are reserved exclusively to the central government (for example, social security) and some to the ACs (for example, those regarding social services). However, in most sectors of public activity, powers are concurrent or shared, and one finds an increasing interlocking of powers and some intervention by the central government. For example, according to the Constitution, the central government may intervene to guarantee the ‘equality of all Spanish citizens’, thus potentially encroaching on powers in policies such as long-term care, health care, and education, which are managed by the regions. In practice, this interlocking distribution of responsibilities generates many conflicts before the Constitutional Court, which has supported central intervention on several occasions but has clearly limited the central government’s use of its spending and legislative powers in others (Colino and Del Pino 2014).

Regions spend around 75 per cent of their budgets on health care, education, and welfare services and 90 per cent of spending in health care and education in
the country is provided for by regional governments. To finance public services or benefits, around 35 per cent of AC revenues come from own-source taxes, 21 per cent from revenue sharing, 24 per cent from equalisation grants, and 21 per cent from conditional grants (mainly Spanish and EU regional structural funds; data 2007) (López-Laborda, Martínez-Vázquez and Monasterio 2007). Almost half of public expenditure in Spain is currently managed by regional and local governments. The share of the central government is around 20 per cent, and 31 per cent is managed by the social security system, which is a central institution whose expenses are calculated separately. A large proportion of central government public spending (more than 40 per cent) consists of money transfers to the other tiers of government (Colino and Del Pino 2014).

Until the 1970s, Italy was quite a centralised welfare state (Ascoli 1984). Starting in the 1970s, but particularly in the 1990s and the beginning of 2000s, powers were progressively delegated to sub-national governments. This process took place particularly in health care and social care, whereas education has remained more centralised, although a process of devolution of power also took place in this policy field. In the 1970s and 1980s, legislation transferred increased powers in social services to regional (as regulators) and local authorities (as providers) (Fargion 1997). In 2000 and 2001, even more powers in relation to welfare state issues were transferred: the role of sub-national governments was strengthened through different bills and, in 2001, through Constitutional Reform (Fargion and Gualmini 2012). Health care followed a similar path (France and Taroni 2005): particularly in the 1990s, regional governments became the most important public actors in NHS provision; around 96 per cent of total public health expenditure is channelled through this tier of government (Fargion and Gualmini 2012). Education has remained centralised and only around 25 per cent of public expenditure is run by sub-national levels of government.

Figure 1 helps to understand the role of sub-national governments in public welfare provision over time in both countries from a comparative perspective. The data were obtained from the Eurostat database on the classification of government expenditure by function (COFOG). The total welfare expenditure analysed takes into consideration social protection (e.g. pensions, unemployment benefits, etc.), education and health care. Figure 1 presents the relative distribution of welfare expenditure by sector, differentiating between central government, sub-national governments (Regions in the Italian case and ACs and Local Authorities in the case of Spain) and social security funds. It shows data for 1995 (in order to show the situation in the mid-1990s) and 2007 (the year just before the onset of the economic crisis).

Three observations can be made. First, there is a clear shift over time in both countries from central government expenditure (and responsibilities) to sub-national governments. From 1995 to 2007, the relative size of central government expenditure decreased markedly (it was equal to around 15 per cent in 1995 in Spain and it went down to around 7 per cent in 2007, whereas in Italy it went down from around 40 per cent to 24 per cent) and, at the same time, the share of expenditure by sub-national
governments grew consistently (from around 28 per cent to 47 per cent, and from 18 per cent to 25 per cent respectively). Second, although there was a shift toward sub-national governments, their role differed in the two countries. As the percentages just mentioned clearly show, in 2007, sub-national governments were in charge of almost half of the Spanish welfare expenditure, whereas this percentage was ‘only’ around 25 per cent in Italy. The variation is in large measure due to the different institutional designs adopted in the field of education: decentralised in Spain and still quite centralised in Italy. Third, an important role was played by Social Security (National) Funds, which amounted to around 50 per cent of the total expenditure in both countries in 2007.

Figure 1. Relative distribution of Government expenditure in education, health care and social protection in Spain and Italy by sector: changes over time (1995-2007)

Source: Eurostat - General government expenditure by function (COFOG).

3. WELFARE MULTILEVEL POLITICS

How have central-sub-national intergovernmental relations and multi-level politics changed during the crisis? In the decades prior to the crisis, and especially in the first part of the 2000s, a clear trajectory was detectable: a continuous and increasing shift of powers and responsibilities from central governments to sub-national ones, in a context where a significant proportion of the actors in the political arena accepted and often encouraged this shift (see, for example, for health care Pavolini and Guillén 2013; and for long-term care, Ranci and Pavolini 2013). Since 2010, sub-national governments have come to be in a weaker position than in previous decades. Their increasing weakness is explained by financial as well as political factors.
3.1. IRRESISTIBLE FINANCIAL FORCES ON REGIONAL WELFARE SYSTEMS AND THE CONSEQUENCES FOR SOCIAL SPENDING

Until 2007, regional welfare state expenditure grew in both countries, particularly in Spain. On average, the real yearly increase from 2000 to 2007 was equal to +13.7 per cent in Spain and to +4.1 per cent in Italy (own elaboration of Eurostat - General government expenditure by function online database). The strong increase in the Spanish case was the result, especially as regards health care, of a mix of factors (Ventura and González 2013). At the beginning of the 2000s, NHS decision-making powers were transferred to the remaining ACs not yet managing health care services directly; once all the ACs became responsible for it in this area, they started to increase expenditure (investing in new infrastructure and increasing personnel salaries).

Figure 2a. Welfare expenditure (health, education, social protection) by level of government (for central government, social security fund expenditure is excluded): average real annual variation (percentages)

![Figure 2a](image)

Source: own elaboration on Eurostat - General government expenditure by function (COFOG) database.

This situation changed dramatically with the onset of the crisis.¹ Within a few years, the Spanish economy went from showing a public surplus of around 2 per cent in 2007 to a deficit of 10.6 per cent in 2012, which peaked at 11.4 per cent in 2009. Total public debt increased from 35.5 per cent of GDP in 2007 to 84 per cent in 2012. In the case of Italy the deficit was already present in 2007 (−1.5 per cent) it reached −5.3 per

¹ Data on government deficit/surplus and debt were retrieved from the Eurostat Government statistics online database.
cent in 2009 and it amounted to –3 per cent in 2012. If the deficit was lower than in the Spanish case, the worrisome data for Italian public finances came from the debt, which was already close to 100 per cent of the GDP in 2007 and reached 122.2 per cent in 2012.

As already stated in many studies, such a situation resulted in extreme pressure being placed on public finances in both countries. Figures 2a (Spain) and 2b (Italy) show what happened to public expenditure, differentiating among central government, sub-national governments and social security funds. In both countries from 2007 to 2009, total public expenditure, including public expenditure at regional and local levels, soared while revenues fell as the result of a double phenomenon (De la Fuente 2013): on the one hand, (sub-national) governments kept on spending, partially following the patterns prior to the crisis (due to institutional inertia, the hope of a short-term crisis, etc.); on the other hand, expenditure increased (especially in social security) due to the huge rise in social demand (in particular for unemployment benefits).

This pattern of increase in expenditure between 2007 and 2009 was even more pronounced in Spain, where there was an increase of around +7 per cent per year in real terms of central and sub-national governmental expenditure and or around +10 per cent in social security fund expenditure. In Italy, these two values were, respectively, below +2 per cent (central and sub-national governmental expenditure) and below +3 per cent (social security fund expenditure).

Figure 2b. Welfare expenditure (health, education, social protection) by level of government (in central government, social security fund expenditure is excluded): average real annual variation (%)

Source: own elaboration on Eurostat - General government expenditure by function (COFOG) database.
From 2010 on, the icy winds of austerity began to blow, especially on sub-national governmental expenditure. Since more than three quarters of regional spending is devoted to welfare policies, it is significant that the implementation of austerity policies, imposed by the EU itself, resulted in cuts at all levels of government, but especially at the sub-national governmental level. Between 2010 and 2012, both central and sub-national governments in Italy and Spain reduced welfare state expenditure in real terms but the yearly rates were higher for the latter: around –7 per cent in Spain and almost –4 per cent in Italy (meanwhile, central government annual cuts were, respectively, around –4 per cent and –2 per cent). Only social security funds kept on growing, although only slightly, due to the automatic stabilisers associated with pensions and unemployment protection.

The result is that, considering the whole 2007–2012 period, in both countries central government expenditure rose slightly (by around + 1 per cent), social security funds witnessed robust increases (almost +3 per cent in Spain and + 1 per cent in Italy), whereas the average real annual change in sub-national governmental expenditure was equal to –1.3 per cent/–1.4 per cent.

In Italy, although the possibility for sub-national governments to raise revenues was more limited, the economic crisis has made it more difficult for them to raise taxes. Thus, in this case, sub-national governments have become more dependent than in the past on central government. In the Spanish case, in a context in which regional revenues have plummeted, credit markets have been virtually closed to ACs. Spanish regions have become almost completely dependent on central government (e.g. unilateral fixing of budget deficit targets, increased control of borrowing, and conditions attached to liquidity loans) to receive the equalisation grants and liquidity loans required to fund deficit spending and to service maturing debt (Colino and Del Pino 2014).

3.2. THE PROPITIOUS POLITICAL MOOD TO IMPLEMENT A NEW STYLE OF INTERACTION WITH SUB-NATIONAL GOVERNMENTS

From a political point of view, central governments realised that implementing austerity measures in a quick and effective way required a new style of addressing and interacting with sub-national governments. To some extent, central government’s management of the crisis was possible because of the crisis itself and the subsequent austerity plans, which became the window of opportunity for those opposing or skeptical regarding decentralised (quasi-federal) institutional designs to advocate a new stronger steering role for the central government.

In the Italian case, a series of scandals and media news highlighted the misuse of public funding (if not actually of corruption and squandering) by sub-national governments. Between 2008 and 2014, 10 regions out of 20 had to call early regional elections due to scandals connected to their top institutional representatives (e.g. the
President of the Region, a large proportion of the councilors, etc.), and in at least four regions there have been, or there still are, important investigations into regional Parliament councilors. This wave of scandals at the sub-national level has never been so widespread in recent Italian political history.

In the same vein, Spanish regions were accused of contributing substantially to the crisis by different political parties, employers’ organisations and the media, the latter placing this issue on the social and political agenda and, sometimes, presenting reports that questioned the efficiency of the decentralised system. As a consequence, for example, central government undertook a report on ‘duplication and overlapping (of functions and expenditure) in the Autonomic State’ in 2011. Citizens’ perceptions that ACs were generating too much public spending soared between 2010 and 2012 (data from the Spanish Centre for Sociological Research). The desire to cut regional public spending spread among the citizenry. However, at the same time, a huge majority of citizens (97 per cent) was opposed to cuts in education and health care – policy areas that represent a huge proportion of the regional budget. The explanation for this apparent contradiction in citizens’ opinions is due to the fact that many cases of corruption – and particularly of wasteful spending in infrastructure – are perceived to have occurred at the regional level. In this context, both the central and regional governments have blamed each other for retrenchment.

The overall result in both countries is that, since the onset of the crisis, there has been quite a drop in the percentage of Italians and Spaniards who trust regional and local governments (Figure 3). In June 2014, only 20 per cent of adults in both countries affirmed they trusted these layers of government, whereas the percentage was more than double at the EU level. Besides, there was a clear drop in trust levels, especially in Spain (in 2008, around half of Spaniards trusted regional and local public authorities; in Italy, in 2009, this percentage was up to around 34 per cent).

Moreover, in the Italian case, since 2010 a political earthquake has hit the main party advocating greater autonomy (devolution, if not independence) for sub-national governments, the Lega Nord (The Northern League) (Passarelli and Tuorto 2012). Since the 1990s, the Lega Nord has actively played a role in fostering a decentralisation of public responsibilities and powers, threatening to push for independence for Northern Italy from the rest of the country, on more than one occasion. The party has been a traditional ally of centre-right coalitions, and, apart from having Governors and Presidents in some of the most important Northern Italian regions and municipalities, it formed part of central government coalitions for half of the years between 1994 and 2004. During the 1990s and 2000s it managed to obtain around 8 per cent of the votes in national elections while, in many Northern regions, it got close to 20–22 per cent. In the European elections of 2009, it achieved its best result, obtaining 10.2 per cent of votes. When it seemed that the good fortunes of the party (and its political agenda based on decentralisation/federalism) would continue and increase, a series of political scandals hit a large proportion of its leadership. The result was that, in the
national election of 2013, it dropped down to around 4 per cent of votes, only half of what it had obtained in previous national elections.

Figure 3. Percentage of individuals who trust their own regional and local public authorities: a comparison over time between Italy, Spain and the EU-27 (years 2008-2014)

In Spain, the conservative *Partido Popular* (PP) won the regional elections of 2011 in 11 of the 13 ACs where they were held. A few months later, also in 2011, the PP won the national elections with an absolute majority, while the Socialist Party, which had been in office for the previous eight years, suffered a crushing defeat. The PP had based its campaign on the need for austerity and control of the profligate regions. As a reaction to cuts by the incoming PP governments in both regions and the central government, in the 2012 elections held in the remaining regions, the PP could only form a government in one of them. In Asturias and Andalusia a new government with a coalition of leftist parties was set up. In the Catalan case, the ruling party and part of the opposition tried to blame the painful economic situation in Catalonia on the allegedly excessive contribution Catalonia was paying to Spain. In this AC, one should highlight the growing support for independence. While by 2010 secessionism was supported by less than 20 per cent of the population, support for independence rose to 45 per cent of the population in 2013 (*Centre d’Estudis d’Opinió*, CEO). Although this delegitimisation of the Autonomic State in Catalonia was not only in response to economic factors, some studies have shown that economic variables mattered and influenced citizens’ attitudes more than in other ACs, where the number of citizens critical of the Autonomic State has also increased (Pérez-Nievas *et al.* 2013).
3.3. THE INCREASING ROLE OF CENTRAL GOVERNMENTS

If the position of sub-national governments (and, at least in the case of Italy, parties advocating more decentralisation/federalism) became weaker in recent years for various reasons, there were also relevant changes in central government’s approach to sub-national governments. The crisis and, especially, the austerity plans requested by EU institutions have helped to reshape their agendas. If, until 2010, the search for consensus/negotiation with other layers of government often guided central government’s actions (and this was even more true in the case of Italy when centre-left coalitions were in power at the national level, given the historical prevalence of centre-left coalitions governing at the sub-national level; see Vassallo 2013), starting from 2010, the scenario changed drastically: not only were sub-national governments forced to make relevant cuts (as shown before), but the way these cuts were decided and implemented also marked a relevant change.

Both in Spain and Italy, regardless of their centre-left or centre-right orientation, the three main messages and strategies adopted by central governments towards the other layers of government became: (1) central government had to ensure that sub-national governments cut expenditure; (2) central government had no time to discuss and to negotiate these cuts, due to the international (EU) pressure; (3) if sub-national governments complained, either they did not understand the gravity of the economic situation, with the sacrifices it required, or they did not accept that they had to play their part and reduce wasteful spending (after years of misuse of public resources on their side).

These three considerations have recurred quite often in recent years during meetings with sub-national representatives and public speeches given by central government representatives on the issue. It is interesting to note that there are many parallels with the type of action adopted by central governments in other policy areas where the main counterpart is represented by social partners and national parliaments (labour market regulation and policies such as pensions). As shown in other contributions to this special issue (e.g. León, Pavolini and Guillén in relation to Spain and Italy; Petmesidou and Glazer in relation to Portugal and Greece; Sotiroupoulos in relation to public administration reforms), 2010 represented a turning point, with a substantial return of central governments to the centre of decision-making and a reduction in the role of other actors. This new strategy has been based on a new way of adopting decisions by central governments unilaterally and it is detectable in relation, in general, to public administration reforms, and, more specifically, to pensions and labour market reforms (where the main counterparts have been the social partners and parliaments) and to welfare services such as health care, education and social care (where the main counterparts have been the sub-national governments running these services).

In this latter case, since 2010, the austerity measures adopted by central government have been scarcely discussed and negotiated with sub-national governments. In the
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case of Italy, cuts have usually been adopted each year in the (Financial) Stability Bill, which is the primary annual legislation deciding the budget for the following year(s). Since 2010, the Bill has presented cuts and there has been limited room for political negotiation and manoeuvre. In May 2010, the then centre-right Berlusconi government presented the first Stability Bill under which relevant cuts for welfare services (mostly provided by sub-national governments) were introduced. The Minister of Finance, G. Tremonti, declared explicitly that ‘this one is not a normal and traditional Stability Bill as the ones from previous years… we need to make serious cuts also for regional and local authorities’ (La Repubblica, 2010a). Sub-national governments reacted by criticising the central government’s decisions (many Regional Presidents threatened to give back the powers delegated to them with decentralisation as a form of extreme protest (La Repubblica, 2010b)). However, the Stability Bill was approved in November 2010 and contained not only direct cuts but also savings through a recruitment freeze for welfare services (education, health care, etc.) as well as a pay freeze for workers.

In 2011, the pattern was repeated. In this case it was not mainly the Berlusconi government that introduced cuts, but the new Monti government (which was based on a political coalition between centre-right and centre-left parties). Again, facing relevant cuts, sub-national governments started to protest vehemently but they did not achieve any real change in the approach adopted by central government. In December 2011, when Monti proposed a whole package of austerity measures, facing opposition also from regional and local authorities, he declared: ‘If I stop in my action of reforms, the whole country will break down…the reform package I propose should be called “Save Italy”… the alternative is ending up in three months just like Greece… we are running out of time and the margins for manoeuvre are very limited’ (La Repubblica 2011a; 2011b; 2011c).

The patterns for 2012 and 2013 were, once again, similar. Arguing that sacrifices were needed in order to save the country, and that many issues could have been debated but not the magnitude of cuts, central government kept limiting expenditure on welfare services provided by sub-national governments. 2014 represented an even more pronounced turning point. Matteo Renzi, just a few months after being appointed President of the Council of Ministers (the equivalent of Prime Minister) in a government made up of centre-left and centre-right parties, while presenting the new Stability Bill, directly attacked sub-national governments. His Stability Bill intended to add 4 more billion euros of cuts in the amount of resources provided to regions, without specifying where these cuts were supposed to fall. Facing the protests of Regional Presidents arguing that, given the fact that a large proportion of the regional budget is spent on health and social care, the 4 billion euro cuts would mean cuts in welfare provision, Renzi answered: ‘Instead of looking for alibis, regions should remember that they need to be forgiven’, making an indirect reference to all the scandals many Regions experienced during these years. He continued: ‘they still have some room for manoeuvre, if they start spending their resources in a more effective and efficient way … if cuts to welfare provision at the regional level will
take place, they will not be our (central government) responsibility but the result of the unwillingness of regional governments to make savings where possible’ (La Repubblica, 16–10–2014). As this last sentence makes clear, in recent years not only have Italian central governments continued to force sub-national governments to make cuts, without negotiating, but they have also started to try to pass on to them the potential ‘blame’ for these cuts. Renzi has tried to persuade citizens that, if their local welfare provision worsens, it is not the result of central government’s cuts but it is the outcome of the unwillingness or the incapacity of regional and local authorities to use their resources in an efficient way.

In the case of Spain, during the first phase of the crisis, central government encouraged the regional implementation of some counter-cyclical and expansionist measures recommended by the EU. The government also promoted a reform of the regional financing system, giving the ACs more resources and greater fiscal autonomy, while authorising debt operations of several of them. Moreover, central government used its spending power for subsidies and conditional grants for local governments as a stimulus measure.

However, from 2009 onwards, measures had a more clearly centralising effect (Ramos et al. 2014). In that year, the EU approved the commencement of an excessive deficit procedure against Spain, because the deficit of all the ACs was considered to be too high. In 2010, the central government launched an adjustment plan including measures, such as wage cuts for public employees and cuts to various social policies, affecting regional powers. Despite these cuts, the year ended with the regional deficits above the set targets.

In September 2011, with the Socialist Party still in office, an important amendment to Article 135 of the Constitution was passed to limit public spending and borrowing. In 2012, with the new government of the conservative PP in power, the Act of Fiscal Stability and Financial Sustainability was approved to implement Constitutional reform. It introduced strict monitoring, enforcement and sanctions for deficit and debt non-compliance of the targets unilaterally set by central government. As a first result, central government required 14 ACs to submit ‘Rebalancing Economic and Financial Plans’.

With a regional deficit double that of the previous year (2012), central government introduced numerous adjustment measures that significantly affected sub-national governments, in particular those responsible for health and education policies. Although some regions have opposed measures promoted by central government, most regional governments have implemented all sorts of cutbacks (in staff, benefits, hours of operation, and coverage), fees (e.g. for the renewal or loss of health cards) and co-payments (e.g. the so-called health care penny, a sales tax of a few cents per litre of fuel purchased which is used for healthcare spending purposes), and major privatisations.

Additionally, in 2013, to respond to the poor financial situation of the regions, central government launched three new instruments to address payments of invoices
to their suppliers, to pay their debts and, finally, a line of credit for regions to prevent them from resorting to credit markets. To benefit from these initiatives, regions had to accept a number of conditions such as designing adjustment plans that would be evaluated by the central government.

Although the EU revised upwards the deficit ceiling for Spain in June 2013, central government decided to reserve most of the new leeway to the central administration. A few months later, the demand by some of the heavily indebted ACs, such as Catalonia and Valencia, caused a conflict among ACs. Several ACs complained about the differentiating requirements.

Also in 2013, a new Independent Authority of Fiscal Responsibility (ARIEF) was created with the purpose of ensuring compliance with the principle of budgetary stability that constitutional reform had introduced in 2012. In 2014, ARIEF requested corrective measures in seven ACs due to the risk of not meeting the deficit targets. Moreover, a Stability Programme and the National Reform Plan were passed, including a new path of regional fiscal consolidation.

Finally, during its aggressive electoral campaign, the PP stated that ‘the Autonomic State, today, is unsustainable’ and ‘unworkable’ and that the ‘rationalisation’ of regional spending was ‘absolutely essential’. Before coming into office, the PP had proposed a plan against regional squandering (Europa Press 2011). However, once it won the regional elections, it was difficult for it to pursue the discourse of aggressive criticism of ACs since the party governed in most of them. Once it achieved office at central level, the PP adopted measures which clearly implied some re-centralisation, at the same time highlighting the advantages of this model of the territorial organisation of power. On the one hand, the Minister of Finance refused to define the territorial model as ‘wasteful’ and underlined his ‘great respect’ for regional powers. On the other hand, he asked regions not to mix-up respect for regional autonomy with the need for ‘transparency, control and demand’ (Europa Press 2012).

4. TERRITORIAL DISPARITIES IN THE ACCESS TO WELFARE PROVISION BEFORE AND DURING THE CRISIS

As emphasised in the introduction, the shift from a central government (plus social security funds) model of the government of welfare provision to a multilevel governance model in Italy and Spain has been implemented in countries with different socio-economic characteristics at the regional level. Using Eurostat NUTS2 regions as a unit of reference, it is clear from Table 1 that territorial economic differences are very relevant: the coefficient of variation, in terms of average GDP per capita at the regional level, was equal to 0.196 in Spain and 0.255 in Italy in 2007 (this coefficient is lower in countries such as France and Sweden) (cited in Pavolini 2015). The gap
between richer and poorer regions is, therefore, relevant in both countries. However it is more pronounced in Italy: less developed regions have, on average, a GDP per capita of around 57 per cent of those in the richer regions. In the case of Spain, the ratio is around 72 per cent.

Table 1. Economic divides at the regional level in Italy and Spain (year 2007)

<table>
<thead>
<tr>
<th></th>
<th>Spain</th>
<th>Italy</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita at the Regional (NUTS2) level: Coefficient of variation</td>
<td>0.196</td>
<td>0.255</td>
</tr>
<tr>
<td>Average GDP per capita in (NUTS2) regions that have (in euros):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• a mean GDP per capita equal to at least 90% of the national GDP per capita average;</td>
<td>29,123</td>
<td>30,556</td>
</tr>
<tr>
<td>• a mean GDP per capita equal to lower than 90% of the national GDP per capita average</td>
<td>20,984</td>
<td>17,394</td>
</tr>
<tr>
<td></td>
<td>(72.1%)a</td>
<td>(56.9%)a</td>
</tr>
</tbody>
</table>

Notes:
a The figure in parenthesis represents the mean GDP per capita of the less developed regions as a percentage of the mean GDP per capita of the richer regions.

- Spanish Regions equal to or above the 90 per cent threshold: Asturias, Cantabria, Pais Vasco, Navarra, La Rioja, Aragón, Madrid, Castilla y León, Cataluña, Com. Valenciana, Illes Balears.
- Italian Regions below the 90% threshold: Abruzzo, Molise, Campania, Puglia, Basilicata, Calabria, Sicilia, Sardegna.

In countries with substantial territorial socio-economic differences, it is important to evaluate whether and how much the provision of welfare at the regional level is correlated with these differences. A set of indicators measuring the functioning of welfare state provision at the regional level has been designed in order to perform a comparative analysis. The indicators chosen were the following:

- curative care beds in hospitals (per 100,000 inhabitants) and the number of inhabitants per medical doctor to measure service availability in a given territory;
- the number of nurses for each doctor; given the traditional ‘medical dominance’ in health care (Friedson 1984), usually the higher this value the better, indicating that the system is shifting toward a model of intervention, based also on other professionals;
- citizens’ satisfaction with health care services (the regional average score on a scale from 0 to 10) as an indicator of how individuals perceive the quality of their local (regional) NHS;
- the percentage of individuals stating that they had no access to health care treatment due to costs or geographical distance, as an indicator of barriers to entry in the regional NHS;
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- public expenditure per student in education (excluding tertiary education);
- 15-year-old students’ results in OECD-PISA tests in reading;
- available beds in nursing and residential care facilities (per 100,000 inhabitants);
- the percentage of children under 3 years of age attending formal child care services.

All these indicators are utilised in the international literature to compare the functioning of different parts of the welfare state at the national level. The first five indicators are used by the OECD (2014a), the WHO and Eurostat to compare health care systems (see also Pavolini and Guillén 2013). The next two are used by OECD (2014b) to compare the performances of education systems. The last two indicators refer to social service provision, in particular to care for the elderly (for the use of this indicator see Ranci and Pavolini 2013) and children (the indicator was created by Eurostat; see León 2014).

Figure 4. Relative distribution of Sub-national Governments total welfare expenditure by function, Italy and Spain (year 2007)

Source: own elaboration on Eurostat - General government expenditure by function (COFOG) database.

The decision to use more indicators for health care was because of the role that health care plays in sub-national governments; as shown in Figure 4, almost 80 per cent of welfare expenditure in Italy in 2007 was spent on this function, whereas in Spain it was around 50 per cent. The difference between the two countries is related to the different level of decentralisation of education, as pointed out above.
The above list of indicators was used in a hierarchical cluster analysis in order to understand how welfare provision works in different regions (21 in Italy, including the two autonomous Provinces of Trento and Bolzano; and 19 in Spain, including the two autonomous cities of Ceuta and Melilla).

Figure 5 presents graphically the results of the cluster analysis by showing dendrograms for the two countries in 2007. Dendrograms are tree diagrams used to illustrate the arrangement of the clusters produced by hierarchical clustering. The bottom row of nodes represents data (in this case, single regions), and the remaining nodes represent the clusters to which the data belong, with the lines representing the distance (dissimilarity). The distance between merged clusters is proportional to the value of the intergroup dissimilarity/distance between different clusters (the bottom nodes representing regional observations are all plotted at zero height).

By looking at the two dendrograms referring to Italy and Spain, it can be seen that there are not only similarities but also striking differences. In both countries it is possible to identify two main clusters, which also follow a North-South geographical divide: in Italy the two clusters are, on one hand, Central-Northern regions, and, on the other hand, the Southern regions; in Spain there are, on one hand the Central-Northern regions, and on the other, the Southern and South-Eastern ACs. In the Spanish case the Canary Islands seem to be a strong outlier, as the dendrogram clearly shows, and these ACs should be treated separately from the others.

What differs between Italy and Spain is the level of dissimilarity between the two main clusters: in Italy it is clearly more pronounced than in Spain. The two territorial clusters in Italy seem to show a ‘two (separate) welfare states’ situation, whereas in Spain the differences between clusters have a lesser scope (Ascoli and Pavolini 2015).

Figure 5. Welfare functioning and performance at the sub-national level: dendrograms in Italy and Spain (year 2007)
Spain

<table>
<thead>
<tr>
<th>No</th>
<th>Cluster 1: Central-Northern Spain</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Galicia</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Asturias</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Cantabria</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>País Vasco</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>Navarra</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>La Rioja</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td>Aragón</td>
<td>7</td>
</tr>
<tr>
<td>8</td>
<td>Madrid</td>
<td>8</td>
</tr>
<tr>
<td>9</td>
<td>Castilla y León</td>
<td>9</td>
</tr>
<tr>
<td>10</td>
<td>Cataluña</td>
<td>10</td>
</tr>
<tr>
<td>11</td>
<td>Cluster 2: Southern and South-Eastern Spain</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Castilla-la Mancha</td>
<td>12</td>
</tr>
<tr>
<td>13</td>
<td>Extremadura</td>
<td>13</td>
</tr>
<tr>
<td>14</td>
<td>Com. Valenciana</td>
<td>14</td>
</tr>
<tr>
<td>15</td>
<td>Illes Balears</td>
<td>15</td>
</tr>
<tr>
<td>16</td>
<td>Región de Murcia</td>
<td>16</td>
</tr>
<tr>
<td>17</td>
<td>Ceuta</td>
<td>17</td>
</tr>
<tr>
<td>18</td>
<td>Melilla</td>
<td>18</td>
</tr>
<tr>
<td>19</td>
<td>Canary Islands</td>
<td>19</td>
</tr>
</tbody>
</table>

Italy

<table>
<thead>
<tr>
<th>No</th>
<th>Cluster 1: Central-Northern Italy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Piemonte</td>
</tr>
<tr>
<td>2</td>
<td>Valle d’Aosta</td>
</tr>
<tr>
<td>3</td>
<td>Liguria</td>
</tr>
<tr>
<td>4</td>
<td>Lombardia</td>
</tr>
<tr>
<td>5</td>
<td>P.A. Bolzano</td>
</tr>
<tr>
<td>6</td>
<td>P.A. Trento</td>
</tr>
<tr>
<td>7</td>
<td>Veneto</td>
</tr>
<tr>
<td>8</td>
<td>Friuli-Venezia Giulia</td>
</tr>
<tr>
<td>9</td>
<td>Emilia-Romagna</td>
</tr>
<tr>
<td>10</td>
<td>Toscana</td>
</tr>
<tr>
<td>11</td>
<td>Umbria</td>
</tr>
<tr>
<td>12</td>
<td>Marche</td>
</tr>
<tr>
<td>13</td>
<td>Lazio</td>
</tr>
<tr>
<td>14</td>
<td>Abruzzo</td>
</tr>
<tr>
<td>15</td>
<td>Molise</td>
</tr>
<tr>
<td>16</td>
<td>Campania</td>
</tr>
<tr>
<td>17</td>
<td>Puglia</td>
</tr>
<tr>
<td>18</td>
<td>Basilicata</td>
</tr>
<tr>
<td>19</td>
<td>Calabria</td>
</tr>
<tr>
<td>20</td>
<td>Sicilia</td>
</tr>
<tr>
<td>21</td>
<td>Sardegna</td>
</tr>
</tbody>
</table>

Table 2 helps to understand the differences among the various clusters in the two countries. In both countries Central-Northern regions do perform better, although this phenomenon is quite more accentuated in Italy.

In 2007, Central-Northern regions in both countries displayed a broader diffusion of curative beds, doctors and residential facilities for LTC recipients; and higher attainment levels in education. Although these elements of intra-country variance are common to the two countries, in some other aspects they tended to diverge. In particular, Spain had very limited territorial differentiation in terms of individuals declaring unmet medical needs, individuals expressing their satisfaction with their local NHS, a similar nurse to doctor ratio and young children (under three years of age) attending formal child care facilities. Conversely, these variables were

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2 It should be added that, given the fact that the data for unmet medical needs and child care provision were obtained through EU-Silc, it was possible to analyse the microdata and check through multivariate regressions whether the territorial differences at NUTS2 level and among the
quite differently distributed in Southern and Northern Italy, with the latter being characterised by poorer performances (lower coverage rates in child care, lower and insufficient satisfaction with the local NHS, higher self-reported unmet medical needs) and a regional NHS that remained more ‘doctor-centred’. In 2007, the only variable on which Spain showed a stronger territorial divide than Italy related to per capita expenditure on education and, in this case, it should be kept in mind that Italy did not decentralise its system, whereas Spain did.

Table 2. Welfare functioning and performance at the sub-national level: a comparison between different regional clusters in Italy and Spain (year 2007)

<table>
<thead>
<tr>
<th>Health care</th>
<th>Education</th>
<th>Social care</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beds</td>
<td>Doctors</td>
<td>Ratio nurses/doctors</td>
</tr>
<tr>
<td>Spain</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central-Northern Spain (a)</td>
<td>253</td>
<td>279</td>
</tr>
<tr>
<td>Southern and SE Spain (b)</td>
<td>230</td>
<td>309</td>
</tr>
<tr>
<td>Canary Islands</td>
<td>268</td>
<td>314</td>
</tr>
<tr>
<td>Italy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central-Northern Italy (a)</td>
<td>313</td>
<td>260</td>
</tr>
<tr>
<td>Southern Italy (b)</td>
<td>308</td>
<td>290</td>
</tr>
<tr>
<td>Average values in each cluster</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Difference between the two main clusters’ values (a – b)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>+39</td>
<td>-47</td>
</tr>
<tr>
<td>Italy</td>
<td>+6</td>
<td>-25</td>
</tr>
</tbody>
</table>

* Only for OECD-PISA data refer to 2009.

a Difference not statistically significant.
b Difference statistically significant.

Not only are territorial differences more frequently present in Italy, but their intensity is often greater. As shown at the bottom of Table 2, the gap between better performing and poorer performing regions is greater in Italy than in Spain for all indicators that we identified were statistically significant. In the case of Spain these two territorial variables were scarcely significant at the level of NUTS2 and not significant at the level of the two main clusters, whereas they were quite significant in the case of Italy (data not reported in the text).
apart from acute care bed and doctor density, and per capita education expenditure. In the case of Spain, the Canary Islands are a peculiar outlier, given the fact that for many indicators – but not all (see as exceptions the relative diffusion of curative beds and doctors and per capita education expenditure) – they perform worse than the rest of the country.

Table 3 shows what has happened since the onset of the economic crisis. Looking comparatively at Tables 2 and 3, it can be noted that some changes have taken place. In both countries, there has been: a small decrease in acute hospital bed and doctor diffusion (Pavolini and Guillén 2013); a worrisome cut in child care provision and education expenditure (after a period of increases before the crisis, especially in Spain – see Euridice 2014 and OECD 2014b); an increase in LTC bed availability; a stability in citizen satisfaction with the local NHS as well as, substantially, in students’ results in OECD-PISA tests. Only in the case of Italy there has been an increase in individuals self-reporting unmet medical needs.

Table 3. Welfare functioning and performance at the sub-national level: a comparison between different regional clusters in Italy and Spain (years 2011–12)

<table>
<thead>
<tr>
<th>Health care</th>
<th>Education</th>
<th>Social care</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Beds</td>
<td>Doctors</td>
</tr>
<tr>
<td>Spain</td>
<td>238</td>
<td>264</td>
</tr>
<tr>
<td>Central-Northern Spain (a)</td>
<td>256</td>
<td>252</td>
</tr>
<tr>
<td>Southern and S-E Spain (b)</td>
<td>215</td>
<td>291</td>
</tr>
<tr>
<td>Canary Islands</td>
<td>237</td>
<td>400</td>
</tr>
<tr>
<td>Italy</td>
<td>276</td>
<td>244</td>
</tr>
<tr>
<td>Central-Northern Italy (a)</td>
<td>283</td>
<td>253</td>
</tr>
<tr>
<td>Southern Italy (b)</td>
<td>262</td>
<td>237</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Average values in each cluster</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
</tr>
<tr>
<td>Beds</td>
</tr>
<tr>
<td>Doctors</td>
</tr>
<tr>
<td>Ratio nurses/doctors</td>
</tr>
<tr>
<td>Unmet medical needs</td>
</tr>
<tr>
<td>Satisf NHS</td>
</tr>
<tr>
<td>Pisa Reading</td>
</tr>
<tr>
<td>Educ. P-c expend.</td>
</tr>
<tr>
<td>LTC beds</td>
</tr>
<tr>
<td>Child care</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Difference between the two main clusters’ values (a – b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
</tr>
<tr>
<td>+41</td>
</tr>
<tr>
<td>–39</td>
</tr>
<tr>
<td>0.0</td>
</tr>
<tr>
<td>–0.4a</td>
</tr>
<tr>
<td>+0.1</td>
</tr>
<tr>
<td>+24</td>
</tr>
<tr>
<td>+72</td>
</tr>
<tr>
<td>+101</td>
</tr>
<tr>
<td>+1.9a</td>
</tr>
<tr>
<td>Italy</td>
</tr>
<tr>
<td>+21</td>
</tr>
<tr>
<td>+16</td>
</tr>
<tr>
<td>+0.4</td>
</tr>
<tr>
<td>–6.4b</td>
</tr>
<tr>
<td>+1.1b</td>
</tr>
<tr>
<td>+34</td>
</tr>
<tr>
<td>+77</td>
</tr>
<tr>
<td>+425</td>
</tr>
<tr>
<td>+10.4b</td>
</tr>
</tbody>
</table>

a Difference not statistically significant.
b Difference statistically significant.
In this situation the within-country differences between territorial clusters in the case of Spain have often remained relatively stable or have decreased (in the case of doctor and LTC bed diffusion), whereas in the case of Italy they have often remained relatively stable or have increased (in relation to LTC bed provision, unmet medical needs, and citizen satisfaction with the NHS).

In both cases, decentralisation was introduced prior to the onset of the crisis in countries which had quite relevant territorial economic disparities and followed similar patterns of territorial differentiation in terms of welfare service provision and performance. However, the Italian case often showed more pronounced divergence between richer and poorer areas as well as territorial differentiation in terms of welfare state functioning and performance. The gap in performance was so strong that describing Italy as ‘two (separate) welfare states’ might not be inappropriate (Pavolini 2015; Ascoli and Pavolini 2015). The first years of the crisis only changed these patterns slightly and there are hints that indicate that the level of territorial differentiation in the functioning of the welfare state partially increased in Italy, whereas it diminished or remained stable in Spain.

Overall it is interesting to notice how much stronger the correlation in Italy as compared to Spain is between regional economic development and welfare state performance. Table 4 presents the values of the Pierson correlation index in each country between the average GDP per capita at the NUTS2 level and the various performance indicators. The correlation is calculated using information  for 2007 and for 2011–12. Apart from the diffusion of acute hospital beds and doctors and the level of education per capita expenditure, for all other indicators Italian regions show a considerably stronger correlation between the level of economic development and welfare state performance.

Overall, it is interesting to notice how much stronger the correlation in Italy as compared to Spain is between regional economic development and welfare state performance. Table 4 presents the values of the Pierson correlation index in each country between the average GDP per capita at the NUTS2 level and the various performance indicators. The correlation is calculated using information for 2007 and for 2011–12. Apart from the diffusion of acute hospital beds and doctors and the level of education per capita expenditure, for all other indicators Italian regions show a considerably stronger correlation between the level of economic development and welfare state performance.

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3 Separate correlations were calculated for 2007 and 2011–12 but these produced substantially the same results.

4 Separate correlations were calculated for 2007 and 2011–12 but these produced substantially the same results.
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Table 4. Correlation between the average GDP per capita and a set of Welfare State services functioning at the regional (NUTS2) level (Pierson) (years 2007–2012)

<table>
<thead>
<tr>
<th></th>
<th>Spain</th>
<th>Italy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acute Hospital Beds</td>
<td>0.268</td>
<td>0.270</td>
</tr>
<tr>
<td>Doctors</td>
<td>−0.256</td>
<td>0.164</td>
</tr>
<tr>
<td>Ratio nurses / doctors</td>
<td>−0.183</td>
<td>0.512</td>
</tr>
<tr>
<td>Unmet medical needs</td>
<td>−0.098</td>
<td>−0.887</td>
</tr>
<tr>
<td>Satisfaction for the local NHS</td>
<td>0.432</td>
<td>0.837</td>
</tr>
<tr>
<td>OECD-Pisa results</td>
<td>0.616</td>
<td>0.765</td>
</tr>
<tr>
<td>Education per capita expenditure</td>
<td>0.517</td>
<td>0.098</td>
</tr>
<tr>
<td>LTC beds</td>
<td>0.061</td>
<td>0.750</td>
</tr>
<tr>
<td>Child care</td>
<td>0.182</td>
<td>0.821</td>
</tr>
<tr>
<td>Number of cases</td>
<td>34</td>
<td>42</td>
</tr>
<tr>
<td></td>
<td>(17 Regions in two different years)</td>
<td>(21 Regions/Autonomous Provinces in two different years)</td>
</tr>
</tbody>
</table>

5. CONCLUSIONS

In this article we have sought to assess the effects that the crisis and, particularly, austerity policies, have had on regional welfare systems in Italy and Spain. In both countries, regional welfare systems have been under strong pressure. We have dealt with the way in which the crisis changed the model of multi-level governance between central and sub-national tiers of government and the effect of these years of crisis on the pre-existing territorial disparities in the operation of the welfare system and irresistible forces (the inability of regional governments to fund their policies on their own and the narrow constraints imposed by the European Union). We have also elicited an enabling political mood under which the regions have been accused of generating much of the unnecessary public expenditure and that has favoured central government leadership and its aims of achieving fiscal consolidation in the two countries.

During the crisis, in both countries, regional governments have become more dependent on central government. Sub-national governments have been the layer of government that has been hit hardest by austerity plans. They have been accused of being incapable or unwilling to use their resources efficiently, and central government in both countries has declared that there was a need for supervision. This discourse, which has persuaded public opinion, has enabled the central government to take certain actions. To receive support or extra funding, regional governments have accepted the conditions imposed on them by central government. Greater control of finance or budgets is a good example of such conditionality. Furthermore, sub-national governments have been forced to accept significant cuts in their budgets.
Before the crisis, territorial differences regarding the operation of the welfare state among regions were more pronounced and intense in Italy than in Spain, even if the level of decentralisation was smaller in the former. In both countries Central-Northern (usually richer) regions performed better, although this phenomenon was rather more accentuated in Italy. Despite the cuts made in the two countries (e.g. decrease in acute hospital bed and doctor diffusion or the cut in child care provision and education expenditure), the differences between territorial clusters in Spain have remained relatively stable or have decreased, whereas in Italy, instead, they have tended to increase.

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AUSTERITY AND WELFARE REFORM IN SOUTH-WESTERN EUROPE: A FAREWELL TO CORPORATISM IN ITALY, SPAIN AND PORTUGAL?

David Luque Balbona* and Sergio González Begega**

Abstract

This article examines the impact of the current economic and financial crisis on the consistency of the corporatist dynamic that has oriented governments, trade unions and employers’ associations towards consensus in Spain, Italy and Portugal over the past two decades. Following the analytical framework developed by Öbert et al. (2011), which interprets corporatism as a process of political dialogue, we analyse whether the conditions that make exchange possible have been altered during the crisis and, ask, if this is the case, whether such a transformation is cyclical or structural in nature. New limitations on the autonomy of national governments with regard to the design of socio-economic policies have arisen. These are related to the supervision of national politics by supranational institutions, the introduction of which has profoundly altered some of the basic requirements for corporatist political dialogue: the mandate or sovereignty in decision-making and the value of the assets available for exchange between stakeholders.

Keywords: corporatism; economic crisis; political dialogue; socio-economic governance; Southern Europe

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1. INTRODUCTION

Social pacts had been the most frequently used means of implementing reform of welfare, labour market and income policies in most Western European countries until the beginning of the currently ongoing economic crisis in 2008. Available evidence supports the argument that the use of social dialogue as a tool for consensus building around a political agenda was a central feature of the reform process. Thus, for example, between 1980 and 2006, a total of 110 social pacts were agreed within the EU-15 and Norway (Hamann and Kelly 2011).

Nevertheless, the emergence of financial and economic tensions and, above all, the extension of the crisis of sovereign debt in the periphery of the Eurozone after 2010 led to a generalised drift from ‘bargaining to imposition’ with regard to socio-economic governance at national level (Molina and Miguélez 2013). As a consequence of the crisis, the mechanisms of coordination of several national economies within the Eurozone have been substantially modified and are at risk of being demolished (Rhodes 2011: 7).

The consolidation of a new dynamic for the determination of the reform agenda has weakened the consistency of social pacts and has negatively affected the relationship between governments and social partners. Under the new scenario, the traditional corporatist political dialogue characterised by limited confrontation between key actors has turned into a clash of ‘trade unions against governments’ (Hamann et al. 2013).

The intention of this article is to examine the impact of the crisis of sovereign debt on the resilience of social pacts in three South-Western European countries: Italy, Spain and Portugal. The progressive abandonment of social pacts and the increasing preference of governments for unilateral reform have led to the development of a particular dynamic of feints, attacks and retreats with the trade unions. This ‘boxing and dancing’ between governments and trade unions calls into question the functionality of social pacts as the main political mechanism for the coordination of socio-economic policies (Huzzard 2004).

This article discusses whether the basic conditions that made possible the emergence of a new dynamic of corporatist political dialogue in the mid-1990s are still recognisable in the context of the current crisis. We argue that the preference of governments for unilateralism does not necessarily imply the death of corporatism as a political tool to address reform. Social pacts at national level can persist, as has occurred in Portugal and Spain, although in a diminished form and conditioned by European political surveillance.

The structure of the article is as follows. After this short introduction, the second section describes the analytical and conceptual framework of corporatism on which
the research is grounded. It aims to tackle the paradox of continuity in the political process underlying corporatist exchange despite the external crisis, at least in two of the national cases analysed. The third section describes a number of dependent variables, namely mandate, unity, assets and the attitude towards corporatism adopted by governments and trade unions in the aforementioned South-Western European countries, in which the consistency of social pacts has either already been severely damaged or is at great risk of being damaged. In the conclusion we discuss the principal insights gained from analysis of these national cases and compare the resilience of their respective corporatist devices in the period between 2008 and 2014.

2. CORPORATISM AS A PROCESS OF POLITICAL DIALOGUE

In its most generic conceptualisation, the term corporatism refers to a system of consultation between the private interests in civil society and the State. As pointed out by Mario Regini (2003: 251),

‘whether this is treated in its better known version as a form of interest intermediation (…) or in its more useful interpretations as a type of policy-making (…) or of political dialogue (…), it was born substantially as an endeavour to account for the profound change in the functions performed by the interest associations in the regulation of advanced economies’.

Corporatism can thus be defined as an instrument of political dialogue between the government and, in the realm of socio-economic governance, trade unions and employers’ associations (Molina and Rhodes 2002). In this way, corporatism becomes a regulatory tool, an institutional device for the joint determination of public policy by the government and its social partners. However, corporatism can also be understood, as in Öbert et al. (2011: 36) ‘as a game that takes place in institutionalised arenas in which each [political] actor controls resources that the others desire’.

Schematically, the government controls the production of regulation, fiscality and public expenditure and, if and when considered desirable, can invite its social partners to join the process of political determination. However, the social partners, and in particular the trade unions, are not reduced to a merely passive role. They also possess assets and resources which are desired by the government, namely the control of their affiliates. In this game of mutual reciprocities, active support by the social partners in the design and implementation of the measures taken by the government also implies a transfer of responsibility with regard to the manufacture of public policies.
Figure 1. Corporatism as a process of political dialogue

Under this conception of corporatism, it is not the structural aspects, as in other classic models, that are most relevant (Schmitter 1974) but, instead, whether or not the government, trade unions and employers’ associations are disposed to get involved in a process of political dialogue: if they can and want to do so. This approach emphasises the importance of the strategy of the actors, and particularly of the government, as the principal movers in the game. Thus, the evolution and dynamics of the political dialogue depend on the expectations and capabilities of the actors, namely the government and its social partners, although its exact outcome is also modelled by other internal factors and/or external pressures.

Following the analytical framework developed by Öbert et al. (2011), four pre-conditions are required in order to activate and maintain the corporatist political dialogue:

1. Mandate: this essential requirement is understood as the capacity of each of the actors in the political exchange to control the process of decision-making and to enforce its potential outcomes in the area of interest. For the government, this implies sovereignty, the capacity to take decisions autonomously and to exercise control over national policies. For the social partners, it implies legitimacy to participate in the process of decision-making, and to be recognised and accepted as legitimate representatives of the private interests involved.

2. Unity: in addition to the mandate, a certain degree of unity or cohesiveness is required to implement the outcomes of the corporatist process. On the one hand, the government has to be able to garner the support of a sufficient parliamentary majority to guarantee effective implementation of its measures. On the other hand, the social partners must have enough cohesion to fulfill their part of the bargain and control their affiliates. In short, both the government and its social partners are obliged to maintain the ability to make binding commitments.
3. **Assets**: the two abovementioned requirements, however, may be less important if the actors, for some reason, are not able to effectively mobilise their resources to proceed with the political dialogue. Thus, even a government that holds a sufficient parliamentary majority and controls public decision-making at national level, can find its ability to activate political dialogue with its social partners constrained at times of severe economic pressure and/or external political conditioning (Avdagic 2010). Similarly, trade unions and employers’ associations need to be able to mobilise their affiliates who are in favour of the reform measure in order to initiate political dialogue and ultimately to support the government in question. In this sense, a sort of paradox emerges, because, as pointed out by Öbert et al. (2011: 369): ‘Governments that are punished at the ballot box for corporatist exchanges will soon come to see corporatism as a liability’.

4. **Intention**: finally, confidence, mutual trust and ‘corporatism-friendly attitudes’ are also necessary on the part of the actors involved, not only to reach, but also to secure lasting and stable agreements.

We adopt the hypothesis that corporatism has been resilient and therefore able to adapt to the new constraints, as long as the four abovementioned pre-conditions are still met, even if depreciated. This is particularly clear in the cases of Spain and Portugal but not in Italy. In the next section we consider whether corporatism in each of these countries continues to perform its function of gathering together consensus around political reform or not. To this end, we examine the extent to which the four requirements for exchange, namely mandate, unity, assets and intentions have altered in each of these countries since 2008.

3. **CORPORATISM IN SOUTH-WESTERN EUROPE UNDER AUSTERITY: MANDATE, UNITY, ASSETS AND INTENTION IN CHANGE**

Spain, Italy and Portugal, together perhaps with Greece, make up the group of countries that are included by the literature on varieties of capitalism under the label of ‘Mediterranean Economies’ (Hall and Soskice 2001). Also known as ‘Mixed Market Economies’, they represent a hybrid and less stable model of socio-economic governance, situated halfway between Coordinated and Liberal Market Economies (Molina and Rhodes 2007). One of their main features is the compensatory role played by the government in the various mechanisms of coordination in which its social partners take part (Hassel 2014).

The prominence of this compensatory role has led Schmidt (2012) to call them ‘State-influenced Market Economics’ (SME), precisely to highlight the special status retained by the government within the network of interactions between employers, trade unions and the government itself.
With regard to industrial relations, South-Western European countries are again situated in an intermediate position between the Anglo-Saxon ‘liberal pluralist model’ and the ‘neo-corporatist model’, as exemplified in the North-Western Continental European and the Nordic countries. Spain, Italy and Portugal have been grouped under a third model of middle or softened pluralism. Among the main characteristics of this model are the weak mandate and internal fragmentation of trade unions and employers’ associations, insufficient coordination of the institutional framework for industrial relations and the continuous intervention of the government, both in the arbitration of disputes between private groups and in the unilateral determination of working conditions.

In the absence of favourable institutional and actorial conditions, the development of corporatism in South-Western Europe has demanded an additional analytical effort (Hamman and Kelly 2011). The historical roots of South European corporatism, with the late capitalist modernisation of these countries and the role played by social pacts as a democratisation tool in Spain and Portugal, are also relevant in explaining its mechanisms and outcomes (González Begega and Luque, forthcoming).

The relationship between governments and their social partners, particularly trade unions, has come under considerable strain in recent times. A major transformation occurred in the period 2008–2014 and this brought about a deterioration in the conditions that were favourable to political dialogue in these three countries. The crisis has not only led to a weakening of the power of the actors involved in political dialogue but also to the reconfiguration of their reciprocal relationships, their ability to influence each other and their self-confidence. This article now proceeds to describe how this weakening has operated along the four pre-conditions that have been identified as necessary for the activation and maintenance of corporatist political dialogue: mandate, unity, assets and intention.

3.1. GOVERNMENTS UNDER SURVEILLANCE – BUT WEAKENED GOVERNMENTS?

3.1.1. Mandate

As Öbert et al. (2011) suggest, three complementary factors can reduce governments’ ability to determine and exert control over national policies: (1) national sovereignty may be voluntarily transferred to supra- or transnational institutions, as is the case for the national members of the European Union; (2) political power may be transferred (also on a voluntary basis) to lower levels of the administration, through a de-centralisation of decision-making to subsidiary authorities within the boundaries of the nation-state; and (3) governments may be forced to accept a non-voluntary reduction of their sovereignty as a consequence of the pressures exerted by the growing economic and financial interdependence of global markets.
The governments in Spain, Italy and Portugal have undergone very similar processes of debilitation with regard to their respective mandate over national policies. They are all deeply involved in the European project, although the incorporation of Spain and Portugal was completed almost thirty years after the signing of the foundational Treaty in 1958. They all decided to join the Economic and Monetary Union (EMU) and committed themselves to achieving a significant transfer of sovereignty to the financial institutions of the Eurozone. As with other Member States of the European Union which took the same decision in the mid-1990s, joining the EMU meant a significative reduction in discretion with regard to macro-economic policies. Monetary, fiscal and expenditure-related measures are no longer decided independently at the national level but instead, on a coordinated basis under the surveillance of supranational institutions such as the European Commission and the European Central Bank. Even before the outbreak of the crisis in 2008, membership of the EMU implied a transfer of national sovereignty to the European level and, consequently, less room for manoeuvre in national politics, as decisions in these areas were involved.

The fulfillment of the convergence criteria, as established during the creation of the EMU by the Treaties of Maastricht (1992) and Amsterdam (1997), served as an ‘exogenous stimulus’ or a ‘catalyst’ for the revival of corporatism in the three countries (Hancke and Rhodes 2005; Natali and Pochet 2009). As with other Member States, a new wave of social pacts between governments, trade unions and employers’ associations took place in Spain, Italy and Portugal. Although the specific blueprint under which these social pacts were reached differed from one national case to another, under the shadow of the EMU, the political dialogue employed a new logic and with different targets. The new ‘competitive corporatism’, as Martin Rhodes has appropriately labelled it (1998), differed substantially from other classical forms of corporatism due to its lack of redistributive objectives and to the constraints it imposed on public spending.

In fact, corporatism, both before and after the formation of the EMU, has primarily been conceived as a means to ease and foster political reform and as ‘an instrument of adjustment by governments to a new economic environment, rather than as a tool of economic policy’ (Hassel 2003: 707). The social pacts reached in Spain, Italy and Portugal in the last two decades have acted as the main mechanism of coordination of fiscal and expenditure policies on the one hand, and labour market and social protection policies on the other. They have facilitated the internal reform of these three Mixed Market Economies and promoted the introduction of values and solutions for coordination directly inspired in the Liberal variety of capitalism.

Since 2008, however, the national governments in South-Western Europe have suffered a radical decrease in their ability to deal with this reform on their own. Their mandate has been reduced and consequently the political dialogue with their social partners has been damaged.
In Spain, the budget balance was in very good shape at the beginning of the period. The government’s revenue exceeded its expenditure and the country was regarded as a successful example of high economic dynamism on the periphery of Europe. However, the outbreak of the international economic crisis coincided in Spain with the bursting of the housing bubble and, as a result, its fiscal strength was quickly eroded. Following the recommendations by the European Commission to all Eurozone countries, the Spanish government opted first for economic stimulus as a way out. This caused a sudden increase in the budget deficit which jeopardised financial stability. In May 2010, the socialist government was invited by the financial authorities of the European Union to abandon its expansionary policies and adopt austerity measures. The shift from expansion to fiscal consolidation marked the end of the political idyll between the government and the trade unions that had begun in 2004.

The pressure on Spanish sovereign debt grew in the period 2010–2012. But, unlike Greece, Portugal or Ireland, the newly elected conservative government scrambled to avoid bailout and its request to European institutions for financial aid was limited to a part of the banking sector. The Memorandum of Understanding (MoU) on the loan reached between the Spanish authorities and the Troika formed by the European Commission, the European Central Bank and the International Monetary Fund, however, not only imposed conditions on the private banks included in the programme of financial assistance but also demanded the fulfilment of deficit targets by the Spanish government and a series of structural adjustments, starting with reform of the labour market. In Spain, the programme of reforms was not directly designed by the Troika, although it had a significant effect on national politics. The bailout of the private banking sector significantly reduced the government’s room for manoeuvre. Its mandate was eroded, among other reasons, because the setting up of the loan within the European Stability Mechanism (ESM) meant that the ESM has been forced to act as its intermediary.

Italy went through similar financial difficulties in the period 2010–2012, although the government did not request a financial bailout. However, the escalation of the crisis of sovereign debt caused what can be referred to as an ‘informal political bailout’ in the autumn of 2011, when international pressure led to the replacement of the Berlusconi government by a new technical cabinet. The formation of the Monti government created a new scenario. While the traditional formal consultations with its social partners were initially renewed, the government presented the need for concerted action as incompatible with rapid decision-making and denounced it (Pedersini and Regini 2013). The mandate was narrowed, although not abandoned, under the direct supervision of the Troika. However, this led to further deterioration in the relations with the social partners under the Leta and Renzi governments.

In Portugal, the implementation of four Stability and Growth Plans, beginning in March 2010, gave rise to internal political instability. The fourth Plan was not approved by the Parliament and this led to the resignation of the government and
A request to the Troika for a bailout. The MoU was signed in May 2011 and this meant complete political subordination to the programme of fiscal consolidation specified by the Troika. The incoming Conservative government rigorously applied the adjustment measures and tried to negotiate with its social partners to achieve legitimation (Costa 2012). However, the bailout has distorted the scenario of the corporatist process in Portugal, leaving no room for any modification of the imperative roadmap as it had been defined at transnational level (Petmesidou and Glatzer, this volume).

To varying degrees and at different times, the autonomy of the governments in the three countries in relation to direct national policy has been severely restricted since 2010. Regardless of the bailouts, the new economic governance of the European Union, including the Stability and Growth Pact and the Euro Plus Pact, have imposed severe limitations on the ability of national political actors to design their own political tools to achieve the goal of macro-economic stability.

3.1.2. Unity

The governments of all three countries have undergone important changes since the outbreak of the crisis. But while Spain and Portugal have, to some extent, followed a similar path, switching from a Socialist to a Conservative government in 2011, the Italian case is much more complex.

In Spain, the Socialist minority government, led by Rodríguez Zapatero, was replaced by a new Conservative majority government led by Mariano Rajoy, after early elections were held in November 2011. In Portugal, the minority Socialist government of José Socrates, was replaced in June 2011 by a new coalition Conservative government led by Passos Coelho, also after early elections were held.

Among the four countries, the string of governmental changes in Italy merits the greatest attention, as political instability accelerated in May 2008, when the loss of parliamentary support for the Socialist cabinet of Romano Prodi led to a call for early elections and the return of Silvio Berlusconi. The escalation of the sovereign debt crisis did not result in a financial bailout, but rather in a sort of political one. Berlusconi was forced to resign and the government was handed over to a group of independent experts and politicians led by the Eurocrat Mario Monti in November 2011. The budget for 2013 was approved but Berlusconi’s political party forced the resignation of Mario Manti and called for elections to be held. In April 2013, Enrico Letta assumed the presidency after achieving the necessary majority to form a government. Nevertheless, political stability was not achieved, due to the considerable internal heterogeneity of the coalition supporting Letta’s government. In February 2014, Letta was replaced by fellow party member Matteo Renzi.

As regards political stability, only the Spanish Conservative government of Mariano Rajoy has been in the position of having a sufficient majority to carry out its programme without seeking agreement from other political forces. In both Italy
and Portugal, the respective coalition governments encountered greater difficulties. In these cases, the social partners may have had doubts about relying on governments that did not have actual ‘capacity to control what interest groups want in return for corporatist exchange’ (Öbert et al. 2011: 378).

The confidence of citizens in their governments has plummeted since the beginning of the crisis, most markedly from 2010 onwards (see Figure 2).

Figure 2. Degree of public trust in the national government (%)

![Figure 2](http://ec.europa.eu/public_opinion/index_en.htm)

Voters have found that ‘they can change their governments but they cannot change their policies’ (Dellepiane and Hardiman 2013: 26). This has resulted in great dissatisfaction, not only with governments and political parties but also with the whole political system. In this situation, governments may find themselves needing to seek additional legitimisation for reform by looking for extra-parliamentary allies as a strategy for sharing responsibility for the unpopular measures of austerity and adjustment (Hamann et al. 2014).

3.1.3. Assets

A mandate and unity do not automatically ensure that the government controls enough assets to carry out successful exchanges with private interest groups. The government also needs to have the economic resources to put forward policies that its social partners favour, in order to engage them in political dialogue. However, this has not been the case in the three countries analysed, due to the serious public deficit (see Figure 3).
Before the outbreak of the crisis in 2008, Spain was in a secure fiscal position. After a decade of economic boom, the fiscal surplus facilitated an idyllic relationship between the Zapatero government and its social partners. However, during 2008 the public finances went into meltdown due to the increase in expenditure and the collapse of revenues. In 2009, the public deficit escalated to 11.1 per cent of GDP and has not yet been reduced. The priority given to fiscal consolidation has left little room for political dialogue with the social partners. The problem was made worse in 2012 by the conditions of the MoU that was signed with the troika in return for providing financial assistance to the banking sector.

In Italy, the problems with the public deficit have been aggravated by political instability. The intensification of the sovereign debt crisis in 2010 led to political intervention, with the appointment of a technocratic government. Mario Monti’s cabinet focused on the objective of reducing public expenditure and turned its back on political dialogue with the social partners.

The crisis also increased the persistent problems that already plagued fiscal consolidation in Portugal. Budgetary difficulties have traditionally been resolved in Portugal through measures which increase fiscal pressure. Thus, the attempt to rationalise expenditure represented a novelty (Campos and Martín Artiles 2011). The conditionality of the MoU with the Troika devalued, if not eliminated, its worth as an economic asset that the government could offer its social partners in order to activate political dialogue.

### 3.1.4. Intention

According to the classical approach to corporatism, political dialogue is regarded as a strategy for channelling industrial conflict within the ‘left’, by taking advantage of the close ties between trade unions and social-democratic parties. Left-oriented
governments are expected to incorporate the interests of workers into the design of market policies, with the immediate consequence of reducing the number of labour disputes. Thus, a political dialogue is produced between workers and the State which compensates (or promises to compensate) the efforts made by workers in the labour market, either through extended welfare provisions or progressive fiscal reform (Pizzorno 1978).

The ties between social-democratic parties and trade unions were dramatically eroded in the 1980s due to the programmes of reform that brought an end to the Fordist Era, mainly carried out by left-oriented governments. However, informal links between social-democratic parties and trade unions have not completely disappeared. These might lead us to expect a more favourable attitude towards political dialogue with their social partners by centre-left governments (Haman, Johnston and Kelly 2013). Table 1 represents the political orientation of the governments in office in the last ten years for the three countries analysed.

Table 1. Political orientation of the national government

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Note: centre-left (light grey); centre-right (dark grey); technical (white).
Source: Own elaboration.

In Spain, the Socialist government which was in office from 2004 to 2011 showed an openly favourable attitude to social pacts. Like other countries of the Eurozone, the government’s initial response to the crisis during 2008 and 2009 was through an expansion of public expenditure. The political dialogue between the government and its social partners was stepped up to back this effort. However, this example of reinforced tripartism was soon disrupted by the escalation of the sovereign debt crisis and the turn towards austerity. The first measures of adjustment introduced in May 2010 resulted in a distancing of the trade unions from the government, and this led to a general strike in September 2010. The election of a new Conservative government, in November 2011, resulted in a reinforcement of unilateralism and an escalation of confrontation with the trade unions (González Begega and Luque Balbona 2014). A change of attitude, however, can be observed in recent months. The government re-initiated formal contact with its social partners in early 2014 and has put in place an agenda on possible issues to provide topics for social dialogue.

The Italian government’s attitude to political dialogue with its social partners has fluctuated depending on the colour of the party in office. While Berlusconi’s first cabinet did not perceive consultation with trade unions and employers as an effective method of conducting political reform, the Socialist government, led by Romano
Prodi, which was briefly in power, was much more oriented towards social dialogue. In July 2007, a tripartite agreement on pensions, the labour market and competitiveness was signed. No further initiative involving social dialogue has been attempted in Italy since this agreement was reached. Social pacts became more difficult to conclude, both under the second Berlusconi government and the Monti cabinet (Pedersini and Regini 2013). Prime Minister Monti has shown open opposition to corporatist practice and has not only denounced the ineffectiveness of social pacts but also the lack of legitimacy of the social partners in participating in the development of public policy.

The formation of a new Socialist government in 2013 was not enough to reactivate political dialogue. On the contrary, Prime Ministers Enrico Letta and Matteo Renzi have both ignored consultation with the social partners. Corporatism seems to have reached a dead end in Italy, with a complete refusal of the government to activate it (Culpepper and Regan 2014).

Both in Spain and in Italy, it has been the governments, and not the trade unions or the employers, who have lost interest in corporatist political dialogue. The governments have either openly denounced it, as in Italy, or implicitly questioned its effectiveness alongside the tailoring and implementation of austerity policies, as in Spain (Molina and Miguélez 2013).

In Portugal, a different approach towards political dialogue with the social partners can be found. From 2011 onwards, while Prime Minister Passos Coelho may not have made full use of consultation, he has not renounced the idea of negotiating issues of public interest with trade unions and employers (González Begega and Luque Balbona, forthcoming). Moreover, the Portuguese government has attempted to reinforce political dialogue with its social partners on several occasions. Formally, the social partners have been involved in the implementation of reform. The austerity guidelines, as laid down by the *Troika*, have been discussed within the Permanent Commission of Social Concertation. However, the limited mandate enjoyed by the government has reduced its credibility in the eyes of the other social partners:

‘although social dialogue took place, the solutions had already been agreed between the government and the troika and were not open to discussion’ (Palma Ramalho 2013: 18).

During the first months of 2014 the government has expressed its intention to give an extra push to social consultation and open negotiation with its social partners on the revision of the national minimum income.

The *a priori* intention to engage in political dialogue is obviously important. However, it is also necessary to consider that governments should be able to act strategically and re-consider their initial positions. Hamman and Kelly (2003: 108) indicate that both social-democratic and conservative governments are more prone to social pacts when they perceive that they themselves are ‘weak and need to seek allies outside of parliament’. A reluctant but weak government can therefore be forced
to engage in political dialogue with its social partners if it perceives the need for additional support and shared responsibility (Avdagic 2010). A social pact can be regarded as the result of seeking mutual support between a weak government and weak social partners (Baccaro and Simoni 2008). However, as noted in Baccaro and Regan (2014), there is also the risk that an over-intense weakening of the government can hinder the maintenance of political dialogue with trade unions and employers. This might be the case in the periphery of the Eurozone.

Governments’ predisposition towards political dialogue can be also affected by the so-called ‘honeymoon effect’ (König and Wenzelburger 2014). Being aware of the likely electoral penalty of reform, governments may decide to concentrate the most unpopular measures at the beginning of their term of office and subsequently try to return to the path of consultation. The recent change of direction towards social dialogue by the Spanish government and the interest shown by the Portuguese government in reinforcing it seem to confirm this hypothesis for these two national cases.

3.2 TRADE UNIONS AGAINST REFORM: BUT WEAKENED TRADE UNIONS?

3.2.2. Mandate

A central precondition for private interest groups achieving recognition and participating in public policy-making is that they have a mandate to speak on behalf of their members. With regard to trade unions, the degree of centralisation, or the level of authority of the trade union confederation over its affiliates, is a key indicator for evaluating the mandate. According to Visser (2013), trade union organisations in Spain, Portugal and Italy present an intermediate level of centralisation, and this has not undergone significant change in recent years: 0.5; 0.5; and 0.4, respectively.2

The wave of reform of the system of collective bargaining, which has also affected the three countries may, however, influence the degree of centralisation taking place in trade unions in the medium term. Culpepper and Regand (2014), for example, attribute the exclusion of trade unions from the discussion of political reform in Italy to the fact that they have been losing ground in the last two decades with regard to collective bargaining, both at industry level and at company level.

2 The index for union centralisation is a composite variable which measures trade union concentration, intra- and inter-organisational cohesiveness and the degree of mandate of peak associations (confederations) over their member organisations (sectoral and workplace branches). It combines data on the fragmentation and/or concentration of trade unions with information on the division of mandate in the union movement. The scale ranks from 0 to 1, 1 being the highest level of centralisation and 0 the lowest. More detail on the ICTWSS Database, 1960–2012, version 4.0.
3.2.2. Unity

A certain degree of coordination among trade union organisations is also required in order for them to be effective in political dialogue with the government. Excessive organisational atomisation can negatively affect trade unions’ ability to become reliable partners in corporatist exchange.

The fragmentation of the trade union movement along ideological lines is a feature common to Spain, Italy and Portugal. Different trade union confederations compete for members and are internally divided. The origin of this division is mainly an ideological one resulting from the historical ties of the different trade unions to the political parties of the left.

Since the late 1980s, however, the two main Spanish trade union confederations, CCOO and UGT, have begun to distance themselves from their political counterparts with the aim of achieving greater autonomy and a more pragmatic approach towards reform. They have been able to maintain a common strategy which guarantees the unity of trade union action in negotiations with the employers and the government. Other minority trade unions do not support this strategy but they are not represented at the national level.

In Italy, the distancing of trade unions from political parties resulted largely from the disintegration of the traditional party system in the early 1990s. The three major trade union confederations, CGIL, UIL and CISL tried to recreate the Spanish experience and work together. In fact, ‘the three trade union conferences emerged as one of the few social forces with any widespread legitimacy, a position enhanced by their new-found unity’ (Hamann and Kelly 2003: 104). Nevertheless, a divide was soon opened between the more belligerent CGIL and the more moderate UIL and CISL, which signed social pacts with the conservative governments in 2002 and 2009. The CGIL did not participate in these social pacts. Paradoxically, the economic crisis has not assisted in easing the differences and the Italian trade unions have maintained a plurality of political strategies.

Trade union action in Portugal has been characterised by the complete absence of unity of action between the two main national confederations, the CGTP and UGT-P. Additionally, the Portuguese trade unions have not completed their separation from the political parties of the left (Royo 2002). They have not yet become fully autonomous from political parties and this has influenced their decisions and actions (Campos Lima and Martin Artiles 2011).

The CGTP and UGT-P ‘differ in their approaches, the former adopting a more belligerent strategy and the latter showing more willingness for political compromise. The recent reform of the Labour Code, in June 2012, illustrates the distance between the two organisations. The UGT-P negotiated and signed the tripartite social agreement that sustained the new Code while the CGTP decided to opt-out and called for a general strike against the reform (Petmesidou and Glatzer, this volume; González Begega and Luque Balbona, forthcoming).
Unity of trade union action makes trade unions more reliable stakeholders in political dialogue. However, such unity is only present in Spain. The strategic fragmentation of the trade union movement in Italy and Portugal may have made the unions less attractive partners for the government.

3.2.3. Assets

The main asset of a private interest group in any political dialogue with the government is the number of members who can be persuaded to accept the terms of the agreement. This implies that ‘an organised group has to deliver support (or at least tacit acceptance) to be a viable exchange party’ (Obert et al. 2011: 385). Consequently, trade unions contribute (or not) to political dialogue through their capacity for consensus or, where appropriate, their blocking power. They have retained, albeit to a lesser extent, a power of veto that can potentially contribute to bringing governments down or rejecting their attempts at unilateral reform (Natali and Rhodes 2004). There has been an electoral penalty for governments that persist in acting against trade unions (Hamman et al. 2014). A trade union’s ability to veto through the mobilisation of protest may be seen as the stick (while the capacity to create consensus is the carrot) that these interest groups use to induce governments to include them in political decision-making. Recent evidence of the capacity of trade unions to put pressure on governments indicates, however, that this situation may be changing and that governments may be losing their fear of electoral penalty, at least in some countries (Culppeper and Regan 2014).

The ability of trade unions to put this asset in place is closely linked to representativeness, which is in turn tied to a combination of density and collective bargaining coverage (Luque Balbona 2012). Figure 4 shows the evolution of union density and the coverage of collective bargaining for the three countries over the past two decades. The coverage of collective bargaining dropped significantly in Spain after the passing of Labour Market reform in April 2012 and the introduction of important changes to collective bargaining the proceedings.

Additionally, trade union recognition as a legitimate partner in political dialogue can be altered in the long term by changes in general public opinion. If citizens do not trust trade unions, their capacity to mobilise workers and other groups in civil society beyond their own affiliates may be hampered. Besides, if trade unions lose this source of public legitimacy, they run the risk of losing their privileged position in the political dialogue and becoming just another regular pressure group. As pointed out by Gumbrell-McCormick and Hyman (2013), today’s trade unions require public support more than ever. In recent decades, trade unions have been on the defensive, they have lost membership –sometimes dramatically, their bargaining power has been diminished and their influence on governments has decreased, as corporatist political dialogue has been called into question.
Figure 4. Union density and collective bargaining coverage (%)

Source: ICTWSS database, version 4.0.

Figure 5 shows the evolution of public opinion in Spain, Italy and Portugal with regard to trust and distrust of trade unions. It can be seen that public distrust of trade unions has risen in Spain and Portugal since the early 2000s, while it has remained at a high level in Italy.

Figure 5. Citizen distrust towards trade unions (%)

Source: Eurobarometer.

The Eurobarometer started to enquire about confidence in a series of institutions, among them the trade unions, in 1997. The question asked is as follows: ‘of the following institutions please indicate if you tend to trust or tend to distrust them’. However, the last Eurobarometer to ask on trade unions was the Standard Eurobarometer 74, published in February 2011.
3.2.4. Intention

From 2008 onwards, trade unions in Spain, Italy and Portugal have reacted to the reduction of political dialogue with a mixed strategy which combines an increasingly critical response to government with an acceptance of participation in the less and less frequent rounds of negotiation. Trade unions have entered into a complex 'boxing and dancing' with governments which has created the appearance of internal tension (Huzzard 2004).

They have used the 'stick', mainly through calls for general strikes, as a means to persuade the government to resume negotiations. Within the period 2008–2013, three general strikes were held in Spain, five in Portugal and seven in Italy (Köhler, González Begega and Luque Balbona 2013). Faced with governments’ preference for unilateralism, trade unions have used their capacity to mobilise protest. Mobilisation has not been used to denounce political dialogue with the governments but rather to return to it. This is consistent with the strategic decision taken by trade unions in the early 1990s in these three countries to opt for political participation and joint responsibility as the principal means of union revitalisation (Hamann and Kelly 2003). However, this also shows 'the institutional dependence of [trade unions] with regard to social dialogue and their difficulties to design a different strategy’ (Gonzalez Begega and Luque Balbona, forthcoming).

4. CONCLUSIONS

The economic and financial crisis has had an important impact on the consistency of political dialogue between the government and its social partners in all three countries. The changes undergone in the conditions required for political dialogue have destabilised the relationship between the actors. The surveillance of national fiscal and structural economic policies by supra-national institutions explains the complete (in Italy) or partial (in Spain and Portugal) de-activation of national social pacts. Despite statements by the European Commission on the need to pursue reform further through social partnership, the European tutelage of national policies in South-Western Europe has justified governmental unilateralism rather than social pacts.

Governments have opted for transnational financial credibility in the opinion of the markets rather than national political legitimacy in the opinion of their citizens. In those countries whose governments were unable to implement austerity, such as Italy, technocratic governments were installed. The mandate was also reduced in those countries with elected governments, such as Spain and Portugal.

The crisis of sovereign debt, which peaked in the summer of 2012, has put national finances under unprecedented pressure. Consequently, governments have seen their available assets reduced. Trade unions have also lost an important part of their public
legitimacy, their capacity to mobilise consensus or protest has decreased and this has made them a less relevant stakeholder in political dialogue. In Portugal, but also in Spain and Italy, other social movements have arisen that are also able to mobilise social discontent: namely, *Que se lixe a Troika*, los **Indignados-15M** and il **Precario**.

National governments have turned in their attitudes towards unilateralism. But the crisis has also shown that the strategic orientation of national governments towards political dialogue is also contingent upon other factors. They have used the imposition of austerity as a mechanism for the avoidance of blame. Time will tell what the exact electoral cost of such decisions is. Nevertheless, in Spain and in Portugal, the political damage and the decline in support for the Rajoy and Passos Coelho governments has led them to reconsider the option of reactivating or boosting the political dialogue with their social partners once they have formally emerged from their respective bailouts. This is not the case in Italy, where corporatism seems to have come to a dead end.

REFERENCES


INTERGENERATIONAL TRANSMISSION OF INEQUALITIES IN SOUTHERN EUROPEAN COUNTRIES IN COMPARATIVE PERSPECTIVE: EVIDENCE FROM EU-SILC 2011

Michele Raitano*

Abstract

Economic studies usually assess the link between parental background and offspring’s incomes without distinguishing the effects that family background may have upon educational attainment and upon occupation and earnings, independently from education. The persistency of income inequality across generations is then usually imputed to the reduced investment in human capital of individuals coming from disadvantaged backgrounds. In fact, a clear distinction between the family background effect on education attainment and then earnings (i.e. the ‘indirect effect’) and that on labour market achievements but independent of education (i.e. the ‘direct effect’) should be provided to disentangle intergenerational inequality across countries. In this article, we use the 2011 wave of EU-SILC and, clustering countries according to the usual four-group geographical classification (Nordic, Continental, Anglo-Saxon and Southern countries), ask whether different levels of intergenerational inequality are related to different roles played by indirect and direct channels of influence of family background on children’s outcomes. We also find clear differences among the European welfare regimes regarding mechanisms of intergenerational inequality transmission.

Keywords: earnings; human capital; intergenerational inequality; parental background; social mobility; welfare regimes

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1. INTRODUCTION AND RELATED LITERATURE

The literature on social mobility and intergenerational inequality looks at the link between individuals’ outcomes (when adult) and the characteristics of their family backgrounds. Studies of social mobility adopt two main approaches (Blanden 2013): the sociological approach identifies individual statuses according to social classes (defined in terms of jobs and occupations) and looks at similarities in classes between parents and children; the economic approach assesses social positions by means of monetary indicators (usually earnings) and focuses on the transmission of income inequalities among subsequent generations.

The index adopted by almost all economic studies to measure intergenerational inequality is the intergenerational β elasticity that is estimated by regressing children’s log income (when adult) on parental income (Bjorklund and Jäntti 2009), and measures how much of parents’ income gap persists among children (e.g. β = 0.5 tells that, on average, half of the gap in parents’ incomes persists among sons). According to this index, empirical studies generally converge on the following taxonomy for European countries1: Nordic countries are the most mobile, followed by Germany and by other central European countries, with France in the worst position of these, whereas UK, Spain and Italy are the least mobile.2

However, β elasticity is merely a synthetic measure of the correlation between the earnings of two subsequent generations. Therefore, it does not provide comprehensive information on the processes lying behind such correlations and on their different importance across countries. Actually, the transmission of inequalities from one generation to the next is a complex process that could unfold at different points in individual lives, e.g. in the early infancy, at school or university and during the working career (Mayer 2002).

Most of theoretical and empirical economic studies assess the link between background features and offspring’s incomes without making a clear distinction between the effects that family background may have, on the one hand, on human capital, i.e. upon the level of educational attainment, and, on the other hand, on occupation and earnings, independently from education. Therefore, following the ‘human capital view’ suggested in Becker and Tomes (1979 and 1986), the persistency of income inequality across generations is usually attributed to the reduced investment in human capital of individuals coming from disadvantaged backgrounds. Put

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1 For a review of studies that compute intergenerational income inequality in different countries, see Andrews and Leigh (2009); Blanden (2013); Bjorklund and Jäntti (2009); Corak (2006 and 2013); d’Addio (2007); and Solon (2002).

2 To the best of our knowledge, as far as Anglo-Saxon and Southern European countries are concerned, no estimates of β elasticity have been carried so far for Ireland, Greece and Portugal, due to the lack of proper data. Note that similar country rankings have also been found for the association between parents’ and children’s education (Hertz et al. 2007), whereas studies of occupational mobility produce a slightly different ranking, with Germany among the least mobile countries (Blanden 2013; Breen 2004).
differently, the association between parents and children earnings is mainly due to a lower investment in human capital by those coming from a poor background. Given the positive return on such investment, this would reduce future earnings of the less-advantaged children, thus producing the intergenerational transmission of inequality.

A shortcoming in this approach is that it does not make a clear distinction between the effects that family background may have, on the one hand, on the level of educational attainment and then on earnings (i.e. the ‘indirect effect’) and, on the other hand, on achievements in the labour market that are independent of education (i.e. the ‘direct effect’). More importantly, this distinction seems to be crucial in explaining cross-country differences in intergenerational inequality (see, e.g., Raitano and Vona 2014). For instance, good public education could create a high and homogenous human capital floor for all citizens, thus mitigating a direct family background effect on the working career. Likewise, public policies reducing non-competitive rents in the labour market could help to build a more meritocratic environment, thus reducing the role played by family networks in determining children outcomes. Conversely, keeping individual educational attainment constant, countries with highly heterogeneous schooling systems could endow students with very different qualities of human capital according to their parental background or, in other countries, family connections could play a major role in determining occupational achievements and earnings, independently of education.

Following this line of research, in this article we compare the four groups of European countries identified by the literature on welfare regimes\(^3\) (Nordic, Continental, Anglo-Saxon and Southern, also carrying out analyses for single Southern countries)\(^4\) and analyse the association between family background and children’s educational attainments and earnings, also controlling for education and occupation, with the goal of assessing whether major differences between these groups exist as regards mechanisms affecting the transmission of inequalities between parents and children and, in particular, whether the different levels of intergenerational inequality could be related to different roles played by indirect and direct influences of family background on children’s outcomes at various stages of their lives.

This article contributes to the literature on cross-country differences in intergenerational inequality by investigating the role of different transmission mechanisms. More specifically, it compares the four EU15 welfare regimes for which we expect a variation in the importance of these mechanisms, reflecting differences in welfare policies, culture, labour markets and educational systems.

The common belief is that the Nordic countries, characterised by generous welfare states, regulated wage setting and well-functioning public education, offer equal

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\(^3\) See, among the others, Arts and Gelissen (2002); Esping Andersen (1990); Ferrera (1996).

\(^4\) The terms groups of countries, clusters and welfare regimes are used interchangeably in this paper.
chances to all. Consistently with Esping Andersen (2015), social democratic regimes, compared to conservative or liberal regimes, can more effectively equalise the opportunity structure providing homogeneous and good education to all children, independently of their origins, thus reducing the strength of direct mechanisms of intergenerational transmission of disadvantages related to the differences in the quality of education effectively attained by those coming from different backgrounds. Accordingly, Bratsberg et al. (2007) argue that, in Nordic countries, good public education has created a high and homogenous human capital floor for all citizens and has been essential to mitigate the direct effect of family background on the working career.

Conversely, in countries characterised by highly heterogeneous schooling systems, like the UK, well-off children can improve their earning potential by accessing top schools and universities, whose access is very often related to parental incomes (Blanden and Machin 2004). Furthermore, family ties can play a major role in determining occupational achievements and earnings, especially in countries belonging to the Southern European welfare regime, where labour markets are often considered less meritocratic (Checchi et al. 1999; Guell et al. 2007).

Recent studies based on EU-SILC 2005 data, and comparing some EU countries (Franzini and Raitano 2009; Franzini et al. 2013; Raitano and Vona 2014), have shown that, in all European countries, parental characteristics affect children’s educational attainment, thus pushing an indirect background effect, whereas in only a few European countries – Italy, Spain and the UK, i.e. those characterised by higher intergenerational inequality and by residual welfare states – a direct influence of family status on children’s earnings emerges. Indeed, in these three countries parental background exerts an impact on children’s earnings independently of their education and occupation. Moreover, in a short paper analysing the links between parents’ occupations and children’s earnings in EU15 countries, Raitano (2009) has noticed that, unlike the other welfare regime clusters where the intergenerational transmission process is mainly mediated by educational attainment, parental background has a significant direct effect on children’s earnings in Southern and Anglo-Saxon regimes.

The release of the 2005 wave of EU-SILC has been crucial for examining social mobility issues in cross country comparisons, as it includes a specific section about intergenerational mobility where many aspects of family background (e.g. family composition, parents’ educational attainments, occupations) have been recorded in a retrospective fashion (i.e. by collecting information on family background concerning the period when the person interviewed was around 14 years old). EU-SILC data then make it possible to compare the association among several individual outcomes (e.g. education and earnings) and background variables (e.g. parental occupation or education) across European countries. However, it has to be pointed out that EU-SILC does not allow one to compute intergenerational income elasticities, because parents’ incomes are not recorded, thus making it impossible
to carry out a EU-wide comparative study of the association between parental and
children’s incomes.\footnote{A detailed study comparing the association of parental and offspring incomes in Nordic European
countries (Sweden, Denmark, Finland and Norway), in the USA and in the UK has been carried out by Jantti et al. (2006).}

Information about family background has again been included in the 2011 wave
of EU-SILC that is used in this article to disentangle direct and indirect mechanisms
underlying the association between parental background and children’s education
and earnings, adopting the same empirical strategy that was used in the studies based
on EU-SILC 2005 mentioned above.

The aim of this article is to shed some light on what lies behind the association
between parents’ characteristics and offspring’s incomes, by looking into the data
referring to European welfare regimes on the basis of a conceptual framework whose
main feature consists in challenging the common view according to which the
intergenerational transmission of inequality takes place almost exclusively through
education. Indeed, we consider that family background can influence offspring’s
earnings not only through education but also in a more direct way, i.e. differently
affecting, through various mechanisms, the earnings of similarly educated workers
according to their parental backgrounds.

To achieve this aim, we replicate the above-mentioned studies carried out by
means of EU-SILC 2005 using the recent release of EU-SILC 2011 data, asking whether
the previous results are confirmed when younger cohorts of workers are studied.
Compared to the earlier studies, this article presents two main novelties: (i) as a proxy
of family background status, it uses the variable recorded in EU-SILC 2011 for the
first time to measure the level of difficulty ‘in making ends meet’ experienced by the
household in which the respondent was living when he/she was around 14 years old;\footnote{Franzini and Raitano (2009) used household financial distress when the respondent was aged 14 as
a proxy for family background, while Franzini et al. (2013), Raitano (2009) and Raitano and Vona
(2014) studied background using measures based on parental occupation.} (ii) unlike EU-SILC 2005, EU-SILC 2011 provides a homogeneous definition of gross
annual earnings for all countries, thus allowing a direct comparison across the four
groups of countries of the size of the estimated coefficients of the association between
parental background and offspring earnings.\footnote{In EU-SILC 2005 in Southern countries earnings were only recorded net of taxes.}

The rest of the article is organised as follows. Section 2 provides the conceptual
framework, while Section 3 describes the dataset and the proxy for family background
here used. Sections 4 and 5 outline the empirical analysis consisting of a two-step
analysis that aims to distinguish the two ways through which family background
can affect sons’ earnings, i.e. by influencing educational attainments (Section 4)
and by affecting children’s earnings even once the educational path is completed
(Section 5). Finally, Section 6 concludes and discusses the main implications of our
findings.
2. CONCEPTUAL FRAMEWORK

The traditional economic view of intergenerational inequality focuses on the key role played by family background in the accumulation of human capital. In the literature, the association between parental characteristics and children’s human capital has been considered to be dependent on several factors: liquidity constraints in the presence of imperfect financial markets (Becker and Tomes 1979; 1986), costless transmission of genetic traits and endowments (Becker and Tomes 1979; Bjorklund et al. 2006), extra-schooling investments by more advantaged parents (Duncan and Murnane, 2011), peer effects (Benabou 1996) and educational policies (Schuetz et al. 2008). All these factors facilitate the access of well-off children to better quality schools (Blanden and Machin 2004).

It follows that differences in earnings and occupational attainments are usually viewed as a consequence of differences in human capital. However, family connections can also play a major direct role in determining occupational achievements and earnings. Apart from the indirect influence through human capital accumulation, a direct influence of parental background on children’s occupations and earnings can occur through membership of privileged social networks (Granovetter 1995, Pellizzari et al. 2011), the transmission of employers (Corak and Piraino 2011) or soft skills. As is known, soft skills are individual traits – e.g., beauty (Hamermesh 2013) or relational capacities, such as risk and trust attitudes, extroversion, the willingness to work, the sense of discipline or leadership – that are often transmitted by parents to children, but are not strictly related to human capital, and are increasingly rewarded in the labour market (Bowles and Gintis 2002; Goldthorpe and Jackson 2008).

A more general conceptual framework is clearly required to inform an empirical analysis that aims at explaining cross-country differences in intergenerational inequality. Following the framework proposed by Franzini et al. (2013), we aim in this article to shed light on what lies behind the process of intergenerational transmission of inequality by identifying the influence of family background, i.e. educational attainment, occupation and earnings. The novelty of this approach is that it does not view education as the exclusive channel for the intergenerational transmission of inequality, as previous studies have done, because family background can also, in addition to education, influence children’s earnings, i.e. directly, differently affecting earnings of similarly educated workers according to their parental backgrounds. Figure 1 summarises our views on the direct and indirect effects of family background.8

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8 Being almost impossible to measure the ‘quality’ of education, in Figure 1 we assume that the educational step could exert a further direct impact on income in addition to the one determined by qualifications.
Distinguishing the ‘direct’ and ‘indirect’ influences of family background on children’s prospects in the different stages of their lives seems very appealing for highlighting inter-country differences in intergenerational inequality. For instance, a low level of intergenerational inequality could be due to a weak influence of parental features in every phase of children’s lives or to the absence of any influence of family background on children’s prospects at one specific stage. And these differences could have profound policy implications.

Therefore, consistent with our conceptual framework, in the next sections we estimate the association between children’s earnings and parental characteristics, including among the regressors the two mediating factors through which the intergenerational transmission of advantages can occur, i.e. children’s education and occupation. We expect to find, everywhere, a strong relationship between parental characteristics and children’s educational attainments and, hence, a significant association between children’s earnings and parental background when children’s education is not taken into account. If only indirect influences matter, we then expect that the association between children’s earnings and parental characteristics will no longer be positive and significant when children’s education is taken into account. Conversely, if a positive and significant association remains when children’s education – and also their occupation – are controlled for, a direct influence of parental background on offspring earnings would emerge in addition to the effect acting through parental investment in children’s education.

3. DATASET

Studies of intergenerational mobility in different countries are often based on data collected by national, non-homogeneous datasets (both surveys and administrative registers). The 2005 wave of the EU-SILC firstly included a specific section about...
Intergenerational Transmission of Inequalities in Southern European Countries in Comparative Perspective

Intergenerational mobility, in which several aspects of family background (e.g. family composition, parents’ educational attainments and parents’ occupations) were recorded in a retrospective fashion, i.e., by collecting information on family background when the respondent was approximately 14 years old.

When panel data are not available, Jenkins and Siedler (2007) suggest that qualitative retrospective information can be a fruitful way to study intergenerational inequality. As stated in the introduction, the main advantage of the EU-SILC is that it makes it possible to study the association between proxies for parental background and several children's outcomes, such as their educational and occupational attainments or earnings. The EU-SILC then enables us to study the impact of parental characteristics at various stages of children’s lives, making it possible to analyse the direct and indirect relationships between family background and children’s outcomes previously highlighted in Figure 1.

In this article, we make use of the 2011 wave of EU-SILC, which includes once again a specific section on intergenerational mobility. As a proxy for family background, we use the new variable collected in EU-SILC 2011 recording the respondent’s feeling about the level of difficulty in ‘making ends meet’ experienced by the household in which the respondent was living when he was around 14 years old. This variable is coded in the questionnaire using six categories: (1) with great difficulty, (2) with difficulty, (3) with some difficulty, (4) fairly easily, (5) easily, (6) very easily. To facilitate the interpretation of the estimated coefficients, these categories were grouped into three categories: ‘poor background’ (those answering ‘with great difficulty’ or ‘with difficulty’), ‘middle background’ (those answering ‘with some difficulty’ or ‘fairly easily’) and ‘good background’ (those answering ‘easily’ or ‘very easily’).

In the following sections, using information about family capacity to ‘make ends meet’ as a proxy of living standards during youth, we ask whether family background affects children’s prospects, assessing these prospects through two outcomes: educational attainments and earnings, also controlling for educational and occupational achievements. Education is coded through 3 dummy variables about the highest qualification attained: at lower secondary (ISCED 1–2), upper secondary or post secondary non-tertiary (ISCED 3–4) or tertiary (ISCED 5). Occupation is coded through 9 dummy variables based on the one-digit ISCO 2008 classification. Earnings refer to gross annual income from employment.

In line with suggestions in the empirical literature about intergenerational inequality (Haider and Solon 2006), we restricted our sample to men aged 35–44 and earning positive wages, in order to avoid biased estimates of individuals long-run earnings (Grawe 2006). Considering only this subsample has several advantages: (i) it is reasonable to assume that, for prime age workers, the influence of the home

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Corak (2006) and Solon (2002). Moreover, Bratsberg et al. (2007) and Jäntti et al. (2006) have homogenised information in national datasets and estimated income mobility in six countries: Denmark, Finland, Norway, Sweden, the UK and the USA.
environment has almost totally displayed its effects;\(^{10}\) (ii) individuals in the central part of their working life are less affected by high turnover, earnings volatility and retirement choices than in the early or later stages; (iii) estimates based on the female labour force could be heavily affected by selection biases (especially in Southern countries), due to the dependency of female participation in the labour market on preferences influenced by the family of origin and on joint decisions at the household level (on which family background still exerts an impact through ‘assortative mating’).

In the following sections, we focus on EU15 countries plus Norway. However, we have not included Denmark, Ireland or Greece in our analyses, due to the lack of sample weights in the intergenerational section of EU-SILC 2011 for these countries.\(^{11}\) The remaining countries have been clustered into four groups (named according to their geographical locations): (1) Nordic: Sweden, Norway and Finland; (2) Continental: Austria, Belgium, Germany, France, Luxembourg and the Netherlands;\(^{12}\) (3) Anglo-Saxon: the United Kingdom; and (4) Southern: Italy, Spain and Portugal.

Our sample comprised 13,114 observations, 4,717 of whom were living in Southern European countries. A first descriptive glance at the data indicates that EU welfare regimes are characterised by different levels of intergenerational persistence of inequalities among parents and sons (Table 1).

### Table 1. Mean annual gross earnings by parental background – Men aged 35–44

<table>
<thead>
<tr>
<th>Sample size</th>
<th>Gross earnings (euros)</th>
<th>Index number: Total=100</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Poor</td>
<td>Middle</td>
</tr>
<tr>
<td><strong>Nordic</strong></td>
<td>1,377</td>
<td>41,365</td>
</tr>
<tr>
<td><strong>Continental</strong></td>
<td>6,347</td>
<td>32,035</td>
</tr>
<tr>
<td><strong>Anglo-Saxon</strong></td>
<td>673</td>
<td>34,931</td>
</tr>
<tr>
<td><strong>Southern</strong></td>
<td>4,717</td>
<td>19,459</td>
</tr>
<tr>
<td><strong>Spain</strong></td>
<td>1,722</td>
<td>18,505</td>
</tr>
<tr>
<td><strong>Italy</strong></td>
<td>2,369</td>
<td>22,977</td>
</tr>
<tr>
<td><strong>Portugal</strong></td>
<td>626</td>
<td>12,544</td>
</tr>
</tbody>
</table>

Source: own elaboration, based on EU-SILC 2011 data.

Looking at mean gross annual earnings by parental background, clear differences emerge: mean earnings tend to increase when parental background improves everywhere (except in Nordic countries for those coming from middle and good backgrounds), but gaps by background are much narrower in Nordic and Continental

---

\(^{10}\) The intergenerational transmission of advantages is instead highly underestimated when very young children are considered (Bjorklund and Jantti 2009; Haider and Solon 2006).

\(^{11}\) Note that all computations shown in this paper have been carried out by using sample weights provided by Eurostat in the intergenerational module of EU-SILC 2011.

\(^{12}\) The Netherlands is usually considered a hybrid case (Arts and Gelissen 2002). According to the Ferrera (1996) classification and for geographical reasons, we include it among Continental countries.
countries than in Anglo-Saxon and Southern countries. Moreover, among the latter, Portugal emerges as a clear outlier because annual earnings of those coming from good backgrounds are much higher than annual earnings of those coming from middling (+84.6 per cent) or poor backgrounds (+145.3 per cent).

We then proceed to assess, using multivariate regression, whether these differences persist when individual characteristics are controlled for and, in line with our conceptual framework, whether they are mostly driven by indirect mechanisms related to human capital accumulation rather than by direct effects acting independently on sons’ education.

4. PARENTAL BACKGROUND AND EDUCATIONAL ATTAINMENTS

The association between family background and children’s educational attainment is analysed by means of ordered probit models run for each group of European countries and, then, separately, for the three Southern countries analysed in this article (Spain, Italy and Portugal). The dependent variable in the regressions is the level of education (lower secondary, upper secondary, tertiary), while background is expressed in terms of the three afore-mentioned categories of the ‘making ends meet’ variable (‘poor background’ is the reference category) and dummies on citizenship (national, EU or extra EU), age and age squared are included among the regressors. Estimates carried out for the four groups of countries also include country dummies.

Table 2. Ordered probit estimates of the link between parental background and children’s education

<table>
<thead>
<tr>
<th></th>
<th>Middle background</th>
<th>Good background</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coefficient</td>
<td>S.E.</td>
</tr>
<tr>
<td>Nordic</td>
<td>0.361***</td>
<td>0.115</td>
</tr>
<tr>
<td>Continental</td>
<td>0.459***</td>
<td>0.044</td>
</tr>
<tr>
<td>Anglo-Saxon</td>
<td>0.426***</td>
<td>0.137</td>
</tr>
<tr>
<td>Southern</td>
<td>0.353***</td>
<td>0.046</td>
</tr>
<tr>
<td>Spain</td>
<td>0.209***</td>
<td>0.076</td>
</tr>
<tr>
<td>Italy</td>
<td>0.433***</td>
<td>0.068</td>
</tr>
<tr>
<td>Portugal</td>
<td>0.651***</td>
<td>0.122</td>
</tr>
</tbody>
</table>

Note: Control variables are: age and age squared, country fixed effects and dummies on citizenship. * p<0.10; ** p<0.05; *** p<0.01.
Source: elaborations on EU-SILC 2011 data.

Table 2 presents the estimated coefficients of the two dummies on middle and good background, while Figures 2A and 2B show the predicted distribution of children’s education according to parental background in the four welfare regimes and Figure
shows the same distribution in the three Southern countries. A strongly significant influence of parental background on children’s education emerges everywhere: compared to those coming from poor backgrounds, those coming from middling and good backgrounds are indeed characterised by a significantly higher probability (at the 99 per cent level) of attaining a higher degree (Table 2).

Predicted distributions clearly depend on the different distribution of workers by education in the four clusters (Figures 2A and 2B). In all regimes, those coming from a poor background are characterised by the lowest share of tertiary graduates. Differences emerge regarding the comparisons of those coming from middle and good backgrounds: the differences in the predicted probabilities of attaining a tertiary degree are null in Nordic countries and low in Continental countries, but are much wider in Anglo-Saxon and, particularly, in Southern countries. Among these countries, Italy and especially Portugal are characterised by extreme differences in the predicted distribution of educational attainments by parental background (Figure 3).

Figure 2A. Predicted distribution of educational attainments by parental background – Nordic and Continental countries

Note: Predicted values got by ordered probit estimates on individual education shown in Table 2. Source: elaborations on EU-SILC 2011 data.

The lower level of intergenerational inequality that characterises Nordic countries could be related to a better capacity of the educational system to relatively mitigate the impact of family background. However, in all groups of countries a significant association between sons’ education and family background emerges.
Figure 2B. Predicted distribution of educational attainments by parental background – Anglo-Saxon and Southern countries

Note: Predicted values got by ordered probit estimates on individual education shown in Table 2. Source: elaborations on EU-SILC 2011 data.

Figure 3. Predicted distribution of educational attainments by parental background in Southern countries

Note: Predicted values got by ordered probit estimates on individual education shown in Table 2. Source: elaborations on EU-SILC 2011 data.
As pointed out in previous sections, this association could suggest that intergenerational income inequality is mainly due to mechanisms acting during the educational period. In other words, the transmission of intergenerational inequalities, i.e. lower wages earned by workers coming from more disadvantaged households, would only depend on the strong role played by ‘cultural’ and liquidity constraints in affecting educational outcomes. Consequently, proper measures for improving social mobility would just refer to educational policies, e.g. to enrolment in pre-primary education, postponing tracking among vocational and general programmes, financing loans for students coming from disadvantaged backgrounds, in order to increase their participation in tertiary education. For assessing this statement we have to confirm that a further direct effect of family background is observed.

Table 3. Estimated coefficients of parental background (compared to those coming from a poor background) – OLS on the log of yearly gross labour income

<table>
<thead>
<tr>
<th></th>
<th>Nordic</th>
<th>Continental</th>
<th>Anglo-Saxon</th>
<th>Southern</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Model A – Not controlling for children’s outcomes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middling background</td>
<td>0.148*</td>
<td>0.132***</td>
<td>0.261***</td>
<td>0.215***</td>
</tr>
<tr>
<td>s.e.</td>
<td>0.091</td>
<td>0.030</td>
<td>0.082</td>
<td>0.029</td>
</tr>
<tr>
<td>Good background</td>
<td>0.156*</td>
<td>0.161***</td>
<td>0.341***</td>
<td>0.382***</td>
</tr>
<tr>
<td>s.e.</td>
<td>0.094</td>
<td>0.032</td>
<td>0.099</td>
<td>0.037</td>
</tr>
<tr>
<td>Good ≠ Middling</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>***</td>
</tr>
<tr>
<td><strong>Model B – Controlling for children’s education</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middling background</td>
<td>0.055</td>
<td>0.029</td>
<td>0.195**</td>
<td>0.149***</td>
</tr>
<tr>
<td>s.e.</td>
<td>0.093</td>
<td>0.029</td>
<td>0.078</td>
<td>0.027</td>
</tr>
<tr>
<td>Good background</td>
<td>0.078</td>
<td>0.028</td>
<td>0.201**</td>
<td>0.228***</td>
</tr>
<tr>
<td>s.e.</td>
<td>0.096</td>
<td>0.031</td>
<td>0.096</td>
<td>0.036</td>
</tr>
<tr>
<td>Good ≠ Middling</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>***</td>
</tr>
<tr>
<td><strong>Model C – Controlling for children’s education and occupation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middling background</td>
<td>0.047</td>
<td>−0.031</td>
<td>0.153**</td>
<td>0.123***</td>
</tr>
<tr>
<td>s.e.</td>
<td>0.090</td>
<td>0.028</td>
<td>0.072</td>
<td>0.027</td>
</tr>
<tr>
<td>Good background</td>
<td>0.091</td>
<td>−0.040</td>
<td>0.157*</td>
<td>0.204***</td>
</tr>
<tr>
<td>s.e.</td>
<td>0.093</td>
<td>0.029</td>
<td>0.088</td>
<td>0.034</td>
</tr>
<tr>
<td>Good ≠ Middling</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>***</td>
</tr>
</tbody>
</table>

Note: Control variables of Model A are: age and its square, dummies on citizenship, country fixed effect. In Model B dummies on education are added and in Model C occupation dummies are also included. In the last lines Wald tests on the equality of estimated coefficients of those coming from middle and good background are shown.

* p<0.10; ** p<0.05; *** p<0.01.
Source: elaborations on EU-SILC 2011.
5. DIRECT INFLUENCES OF PARENTAL BACKGROUND ON EARNINGS

The aim of this section is to investigate how strong, if any, the ‘direct’ effects of family background on sons’ earnings are, i.e. whether background still has a residual influence on earnings after controlling for background-related factors as education and occupation.

In order to assess whether the impact of family background directly affects earnings or is entirely mediated by educational attainments and/or occupations, three different OLS models were estimated, where the dependent variable is the log of annual gross earnings (Tables 3 and 4). In model A, only parental background and sons’ citizenship, gender and age, plus country fixed effects in models separately run for the four groups of countries, are included among the regressors. In models B and C, respectively, son’s education and occupation are added. Therefore, once sons’ achievements in terms of education and occupation are controlled for, coefficients of parental background dummies measure the direct effect of background on earnings.

Figure 4A. OLS estimated coefficient of the total association between parental background and children earnings (90% confidence interval) – Poor background as reference category

Note: Control variables: age and its square, dummies on citizenship and country fixed effects.
Source: elaborations on EU-SILC 2011.

As the first step in our analysis (Table 3, Model A), in all groups of countries those coming from a poor background are penalised by significantly lower earnings compared to those coming from middle and good backgrounds. However, in Southern
countries, a significant difference between middle and good background individuals also emerges (for comparisons between good and middle background see the results of the Wald test in the final line of each panel in Tables 3 and 4).

Interesting differences emerge when we look at the sizes of the estimated coefficients of Model A (Figure 4A, where 90% confidence intervals are shown). Cross-country differences are quite evident and the estimated effects of parental background on children’s earnings, without controlling for education, are consistent with the usual country ranking in terms of intergenerational income inequality (e.g. Corak 2013). The advantage for those coming from a good background is indeed much lower in Nordic and Continental countries than in Anglo-Saxon and Southern countries. Furthermore, even if confidence intervals overlap in some cases, the advantage for those coming from middle backgrounds compared to those coming from a poor background are again higher in Anglo-Saxon and Southern countries than in Nordic and Continental countries.

Figure 4B. OLS estimated coefficients of model B (90% confidence interval) – Poor background as reference category

Note: Control variables: age and its square, dummies on citizenship, country fixed effects and dummies on education.
Source: elaborations on EU-SILC 2011.

Adding children’s education substantially reduces the advantage of coming from a good or a middle background (Table 3, Model B). What is more important, striking differences among groups of countries emerge once educational attainments are controlled for: the estimates do not indicate the existence of a statistically significant direct effect of background in Nordic and Continental countries. Conversely,
independently on education, those coming from a poor background are still characterised by a high and significant earnings gap compared to those coming from middle and good backgrounds in Anglo-Saxon and Southern countries. Furthermore, a significant gap favouring those coming from a good background with respect to those coming from a middle background still characterises the Southern regime.

Therefore, our estimates suggest that the transmission of earnings inequality occurs mainly throughout the educational channel in Nordic and Continental regimes, given that the direct association between children’s earnings and parental background is insignificant. Looking at the confidence intervals of the estimated coefficients (Figure 4B), the distances among Nordic and Continental countries, on the one hand, and Anglo-Saxon and Southern countries, on the other hand, are even sharper than those shown in Figure 4A.

However, it has to be remarked that EU-SILC records educational attainment using the ISCED classification; neither proxies of the quality of education (e.g. the mark or the attended university) nor the field of study are collected. A residual correlation of family background on earnings, controlling for sons’ ISCED level, could then partially mask an association between background and unobservable features of the educational process, which labour market attainments depend on.

**Figure 4C. OLS estimated coefficients of model C (90% confidence interval) – Poor background as reference category**

Note: Control variables: age and its square, dummies on citizenship, country fixed effects and dummies on education and occupation.
Source: elaborations on EU-SILC 2011.
Actually, according to the routinisation hypothesis proposed by Acemoglu and Autor (2011), what counts more in terms of earnings gaps is the task content of each job. Therefore, if workers are paid according to their effective skills rather than to their mere educational attainment, and if a better parental background allows children to be endowed with better abilities and receive a better quality of education, the crucial factor affecting earnings is not the formal degree, but the occupation that is achieved in the labour market due to the effective skills and abilities indicated by the workers to the employers. As a consequence, the direct effect shown by Model B could be due to the missed consideration of effective individual skills, enabling those coming from a better background to achieve better occupations.

Table 4. Estimated coefficients of parental background (compared to those coming from a poor background) – OLS on logs of yearly gross labour income – Southern countries

<table>
<thead>
<tr>
<th></th>
<th>Spain</th>
<th>Italy</th>
<th>Portugal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Model A – Not controlling for children’s outcomes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middling background</td>
<td>0.229***</td>
<td>0.188***</td>
<td>0.224***</td>
</tr>
<tr>
<td>s.e.</td>
<td>0.050</td>
<td>0.042</td>
<td>0.055</td>
</tr>
<tr>
<td>Good background</td>
<td>0.413***</td>
<td>0.297***</td>
<td>0.664***</td>
</tr>
<tr>
<td>s.e.</td>
<td>0.059</td>
<td>0.056</td>
<td>0.093</td>
</tr>
<tr>
<td>Good ≠ Middling</td>
<td>***</td>
<td>**</td>
<td>***</td>
</tr>
<tr>
<td></td>
<td>Model B – Controlling for children’s education</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middling background</td>
<td>0.193***</td>
<td>0.117***</td>
<td>0.072</td>
</tr>
<tr>
<td>s.e.</td>
<td>0.046</td>
<td>0.041</td>
<td>0.053</td>
</tr>
<tr>
<td>Good background</td>
<td>0.300***</td>
<td>0.145***</td>
<td>0.236***</td>
</tr>
<tr>
<td>s.e.</td>
<td>0.056</td>
<td>0.055</td>
<td>0.092</td>
</tr>
<tr>
<td>Good ≠ Middling</td>
<td>**</td>
<td>No</td>
<td>*</td>
</tr>
<tr>
<td></td>
<td>Model C – Controlling for children’s education and occupation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middling background</td>
<td>0.152***</td>
<td>0.117***</td>
<td>0.053</td>
</tr>
<tr>
<td>s.e.</td>
<td>0.045</td>
<td>0.040</td>
<td>0.050</td>
</tr>
<tr>
<td>Good background</td>
<td>0.280***</td>
<td>0.132**</td>
<td>0.199**</td>
</tr>
<tr>
<td>s.e.</td>
<td>0.054</td>
<td>0.053</td>
<td>0.089</td>
</tr>
<tr>
<td>Good ≠ Middling</td>
<td>***</td>
<td>No</td>
<td>*</td>
</tr>
</tbody>
</table>

Note: Control variables of Model A are: age and its square, dummies on citizenship, country fixed effect. In Model B dummies on education are added and in Model C occupation dummies are also included. In the last lines Wald tests on the equality of estimated coefficients of those coming from middle and good background are shown.

* p<0.10; ** p<0.05; *** p<0.01.

Source: elaborations on EU-SILC 2011.

However, controlling also for children’s occupation, the estimated coefficients of the association between background and earnings are squeezed to zero in Nordic
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in Comparative Perspective

and Continental countries, but remain large and statistically significant in Anglo-Saxon and Southern countries and, in the latter, a significant earnings premium for those coming from a good background compared to those coming from a middle background is confirmed too (Table 3 and Figure 4C).

Looking at individual Southern countries, the existence of direct background effects when controlling for education and occupation is confirmed in all countries (Table 4 and Figure 5). However, it is interesting to observe that, in Models B and C, the earnings gap between middle and poor background individuals is not significant at the 90 per cent level in Portugal, while the gap between middle and good background individuals is not significant in Italy.

Figure 5. OLS estimated coefficients of parental background (90% confidence interval) in models A-C – Poor background as reference category – Southern countries

In sum, our findings show that a statistically significant direct association of parental background and children’s earnings disappears when the main channels of inequality transmission, i.e., education and occupation, are considered in Nordic and Continental countries. Conversely, large direct background effects persist in Anglo-Saxon and in Southern countries. Therefore, in Nordic and Continental countries the influence of parental background on children’s earnings is entirely mediated by indirect effects acting through formal education and through sorting into occupational groups. On the other hand, for Anglo-Saxon and Southern countries, a residual positive
association between background and earnings suggests the existence of further direct effects that might either reflect the impact of family background on the unobservable quality of education (Bratsberg et al. 2007) and on children’s soft skills (Bowles and Gintis 2002) or the impact of parental background and family networks on workers’ careers (Raitano and Vona 2015). The relative importance of these mechanisms is likely to vary substantially across countries. For instance, in the UK, heterogeneous school quality and high skill premia could reinforce the mechanism related to the quality of education, while in Southern countries a non-transparent labour market selection could reinforce the strength of family networks. However, data limitations do not allow an identification of these two mechanisms in a cross-country comparison.

6. CONCLUSIONS

Summing up, our findings show that the estimated relationships between parental background and children’s earnings differ widely across groups of European countries and major differences concerning the residual association between family background and earnings point to the existence of a ‘direct’ intergenerational effect not mediated by other factors in Anglo-Saxon and Southern countries, while in Nordic and Continental countries background effects are almost entirely mediated by educational and occupational attainments. Our results then confirm those of Franzini et al. (2013) and Raitano and Vona (2014), which have adopted a similar methodology by using EU-SILC 2005 data.

The resulting pattern of differences across groups of countries allow for a reconciliation between our findings and the ranking of countries on the basis of the intergenerational income elasticity coefficient, whose estimated values are the lowest in Nordic countries and the highest in Italy and the UK, while Continental countries rank in the middle.

In other words, the ‘direct’ and residual impact of family background that is not mediated by education or occupation seems, to a very large extent, the main cause of cross-country differences in the magnitude of intergenerational inequality transmission. In Nordic and Continental countries the influence of parental background on earnings appears entirely mediated by intervening factors such as educational attainments and the process of occupational sorting and there are no additional ‘direct’ effects, while in Anglo-Saxon and Southern countries educational and occupational achievements do not exhaust at all the mechanisms of influence of parental background on children incomes.

As argued also by Franzini et al. (2013), the evidence that family background can also exert a direct effect on children’s wages, independently of education, defies the explanatory capacity of what can be called the ‘human capital view’ of inequality persistence, according to which education is the main, if not the unique, channel of intergenerational inequality transmission.
The empirical evidence presented in this article has confirmed for all EU countries that family background has a strong impact on education. But the importance of other, more ‘direct’ effects, at least in some groups of countries, seems to defy the general validity of this view. Therefore improving educational equality of opportunity would not be enough to foster social mobility. Indeed, it seems important to explore in depth the analysis of the mechanisms regulating, in each country, access to the job market and subsequent careers.

In particular, the direct influence of parents’ characteristics on individuals’ wages could depend on the following aspects (which can act together):

- The positive effect of family characteristics on some individual features that significantly influence (keeping achieved qualifications constant) earnings prospects, e.g. health status and soft skills.
- A different quality, real or imagined, of the achieved qualifications: well-off students can have access to better schools and universities and this will increase their future wages.
- A higher opportunity cost of searching for the most appropriate job, that encourages less advantaged individuals ‘to be satisfied’ with the first job they find, without waiting for the one providing the best prospects.
- The role of social networks that could be related to parents’ characteristics: individuals coming from more disadvantaged backgrounds may belong to social networks that are less helpful in finding a good job through informal relationships.

Therefore, factors that could bring about the existence of a direct effect of family background on wages – beyond the indirect one acting through educational attainments – suggest the need for a deeper analysis of the mechanisms regulating, in each country, access to different types of schools and universities and, primarily, access to the labour market and a subsequent career, also in order to highlight the main factors explaining the performances of the different groups of countries.

It follows that cross-country differences in the sources of direct background effects could emerge. Where the educational system is highly heterogeneous and better schools are mainly accessible to well-off children (as in the UK; Blanden and Machin 2004), direct effects could be linked to the accumulation of different types of human capital. Conversely, network effects could play a major role in the labour market of countries (like some Southern countries; Pellizzari et al. 2011) where informal relationships are crucial to obtaining good jobs.

Finally, it must be emphasised that our findings have, to a large extent, confirmed that the traditional distinctions between European Welfare regimes apply to the transmission of inequality: in Nordic countries, followed by Continental countries, direct background effects are really small, while the opposite is the case in Anglo-Saxon and Southern countries.
However, it must clearly be pointed out that the differences among the four welfare regimes shown in this paper cannot be merely imputed to the different degrees of redistribution that characterise these regimes (Korpi and Palme 1998). Because we have focused on gross labour earnings, we have looked at the effects of parental background on children’s market incomes before redistribution. The impact of welfare states on the intergenerational transmission of advantages is subtler and it is related to the several mechanisms through which public policies and welfare institutions can affect individual behaviour, the functioning of the education system and the functioning of the labour market. An encompassing welfare state could, for instance, favour the development of a labour market where family ties and individual soft skills play a minor role and, as said, could provide a more homogenous quality of education thus reducing the advantages for well-off children. Furthermore, a universal welfare state that provides adequate benefits for the unemployed and for those searching for jobs could help these individuals to alleviate liquidity constraints, enabling them to wait for a job that guarantees good long-term prospects, rather than forcing them to accept a job offer that places the individual on a career path characterised by poorer prospects.

In this respect, looking further into the differences that have emerged when comparing countries and groups of countries may be of great value and can offer interesting insights into shaping an effective policy against this driver of inequality persistence. This should be a priority for further research.

REFERENCES


This book about the Mondragon cooperatives in the Spanish Basque Country is a critical reflection on the origin and further development of one of the most highly-praised cooperative enterprises in the world.

At a time when many people regard cooperative entrepreneurship as an ethically sound economic alternative to the traditional organization of companies and business, the author draws attention to the unavoidable impact of globalization which not only affects the workers’ involvement and participation in cooperative enterprises but also their employment itself.
This volume deals with the complicated relationship between posting of workers in the EU and collective labour law. It does so from a legal perspective but the author does not refrain from looking at the economic and social context in order to better understand the legal construction of said relationship. The first objective of this book is to provide a comprehensive picture of this relationship, from the first steps of the legal framework of posting, through the direct clash in the case law delivered by the Court of Justice between the end of 2007 and 2008, to the present day. The author examines the issue in its changing context. Such change stems both from legal innovations and from political and economical events.