Executive Summary

International
Labour
Organization

The European Social Model in Crisis

Is Europe Losing Its Soul?

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What have been the impacts of the financial and economic crisis on European social policy? What are the major changes brought about by recent fiscal consolidation policies? What are the implications for the short term, but also the longer term?

This new volume answers these questions by looking at the six pillars recognized as comprising the European Social Model: workers' rights and working conditions, social protection, labour market policy, public services, social dialogue and social cohesion. Assessing the European Social Model in 30 countries, the volume brings together 12 country studies by noted specialists, creating a comprehensive picture of the current situation, and future, of social policy in Europe.

The European Social Model, an intrinsic part of the European Union

Since the Treaty of Rome in 1957, the European Community countries progressively developed a coherent set of national and collective regulations and institutions relating to social policy. This social dimension accompanying the Economic and Monetary Union was to become the European Social Model, a fundamental part of the EU *acquis* that Member States have implemented in various ways. Compared with other countries and regions, the approach taken by EU countries has been characterized by high expenditure on social protection, grounded on the principles of solidarity, equality and social cohesion that represent not only the cement but also the "soul" of the European Union.

The European Social Model, actively used in the early period of the crisis

Social protection expenditure remained high in 2007–09: unemployment benefits together with social benefits and assistance helped to cushion the social shock and limit increased poverty. The start of a sharp increase in real public social expenditure in 2009 made clear that these mechanisms had acted as automatic stabilizers, limiting the drops in citizens' purchasing power and also global domestic demand. At the same time, a number of countries successfully used the tools of the European Social Model, e.g. modified working-time schemes and social dialogue, to negotiate alternatives to massive layoffs. For instance, the lack of employment reduction, despite output contraction, in Germany was due to shortened working-time schemes negotiated through social dialogue at enterprise level.

The turn to fiscal consolidation

Despite the success of the European Social Model during the first years of the crisis, the worsening budgetary situation and public debt led many countries to abandon stimulus packages and introduce fiscal consolidation policies, including cuts to social expenditure, from 2010; the strategy to exit the crisis called for cuts in public expenditure to reduce deficits and to unit labour costs to improve competitiveness. Changes were most pronounced in the most indebted countries of the euro zone. The United Kingdom, meanwhile, sought to downsize and outsource public services and cut public spending. Changes were less pronounced in countries where the debt crisis was less acute, such as France or Belgium, or marginal, as in Germany. In Scandinavian countries, however, the social model proved not only to be resilient, but continued to be actively used.

The main pillars of the European Social Model have been affected

The volume shows that, while national situations and responses differ, all major elements of the European Social Model have been affected. Longstanding social policies have variously been altered, weakened, and in some cases accelerated. At the same time, budgetary considerations have pushed new areas of reform (e.g. wages and collective bargaining) on to the policy agenda.

Workers' rights and working conditions. A number of reforms aiming to enhance competitiveness and economic recovery have directly affected wages and working conditions, for example, steps taken to reduce wage growth have led to decreases in real wages and even nominal wages. Tripartite negotiations on wages have been interrupted, e.g. in Portugal, Romania and Ireland, while their results in Greece were neglected because they were considered to be unsatisfactory. By contrast, Germany introduced a statutory national minimum wage from January 2015.

Labour market policies. Labour market reforms were promoted in most European countries well before the crisis. With the advent of fiscal consolidation policies, policy reforms have rapidly multiplied and touched all different areas. Work contracts have been flexibilized in a number of countries, and many countries have simplified procedures for collective and individual dismissals and have also reduced notification periods. Some "rolling back of the State" from active labour market programmes (ALMPs) can be seen. The sole exceptions are France, Germany and Ireland, which increased the funding of ALMPs, and Estonia and Latvia, where the number of participants in these policies was extended.

Social protection. Before the crisis, most European countries were pursuing long-term reforms to address demographic changes, long-term sustainability issues and structural unemployment. Fiscal consolidation policies, however, shifted countries away from these policies. First, a number of countries limited access to unemployment assistance, with new and stricter eligibility conditions being put in place. Second, the duration of unemployment benefits was reduced. Third, several countries have cut the value of unemployment benefits. Family benefits and support programmes have also been targeted, making lives more difficult for parents and children, especially for working mothers.

Social dialogue. The legislative reforms implemented since 2010 as part of the structural reform packages have led to a significant alteration of collective bargaining coverage and scope – particularly in the so-called "deficit countries" – with three major trends being observed. First, the right to strike was restricted under certain conditions; second, the scope of collective bargaining was reduced by restricting mechanisms extending collective agreements to more workers and companies; and third, forced decentralization has taken place, with restrictions on the rights of social partners to negotiate at sectoral or national levels.

The public sector. The public sector in Europe has been subject to an unprecedented wave of "adjustments", and employment security is no longer the norm. Almost all countries have announced plans to reduce public sector wages, either through basic wage freezes or cuts or through the abolition of bonuses. Examples include the thirteenth month payment in Hungary and thirteenth and fourteenth month payments in Greece. A number of non-monetary benefits have also been abolished, such as for housing and meals or for sick leave. These adjustments often could have complemented structural reforms, but in practice they have limited and sometimes even halted them.

Social cohesion. Throughout Europe, large-scale decentralization from state to regional authorities has accelerated, often been accompanied by cuts to funds for regions and municipalities. The volume documents these developments and others that have weakened social cohesion in EU countries. Examples are multifold. For instance, progress made over the past decade in terms of discrimination has been compromised in significant ways. The growth of unemployment and social problems has led to increased nationalism and the stigmatization of certain groups such as the Roma. Evidence collected in the volume also points to a recent rise in gender discrimination.

Effects on both economic and social spheres

The volume shows a visible increase in social conflicts, with direct economic effects such as disruption of production. Slow wage progression has contributed to depress domestic demand. Deteriorating working and employment conditions, combined with cuts in social expenditure, have led to reduced worker motivation, lowered human capital and a lower quality of public services. Similarly, cuts in education and to ALMPs will have longer-term effects on future generations vis-à-vis skills and employment prospects. This social aspect is particularly alarming, especially the rapid increase in poverty and exclusion, and their extension to a larger percentage of the middle class. As ILO Director-General Guy Ryder highlights in his foreword to the volume, "In the end, the results of such policies stand to cost societies more, with less quality and lower services than before…so, if as is certainly true, the future of the European Social Model relies on the ability to adapt, this requires confidence in the stability of the various tenets of that model".

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